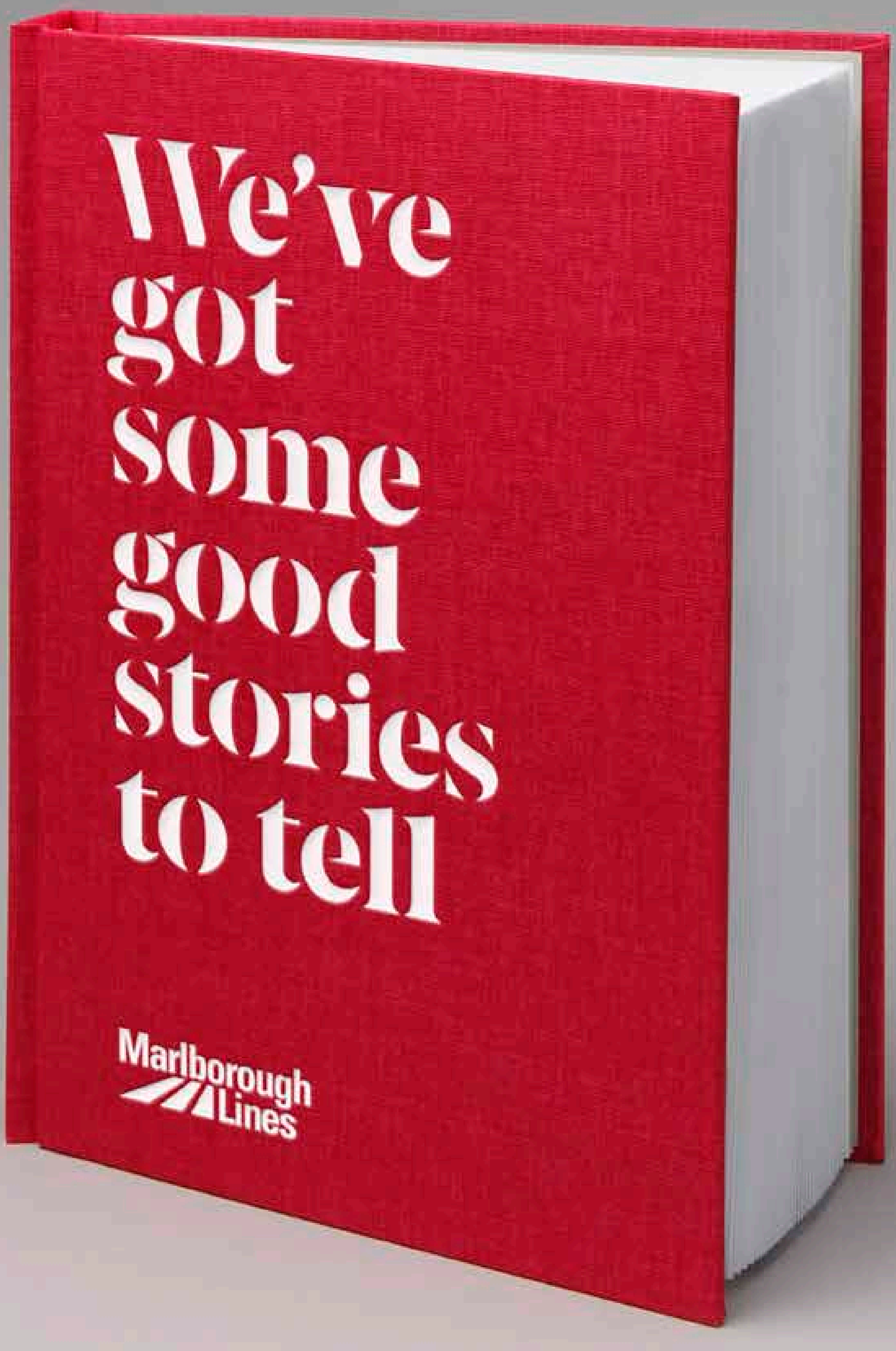
Annual Report 2015



CONTENTS

About this report

This 2015 Annual Report summarises Marlborough Lines' operations, activities and financial position as at 31 March 2015. Marlborough Lines Limited is the Parent company of the Marlborough Lines Group of companies. In this report, we provide as appropriate, numbers and tables for the financial indicators of both the Parent and Group, and where necessary, descriptions of the activities of the individual entities comprising investments within the Group. References in this report to a 'year' means the calendar and financial year ended 31 March 2015 unless otherwise stated. All dollar figures are expressed in New Zealand currency. The Company undertakes only a small print run of the Annual Report using materials from sustainable forest production (see inside back cover). We encourage readers and stakeholders to access the electronic (PDF) version which can be downloaded from our website www.marlboroughlines.co.nz.

Report objectives

This report meets the New Zealand compliance and legislative requirements of the Companies Act, The Financial Reporting Act and the Energy Companies Act, whilst also providing easy to read information on Marlborough Lines' aspirations and performance for 2015 – the uncontrollable factors which affect our performance, and our goals for the 2015 year. The industry and regulatory environment in which we operate is complex and for that reason we have provided for our stakeholders an outline of our position, activities and attributes in the supply chain for electricity (see page 17). On pages 48 and 49 we also outline the regulatory environment applicable to our electricity network business.

6

Energy sales increase
– Electricity volumes are up over the entire network

10

Profitability
– Going from good to great, the OtagoNet sale provided both a happy ending and the start of a new era

17

Reliability
– Proof that proactive investment in assets and infrastructure pays off

33

Safety
– Our reassuring results were no accident

Long story short, we have had a stellar year. Profitability, sales and customer dividends are all up on previous years.

We set new safety, reliability and environmental records, and performance of investments was exceptional.

You could say that this year marks the start of a whole new chapter in Marlborough Lines' history...

About us

We are an electricity network owner/operator delivering electricity to Marlborough with investments in other areas.

NELSON

Marlborough Lines jointly owns Nelson Electricity Limited with Network Tasman Limited. Both companies own 50%.

MARLBOROUGH SOUNDS

Our supply network extends into a number of very isolated areas (including the Marlborough Sounds) that pose unique challenges for electricity supply.

MARLBOROUGH

Marlborough Lines Limited (the Parent company) is based at Blenheim in the Marlborough region.

BLENHEIM

Unlike many other regional networks, the Company has a single point of supply (in Blenheim) with an extensive sub-transmission system and zone substations.

OTAGO

OtagoNet owns and manages the electricity network serving the greater Otago region.

MARLBOROUGH LINES INVESTMENT OWNERSHIP STRUCTURE

TRUST BENEFICIARIES
Marlborough customers connected to network

MARLBOROUGH ELECTRIC POWER TRUST

MARLBOROUGH LINES LIMITED

Horizon Energy Distribution Limited
Listed Electricity Network Company
13.9% share

Southern Lines Limited
(Investment vehicle)

Nelson Electricity Limited
5 Directors
4 Staff
50% share

OtagoNet
Otago Power Services Limited
Both sold at 30 Sept 2014
51%

Marlborough Lines owns and operates the provincial electricity network in the Marlborough region at the top of the South Island of New Zealand. Since 1996, we have also been a substantial investor in other units of electricity infrastructure within New Zealand.

Our network supplies electricity to some 24,800 customers in the Marlborough region of New Zealand. Since 1996, we have also invested in electricity distribution external to Marlborough.

At the beginning of the 2014/15 year, we held equity investments in three electricity networks outside Marlborough:

- Nelson Electricity Limited (50%)
- The OtagoNet Joint Venture (51%); and
- Horizon Energy Distribution Limited (13.9%).

Combined, these network companies supply an additional 48,600 customers in the Nelson, Otago and Bay of Plenty regions of New Zealand.

Additionally, at 1 April 2014 we held a significant shareholding in electricity contracting services employing approximately 180 people in the Marlborough, Otago and Southland regions. These contracting divisions undertake construction and maintenance of the electricity network assets that deliver electricity to customers from the Transpower owned National Grid.

By year-end (31 March 2015), our investment picture had changed dramatically.

The Company sold its investments in the OtagoNet Joint Venture and Otago Power Services Limited to our Southland based joint venture partners.

As a result of the sale of our Otago investments, Marlborough Lines is in a strong position going forward.

It has no debt and in excess of $100m available for investment. It is intended that opportunities which meet the investment criteria of the Company and its shareholder will actively be investigated.

Vital statistics
Parent company

- Marlborough Lines Limited shareholding comprises 28m $1.00 shares issued, fully paid up and held by the Marlborough Electric Power Trust
- Annual operating revenue of $55.9m
- A net worth at 31 March 2015 of $330m
- Some 24,796 network connections
- An area for network supply covering 11,330km^2
- Network of lines and cables in excess of 3,365km
- 131 Blenheim-based staff.

The Group

- The Marlborough Lines Parent company plus:
    - A 50% interest in Nelson Electricity Limited
    - A 13.9% interest in Horizon Energy Limited.
- A net worth at 31 March 2015 of $333m.

At balance date the Marlborough Lines Group maintained a 50% interest in Nelson Electricity Limited – the owner of the electricity supply network in the central Nelson city area – and a 13.9% interest in Horizon Energy; the owner of the electricity supply network in the Bay of Plenty.

Beyond the Marlborough region, the entities in which Marlborough Lines had a significant financial interest at balance date:

- Supplied around 33,900 customers
- Delivered 655GWh of electricity
- Had a peak load of 118MW
- Used 2,647km of lines
- Had total revenue of $112m
- Employed 304 staff.

The Marlborough region

Marlborough Lines is based in the region's largest town, Blenheim, which has a population of about 24,200. The Marlborough region is blessed with an enviable climate and experiences approximately 2,400 hours of sunshine each year. In more recent decades the region has become world famous for its sauvignon blanc wine production with some 23,600 hectares of land currently planted in grapes, providing around 79% of New Zealand's wine production. It is also known as being a main centre for aquaculture (mussels) farming, forestry and tourism.

Electricity supply

The supply of electricity to Marlborough Lines' distribution system comes from three Transpower 110kV circuits which terminate at a single point of supply (GXP) at Springlands, Blenheim. Marlborough Lines' sub-transmission network supplies some 16 zone substations at 33kV.

The supply to Marlborough customers radiates out to a number of very isolated rural areas including the Marlborough Sounds, Molesworth Station (New Zealand's largest farm at the head of the Awatere Valley), and the southern Marlborough coast; an area bordered by the Pacific Ocean on one side and the seaward and inland Kaikoura mountains on the other.

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

Performance overview

The key measures are all up.

$58.270m

Group total operating revenue (up 7.5%)

Network revenue increased following an increase in line charges of 3.8% from 1 April coupled with a 3.83% increase in energy volume. **See page 5**

$9.908m

Group surplus after taxation (up 8.2%)

A sound result built on improving revenues and a controlled reduction in operating expenditure over last year. **See page 51**

$22.832m

Group earnings before interest, tax and depreciation EBITDA (up 1.5%)

Overall earnings were up 7.6% on target for the year. **See page 5**

$20.737m

Capital and maintenance expenditure to increase capacity and improve reliability

An increase of 0.6% from last year. This investment and that of previous years is reflected in an increased reliability of supply. **See page 20**

$9.290m

Total discounts, inclusive of GST, paid to Marlborough customers, an increase of 1.3% (an average customer received $226)

Combined discount and distribution for the 'average' customer defined by the MBIE was $276. **See page 14**

$1.785m

Total dividend paid to the Marlborough Electric Power Trust

Dividends paid to the Trust for distribution to consumers. Each network connection received $50. **See page 14**

$9.695m

Total cash flows received from funds invested and investments in Nelson, Otago and Horizon (up 31.5%)

This is a $2.32m increase on last year, it represents a 7.01% return on investment based on current holding values. **See pages 55-58**

3.83%

Increase in the volume of energy traded over the Marlborough network (396.8 GWh)

Relative to the 1.0% increase in the number of network connections made during the year. This goes against the national trend where there has been a reduction in energy volume. **See page 12**

132.9

Average total minutes of lost supply (which is a record and a reduction of 45% on last year)

This result was achieved through a combination of measures which included enhanced SCADA and intensive vegetation management. **See page 17**

24,796

Total Marlborough network connections (up 1.0%)

This low rate of growth reflects the economic environment which prevailed over the year.

Results in brief

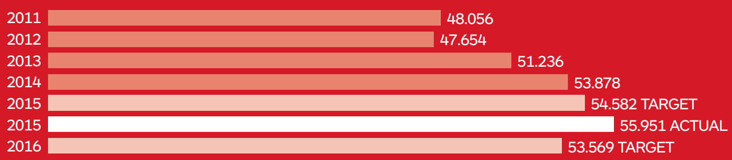
GROUP	ACTUAL 2015	TARGET 2015	CHANGE OVER PREVIOUS YEAR	TARGET 2016	2014	2013	2012
EBITDA[1]	$22.832m	$23.088m	1.5%	$21.210m	$22.505m	$23.972m	$19.525m
EBIT[1]	$14.058m	$13.746m	-0.6%	$11.782m	$14.137m	$16.056m	$11.895m
Total Revenue (Group)	$58.270 m	$54.582m	7.5%	$53.569m	$54.228m	$51.237m	$47.654m
Customer Discount	$8.078	$8.025m	1.3%	$8.003 m	$7.976m	$7.135m	$6.580m
Pre-tax Pre-discount Surplus[1]	$21.025m	$19.971m	-0.3%	$19.785m	$21.098m	$21.397 m	$16.601m
Surplus after Taxation[2]	$9.908m	$9.351m	8.2%	$8.779m	$9.153m	$11.300 m	$8.116m
Total Value of Group Assets	$387.787m	$358.170m	9.6%	$389.543m	$353.898m	$344.133m	$334.285m
Share Capital	$29.026m	$29.026m	0.0%	$29.026m	$29.026m	$29.026m	$29.026m
Shareholder's Equity	$333.228m	$265.521m	29.2%	$340.307m	$257.870m	$250.417m	$240.026m
Net Asset Backing Per Share	$11.90	$9.48	29.2%	$12.15	$9.21	$8.94	$8.57
Pre-discount Return on Shareholder's Funds[3]	6.31%	7.52%	-22.9%	5.81%	8.18%	8.54%	6.92%
Net Interest Bearing Debt	–	$36.800m	–	–	$38.000m	$36.150m	$39.300m
Interest Cover (x EBIT)	–	7.64	–	–	13.93	8.95	6.35
PARENT							
EBITDA[4]	$22.192m	$21.588m	8.7%	$21.010m	$20.424m	$21.912m	$17.783m
EBIT[4]	$13.418m	$12.246 m	11.0%	$11.582m	$12.088m	$14.028m	$10.185m
Customer Discount	$8.078m	$8.025m	1.3%	$8.003m	$7.976m	$7.135m	$6.580m
Surplus After Taxation[4]	$9.229m	$7.851m	31.3%	$8.579m	$7.031m	$9.442m	$6.435m

1 Excludes 2015 gain recognised on disposal of interest in former associates $71.452m.
2 Excludes income tax expense for 2015 of $11.501m and the gain recognised on disposal of interest in former associates[1].
3 Excludes 2015 gain recognised on disposal of interest in former associates[1].
4 Excludes intercompany subsidiary dividend for 2015 of $85.611m.

Parent company

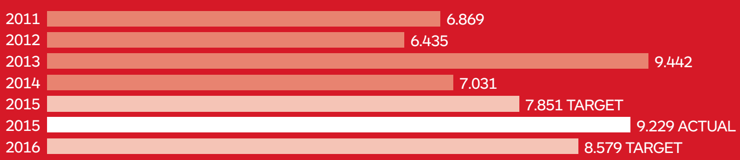
With no operational surprises in 2015, our total revenue came out $1.369m ahead of target.

Total revenue
Parent company $(millions)



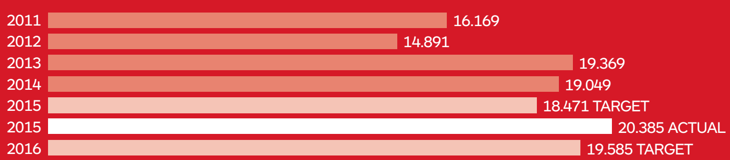
An upswing in the Marlborough region's economy and a resultant significant increase in revenue from irrigation (Marlborough had its driest summer for 85 years) led to a 2.5% improvement over target revenue.

Operating surplus after tax
Parent company $(millions)



A combination of increased revenue over target and reduced costs allowed for an increase in operating surplus after tax of $1.38m which was an improvement of 17.5% over target.

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



The 18.5% increase achieved over target results from improved revenue flows from greater than predicted electricity consumption arising mainly from a very dry year bringing increased irrigation revenue.

With operating revenue exceeding budget by $1.369m it followed that the tax paid surplus from continuing operations would also exceed budget. In fact the tax paid surplus from continuing operations was $9.22m – this being $1.378m ahead of the target.

We also achieved a significant reduction in consumer minutes of lost supply. This year's average of 132.9 minutes is the lowest average level of interruption to supply that we have ever recorded. Targeted expenditure in areas such as vegetation control contributed to this record as well as a more benign weather pattern through the 2014 winter season.

Key targets and results – Parent company

TARGET 2015		RESULT 2015	TARGET 2016
Company surplus before tax and sales discounts $18.471m	↑	Achieved **$20.385m** The Company recorded solid revenue growth with a measured control over operating expenditure during the year under review. See page 50	$19.585m
Company net surplus after tax $7.851m with $8.025m discount	↑	Achieved **$9.229m** The Company had an increased net surplus of $9.229m with discounts totalling $8.078m. See page 5	NPAT $8.579m and discounts of $8.003m
Network customer discounts of $8.025m	↑	Achieved **$8.078m (excluding GST)** The result is slightly more than the estimate and is directly related to discounts being a posted component of electricity delivery charges and the total volume of energy delivered over the network. See page 14	$8.003m
Capital expenditure target level of $13.330m	↓	**The value of assets commissioned was $13.147m** Ever increasing customer expectations of improving service against a backdrop of lines and cables with an increasing average age means that expenditure needs to be directed towards reliability and improving service. See page 20	$11.848m
Operating turnover target $54.582m	↑	Achieved **$55.951m** Network prices were increased this year and a small volume increase in energy consumption was attained. All other revenue lines remained flat. See page 5	$53.569m
Target shareholder's equity at year end $285.003m inclusive of deferred tax provision	↑	Achieved **$329.984m** A large increase this year as a result of the extraordinary gain on the sale of the Otago based investments being transferred through to Parent equity. See page 73	$334.147m
Average number of minutes power supply lost from all causes not to exceed 170 minutes per customer	↑	Achieved **– 132.9 minutes** The best result achieved by the Company. There were no extreme nature events (earthquakes, wind storms and lightning) that affected the network during the year under review. See page 17	Regulatory target has been reduced to 135 minutes
Faults per 100km of line not to exceed 10	⊗	Did not meet target **– 11.6 faults** Many more small individual faults from random events. See page 108	Target remains 10

Note: Financial results exclude $85.611m dividend received from the subsidiary Southern Lines Limited.

Our mission

What we set out to achieve.

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

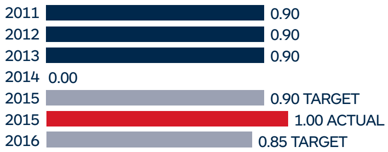
As a company we set out to:

GOALS	2014/15 RESULTS	2015/16 TARGETS
Develop and maintain the region's electricity network	Achieved average total minutes lost from all causes of 133 minutes per customer, which while 33% more than the target, was our best annual result to date and a 50% reduction on the five-year average. See page 17 Incurred capital expenditure of $13.147m to meet customer demand and improve reliability of supply, which was 1.4% less than the target of $13.33m. See page 20 Incurred maintenance expenditure of $7.59m to avert future problems in terms of safety or reliability of supply. See page 20	• Average number of minutes power supply lost from all causes not to exceed 100 minutes per customer • Capital expenditure target level of $11.848m (the lower target reflects our prediction of average economic growth and completion of several major upgrades) • Maintenance expenditure target level of $7.632m
Meet both commercial and productivity targets	Delivered 397GWh of energy (a record level) to the Marlborough network compared to a target of 381GWh. The significant increase in comparison to target goes against the national trend and can be attributed mainly to increased irrigation consumption arising from Marlborough's driest summer for 85 Years. See page 12	• Deliver 387GWh of energy to the Marlborough network (the reduced estimate is based on average climatic conditions)
Operate a successful business	Achieved a pre-tax, pre-discount operating profit of $20.385m, 10.4% more than the target of $18.471m as a result of improved revenues and a cap on costs. See page 7 Paid a shareholder dividend of $1.785m, consistent with expectations. See page 4 Achieved an increase in Group shareholder value of $75.3m to $333.2m. (A significant portion of this increase arose from the sale of long term investments). See page 10	• Achieve Company surplus before tax and sales discounts of $20.385m • Pay a shareholder dividend of $1.785m (set at the same level as 2014/15 pending other advice from the shareholder) • Increase shareholder value
Be a good employer	Continued training in all areas and supported some 21 staff through trade and tertiary study. See pages 28-32 Four staff upgraded their technical competence to enable 'live line' work. Provided vacation work opportunities for three tertiary students.	• Continue to assist staff with trade and tertiary study, and apprenticeship programmes • Continue with and enhance our employee 'wellness' programme • Trial sit-stand desks for interested staff • Implement the 'ACC Fleet Saver' vehicle management programme
Use energy as efficiently as possible	Implemented the Smartrak GPS based vehicle monitoring system for the Company's vehicle fleet. This enables improved fleet management, targeting safety and efficiency. See page 32	• Develop the analytical capability of Smartrak to improve fuel efficiency and vehicle management • Re-audit energy consumption within Marlborough Lines' buildings

GOALS	2014/15 RESULTS	2015/16 TARGETS
Ensure and promote electrical safety in the community and safety in all aspects of our operation	✓ No serious harm accidents during the year. See page 33 ✓ Increased focus on improving awareness and safety culture within Marlborough Lines through a number of measures including staff safety breakfast presentations. See page 34 ✓ Embarked on full review of safety at Marlborough Lines with renewed focus on identification of hazards and mitigation of risks. See page 34 ✓ Maintained accreditation for ISO OHSAS 18001:2007 and ACC Tertiary Status. See pages 19 ✓ Promoted public safety through newsletters and our website. See page 15	• Achieve zero serious harm accidents • Implement the ACC 'Fleet Saver' programme for on-road and in-cab safety • Continue to meet regulatory requirements for safety training • Maintain ISO accreditations
Exceed customer expectation	✓ Achieved increased customer satisfaction from 88% to 89%. See page 15 ✓ Supported our communities through a range of sponsorship initiatives. See pages 36-39	• Increase customer satisfaction • Continue to support community events and projects in line with our sponsorship criteria
Use legislative powers fairly	✓ Maintained our record of never having an adverse ruling made against Marlborough Lines by the Electricity and Gas Complaints Commissioner.	• No adverse rulings against Marlborough Lines by the Electricity and Gas Complaints Commissioner
Respond to customer demand	✓ Capital expenditure of $13.147m (slightly below estimate) was undertaken to meet customer demand and improve reliability of supply. See page 20 ✓ The Company's expectations for capital expenditure for the next ten years are included in its Asset Management Plan available at www.marlboroughlines.co.nz.	• Target level of capital expenditure of $11.848m
Fulfil market requirements in terms of quality and price	✓ Maintained our international accreditation for systems management, environment, and health and safety. See page 19 ✓ Met all Electricity Authority Code of Practice requirements. ✓ Met all Commerce Commission Information Disclosure reporting requirements. ✓ Surveyed our customers as to satisfaction levels and noted a small increase in overall satisfaction.	• Maintain international accreditation for systems management, environment and health and safety • Meet all regulatory code and reporting requirements • Survey customer satisfaction levels
Minimise our environmental impact	✓ Maintained our ISO environmental standard. See page 41 ✓ Continued support of the Marlborough Sounds Restoration Trust's Wilding Pine eradication programme. See page 38 ✓ Maintained support for the New Zealand Drylands Forest Initiative – eucalypt breeding programme. See page 43 ✓ Commenced trial of new catenary insulated overhead power system for use in power supplies around forest margins. See page 24	• Maintain ISO environmental standard • Reduce our carbon footprint by the further planting of trees • Continue support of Marlborough Sounds Restoration Trust and the New Zealand Drylands Forest Initiative • Continue small scale wind and solar power trials

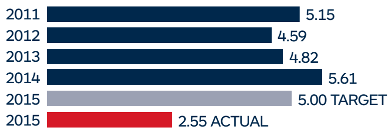
Our results are an endorsement of our philosophy and strategies.

Dividends received from Nelson Electricity
$(millions)



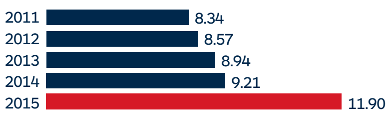
In 2014 the Nelson Electricity shareholders opted to forgo a dividend in preference to funding a new substation project. This year the company was able to resume paying dividends with a payment of $1.0m to each shareholder, this being an 11% increase over the previous (2013) dividend level.

Distributions received from OtagoNet Joint Venture
$(millions)



An agreement was reached for Marlborough Lines to sell its 51% share in the OtagoNet assets to its joint venture partners as at 30 September 2014. Dividends recorded form the Joint Venture are thus for the first six months of the year only and equate to 51% of the target figure.

Net asset backing per share
$



As a result of the sale of the OtagoNet assets and the significant surplus realised the net asset backing per share for the Group increased by 29.2% to 11.90. This is an increase in net asset backing per share of 95.7% over the last 10 years.

It has been a stellar year for Marlborough Lines. The Company experienced an extraordinary lift in profit due to a stunning result from the sale of our investments in Otago.

Additionally, reliability of the Marlborough network was at a record high level, delivered energy increased and lost time injuries were reduced.

We believe these results are a clear endorsement of the philosophies and strategies pursued by the Company and reflect an ability to achieve success in all aspects of the Company's operations. We have a completely different paradigm from just a few years ago.

Within the electricity industry the situation is ever changing. We are embracing change and the opportunities that flow from it. But we maintain a single constant; which is to maximise value for our shareholder and customers.

Marlborough Lines entered into its Otago investment for commercial reasons and during the year we were pleased to exit on the same basis.

When we purchased 51% of Otago Power in 2002 we were confident our shareholder would derive value from the investment and the electricity supply for the people of Otago would improve. We have achieved both these objectives.

Importantly for our shareholder we attained an increased annual return over the period of our ownership and achieved a substantial capital gain on sale having purchased our 51% stake for $55.87m and selling it for $148m.

The price Marlborough Lines received ascribed a total value of $290m to 100% of the Otago assets.

At the time of sale, the regulatory value of the Otago network assets upon which the Commerce Commission would allow a return, was only $147m.

From 1 April 2014 for the next five year regulatory period, the Commission will only permit a 7.19% pre-tax return on the regulatory network value of $147m.

The Company also reviewed its 13.89% investment in Horizon Energy, a network company based in the Eastern Bay of Plenty. Marlborough Lines determined that this shareholding be sold but completion of the sale was not finalised until after the close of the financial year.

At the time of the investment in Horizon it was the intention that Marlborough Lines would further increase its stake and utilise its resources to enhance value.

Ultimately, time has proven that despite Horizon being a listed company its shares have been virtually illiquid and its majority shareholder has been committed to preservation of the status quo.

Marlborough Lines has no interest in holding a minority shareholding in an underperforming company with no opportunity to effect improvement. Accordingly these shares have been sold for a price with a gain of $0.8m post final dividend.

> **Going forward Marlborough Lines will be considering investment opportunities external to the network industry which satisfy its investment criteria.**
>
> DAVID DEW, CHAIRMAN

To date Marlborough Lines has focussed on investment relative to its core business but the reality within the distribution sector is that there is a paucity of opportunity.

Shareholdings of network companies are tightly held and there are no real indications of changes that might offer investment opportunities in the immediate future. The regulatory environment also mitigates against rationalisation within the industry.

Another factor which has to be considered relative to the distribution sector is the regulatory regime which restricts the pre-tax return to 7.19% on a prescribed regulatory asset base for investor owned companies and imposes tight constraints relative to capital and maintenance expenditure.

Against this background and with the support of our shareholder going forward Marlborough Lines will be considering investment opportunities external to the network industry which satisfy its investment criteria.

Overall Marlborough Lines is in a strong position. Its network assets are sound, new technology is being used to enhance reliability and the Company has an ongoing programme of continuous improvement in all aspects of its operations.

Financially Marlborough Lines is unique among network companies. Through our successful investment we have significant funds to be invested and look forward to new opportunities.

Our strong position can be attributed to solid foundations – which have been laid over a period of years – and the valued contributions of my fellow directors, Managing Director Ken Forrest and the Company's staff, all of whom I am pleased to acknowledge.

Equally, I am pleased to record the support of our shareholder, the Marlborough Electric Power Trust, and our customers for whom it has been a pleasure to serve. We are excited about what Marlborough Lines can achieve going forward.

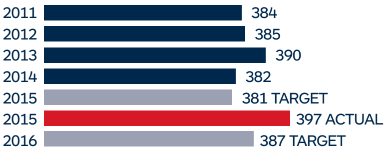
DWR (David) Dew
Chairman

	2015 EBITDA $m	2015 EBIT $m	2015 SURPLUS $m	2015 TAX $m
Marlborough Lines	107.803	99.029	97.918	3.078
Consolidated Group	94.284	85.510	84.399	14.540

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

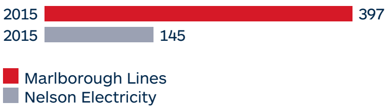
Criteria for success...

Energy delivered to the Marlborough network
GWh



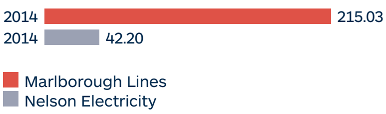
The advent of an upturn in the region's economy and a significant increase in the consumption of electricity for irrigation (Marlborough had its driest summer for 85 years) led to a record level of electricity transported across our network.

Energy delivered to all our networks
GWh



Whilst Marlborough Lines experienced a record level of electricity transported across its network (an increase of 3.83% over the previous year), Nelson Electricity recorded a 2% reduction which is a third year of reduced consumption. There has been a distinct levelling off of consumption nationwide – Marlborough has bucked the trend due to irrigation and the viticulture industry.

Network asset values (regulatory)
Regulatory Asset Value at 2014 $(millions)



Under the Electricity (Information Disclosure) regulations, all electricity networks must value their networks annually according to a Commerce Commission formula. This results in a valuation which is less than the usual accounting and tax valuations. By way of comparison the Marlborough Lines network was valued for accounting purposes at $229m at 31 March 2014.

Marlborough Lines is required under the Energy Companies Act 1993 to operate as a successful business.

The definition of a successful business invariably includes achieving appropriate shareholder returns, business sustainability and meeting service levels which satisfy customer requirements while delivering against environmental and safety criteria. And of course all legislative requirements must be met.

Marlborough Lines' genesis was in the distribution of electricity to Marlborough after the forced sale of our generation and retail businesses by government regulation in 1999.

But we have become more than just the distributor of electricity in Marlborough. We have taken opportunities to invest in other electricity networks outside the area with the express purpose of adding value for our Marlborough shareholders.

The Company's investment in Otago is an example. The financial gains realised from the sale of Marlborough Lines' 51% investment in Otago has provided capital in excess of $100m.

Further investment opportunities will arise and Marlborough Lines will again take advantage of them to the benefit of its shareholders. Ultimately we expect the value of the Company's investments will exceed that of Marlborough Lines Parent.

That Marlborough Lines is able to undertake investment on such a scale is unique within the electricity distribution industry – and it is the electricity consumers of Marlborough who will benefit from these investments on an intergenerational basis.

The pursuit of other investment opportunities will not diminish Marlborough Lines' resolve to focus on its electricity distribution business to maximise performance and service for the benefit of the electricity customers of Marlborough.

We are proud of what has been achieved in the past year and we will continue to seek to improve our performance for the benefit of our shareholder and the customers we serve.

This is demonstrated by our achievement in improving the reliability of our network. Unplanned outages were at a record low level for the year ended 31 March 2015. Certainly we did not have the two big earthquakes and the extreme storm event of the previous year but we did have numerous severe winds and storms against which the network proved resilient. Such resilience has not happened by maintaining the status quo. In recent years significant investment has been undertaken in capital and maintenance expenditure.

We have long adhered to the view that prudent maintenance investment in the network must be effected before the situation escalates and impacts on reliability of supply and/or the costs of remediation have significantly increased.

> **The pursuit of other investment opportunities will not diminish Marlborough Lines' resolve to focus on its electricity distribution business to maximise performance and service for the benefit of the electricity customers of Marlborough.**
>
> KEN FORREST, MANAGING DIRECTOR

Similarly for capital expenditure; postponing properly justified capital expenditure invariably just delays the inevitable – with increased attendant costs.

Overall, Marlborough Lines' network is in a good state of repair and the Company is well placed to effect further improvement as encapsulated in our Asset Management Plan – which is driven by rigorous surveillance and assessment of the network.

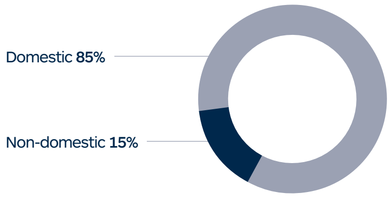
Consistent with legislative requirements Marlborough Lines is a successful business but our focus is more than financial operation. We are genuinely committed to further improving performance for the benefit of our customers and our plans will be effected to ensure such occurs. And of course, the safety of our staff, the public and our consumers will continue to be paramount in all aspects of our operations.

Marlborough Lines looks forward with confidence knowing our electricity network comprises well maintained quality assets. The Company owns 50% of Nelson Electricity and has no debt. Importantly significant funds are on deposit pending an investment opportunity which meets sound commercial criteria.

The Company's achievements are testimony to the calibre of its people. Accordingly, I am pleased to acknowledge the contribution of the Marlborough Lines Directorate and the dedication of the Company's staff. Their individual and collective efforts have been the key determinant in the Company's success and provide confidence for the future.

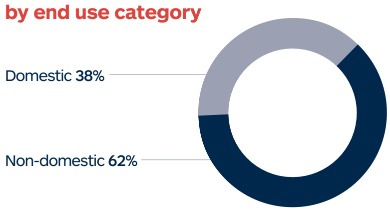
KJ Forrest
Managing Director

Number of network connections



Although non-domestic consumers make up only 15% of total connections, they consume some 62% of delivered electricity.

Total electricity consumption by end use category

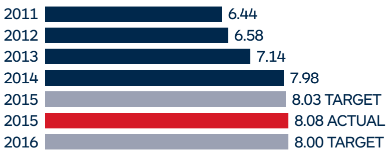


Non-domestic (business, farming and industry) consumption as a proportion of total electricity consumption is currently increasing by approximately 1% each year. Domestic consumption is decreasing by the same amount.

Customer Q&A

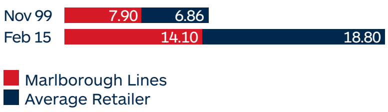
Two pages for our customers.

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



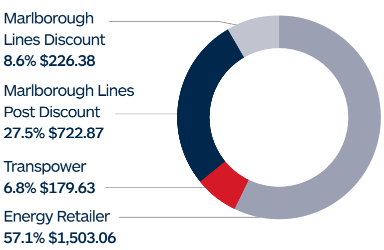
Total discounts paid at $8.08m were slightly over target. There is a variable component in the discount calculation based on units consumed. Thus to a certain extent the discount total varies with economic activity and sustained weather patterns.

Increase in components of average domestic electricity cost from 1999 to 2015
c/kWh



In the period from November 1999 to February 2015, Marlborough Lines' network charges have increased by 78.5%, whilst the average domestic charge for retail/ generation has increased by 174.05% (source: Ministry of Business, Innovation and Employment).

Allocation of the average electricity account for a typical domestic customer



Marlborough Lines' charges on a post-discount basis comprise only 27.5% of the total electricity account for the average domestic customer.

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

Who owns Marlborough Lines?

All the Company's shares are held by the Marlborough Electric Power Trust (MEPT) for the collective benefit of Marlborough's electricity consumers. The beneficiaries of the MEPT are all of the electricity consumers connected to the Marlborough network, at any one point in time.

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

The MEPT operates as nominal shareholder, appointing Directors, approving the annual Statement of Corporate Intent and receiving Marlborough Lines dividends. The MEPT can also (and does), make distributions from its income to electricity customers.

What happens to Marlborough Lines' Company profits?

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

What proportion of my electricity bill goes to Marlborough Lines?

A customer pays a pre-discount line charge (excluding Transpower charges) of 36 cents in each dollar of their total electricity account (post-discount 30 cents). (See graph on left.)

How do customers benefit from Marlborough Lines' investments?

The purpose of Marlborough Lines' investments is ultimately to provide benefits to those connected to Marlborough Lines' network. During the past year each customer received a $50 tax-free capital distribution from the MEPT. This was in addition to the network discount – which for an average domestic customer amounted to $226.38, including GST. Thus, an average domestic customer received $276.38 in total.

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

The total customer discount for the year ended 31 March 2015 was $8.078m (up from $7.976m last year). The total, including GST, was $9.29m. As previously noted, a typical domestic customer (consuming 8,000 kWh) received a discount of $226.38. The actual discount paid varies per customer as there is a fixed portion and a variable component related to the quantity of electricity used.

Since 1999, electricity consumers in Marlborough have received discounts totalling $102.4m. An additional $17.5m has been paid to the MEPT as dividends.

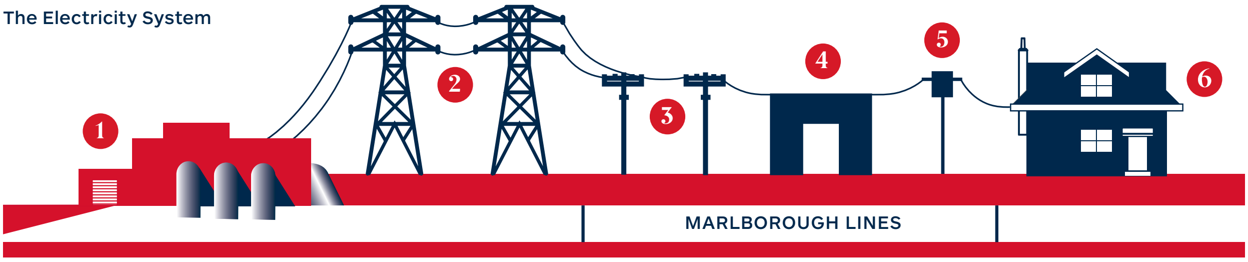
Does the community benefit in any other way from the Company's activities?

Marlborough Lines provides sponsorship for a range of youth, sporting and community events. A more detailed outline of our community support programme is provided in the community section – see page 36.

Our website www.marlboroughlines.co.nz contains a wealth of information of interest to our customers.

Customers can access information about the Company, its history, management and annual reports as well as electrical safety, energy efficiency, network pricing, fault information and network status. See website layout diagram on page 110.

The Electricity System



Electricity transfer process, from the generation source to the end user.

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

2. Transmission lines
Transpower owns and operates the National Grid. This consists of transmission lines and the equipment used to connect the major generators with the distribution networks.

3. Distribution Network
Marlborough Lines owns and operates the distribution network within Marlborough. We have a network of lines and cables in excess of 3,350km. We also operate a business unit for the construction and maintenance of lines.

4. Zone Substations
Marlborough Lines owns 16 zone substations which convert 33kV electricity to 11kV which is then used for reticulation to distribution transformers.

5. Distribution Transformers
Marlborough Lines has 3,000 distribution transformers which convert 11kV electricity into 400/230V. The distribution lines deliver the electricity to the point of supply to the customers installation.

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

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

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

What do the customer surveys undertaken by the Company tell us?

89% of customers responding to an independent survey said they were either very satisfied or satisfied with the Company's overall performance. Customers were asked to rate the Company on a range of performance areas including faults service, reliability, discounts, information, sponsorship, management and Directors.

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

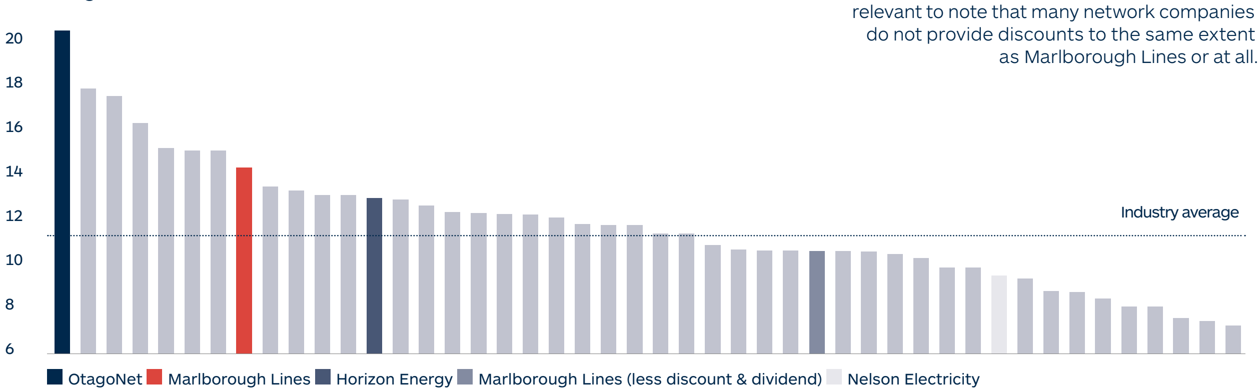
During working hours, all calls – including fault calls – are received directly at our Blenheim head office and are answered by our staff in person. After hours, we use a call answering service based in Blenheim to contact our faults staff. We do not use recorded messages, other than when callers have been transferred to individual extensions.

Can customers get advice from Marlborough Lines about energy efficiency?

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

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

New Zealand network companies annual line cost to a typical domestic customer as at February 2015
Line charges c/kWh



This graph depicts actual annual line charges for an average domestic customer (refer to glossary for definition) as at February 2015 for each network company in New Zealand. It is relevant to note that many network companies do not provide discounts to the same extent as Marlborough Lines or at all.

Increasingly our customers expect an uninterrupted electricity supply.

Our actions are producing results, which show we are on the right track.

Improved reliability is a success story.

2015 Highlights

- 133 minutes of lost supply – 45% less than last year
- 34% of customers were provided with a supply totally free of outages
- $13.147m spent on capital works to increase capacity and improve reliability of supply
- Installed specialist equipment to further minimise loss of supply
- Achieved 11.6 faults per 100km of line compared with our target of <10 faults per 100km of line.

2016 Targets

- Achieve reliability goal of 135 minutes (or less) of lost supply
- Achieve <10 faults per 100km of line
- Continue to implement ongoing surveillance of the network to identify potential faults before they can impact on reliability of supply
- Carefully assess any component or equipment failures to prevent repetition in other parts of the network.

The proof of our performance

Above all, our customers want reliability of supply and we have delivered.

Total customer minutes lost for the year ended 31 March 2015 plummeted by 45% to 133 minutes from 243 minutes for the previous year. The 78 minutes of supply lost by faults was only 41.7% of the previous year.

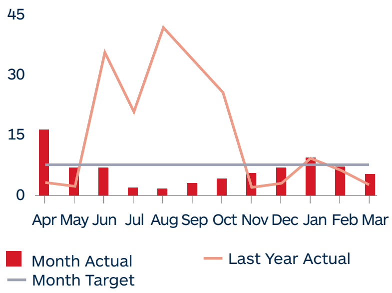
When remote lines are excluded the total of the minutes lost falls to 69 minutes for the year. This is the average across the entire network and some 34% of customers received no loss of supply for the second year in succession.

This is a great result. Of course in the previous year we sustained two serious earthquakes and an exceptional winter storm. But for the year ended 31 March 2015, we also endured several major storms which the network withstood without loss of supply. Achieving such a level of network resilience is the result of a combination of several factors: a programme of rigorous ongoing surveillance utilising field inspections, increased remote monitoring and control, sophisticated protective equipment and importantly, targeted maintenance and capital expenditure. And we will not rest there. We know our customers expect increasing levels of reliability of supply and we intend to further improve performance – where it is practical to do so.

Going forward, we have set ourselves a stretch target of 100 minutes for total SAIDI minutes of lost supply, excluding extreme events and circumstances beyond our control – such as interference to the network by external parties.

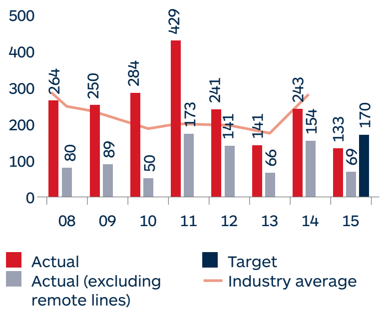
Can we deliver upon an improved reliability target? We believe so. Our proof is the trend we have achieved to date.

Unplanned outages
Minutes lost per customer



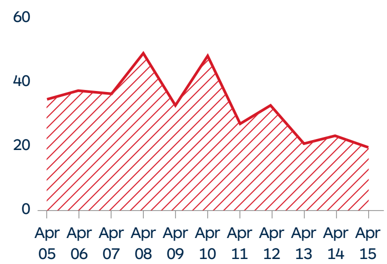
Unplanned outages were at a record low level. The low incidence of faults through the winter months indicates a very reliable supply particularly in comparison to the previous year.

Minutes of lost supply comparison
Total SAIDI (minutes)



Our efforts to improve system resilience are paying off. The total fault minutes recorded (133) is a very pleasing level given the long-term average currently sits at 232 minutes.

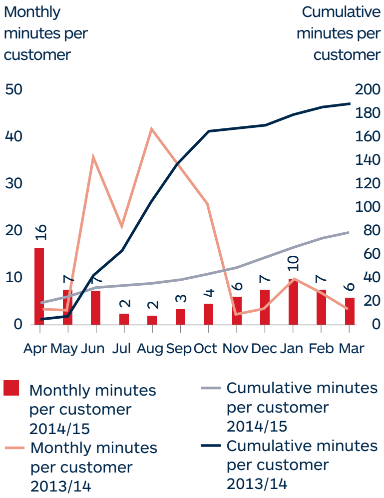
Outages between 10pm and 4am
Number of interruptions



In years gone by most of the night time faults were caused by possums contacting live lines and components. In recent years we have installed over 16,000 longer length possum guards and numerous bird spikes to prevent interference. The huge downward trend in night-time outages is indicative of the success of long length guards.

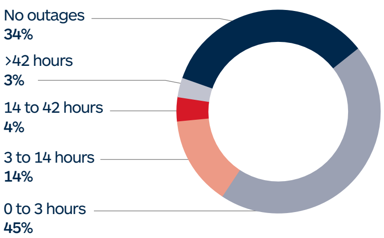
We operate a ‘no-waiting’ policy when it comes to making improvements

Marlborough network minutes of lost supply by faults only



Compared to 2014 we experienced a big reduction in fault events in the winter months. Of significance is that this year there were fewer extreme weather events and no earthquakes of the severity experienced in the 2014 year. These are all factors having strong influence on fault levels and restoration times.

How reliable was the supply?
Hours/% of customers



While the percentage of customers having no outages decreased marginally from 35.2% to 34% the percentage of customers experiencing zero outages or up to 3 hours of outages increased from 66% to 79%. This is a consequence of no severe earthquake or extreme storm events and improvements to the network.

Increasingly, our customers are becoming more reliant upon a continuous electricity supply and this will not be achieved if we maintain the status quo.

We are committed to a programme of continuous improvement on a cost-effective basis. The investment in our new computerised control system and the expansion of our SCADA system are examples. The system provides the status of the network at any time and this information is available internally and to our customers.

The remote control and operation of our network not only reduces outage times but also reduces operating costs by eliminating the need to travel to the site of the switches. In our more remote areas the remote operation of the switches saves several hours of travel.

The era of waiting for faults to occur on the network and then reacting to them with human resources is long gone.

Automatic intelligence built within our system automatically monitors the performance of our network every second of every day. We have several of what are in effect self-healing systems that can automatically isolate faulty sections of the line or equipment and provide supply from an alternative source. This equipment will be further utilised in the future.

Similarly, the remote operation of diesel generators on remote but key radial spur lines has eliminated a number of customer outages, minimised customer outage time, and also reduced the costs of restoring supply.

Commissioning a ground fault neutraliser at the Havelock substation has reduced the incidence of faults which previously would have caused loss of supply.

Furthermore, this equipment has enabled faults to be accurately pinpointed through the use of portable detection equipment. The ground fault neutraliser is relatively new technology and not currently widely used in New Zealand but its incidence of use can be expected to increase in the future given the success of its operation. Indeed, during the current year we intend to purchase a further ground fault neutraliser for the Linkwater substation – with further installations to follow. Aside from improving reliability of supply, using this equipment will further reduce the possibility of an earth fault – which could cause a fire in dry conditions.

We are in an exciting industry and increasingly our network is becoming smarter and will progressively provide more reliable supply for our customers.

But innovation does not only apply to the installation of new technology on the network. Our work methods are continually changing. By way of example, we now undertake pole testing with the aid of an electronic acoustic system which provides an indication of the condition of a wooden pole through electronic acoustic measurement. This methodology quickly identifies a pole in good condition and those that do not pass this initial test are subject to special x-ray.

This methodology is more accurate and cost-effective than the old manual methods of testing – some of which cannot conclusively prove the integrity of a pole.

During the year we further upgraded our GIS systems, and for safety reasons we provided satellite tracking of all our vehicles. This gives a measure of comfort for our staff, especially when they are operating in remote, isolated areas where there is no communication.

Reliability in a unique network

Discouraging birds from landing on cross arms makes a big difference to our system reliability.

Our network has some unique features

Having a single point of supply (GXP) at Springlands, Blenheim, presents some different challenges. It requires us to have an extensive 33kV sub- transmission system with a significant rural radial 11kV network reaching out to several very distant points.

Areas such as the Marlborough Sounds often require boat or helicopter transport for faults to be remedied and long hours to be worked. We are committed to improving system reliability over all of our network and expenditure to reduce the intrusion of birds and possums into our system has shown very demonstrable results.

In a number of rural areas we have gone further and installed standby generation (diesel generators) in order to be able to provide supply when faults cause interruptions of the grid supply. Whilst system reliability is also dependant on weather variations we are continuing with work to reduce or eliminate many of the other factors (trees, animal/pests, birds) which can cause loss of supply.

	2015 SAIDI	2014 SAIDI
Total Minutes Lost	133	243
Less Planned Outages	55	56
Total Minutes Lost by Faults	78	187
Less Minutes Lost by Extreme Events	–	3
Less Minutes Lost by Remote Lines	39	67
Total Minutes Lost by Urban and Rural Faults	39	117

International benchmarks are important

We believe that quality equipment is wasted unless we have quality systems.

Performance can only be attained or improved through measurement. Every aspect of our operations is required to meet standards. Some are regulatory but others are self-imposed.

We believe that quality equipment is wasted unless we have quality systems. In keeping with our commitment to excellence and continuous improvement, Marlborough Lines has embraced international quality systems that are subject to six-monthly external audits to ensure standards are maintained.

We have achieved the internationally recognised ISO accreditation for:

- Management ISO 9001
- Environment ISO 14001
- Health and Safety OHSAS 18001

as well as the New Zealand Standard for Public Safety 7901:2008.

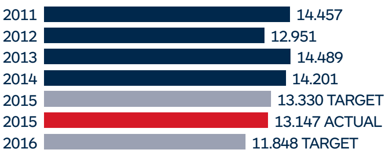
These standards are integral to all aspects of our operations.

These certificates record our compliance with the ISO requirements for management, environment and occupational health and safety.


Telarc.
Certificate of Registration
Marlborough Lines Limited
AS/NZS ISO 9001:2008
TELARC REGISTERED
2559
TELARC

Targeted expenditure is the back-story for improved network performance

Capital expenditure
$(millions)



Capital expenditure for 2015 largely comprises transmission and distribution lines/cables $6.03m, main substations $2.53m and transport replacements $1.52m.

Capital expenditure comparative numbers

	2015 ACTUAL $m	2014 ACTUAL $m	2016 TARGET $m
Capital Expenditure	13.147	14.201	11.848

The capital expenditure total ($13.147m) is consistent with the target spend of $13.330. The total can vary depending on customer demand for new lines and availability of property access. After a sustained period of sub-transmission and high voltage line renewals our target capital expenditure will reduce to around $9-$10m p.a. for the next decade.

Maintenance expenditure comparative numbers

	2015 ACTUAL $m	2014 ACTUAL $m	2016 TARGET $m
Network Maintenance	7.590	6.422	7.632

Whilst there is a robust maintenance programme, the actual level can vary depending on weather events. The reduction in faults during the year reflected in the maintenance spend being significantly under budget.

Our Asset Management Plan sets anticipated capital and maintenance expenditure for ten years ahead and is reviewed annually to account for any changed circumstances, especially relative to customer requirements.

We are in a dynamic environment and we act accordingly.

Always our preference is to achieve long-term solutions. Prudent capital or maintenance expenditure must be undertaken in a timely manner. Postponement of necessary work will invariably increase costs at a later date and cause loss of supply – or in some instances, create safety risks.

In previous years our capital expenditure has typically been targeted to increase capacity.

Although this occurred to an extent over the year, generally our focus was on improving reliability by extending our SCADA system and replacing assets that have reached the end of their lives. Examples of capital expenditure we undertook during the year are:

Zone substations

- Installed 33kV cabling at Riverlands to provide greater flexibility for the Cloudy Bay substation
- Installed bus zone protection at the Nelson Street, Springlands and Waters 33/11kV zone substations
- Commissioned the Company's first ground fault neutraliser at Havelock substation; and
- Commissioned a second 33/11kV 5MVA transformer at Rai Valley to provide N-1 reliability.

Line reconstruction

- Rebuilt 2.5km of line to Wairau Valley – increasing the total length of the line that has been renewed since 2006 to 26km
- Rerouted part of the 33kV line between Seddon and Ward – to avoid unstable terrain made worse by Seddon earthquakes
- Completed the final stage of the replacement of 35km of the 33kV Cobb line rebuild
- Rebuilt 3.5km of the 11kV line on the East Coast. This work was undertaken to replace a large number of concrete poles affected by exposure to years of wind-borne salt particles
- Rebuilt the 11kV line in Murrays Road, Spring Creek – to allow better distribution of customer loading
- Reconstructed part of the 11kV SWER line to Peggioh inland from Ward – as a consequence of terrain made unstable during the Seddon earthquakes.

We upgraded five of eight radio repeaters and three additional radio repeater sites were established. Improving the radio repeater sites will enable further expansion of the Company's SCADA system.

At the end of the year a total of 143 33kV and 11kV circuit breakers could be remotely operated at zone substations and a further 63 33kV and 11kV circuit breakers were remotely operable within the network. Aside from control of the circuit breakers, the SCADA system provides considerable real-time information in relation to the network.

We made a further significant enhancement to our network operations by installing a new computerised network management system – which has proven to be especially successful.

The system provides real-time information on the status of the network which is made available to customers via the Company's website (www.marlboroughlines.co.nz) and also provides the opportunity for a wide range of network surveillance and storage of data which can be readily utilised to undertake engineering assessments of the network. During the current year we intend to further expand the system to automatically determine switching procedures for the network.

Maintenance is not a cost – it's an investment

1 Often the view from our work sites is stunning – in this case Whatamango Bay, Marlborough Sounds.

2 The Grove Arm of Queen Charlotte Sound has many beautiful bays – making a power supply blend in is not always easy.

1

2

Regardless of the sophistication of the network it is imperative that the fundamentals of timely maintenance are undertaken on a cost-effective basis. Ongoing surveillance and monitoring of the network ensures this is the case. Every failure is considered on an individual basis to determine whether it is an isolated incident or has the potential to be repeated in other parts of the network.

Identification of a potential fault enables remedial work to be effected before the fault has a chance to occur. This is essential in a network which can be subject to extreme winds and has many kilometres of lines spread over difficult or inaccessible terrain.

It is far better to undertake maintenance work on a scheduled basis at a lower cost than have the moment of repair imposed and customers suffer in terms of reliability of supply.

Aside from undertaking ground surveillance which includes rigorous inspection of all wooden poles on a rotational basis, we regularly fly over the remote parts of the network using helicopters. Overall, we do not regard maintenance as a cost but as a prudent investment which maintains the value of our network, enhances reliability of supply, and maintains safety standards.

Our network configuration

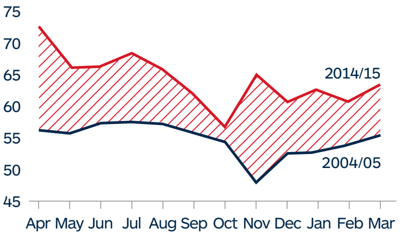
We have a single point of supply at Transpower's Blenheim substation and our 33kV network delivers electricity to some 16 33/11kV substations throughout our area.

Although there are multiple 33kV lines supplying five Blenheim 33/11kV zone substations and these provide several options for alternative supply, the majority of our other 33/11kV substations have dual 33kV supply with the exception of Linkwater, Ward and Leefield. Where we have multiple 33kV supplies, typically we can lose a line without incurring loss of supply but this is not the case where the substation is dependent upon a single line. Similarly, within urban areas and the more densely populated rural areas, we generally have alternative options for supply. Our longest rural 11kV feeder supplies some 326km of line – the integrity of supply in such cases is dependent upon every component along the line's length performing and the line remaining free of external interference from trees, animals and other factors.

Maintaining such rural lines can be challenging and the costs are disproportionate. Some 80% of our lines supply about 20% of our customers. Whilst it can take longer to find and fix faults at the extremities of our system (D'Urville Island for example) our service pledge is the same to all customers – if we can get there to fix things safely we will be there.

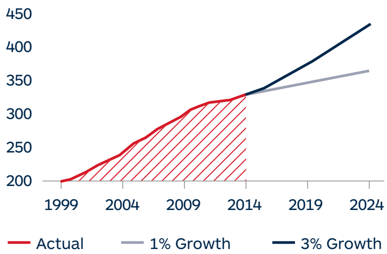
We couldn't have asked anything more of Transpower again this year

Total system monthly maximum demand
MW



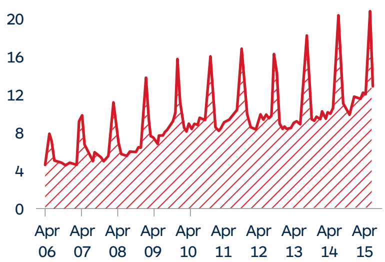
This graph illustrates the shift in system peak from mid-winter (June/July ten years ago) to April as a result of the dramatic increase in consumption for processing of grape harvests at vintage. The peak in November was caused by irrigation.

Distribution transformer capacity connected to network
MVA



The rate of investment in the wine industry stalled for a period in 2011 however a modest level of investment is now occurring again resulting in a need for more distribution transformer (11kV) capacity.

Winery maximum demand by month
Total all wineries MVA



After a period of consolidation in 2011, grape tonnages harvested have started to increase again resulting in greater energy consumption for processing. Consumption for the April 2015 peak was still a record despite the very dry summer and fruit yields being down over the previous year.

The supply provided by Transpower to its point of supply in Blenheim could not have been better. For the third year in succession there has not been a single interruption to the 33kV supply provided by Transpower. This reinforces the validity in recent years of the decisions – taken by Transpower and supported by Marlborough Lines – to construct a third 220kV line from Islington to Kikiwa and a third 110kV line from Stoke to Blenheim.

Installing the third 110/33kV 60MVA transformer and new switchgear at Transpower's Blenheim substation further underscored the benefit of prudent investment. Transpower provides an N-1 capacity to Marlborough sufficient to cater for Marlborough Lines' maximum demand. Yes these investments have come at a cost of higher transmission charges, but the restrictions of earlier years have gone. The grid is an integral component in our delivery of a reliable electricity supply and we are pleased to acknowledge the perfect reliability of supply that was achieved by Transpower for the year. Looking forward, the capacity of the Transpower system will continue to meet the requirements of Marlborough for up to 30 years, depending upon customer demand.

We work with Transpower and other networks to minimise demand charges

In recent years Marlborough Lines, along with other networks in the top half of the South Island (from Ashburton north), has worked in conjunction with Transpower to maximise the benefits of diversifying load between the different areas. In this way the efficiency of the grid can be maximised – and has resulted in reduced demand charges for Marlborough Lines.

By way of example, the maximum chargeable Transpower demand was 59.7MW, yet the system maximum demand was 72MW. This was achieved because the maximum demand on our network occurred in April at the time of vintage, whereas the maximum demands imposed upon Transpower typically occur in the winter months. Irrespective of the time of chargeable peaks, we sought to minimise costs through interactive customer load management and by operating our diesel generators.

The Marlborough region receives electricity from Transpower through a single point of supply located at Springlands, Blenheim.

We are doing everything we can to minimise disruption from earthquakes

Waters substation,
Redwood Street, Blenheim.

The Wairau fault and other significant fault lines pass through Marlborough. Two significant earthquakes occurred in 2013 and from time to time further tremors have been experienced. All of these events are a salutary reminder earthquakes can occur at any time and we need to be prepared.

All structures have been designed to meet relevant earthquake standards and we undertake regular reviews. Subsequent to the Canterbury and Marlborough earthquakes, we have reassessed the resilience of all aspects of our network, and where appropriate, made improvements.

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

These studies determined that generally our assets would withstand significant earthquakes but that there could be temporary loss of supply.

In 2013, severe shaking caused by the earthquakes resulted in some lines clashing together with consequential arcing, and in some instances the conductors fell to the ground.

Fortunately the repairs were relatively simple and the delay in restoring supply was not caused by the time to repair but by lack of access – and the need to undertake thorough inspections in daylight.

As has been demonstrated to date, overhead lines are reasonably resilient to earthquakes but the same cannot be said about underground cables. The reality is if underground cables traverse fault lines or are subject to areas prone to liquefaction, damage will typically result.

Apart from the newer residential suburbs, the majority of our underground cables are installed within Blenheim and Picton's commercial areas. We have worked to alleviate risk by providing options for alternate electricity supply, but it is inescapable that a severe earthquake could readily inflict serious damage, particularly when it is known that some areas are likely to be subject to liquefaction.

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

We trim trees, not safety standards

Our Vegetation Control crews leave nothing behind, often saving property owners considerable additional expense.

The success of our vegetation management programme reflects the diminishing number of incidents where trees and vegetation have interfered with the network resulting in a loss of supply. Last year we invested a total of $2.16m on tree and vegetation management.

Wherever practicable we seek to attain falling distance, especially for 33kV lines and major 11kV lines, and with the support of landowners this has generally been achieved. However, there are some landowners – often those who reside outside the area – who have no interest in assisting the Company in providing a safe and reliable power supply. In such circumstances, the current Tree Regulations continue to prove deficient, and the minimal clearance distances the Company is entitled to maintain between lines and trees are insufficient.

Irrespective of the limitations of the Tree Regulations, the Company does its very best to minimise tree and vegetation interference with lines. Not only do Marlborough Lines have to have regard for keeping trees away from lines, we also have to ensure that a number of access tracks are kept free of vegetation. As with other aspects of maintenance, it is more cost-effective to trim or remove vegetation in a scheduled manner rather than having to undertake the work at short notice or in an emergency situation. This also minimises inconvenience to customers in that scheduled tree removal or trimming can frequently be done while the lines are live.

Given we have some 3,350km of line, much of it through areas where vegetation growth can be rampant, and access difficult, it is important that we keep up to date with our vegetation programme.

Where possible we look for long-term solutions in dealing with trees. In some instances overhead lines have been replaced with underground cables or lines have been rerouted.

We are also in the process of trialling a new type of aerial insulated 11kV conductor suspended by a catenary cable for use in forestry areas. Using this conductor should prevent interruption to supply if a branch falls across the line and minimise fire risk should the conductor make ground contact.

Marlborough Lines has a number of areas where lines are in afforested or bush clad areas and we are especially aware of the importance in minimising both loss of supply and any potential fire risk in these areas.

For the current year we have budgeted for a further $2.31m to be spent on tree and vegetation management.

Our real-time fire risk approach was an industry first

1 Linemen creating a new catenary insulated line on a forest margin.

2 When the going gets rugged our Contracting crews can still get to work.

As an indication of the severity of the situation in extreme fire risk areas, it was necessary to carry water and pumps on vehicles operating off-road to ensure staff safety.

The very dry conditions experienced over the summer months resulted in parts of Marlborough being determined as a severe fire risk by the Rural Fire Authority. This was of particular concern to us and we made every endeavour to mitigate the risk of fire. Access to some areas was prevented and the automatic restoration of supply in fire prone areas halted, until the line had been inspected by helicopter over its entire length to ensure that the restoration of supply would not result in a spark causing a fire. Although this approach – adopted in conjunction with the Rural Fire Authority – delayed the restoration of supply, we considered it to be in the best interest of all consumers and the general public.

We understand that the real-time use of fire risk information provided by the Rural Fire Authority, and its application to circuit breaker control, was the first for a network company in New Zealand.

In a further endeavour to minimise fire risks the earth fault settings of circuit breakers in high fire risk areas were set at lower than normal levels. It was better to have slightly diminished reliability than to experience a prolonged loss of supply and widespread fire devastation.

As an indication of the severity of the situation in extreme fire risk areas, we considered it necessary that water and pumps be carried on vehicles operating off-road to ensure staff safety.

New technology will provide a new era of opportunities

We are working with Canterbury University to ensure the successful implementation of photo voltaics.

Our industry is dynamic. Alternatives to grid electricity supply are becoming more prevalent. Similarly the utilisation of electricity has the potential for change particularly if there was to be significant introduction of electric vehicles. But some of the new options are not without their problems.

The cost of solar panels is reducing but they are typically not as economic as grid supply. Irrespective the incidence of their utilisation can be expected to increase. For this reason we are involved with Canterbury University and undertaking work within Marlborough Lines to address various issues relative to the utilisation of photo voltaic panels within electricity networks.

This work has enabled some over-voltage control problems to be addressed together with reducing the impact of harmonics from photo voltaic panels so the quality of supply to other customers connected to the network in the same proximity is maintained.

The use of photo voltaic panels continues to increase as their cost reduces, however the widespread installation of photo voltaics on installations connected to the network is not entirely straightforward in technical terms.

In any event Marlborough Lines, alongside Canterbury University, is at the forefront of dealing with these issues. We operate in one of the sunniest areas in New Zealand and it is inevitable that the use of photo voltaic panels will increase as their cost reduces.

Aside from the generation of electricity from photo voltaic panels, Marlborough Lines has a special interest in small wind generators for the provision of off grid supply to remote hill top radio repeater sites. In this regard we have been trialling two prototype wind turbines during the year. These trials are continuing and the manufacturer has been able to improve the turbines as a result.

PV CAPACITY INSTALLED BY REGION	TOTAL PV (MW)	WATTS PER PERSON
Total New Zealand	**20.249**	**4.5**
Northland	1.054	6.3
Auckland	5.817	3.8
Waikato	1.816	4.2
Bay of Plenty	1.211	4.3
Gisborne	0.146	3.1
Hawke's Bay	1.090	6.9
Taranaki	0.452	3.9
Manawatu-Wanganui	0.538	2.3
Wellington	0.864	1.8
Tasman	0.907	18.5
Nelson	0.624	12.7
Marlborough	0.474	10.6
West Coast	0.048	1.5
Canterbury	3.191	5.6
Otago	1.430	6.8
Southland	0.587	6.1
Total North Island	**12.988**	**3.8**
Total South Island	**7.261**	**6.9**

Source: Miller A, Hwang M, Lemon S, Grant Read E, Wood A, Economics of Photovoltaic Solar Power and Voltage in New Zealand, EEA Conference & Exhibition 2015, 24-26 June, Wellington

The natural uptake of photo voltaic generation has only been modest to date. We expect that to change dramatically in the next few years. The table above shows clearly the potential for further PV installations in Marlborough.

On the job 24/7.

The people within our Contracting division are typically those most noticeable to our customers and community, and especially appreciated when working in adverse weather conditions. For it is our Contracting people that seek to restore supply in the field 24 hours a day, seven days a week for every day of the year.

Typically the conditions can be challenging and the modes of transport range from four wheel drive vehicles, helicopters, all terrain vehicles, boats and on occasions the only way is on foot. But these are the times when our customers really benefit from having our own in-house Contracting division. All of our people are part of the community, know the area and we have sufficient resources both in terms of personnel and equipment to provide a ready response. As always our field staff are accorded the full support and cooperation of the entire Marlborough Lines team.

Aside from the restoration of supply following faults, our Contracting team undertakes the majority of the Company's capital expenditure and maintenance work for Marlborough Lines and other parties which includes line extensions, power station operation and maintenance, customer services, vegetation and tree management and reticulation of subdivisions.

Our Contracting division in Marlborough employs some 79 staff who have a wide range of skills, some of which are very specialised including those of our live line teams. These are the people who work on the power lines live using specially insulated equipment undertaking a range of work without interruption to electricity supply.

Up until 30 September the manager of Marlborough Lines Contracting also managed Otago Power Services, the Contracting company based in Otago in which Marlborough Lines had a 51% shareholding. This company employed some 93 staff with overall management provided by Marlborough Lines.

It is salient that in earlier years the Company's Contracting division was operated as a profit centre but with the changes in regulatory requirements the circumstances have changed and the cost of the provision of services for the network is charged in accord with regulatory criteria.

ISO Accreditation

Marlborough Lines Contracting is one of the few electrical contracting entities in New Zealand with three ISO quality system accreditations for management, health and safety and environmental management. The Contracting business also holds ACC Workplace Safety Management Practices Tertiary rating which is audited externally and results in ACC levy reductions for accredited companies.

The people who make our story come alive.

Our Customer Services team is able assist with a wide range of customer information and queries.

The real story behind Marlborough Lines is our people.

2015 Highlights

- 10 staff studying towards trade qualifications
- 2 staff completed trade qualifications
- 4 staff undertaking tertiary study
- Provided training and support for 7 line mechanic trainees and apprentices
- Trained 4 line mechanics to Live Line Hot Stick level
- Maintained our OHSAS 18001:2007 ISO standard
- Implemented a programme of safety breakfasts with topical guest presenters
- Provided work opportunities for three tertiary students over the summer vacation period.

2016 Targets

- Continue to support staff undertaking relevant trade training and tertiary study
- Continue with trainee and apprenticeship programmes
- Maintain our OHSAS 18001:2007 ISO standard
- Maintain support for the University of Canterbury Electric Power Engineering Centre of Excellence
- Further boost our safety culture by extending the Safety Breakfast presentation programme introduced this year.

Our people provide the administrative and technical expertise that enables Marlborough Lines to achieve success. They have strong connections with the Marlborough region and are committed members of the communities who include family, friends and neighbours.

Our workforce comprises 128 full time equivalent staff in a diverse range of vocations including: electrical engineering, network design and construction, arboriculture, administration, accountancy, economics, information technology and project management.

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

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

Employee wellbeing is integral to safety

Wellness Programme

A healthy, happy and available workforce is critical in our business.

Much of our work – both maintenance and capital – needs to be scheduled well in advance. This is because there are performance constraints around the delivery of electricity and we have obligations to let customers know just when the electricity supply will be turned on and off. Increasingly, there are also deadlines relating to administrative and management work, particularly in the area of external reporting to Government regulators. Accordingly, we need to recognise and manage stress in our inside staff as well as those who plan, build and maintain the electricity system.

Any significant degree of absenteeism affects our work programme so we need staff to be available on the day the job is planned to the maximum degree possible.

To ensure our employees are in the best shape possible we have a range of initiatives and benefits in place to improve the collective health of our workforce and enhance individual life skills.

During the year, sick leave was 3.05% of total hours – which compares with 2.75% for the previous year. Statistics over the last ten years suggest that sick leave will be in a range between 2.5% and 3.2% and we are certain that the variations experienced year to year are significantly reduced by our proactive Wellness Programme.

An important part of our Wellness Programme is to assist staff in their retirement planning. In this regard we encourage all staff to enrol in the Government's KiwiSaver superannuation scheme. At the end of the year in review, we have some 75% (last year 69%) of our total staff enrolled in KiwiSaver – with annual employer contributions of $222,182 (last year $196,881).

Our good employer checklist

We will:

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

Our 'Wellness Programme' includes the following initiatives:

Annual employee medical checks	These are available to all staff and although voluntary, they provide staff with benchmarks in relation to problems that might be discovered and advice on follow-up care.
Fully subsidised medical insurance	All staff are entitled to fully subsidised medical insurance under one of the Southern Cross schemes.
Pre-winter influenza immunisation	Optional for all staff.
Group death and disability insurance scheme	Covers all staff.
First Aid training	Compulsory for electrical staff and optional for all other staff. The training includes use of defibrillator equipment which is kept on site at our main buildings and now in most Company vehicles.
Employee Assistance Programme	Our Employee Assistance Programme (EAP) enables employees to access counselling on a confidential basis without needing management approval or consultation. Counselling may cover a range of problems – personal or work related.

Analysis of workforce hours

TYPE	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Normal working hours	85.80%	85.40%	83.14%	84.86%	83.17%	84.90%	84.52%	82.81%	83.70%	83.16%
Annual leave	5.28%	6.21%	6.63%	7.00%	7.64%	6.83%	7.35%	7.74%	6.84%	6.56%
Sick leave	3.22%	2.80%	2.90%	2.97%	3.20%	2.55%	2.86%	2.82%	2.75%	3.05%
ACC	1.22%	0.40%	1.13%	0.73%	1.53%	1.13%	0.24%	1.11%	0.90%	1.68%
Public holidays	3.54%	4.16%	4.99%	3.40%	3.24%	3.30%	3.75%	4.14%	4.05%	4.17%

Developing skills – building careers

We have a strong track record of working with our staff to attain qualifications whether (for example) electrician registration, related engineering or business degrees. Some form of study and qualification exists in virtually every sphere of our business.

Training in on-site data capture helps in the programming of new work.

Whether by part time, full time or extra mural study, we encourage our staff to gain further qualifications in their chosen field.

This year, 11 of our Contacting staff trained towards National Certificates in: Horticulture (Arboriculture), Electricity Supply (Line Mechanic Distribution) and Electrical Engineering (Electrician for Registration).

In addition, we took another four Line Mechanics through live line hot stick qualifications (enabling them to undertake maintenance work while electricity lines are live) and, in a further adaption of new technology, five staff (engineers and line mechanics) received training in the use of Nuclear Density pole testing equipment – which is used to determine the integrity of wooden poles.

We also currently have four staff members undertaking university studies in electrical engineering, business and management, accountancy, and one staff member, mid-stream in an MBA degree.

While these forms of tertiary study are typically technical, we are also very interested in growing the people skills – or 'EQ' – of our managers and supervisors. Personal development training is tailored to individual requirements using external providers.

Within the electricity industry there are a number of legislative requirements requiring staff to undertake regular training and updates. Maintaining competency for electrical workers requires First Aid and CPR twice per year and we have extended that capability to include training in the use of defibrillators. These are now standard equipment on most vehicles in our fleet and at all our main offices and depots – and are available for use in any situation.

During the summer vacation period we engage university students for project work. These may be students who we have invited to undertake fulltime study on a bonded basis, or alternatively, students may be looking to develop and retrain for future permanent employment. We have also taken part in a Gateway project with the Blenheim colleges to provide work experience for school leavers who are interested in employment in our industry.

Network Controller Anna Gifford, keeping her finger on the pulse.

Growing talented people

Our response to the skill shortages in recent years has been to adopt an organic approach and 'grow our own'. We are currently supporting 14 staff through either trade qualifications (electricians, line mechanics, horticulture/arboriculture certificates) or university study in commerce or electrical engineering.

In addition to supporting staff through trades training and qualification, we sponsor programmes of university study for our staff in the following range of vocations:

- Electrical engineering
- Electronics
- Network design and construction
- Management and administration
- Accountancy
- Economics
- Information technology
- Project management.

As part of our mission to support individual and industry development, we are always looking to ensure that continuing education is available so our staff can maximise their respective talents and skills.

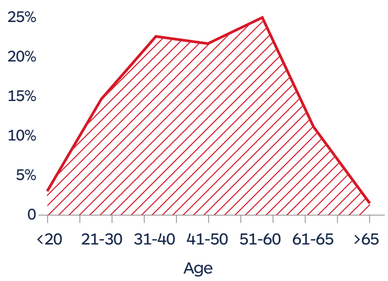
Attaining qualifications and skills is a first step. Maintaining currency in each chosen professional field requires continuing education and skills updating, which the Company is pleased to support.

Workforce diversity

It is important to us that all staff have opportunities for advancement through training, qualifications and experience. In our industry the growth of female employees in the trades or technical side has been slow. In our own operation we are pleased to be able to record the advancement of a number of very well qualified and capable female staff into positions of responsibility including management of our ICT function, management of pricing and Retailer relationships, management of Vegetation Control and Systems Controller operations of our electricity network.

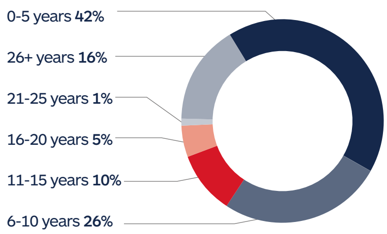
Network staff being briefed by our ICT Manager, Amanda White.

Staff age



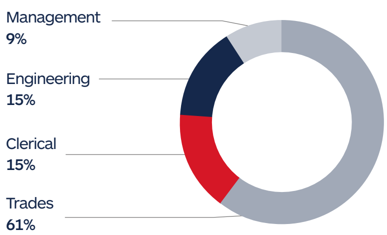
The average age of our team is 45 – up two years from last year. We think this is a good balance. It reflects the fact that staff are tending to remain in employment longer than previously. Retirement is by agreement with the Company rather than being a mandatory age.

Employee length of service 2015



We have maintained a reasonable spread of experience however our current policy to attract and grow new staff means that currently some 68% of our staff have been with us for less than 10 years.

Employees by occupation 2015



The occupational bias towards engineering/trades reflects the technical nature of our core business – building and maintaining an electricity system.

Smart innovation to help our staff

Last year we heralded the imminent arrival and installation of the Smartrak GPS based vehicle monitoring system in our motor vehicle fleet.

1 Dash mounted GPS units provide location information and an overlay of our network assets.

2 Smartrak units in our frontline vehicles enable the control room to track vehicle whereabouts – very important for staff safety.

1

2

Keeping safe with new technology

Smartrak is a global positioning unit (GPS), with a panic button installed in each vehicle and each unit talks via satellite to a central computer unit which provides information on vehicle location and driver behaviour. This is primarily a safety resource to ensure we accurately know vehicle and driver locations – particularly given the remote nature of much of our supply area.

If a vehicle rolls over, a distress signal to our Control Room is generated automatically. The location tracking and roll-over alarm functions are sufficient on their own to justify the cost of the system from a safety perspective.

The in-vehicle screens can also provide an overlay of our electricity network system for use in locating specific assets such as poles, and transformers.

The provision of the network and map information has markedly assisted staff, especially during hours of darkness and in remote rural locations.

Safety is a story of commitment for Marlborough Lines.

2015 Highlights

- No serious harm incidents
- Extended the coverage of our radio network to all parts of our electricity network
- Continued leadership development training of our foremen and supervisors
- Implemented additional safety programme for all staff to enhance awareness and further develop our safety culture
- Installed interactive GPS equipment in all operational Marlborough Lines vehicles
- Installed defibrillators in all Marlborough Lines vehicles utilised for line or substation work – a total of 94 defibrillators in vehicles and buildings
- Undertook numerous safety audits of our network to identify risk areas and implemented plans to address those
- Maintained the OHSAS 18001:2007 Occupational Health and Safety ISO standard
- Maintained our tertiary level safety status with ACC
- Maintained NZ Public Safety standard 7901:2008.

2016 Targets

- Zero harm incidents
- Comply with and maintain ACC Tertiary qualification
- Comply with and maintain OHSAS 18001 qualification
- Comply with and maintain NZS 7901:2008 Public Safety qualification
- Undertake staff training identified in the Annual Training Plan
- Undertake the public safety inspections identified on the Company register
- Obtain an independent review of the Company's safety systems
- Provide monthly reporting to the Directorate that allows thorough analysis of the Company's performance with regard to health and safety
- Ensure that the necessary resources are provided to enable health and safety targets to be met and ensure the safety of staff and the public
- Implement the ACC 'Fleet Saver' programme for on-road and in-cab safety.

Keeping up with the technical theory is just as important as working on the network.

Commitment to our staff, contractors, customers and the public. Zero harm for all is our single objective.

We take our responsibility for accident prevention seriously. We can never be satisfied in terms of what we have achieved because we recognise that a good safety record is not necessarily an indicator of future performance. It's what happens next that counts. We cannot relax our vigilance. We work in an environment where risks are ever-present but our work must never be dangerous.

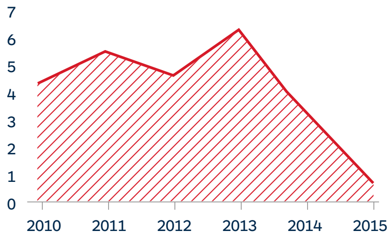
The best policies, strategies and plans are only words if they are not properly implemented, hazards not identified and mitigated and safety performance is not measured.

The key determinant in achieving success in safety is our people. It is imperative we have a safety culture where each and everyone in our team accepts personal responsibility for their own safety, their workmates, customers and the public. Safety must be an individual and team commitment and an integral component of our activities – not an appendage to it. Our joint objective has to be everyone on Marlborough Lines' worksites goes home safely at the end of the day and that our customers and public are kept free from harm.

We must continue to be proactive. Hence among other initiatives we have critically examined our previous safety performance and identified the causes of accidents in Marlborough Lines and in our industry. We have also reassessed potential hazards, quantified risks and where appropriate effected change.

In the previous year although we had no serious injuries we were disappointed with our performance. Hence over the last year we have intensified our safety focus and a number of new initiatives have been undertaken with resultant improvement in our performance.

Lost time incidents
Frequency rate per 100,000 hours worked



The downward trend in incidents against time worked is certainly an encouraging result but we can never take our 'eye off the ball' where safety is concerned. A further programme of safety breakfasts with topical presentations is planned.

Lost time incidents
Days lost per 100,000 hours worked

The falling number of accidents and the fall in lost time days indicates that the relative severity or seriousness of such accidents is currently reducing. Nonetheless we can never afford to be complacent in relation to safety.

We undertook additional training for our supervisory staff, and included all staff in a series of safety breakfasts which focused on a range of topics commencing with falling from heights.

Following consideration of each presentation we undertook a review of procedures and implemented changes where appropriate. By way of example after the presentation on falling from heights we reviewed every aspect of working at heights and a number of improvements were made to various parts of our operations which illustrates focus can deliver improvement. Significantly we located specialised body harnesses in Canada which are designed to arrest a fall when climbing a pole with climbing irons.

Marlborough Lines is the first network company in New Zealand to utilise these safety harnesses but it is inevitable others will follow because of their potential to prevent serious injury and save lives.

Other breakfast safety presentations focused on:

- Being fit for purpose at work
- Taking personal responsibility for safety
- Lessons from the Pike River mine tragedy
- Lessons from a forestry accident tragedy
- Team values and culture
- Leadership
- Keeping fit and healthy
- Mastering stress
- Good nutrition
- Process safety management.

All of these presentations individually and collectively combined to heighten awareness of health and safety issues and were in addition to safety training specific to our industry.

Unquestionably we regard our culture as being key to achieving our safety objectives and it is our view that each employee regardless of position must be empowered to halt any aspect of work should safety concerns arise in any aspects of Marlborough Lines' operations.

Similarly any item of plant or equipment not able to deliver optimum safety performance must be withdrawn from service.

But again our approach is proactive and it is part of our safety systems that all plant and equipment is properly maintained and regularly tested to ensure that it is fit for purpose.

Similarly components of the network including substations, conductors, line heights, poles, switches, earthing etc are all subject to scheduled inspection. The same applies with areas of special public safety such as overhead lines in the vicinity of schools and appropriate warnings at river crossings and boat ramps.

The public properly have the right to expect to be kept free of harm from any potential dangers inherent in the delivery of electricity over our network and our plans and actions will ensure that this is achieved.

Overall safety is fundamental within Marlborough Lines and it is recognised by the staff and Directorate alike no compromise in relation to any aspect of safety is acceptable. Necessarily expenditure relative to safety is accorded priority.

Our mission in relation to safety

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

- Systems are in place to identify, minimise and – wherever practical – eliminate hazards
- Full commitment by management and staff to detecting and managing hazards and safety issues, and continually improving the Company's health and safety systems
- All plant and tools used in – or associated with – our work, are fit for the purpose and subject to safety inspections with current certification
- All Company assets are subject to regular inspections
- All network assets are subject to inspections in accordance with relevant legislation and codes so they are fit for purpose and do not compromise public safety or security of supply
- Each of the Company's operating divisions will establish a set of health and safety objectives each year from which the Company will compile an overall set of objectives. These will be reviewed each year as part of the Company's annual ISO quality control programme review to ensure compliance with the Health and Safety in Employment Act 1992
- The Company will work with ACC and occupational health and safety agencies to maintain appropriate status and approved systems for health and safety, and will support the safe and early return to work of injured employees should injury occur
- All our contractors and subcontractors will be advised of our commitment to safety and will be required to accept and share the responsibility to carry out all work in accordance with accepted safety criteria
- Our staff will always be fully trained in safe working practices in accordance with the relevant codes of practice and legislative requirements and all staff, including managers, will be required to understand health and safety management relative to their roles.

Zero tolerance towards safety lapses will help us achieve our zero target.

Environmental impacts on health are monitored

Maintaining the good health of our people is an integral part of ensuring their safety. All environmental factors which have been identified as having the potential to cause harm to health are monitored. These include toxic spray levels, noise levels, the storage of hazardous substances, and exposure to lead cables.

We have 94 defibrillators spread amongst our vehicle fleet and key buildings.

Our approach has to be dynamic and by way of example the extreme fire risks over summer necessitated the purchase of special fire fighting pumps and water tanks to be carried on some Company vehicles.

All monitoring is undertaken to meet our obligations of the ACC Workplace Safety Management Practices Tertiary system and our OHSAS 18001:2007 accreditation.

We offer all staff free onsite annual health checks with an industrial nurse.

We also ensure that our people get the medical care they need through the provision of fully subsidised medical insurance.

The only random part of our operations is drug and alcohol testing

Our random drug and alcohol testing programme operates with the full support of our staff. All are subject to random testing on an ongoing basis together with our subcontractors.

The drug and alcohol testing policy serves to ensure the safety of all our staff and we are pleased to report despite a significant number of tests having been undertaken over the years we have had testing, no positive tests have resulted within Marlborough Lines staff.

We also test all prospective employees to ensure that compliance is achieved with our drug and alcohol policy. Regardless of role or qualification a positive text by an applicant has negated the application.

Defibrillators

We recognised the need for heart start defibrillators as fundamental first aid equipment years ago and we have been systematically installing them over time.

We now have 94 units installed, ensuring that all front line vehicles are equipped, as well as our offices at Taylor Pass and Alfred Street.

We provide more than electricity for our community.

2015 Highlights

- Lead sponsor of Marlborough Lines Stadium 2000 and the Marlborough Lines Science and Technology Fair
- Awarded $25,860 in tertiary education grants to secondary school students
- Provided power supplies and technical support for iconic community events, including the Marlborough Wine and Food Festival
- Sponsor of the Marlborough Chamber of Commerce Business Awards, Marlborough Sounds Restoration Trust and the Blenheim and Picton Christmas parades
- Continued support of the University of Canterbury Electric Power Engineering Centre of Excellence
- Met the costs to underground LV at Eastern States Speedway
- Maintained Blenheim's Pollard Park amenity lighting
- Provided banner space and erection of banners for community events free of charge.

2016 Targets

- Continue our major sponsorship of Marlborough Lines Stadium 2000
- Continue support (in kind wherever appropriate) for iconic Marlborough events
- Maintain our school and education focus by underwriting the Marlborough Lines Science and Technology Fair and by providing tertiary education scholarships, including the Maori Tertiary Study Scholarship administered by the Iwi of Marlborough
- Consider new applications for assistance (on a smaller scale) from clubs, cultural productions and interest groups that meet the criteria outlined on this page.

In 2014 we developed a small piece of surplus land into a picnic area for the public complete with a kinetic sculpture named "Morpheus".

As one of the larger corporates in Marlborough, we have a responsibility to support community events and initiatives.

Our mission to support the community

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

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

In deciding community support, we consider projects and events that:

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

> **Marlborough Lines' sponsorship has been at the core of developing services for the people of Marlborough. From the youngest baby, to the centurion, the reach of our programmes covers the whole Marlborough community.**
>
> PAUL TREDINNICK, MARLBOROUGH STADIUM TRUST, CEO

The Marlborough region hosts some truly world class events and provides top class facilities and a wide range of sporting and community groups for locals to utilise, enjoy and be part of.

As a significant company in Marlborough, we are proud to be associated with many of these events, facilities and groups through the provision of sponsorship, donations and free-of-charge services and resources. We're right behind supporting our community to make Marlborough a better place to live.

For the year in review, Marlborough Lines provided approximately $200,000 in sponsorships and donations to a range of regional events and groups. Additionally we assisted with the provision of power supplies to iconic Marlborough events and provided staff to give technical support on the day – free of charge.

Here is a quick summary of some of the support we provided.

As headline sponsor of the Marlborough Stadium 2000 we are pleased to support such a well-used facility.

Stadium 2000

Marlborough Lines has been the lead sponsor of Stadium 2000 since 2006. The Stadium, located in Blenheim, is an international standard sports and events centre, aquatic centre and health and fitness centre. It is the most popular sporting/event facility in the region and is used for a range of community activities other than sport.

The partnership has helped ensure the ongoing success and development of the Stadium for the benefit of all the people of Marlborough.

Some facts about Stadium 2000:

- Consistently welcomes around 500,000 customers every year
- Turns over $3m per year and employs 65 staff
- The Trust continues to report a small surplus annually, after assistance from funders and sponsors such as Marlborough Lines
- The Trust's purchase of a commercial gym nearly a decade ago has been a great investment and has allowed the Trust to support school-based athletes with subsidised access and by making stadium use for school aged children's organised sports, free of charge
- The Trust delivers more than 100,000 aquatic based lessons annually, most as part of the many subsidised programmes for schools the Trust is committed to.

Science and Technology Fair

The Marlborough Lines Science and Technology Fair has been an annual event on the community calendar since the 1960s and is now a partnership of Blenheim Lions, local school teachers, minor community sponsors and major sponsor – Marlborough Lines.

The programme aims to promote greater interest in science and technology amongst students of all ages. Individuals or groups are invited to develop scientific investigations and technological solutions in a competition initially held within their own schools.

The successful projects then compete at a regional level where they are exhibited to the public.

For Marlborough Lines it is an ideal opportunity to highlight the fundamental role science plays in our daily lives and to support and encourage our children to test their imaginations and skills.

Approximately 400 exhibits were entered in the 2014 Fair, that involved more than 600 primary and secondary students, and attracted the support of numerous teachers, schools, parents and 'expert helpers' within the community.

Future goals for the Science Fair are to host an annual teacher day workshop and provide for the release of teachers from schools, catering and resources, funding for a SciTec advisor to work in schools, and funding to release expert teachers to help and lead other teachers and schools.

> **More than $1.2m has been spent on pine control in the past six years through Queen Charlotte Sound, Kenepuru Sound and D'Urville Island. The Trust greatly values the support of Marlborough Lines as tree by tree, bay by bay, we work together to bring back the bush in the Marlborough Sounds.**
>
> BEVERLY DOOLE, MANAGER, Marlborough Sounds Restoration Trust

Marlborough Sounds Restoration Trust

Marlborough Lines supports the Marlborough Sounds Restoration Trust's programme to control wilding pines. Since 2008 the Trust has made significant progress in bringing back the bush and skylines of the Sounds by poisoning wilding pines that have spread from farms and forestry blocks into areas of regenerating native bush.

Working with landowners, the Trust employs contractors to track down, drill and treat the pines, which gradually die where they stand and allow the bush to dominate again. This method is used rather than felling because when a tree falls it damages the native undergrowth and spreads its cones to seed again.

Marlborough Lines provides substantial annual sponsorship as well as practical support in felling and removing the trees that are not suitable for poisoning because they are close to power lines or roads.

In the past year Marlborough Lines has worked with the Trust and local landowners in Kenepuru Sound and Queen Charlotte Sound. The target area in 2015-16 will be outer Pelorus and Queen Charlotte Sounds, particularly around Endeavour Inlet.

Tertiary Study Awards

The annual Marlborough Lines Tertiary Study Awards recognise high achievers who intend to continue their studies at tertiary level. The awards are provided to the four colleges in Marlborough – Marlborough Boys' College, Marlborough Girls' College, Queen Charlotte College and Rai Valley Area School, and recipients are selected by the individual colleges.

Since the awards were established in 1991, more than 200 students have received awards totalling $526,000.

Tom Parsons, Principal, Queen Charlotte College says:

"As the Principal of Queen Charlotte College for the last eleven years, I have attended every tertiary study award presentation provided by Marlborough Lines during that time.

While I do not doubt that the Marlborough Lines Directors are fully aware that these awards are often the key for many students on their pathway to lifelong learning, I take this opportunity to reinforce the immeasurable value the grants provide.

In my time, 22 deserving student recipients from my College, most of whom due to family financial restraints may never have had the opportunity to study at tertiary level were it not for the generosity of Marlborough Lines, are now success stories for our school, our region and for New Zealand.

If there was ever any doubt and I sincerely hope there is none, be assured the intrinsic value of these awards for the youth of Marlborough and indeed for the future of Marlborough is immeasurable."

Wine and Food Festival

Now in its 32nd year, the Marlborough Wine and Food Festival is New Zealand's original and longest running wine and food festival. It is an iconic consumer and industry event held annually at one of Marlborough's oldest and most picturesque vineyards, Brancott Estate. It is a true highlight on the region's wine calendar and is a sell-out event each year, capped at 8,000 attendees with support from approximately 45 Marlborough wineries and around 30 food stalls highlighting the fantastic food and wine our region has to offer.

Wine and food enthusiasts from home and abroad come along year after year to enjoy a relaxed, sophisticated event offering outstanding regional wine and food as well as cooking demonstrations from top New Zealand chefs, 'Fashion in the Vines' fashion competition, wine tutorials and all day musical entertainment from some of the biggest names in New Zealand music.

Marlborough Lines is instrumental to the success of the Marlborough Wine and Food Festival and has been supporting the event as an Associated Sponsor from its inception in 1985 by providing power and staffing in the lead-up to and on the day of the event itself as well as providing an advertising billboard to promote the event. The Festival organisers are hugely appreciative of the support that Marlborough Lines offers to the event.

1

2

3

1 Recipients of the 2014 Marlborough Lines Tertiary Study Awards. L-R: Piers Landon-Lane – MBC, Alexandra Parker – MGC, Dani Gibbs – QCC, William Irwin-Harris – MBC, Lucy Young – MGC. (Absent: Tamsin Woolf – QCC.)

2 Festival goers enjoying the 2014 Marlborough Wine and Food Festival in the sunshine.

3 Before, during and after shots of the wilding pine control at Catherine Cove, D'Urville Island.

There is no planet B!

2015 Highlights

- Maintained AS/NZS ISO 14001:2004 – Environmental certification
- Maintained support for the Marlborough Sounds Restoration Trust wilding pine eradication programme and the New Zealand Drylands Forest Initiative – eucalypt breeding programme
- Completed the first form pruning exercise in our Quayle Stream Eucalypt forest three years after planting
- Commenced trial of new catenary insulated overhead power system for use in power supplies around forest margins
- Reduced proportion of petrol powered vehicles in our fleet from 26% to 20%.

2016 Targets

- Maintain AS/NZS ISO 14001:2004 Environmental certification
- Continue fleet conversion to diesel vehicles
- Reduce levels of waste to landfill – measured every three years
- Maintain recycling culture and focus in relation to metals, fluids, timber and office wastes
- Develop the reporting and analytical functions of the Smartrak interactive GPS system installed across our fleet
- Maintain our support for the Marlborough Sounds Restoration Trust
- Undertake an energy efficiency assessment in relation to energy consumption in our larger buildings
- Maintain our programme of small wind turbine research.

Utility companies and service providers are being questioned more and more about their commitment to sustainability and the environment.

We welcome questions – and advice. We're totally committed to the cause. We're steadily delivering on our promises and we're setting ourselves even higher goals each year.

We aim for our substations to be an ideal neighbour

Over recent years Marlborough Lines has transformed its Blenheim suburban zone substations from ugly overhead structures to modern indoor, underground and landscaped facilities culminating in an award in 2013 for the best commercial garden frontage at the Springlands substation.

More recently we have built new state of the art substations in Redwood Street, Blenheim and the Cloudy Bay Business Park. The Waters substation in Redwood Street, Blenheim is so 'domestic in profile' that when we challenge people to find the substation in Redwood Street they often cannot identify it.

Being environmentally aware is not just about presenting our substations in the best possible light. With modern design there is zero noise emission and minimal electro-magnetic fields at our substation boundaries. Fully sealed transformers have nitrogen cushions above the oil to prevent oil venting to the outside, and the ingress of moisture to the inside.

Marlborough is a region of very diverse geography. As depicted below the contrast between the Marlborough Sounds and the dry southern valleys is stark.

1 Springlands zone substation – designed to look like any other house in the street.

2 Landscape plantings at our Nelson Street zone substation provide an effective visual contrast to the substation at the rear.

3 Tussock plantings around our newest zone substation at the Cloudy Bay Business Park will match the dry hills of the surrounding valley.

We're at the forefront with environmental initiatives

OUR AIM IS TO:	AND IN PRACTICE
Comply with legislation as a minimum standard and where practicable, exceed it.	Marlborough Lines managers must sign off on legislative, environmental, occupational safety and health, and public safety compliance every quarter. These reports and any non-compliances are then considered by the Company's Directors.
Regularly review our environmental practices, objectives and targets to ensure ongoing compliance and improvement.	The Company has a culture of regular staff meetings and environmental requirements and new initiatives are considered at every meeting. As well as undertaking an external audit every 12 months of our ISO Environmental Standard, we follow a programme of internal audit to generate improvements to environmental management processes. Awareness is raised through training programmes, e.g.oil spill response and sump cleaning training, site compliance reviews relating to storing dangerous or inflammable goods, and fire response training undertaken by vegetation control staff. We are also continually monitoring parallel community initiatives to see if we can extend our recycling programme.
Promote employee and contractor environmental awareness through appropriate training and education programmes.	External contractors' commitment to environmental management is considered when evaluating for preferred contractor status. Company management and external auditors undertake regular inspections of worksites where external contractors are used.
Cooperate with all regulatory agencies.	The Company maintains a close relationship with the Marlborough District Council (the local government agency responsible for environmental matters), who we consult with about potential hazards and actual occurrences.
Responsibly manage all hazardous substances to avoid, reduce or mitigate the effect of any accidental release of contaminants.	A significant risk is the accidental or malicious release of transformer oil. This is mitigated by spill control materials, and more recently – in relation to the larger zone substations – civil construction design, which ensures that no oil disperses into the surrounding ground.
Recycle components and materials where practicable.	The Company has moved to ensure that recycling everyday materials (paper, cardboard, glass) happens at all levels of the business. Overhead line materials with steel components are re-galvanised to give them a second life. Significant quantities of aluminium, brass and copper also become available for recycling and these are tendered to recycling firms.
Promote energy efficiency to the community by providing advice.	The Company provides advice on energy efficiency through its technical advisory service (available to anyone), customer newsletters, website and trade promotions in the news media.
Facilitate the connection of renewable energy resources within our network.	The Company is responsible for providing a grid that will accommodate new technology including small-scale, renewable, embedded generation. We work with generation providers to enable connection to the local network. We think it is inevitable that small-scale generation will provide for greater surpluses to be fed-back into local networks. This is happening on a rapidly increasing scale with domestic installation of photo-voltaic panels generating solar electricity.
Ensure environmental principles are used in planning network extensions or reconstructing existing networks.	We have always supported converting older electricity reticulation (in key arterial routes) from overhead to underground for ease of maintenance as well as the obvious aesthetic benefit. We have also been actively replacing 1920s-style steel lattice work towers and older hardwood poles with newer taller steel poles to significantly improve visual impact. Substations are designed and landscaped to integrate with the environment. See page 40.
Seek to minimise losses through the operation of our network.	All contributing factors are monitored and considered when capital expenditure is undertaken e.g. purchasing low loss transformers.
Make our environmental policy publicly available and to become known as an environmentally responsible company.	The Company's Environmental Policy is outlined on our website: www.marlboroughlines.co.nz

Supporting other Community Environmental Initiatives

New Zealand Dryland Forests Initiative

Marlborough Lines has continued to support the New Zealand Dryland Forests Initiative (NZDFI) – another Marlborough based project whose aim is to grow durable hardwoods to provide timber for replacement vineyard posts, power system poles and cross arms, and many other potential uses.

Being a large user of imported hardwood for cross arms we recognised the synergy of this project with our own hardwood requirements going forward and became a financial supporter at day one in 2008.

Our requirement is for timber to be sourced on a sustainable basis and whilst this is presently achieved with timber from Australia, we recognised that a great opportunity existed to support a Marlborough led research project aimed at producing a future hardwood resource grown here at home in New Zealand.

The vision for the project is:

- To provide growers with the best genetically superior planting stock
- To develop sustainable management systems to produce high quality hardwood
- To develop techniques to screen young trees for desirable wood qualities to yield the greatest end use benefits.

The breeding section of this project now has some 30 eucalypt trial sites on the East Coast of New Zealand from Canterbury to Gisborne. More recently, in an exciting new development, the Government has made new funding available to assist this programme for the next seven years.

Quayle Stream Forest

As a result of our association with the NZDFI and our belief in the project, we purchased a 60 hectare property in 2009 with a view to creating a hardwood forest for our own future use. In October 2011 we planted the property out in the preferred eucalypt species (*E Globoidea, E Quadrangulata,* and *E Bosistoana*).

After some three and a half years we are encouraged by the results and some sections of our forest have attained a height of 5-6 metres in this time.

Marlborough Sounds Restoration Trust

We are assisting in restoring the native bush cover in the Marlborough Sounds. We sponsor the trust each year and we also assist on the ground with tree removal close to power lines. See page 38 for more details of our assistance.

Pleasing results are being achieved at our Quayle Stream Eucalypt Forest.

Connecting new load

Marlborough is one of the sunniest provinces in New Zealand. It also has a fair amount of wind. Marlborough Lines has moved quickly to facilitate the connection of small scale distributed generation to our local distribution system.

Customer uptake of the smaller in-house photo voltaic (PV) systems has been slow – even for a sunny province like ours. This has been partly due to the high up front capital cost and also the relatively low prices offered by the electricity retailers for surplus units exported out into the local distribution system.

However this is changing rapidly due to the gradual lowering of PV system capital costs. The table below illustrates the uptake in connection applications for small distributed generation – mostly photo voltaic panels.

The total connected load to March 2015 is 789kW. Most are domestic installations and in the range 2.5kW to 5kW.

There are additionally eight large wind turbines situated in southern Marlborough (traditionally a very windy area) with a total installed capacity of 2.35MVA.

We believe that the table of connections (below) is indicative of an avalanche of photo voltaic connections coming – and we are well placed to handle that avalanche!

Applications to connect distributed generation

YEAR ENDING	NO. OF APPLICATIONS
31 March 2011	2
31 March 2012	2
31 March 2013	20
31 March 2014	47
31 March 2015	73

Recycling – One mans trash is another mans treasure!

Recycling initiatives are alive and well in our Company.

The continual refurbishment of a predominantly overhead power system creates a significant inwards flow of used materials and components – including poles, cross arms, conductors (wires), insulators, galvanised hardware, nuts and bolts, transformers, switches and transformer oil.

Conductors are predominantly aluminium and copper and a strong recycling market exists for these metals. In most cases galvanised hardware components are also able to be recycled, either as scrap metal or by re-galvanising for a second life.

Timber – particularly hardwood – is very sought after for building and landscaping purposes and while we replace many of our wooden poles and cross arms on a systematic and cyclic basis, there is still some life left in much of this timber, particularly in a creative, decorative or landscaping sense.

Indeed – old hardwood power poles that had a useful previous life in our electricity system can now be seen as part of the structure in one of Marlborough's more iconic cafe/restaurants, The Store at Kekerengu.

There is a strong recycling culture in our wider regional community and local government has set up and manages a very comprehensive recycling facility. Thus, our accumulated glass, paper and cardboard wastes are happily absorbed into the local recycling initiative.

Within our offices a conscious effort is made to reduce printer outputs and to select 'double sided' when printing is needed. This has a flow-on effect in reducing our consumption of printer consumables, which in turn are recycled as empty cartridges.

During the past year we recovered $95,000 from scrap metal sales and $7,440 from the sale of wooden poles and cross arms.

As part of our recycling programme the steel reinforcing from concrete poles is recovered and recycled.

Combating Carbon Emissions

Having trees growing on the Company's properties also fulfils an important role in helping to offset Marlborough Lines' carbon emissions.

Every three years we undertake a formal assessment of our carbon emissions. If carbon emissions are not measured then there can be no basis for evaluation of improvements made.

In our last measurement, undertaken at 31 March 2014 (see table right), we had made improvements in relation to emissions caused by most categories of external contractors used in our business; however on the flip side, emissions arising from our own motor vehicle fleet increased by 6.8% – we clearly have work to do here.

The real purpose in measuring the Company's carbon emissions is to provide a basis for improvement as an environmentally responsible corporate citizen.

Around 84% of the Company's net emissions are directly attributed to transmission and distribution line losses incurred in the delivery of electricity. Reconfiguration of our sub-transmission and distribution lines to prevent losses is not economically feasible. It is debatable if there are any carbon emissions associated with our transmission and distribution losses. Electricity distributed to and over our system is unlikely to have been thermal in origin.

Removing Co_2 emissions associated with energy consumed or lost from our emissions calculation, gives a net emission figure of 554 tonnes of Co_2. This is the figure we are working to reduce. Currently the most significant step in this direction lies in the replacement programme for vehicles. As at 31 March 2015, some 14 new diesel utility vehicles had been sourced to replace a number of older (less environmentally friendly) 4x4 vehicles.

SCOPE 1 – EMISSIONS	2013/2014 KGS CO_2-E*
Fuel / Diesel Usage	666,295
Fugitive Emissions (SF_6)	8,172
Total	674,467
SCOPE 2 – EMISSIONS	
Electricity Usage	91,159
Distribution Losses*	2,539,883
Total	2,631,042
SCOPE 3 – EMISSIONS	
Transmission Losses*	135,812
Contractor Vehicle Usage	554,159
Waste to Landfill	147,149
Business Air Travel	18,170
Water Taxi Hire	10,784
Helicopters Usage	36,147
Total	902,221
Total Emissions	4,207,730
REMOVALS	
Forested Land	1,021,894
Total Removals	1,021,894
Net Carbon Emissions	3,185,836

* The factors used to calculate transmission and distribution losses have been changed from the 2011 year and as a consequence direct comparison with earlier years is inappropriate.

New diesel fleet replacements.

Senior management

Brian Tapp

Operations Manager

NZCE, REA

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

Katherine Hume-Pike

Commercial Manager

B Com, LLB, INFINZ (Cert)

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

Stephen McLauchlan

General Manager Contracting

MNZIM

Stephen has extensive management and operational experience within the electricity industry. He manages the Company's Contracting division, which employs the majority of the Company's staff. Stephen has electrical and management qualifications, and is a member of the New Zealand Institute of Management (MNZIM) and the Electricity Engineers Association (EEA).

Ken Forrest

Managing Director

BSc Hons (Electrical Eng), MIPENZ

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

Wayne Stronach

Engineering Manager

BE (Electrical), MIPENZ (Electrical), CPEng, IntPE(NZ)

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

Kelvin Deaker

Chief Financial Officer

BCom, CA

Kelvin is a graduate of Lincoln College with a Bachelor of Commerce, and is a Chartered Accountant. He is responsible for the Group's finance, administration and ICT systems. Kelvin has significant commercial experience within the manufacturing sector, predominantly with New Zealand's primary products.

You've heard this story before...

Our industry regulations are too restrictive and there are too many of them.

Aside from compliance with all the usual regulations applicable to any business, network companies are subject to special statutory legislation together with specific industry regulation by the Commerce Commission and the Electricity Authority. In recent years regulation by these two entities has become more and more complex. Keeping abreast of these regulations requires significant resources and the costs of compliance continue to increase.

Marlborough Lines, as a Trust-owned company, is exempt from the price control requirements of the Commerce Commission, but its pricing and activities remain within the jurisdiction of both the Commission and the Electricity Authority.

Investor-owned network companies including Nelson Electricity and Horizon Energy (in which Marlborough Lines has an interest), and OtagoNet (in which Marlborough Lines sold its 51% shareholding on 30 September 2014), are all subject to the price control requirements of the Commission under the default price path regime. In effect, the Commission sets the maximum allowable revenue relative to the Regulatory Asset Base for a five-year regulatory period – the most recent of which commenced on 1 April 2015.

Disclosure requirements

Regardless of the fact that Marlborough Lines is not subject to the default price path provisions, the Company is still required to meet the Commission's disclosure requirements under sub-part 9 of part 4 of the Commerce Act 1986. These disclosures are intended to enable 'an interested person' to gain understanding of the Company's operations. However, the detail required to meet the disclosure requirements is exceedingly complex and in some cases, not easy to interpret.

Commerce Commission regulatory work stream

The Commission's work continued unabated during the year. It undertook extensive work in several areas including:

(i) Review of WACC percentile used in input methodologies

The Commission's determination of WACC sets the allowable return on network assets. The Commission considers a distribution of WACC percentages and determines a percentile subject to a number of different inputs. The draft decision of the Commission in July 2014 proposed a change from the 75th to the 67th percentile, resulting in a reduction in allowable return from 7.60% to 7.36% pre-tax.

The process undertaken overran its original determination date from 30 September to 31 October 2014.

The Commission's final decision in October 2014 confirmed that its draft decision to reduce network company returns to the 67th percentile – equivalent to 7.19% – would be final, and apply from 1 April 2015 for the five year regulatory period ending 31 March 2020.

Reducing the maximum allowable level of WACC will reduce the overall profitability of network companies and the only way in which this can be amended is for a network company to seek a 'customised price path' (CPP) from the Commission. The requirements for a network company to seek a CPP are particularly onerous and the regulatory regime specifies that the Commission only need consider four CPP applications per annum. The applicant company is liable not only for its own costs but those of the Commission. Clearly the process is intended to dissuade applications for review.

(ii) The reset of the Default Price Quality Path (DPQP)

The extensive review of the methodology applied to resetting the DPQP included a number of substantial work streams and resulted in some significant starting price adjustments. The Commission's initial proposal was released in early July 2014 – a draft determination paper was released later in July 2014, with the opportunity for industry comment by 15 August 2014.

Final determination was made by the Commission in November 2014, and will apply to investor-owned network companies with effect from 1 April 2015.

A number of investor-owned network companies, including those involved with Marlborough Lines, are required to reduce prices from 1 April 2015.

(iii) Reset of Transpower's individual price quality path for regulatory control from 1 April 2015 to 31 March 2020

In this case, the Commission's draft decision on Transpower's expenditure allowances, quality standards, maximum allowable revenue and compliance reporting requirements was released in May 2014, followed by its draft decision on asset health grid output measures in July 2014.

The Commission's draft determination was made in September 2014 and its final determination in November 2014. The timing of the final determination led to a delay in Transpower providing pricing to network companies for the financial year commencing 1 April earlier this year.

Notwithstanding the reduction in WACC, generally the Commerce Commission allowed an increase in Transpower's revenue to enable it to grow the grid to meet improvements in reliability and capacity requirements.

(iv) Information disclosure requirements for network companies

The Commission published a further set of proposed amendments to be applied to the Information Disclosures for the year ended 31 March 2015. Again, although this information was released in October 2014, it retrospectively applied from 1 April 2014. Overall, these amendments made minor corrections to the information disclosure requirements that were published in October 2012. It remains our view that further clarification of the Commission's requirements will prove necessary in some areas.

Electricity Authority regulatory work streams

(i) Standardisation of distributor arrangements

After significant consultation, the Authority opted to establish a default Use of System Agreement in May 2014 for use in instances where agreement was not achieved between network companies and energy retailers. In the case of Marlborough Lines, there have been no differences with retailers in relation to the Use of System Agreement. We think it is important that Marlborough Lines – and other network companies wherever practical – adhere to common criteria to facilitate use of the network by energy retailers.

(ii) Transmission Pricing Methodology (TPM) review

The review of Transpower's TPM is a complex process that has been underway since October 2009. During the year, specific papers released in relation to the TPM review included:

- TPM connection charges working paper, May 2014
- TPM long run marginal cost charges, July 2014
- TPM problem definition relating to interconnection and HVDC assets, September 2014.

(iii) Transpower TPM operational review

As provided for in clause 12.85 of the Code, Transpower undertook its own operational review of the TPM.

Its initial consultation paper was released in July 2014 and a further consultation paper was produced in November 2014. The Electricity Authority is yet to announce its decision as to whether any of the changes proposed will be made.

(iv) Guidelines for managing Retailer default

The guidelines for addressing retailer default were published in June 2014, and were designed to operationalise sections 11 and 14 of the Electricity Participation Code. Since then further Code amendments have been introduced to reflect these guidelines.

(v) Code amendments for connection of distributed generation

The Electricity Authority codified new processes to make it simpler for distributed generation to connect to an electricity network.

(vi) Review of participant audit regime

The audit undertaken by the Electricity Authority for Marlborough Lines focused on processes to manage connection and livening of ICPs and the maintenance of installation data associated with the network, held in the Electricity Registry. The outcome of this review is yet to be advised at the time of this report.

(vii) Electricity Authority projects that are less significant from a distributor's point-of-view

- A project to look at data issues, including access to consumption data
- A review of retailer marketing practices including 'saves and win backs,' in situations where a retailer receives notice that a customer seeks to change retailers
- A project to look at options to improve the transparency of consumers electricity charges. It is salient that this project has arisen from apparent conflicts in the provision of pricing information between network companies and retailers around consumers electricity charges. Currently consumer charges are an amalgam of charges, including transmission, distribution and energy. From the perspective of a consumer it is not easy to determine the constituent components of their electricity account.

Exemption of low user fixed charge

During the year, Marlborough Lines applied to the Minister of Energy and gained a renewal of its exemption under regulation 33 of the Electricity (Low User Fixed Charge Tariff) Option for Domestic Consumers Regulation 2004 in relation to the provision of the application of this regulation in uneconomic areas.

The Company first achieved this ministerial exemption when the low user fixed charge tariff option was introduced in 2004 in recognition that domestic consumers in uneconomic areas were already being subsidised in relation to their electricity supply.

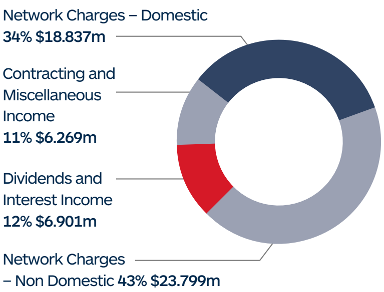
Engagement with regulators

As always, Marlborough Lines has maintained active engagement with the Government and its regulatory agencies over the year and will continue to do so given the importance of the regulatory environment to the Company. Looking forward, we will continue to try to lessen the complexity of the regulations and minimise the cost of compliance.

Review of Financial Statements

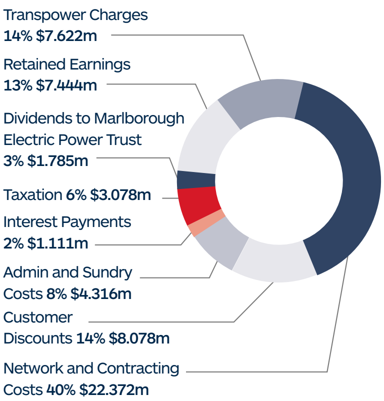
The narrative behind the numbers.

Marlborough Lines Parent income



Marlborough Lines' income arises predominantly (77%) from domestic and non-domestic (commercial) line charges paid by the electricity retailing companies.

Marlborough Lines Parent expenditure



Dividends to the Marlborough Electric Power Trust and discounts paid to customers make up 17% of total expenditure.

Profitability – how did we do?

The Marlborough Lines Group achieved a pleasing result in a challenging business environment, with an operating profit of $12.906m (2014 $12.379m) for the 2015 financial year.

The operational result is – on the surface of it – a 4% increase compared with the previous year.

Group net profit after tax from continuing operations was $69.859m ($9.249m excluding the gain recognised on the disposal of the OtagoNet Joint Venture interests), compared to $9.153m for 2014, and a budget set for 2016 of $8.779m. The net gain on sale after tax and disposal costs of OtagoNet Joint Venture (ONJV) was $60.610m. This is discussed further in the investment section.

Parent company operating earnings before tax for 2015 were $93.649m, including an intercompany dividend of $85.611m as a result of the divestment of the ONJV assets.

Excluding the dividend, overall Parent operating revenue, at $55.951m, was up 3.8% over last year, predominantly through network lines revenue – both in volume and unit price. This is discussed later in the trading environment section.

Overall, operating expenditure was up $0.203m (0.8%) from last year, including Transpower transmission cost increases of 6.4%, and increased system maintenance costs – especially around vegetation management which now accounts for $2.271m for the year. Customer discounts paid of $8.078m, were up 1.3% on 2014.

Total turnover for the Group at $58.270m was 7.5% ahead of last year – attributable to lines revenue and a large dividend received from Otago Power Services Limited, prior to the divestment. Turnover for the Group and Parent is similar, and any net surplus available to the Group from the investment companies is equity accounted, rather than proportionately consolidated, as a share of revenue and expenses – as would happen in a conventional consolidation. (See section on Accounting for Investments – page 58.)

Interest costs for the Parent and Group were similar to last year ($1.111m this year compared to $1.015m last year), even with the term debt facility being repaid at 30 September 2014. Cash interest paid was $1.20m compared to $1.60m for 2014. All interest rate swaps were closed out at 30 September 2014 for a gain of $0.130m.

The Directors are satisfied with the financial results, and in particular, the returns from investment companies. (See Review of Investments section page 55.) There are definite signs of an economic recovery, with some primary produce prices (not dairy) firming nationally. Perhaps more significantly, Marlborough's principal industry – the wine industry – is awakening after a period of uncertainty. (See later section on the trading environment.)

Regulation – independence from price/revenue control

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

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

For the non-exempt networks in which Marlborough Lines still has investments (Nelson Electricity and Horizon), the Commerce Commission has introduced regulated price paths which will now apply, initially announced as the 'default price path'. These individual price paths brought a retrospective adjustment, impacting on the current revenue streams that were reset by the Commerce Commission in November 2014 – for the five years commencing 1 April 2015.

New and increased Information Disclosure requirements were introduced for the year ending 31 March 2013 by the Commerce Commission. The aim is to enable 'interested persons' to assess whether the purpose of Part 4 of the Commerce Act (1986) is being met. These requirements go further than what is necessary under normal accounting circumstances.

Accounting information prepared for external purposes is typically based on the general rules and principles known as 'Generally Accepted Accounting Practice' (GAAP). GAAP is a cost-effective means of reporting financial information. It is well understood and reflected in existing business systems and processes.

The purpose of regulatory reporting is distinct from other forms of external reporting. Accordingly, (in our view) consideration needs to be given to the ability of GAAP reporting requirements to meet the purpose of Part 4 of the Commerce Act. Where GAAP is not sufficient to meet the purpose of regulatory reporting, alternate rules are required. A key example of a purpose that is not met by GAAP is that regulatory reporting under Part 4 requires information to be disclosed, based on a business activity rather than an entity basis. As a result, the disclosed transaction value may differ from the transaction value used for statutory reporting and taxation purposes.

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

The trading environment – in sync with our economy

Marlborough has a number of small communities spread over a large area. The past ten or so years have seen growth and development across the region, particularly the change in primary industry, with a move to viticulture – requiring large infrastructure spends to upgrade existing services and install new lines for irrigation and winery development. This rate of development has now tapered off as the availability of viable land and water has diminished. Much of the previous wave of vineyard plantings was existing farmers converting from sheep to viticulture. More recently the latest wave of new planting has been existing wineries and vineyards themselves expanding. Vineyards now occupy some 23,600 hectares in the Marlborough region.

Investment income – making dollars work

Nelson Electricity was allowed a small increase in network charges during the year (the Commerce Commission 'Default Price Path' was applied), but the company also experienced a reduction in domestic electricity consumption. The dividend distribution policy adopted by the Nelson directors is that generally dividends will equate to tax paid profit, but this will also depend on immediate cash flow requirements for capital expenditure and a review of borrowing ability and levels. Dividends totalling $1.0m were received by Marlborough Lines for 2015 (due to a large capital substation project at Nelson, no dividend was paid in 2014).

Accounted for on a cash basis, dividends totalling $0.521m (2014 $0.347m) were received from Horizon during the financial year.

Dividend income received from Otago Power Services and OtagoNet was channelled through the subsidiary Southern Lines Limited. Southern Lines then transfers the funds to Marlborough Lines, either as interest on its shareholder loans, or as dividends. Dividend and revenue distributions received by Southern Lines from southern investments this year totalled $4.868m (2014 $6.211m) and $2.549m was remitted to Marlborough Lines as interest on shareholder loans.

The Marlborough Lines Parent company uses equity accounting to take up the undistributed profits of Nelson Electricity – and Southern Lines must also use the same system to book its share of the undistributed surpluses of Otago Power Services and OtagoNet. In the 2015 year, these equity adjustments amounted to a loss of $1.679m, compared to a gain of $1.731m for the prior year.

Equity accounting is required to be used in accordance with the New Zealand equivalents to the International Financial Reporting Standards (NZ IFRS). The use of equity accounting – whilst technically correct – results in Group numbers, only marginally different in key areas from the Parent company accounts. Application of the New Zealand equivalents to the International Financial Reporting Standards is mandatory, given the size of the Parent entity, Marlborough Lines Limited. (See separate section on Accounting for Investments on page 58.)

Taxation – an inevitability?

Parent company tax expense for the year, at $3.078m, comprises current tax payable of $3.149m and a credit to deferred tax expense of $0.071m.

The combined Group tax expense at $14.540m comprised current tax of $15.957m, and a debit (reduction) to deferred tax expense of $1.417m. The large increase in taxation expense is attributable to the tax payable on the depreciation recovered on the sale of the OtagoNet Joint Venture assets.

Cash flow – tracking the lifeblood

Parent net cash flows from operating activities of $17.428m (excluding the intercompany dividend) for 2015, increased by $2.833m from last year due to the increased profit and decreased cash expenditure as outlined earlier.

The transfer of funds from Southern Lines to Marlborough Lines took place through interest payments to the

Financial indicators

	GROUP ACTUAL 2014 $(000)	GROUP TARGET 2015 $(000)	GROUP ACTUAL 2015 $(000)	GROUP TARGET 2016 $(000)	PARENT ACTUAL 2014 $(000)	PARENT TARGET 2015 $(000)	PARENT ACTUAL 2015 $(000)	PARENT TARGET 2016 $(000)
EBITDA	22,505	23,088	94,284	21,210	20,424	21,588	107,803	21,010
EBIT	14,137	13,746	85,510	11,782	12,088	12,246	99,029	11,582
Earnings After Tax	9,153	9,351	70,697	8,779	7,031	7,851	95,678	8,579
Shareholder's Equity	257,870	265,521	333,228	337,391	236,091	242,193	329,984	334,147
Current Assets	11,302	10,254	135,882	115,440	11,302	10,254	135,882	115,440
Non Current Assets	342,596	347,916	251,905	272,715	313,284	317,916	253,661	274,471
Current Liabilities	6,120	4,684	10,399	6,609	6,340	5,765	15,399	11,608
Non Current Liabilities	89,908	87,965	44,160	44,155	82,155	80,212	44,160	44,155
Major Transaction Excluded								
EBITDA	22,505	23,088	22,832	21,210	20,424	21,588	22,192	21,010
EBIT	14,137	13,746	14,058	11,782	12,088	12,246	13,418	11,582
Earnings After Tax	9,153	9,351	9,908	8,779	7,031	7,851	9,229	8,579

Parent company. The consolidation process to Group numbers ensures that the income can only be recorded once in the Group numbers as a gain on disposal rather than interest income.

Dividend receipts in the Parent totalled $1.521m (2014 $0.347m), representing dividends from Nelson Electricity of $1.0m (2014 $nil), and dividends from Horizon Energy Distribution of $0.521m (2014 $0.347m). Included in the Southern Lines (subsidiary) revenue, were dividends from Otago Power Services of $2.319m (2014 $0.561m).

For the 2015 year, Group operating cash flow of $11.463m was impacted by a large increase in tax payments of $12.260m, attributable to the depreciation recovered on the sale of the OtagoNet Joint Venture assets. Prudence and the distortionary IRD use of money interest rates dictated that a significant level of provisional tax was booked.

This year the Marlborough Electric Power Trust again received a dividend ($1.785m), with a view to making a further independent distribution to the electricity consumers in the Marlborough region.

Expenditure on plant, property and equipment (substantially network system assets) at a Group level of $12.225m, is consistent with the target spend.

Net cash realised from the sale of investments was $147.497m (includes costs of disposal of $0.503m). All bank loans and related party lending has been repaid during the period.

Assets and liabilities – maintaining a strong sense of balance

Group and Parent total assets increased by 9.6% and 20.0% respectively.

Reticulation system assets, along with land and buildings belonging to the Parent company, were last re-valued at 1 April 2012.

Nelson Electricity network assets were revalued at 1 April 2014. The carrying value of these reticulation system assets was found to be within the appropriate economic value range and no adjustment was made for the 2015 year. A small amount of goodwill remains as part of the Nelson Electricity investment value. Under NZ IFRS, goodwill is subject to an annual impairment review rather than automatic amortisation.

A breakdown of Parent capital expenditure is provided in note 5 of the Supplementary Information in the appendix on page 109, and also in commentary in the operations report. The most recent Asset Management Plan for the Marlborough Lines network completed in March 2015, provides estimates of proposed capital expenditure going forward (see table below).

Total Group non-current assets reduced due to the disposal of the OtagoNet Joint Venture investments. Net cash after the repayment of loans and taxes is shown with current assets.

The investment in Horizon Energy Distribution Limited, has been moved to current assets due to the pending sale of these shares. See note 26 on page 103.

Parent company (and Group) term debt was repaid at 30 September 2014 following the receipt of funds from the sale of the OtagoNet Joint Venture.

Target network capital expenditure for the next 10 years

Projected capital expenditure totals as published in the Marlborough Lines Limited Asset Management Plan, April 2015

FINANCIAL YEAR	CUSTOMER CONNECTION ($000)	SYSTEM GROWTH ($000)	RELIABILITY, SAFETY AND ENVIRONMENT ($000)	RENEWAL ($000)	ASSET RELOCATION ($000)	TOTAL ($000)
2016	200	–	3,468	6,155	185	10,008
2017	203	–	3,431	6,212	206	10,052
2018	206	–	3,034	4,378	2,266	9,885
2019	209	–	2,923	6,065	993	10,190
2020	212	–	2,224	6,501	1,486	10,423
2021	215	162	2,672	6,033	1,508	10,590
2022	219	164	2,296	7,217	656	10,552
2023	222	166	1,776	7,880	222	10,266
2024	225	169	1,802	7,998	225	10,420
2025	229	172	1,829	8,118	229	10,576

Vineyard plantings are a predominant land use in our region with over 23,000ha planted. Needless to say the wine industry these days is a major player in the local economy.

The future – what happens next

Marlborough has a small export-focused economy producing a range of primary and manufactured products. The region contributes 1% of national GDP, provides 1.3% of national employment and is home to 1% of New Zealand's population.

In recent years, much of the land in the region has been converted to viticulture and Marlborough now accounts for some 79% of New Zealand's grape crop. The region also has a recognised comparative advantage (with employment levels well above the national average) in agriculture, fishing and forestry support services, and the manufacture of specialist foods – with these areas experiencing significant employment growth over the last decade. The region also has strengths in aviation, manufacturing and wood products.

The challenge for Marlborough is to maintain growth and innovation within the region by adding value to the goods and services Marlborough offers, rather than shipping them out in an unprocessed state – this particularly applies to forestry, viticulture and aquaculture. Extra value extracted within the region and the development of processing industries brings the added benefit of driving population growth through higher quality, higher paying jobs.

The Company continues to be in a strong financial position – with zero debt and an Asset Management Plan that provides for the region's electricity needs in the foreseeable future. The Company's commitment to quality management and staff recognises the need to continually look forward and to innovate to improve the Company's operations.

The Directors will maintain their watch for investment opportunities to benefit our shareholder and consumers.

The strength of our balance sheet ensures the Company is well positioned to weather volatility and grow the business sustainably.

We anticipate that Marlborough will enjoy continued economic development in wine production, marine farming, forestry, tourism, and defence/aeronautical engineering. This expansion of the primary resource base in Marlborough presents opportunities for value-added industries to develop and establish.

Investments beyond our borders.

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

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

Since the initial flurry of sales, mergers and share issues after industry corporatisation in 1993, electricity distribution industry participants have been very reluctant to embrace merger and acquisition activity. As noted previously, there remain some 29 different network companies trading throughout New Zealand and most would be regarded as very small by any international comparison.

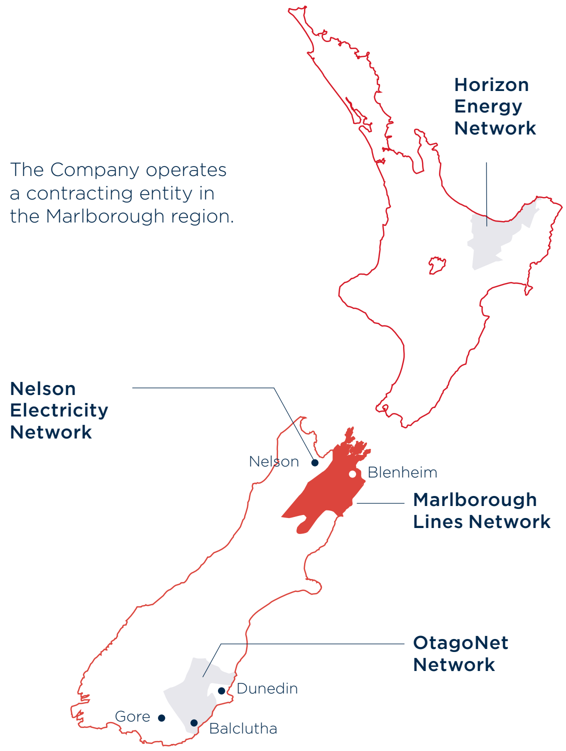
Marlborough Lines was in a relatively unique position, in that following the restructuring process in 1999, the Company had – through the sale of its generation assets – funds with which to embark on further investment in networks.

The electricity sector is changing – with rapid innovation, the connection of (small) distributed generation, and falling national consumption. Following the sale of the OtagoNet Joint Venture assets in September 2014, the Directors have continued to review whether the electricity network industry is their preferred area for investment, as the ability to extract even reasonable returns from the electricity sector has reduced, particularly with the Commerce Commission cutting the allowable rate of return on capital for regulated network monopolies.

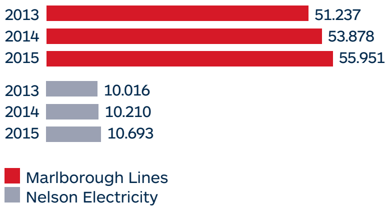
Individual investments

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

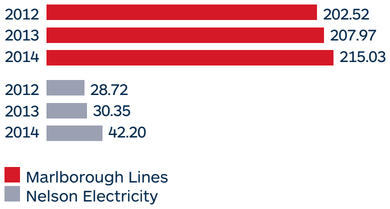
Investments in separate companies and joint ventures inevitably add complexity in ownership structures and they add further complexity to accounting and taxation requirements. In a separate note on page 58 in this section we consider the various accounting treatments required for the investment companies. We have also included separate tables providing financial information to give readers some perspective of the scope and scale of these operations when viewed on a stand alone basis. All entities achieved unqualified audit reports and full compliance with the many industry regulatory requirements.



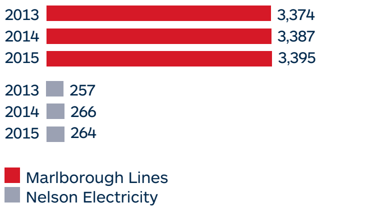
Individual company turnover
$(millions)



Network asset values (regulatory)
2014 $(millions)



Network system length
Kilometres



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

Nelson Electricity Limited (NEL)

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

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

Nelson Electricity has continued to perform at a satisfactory level of profitability, whilst being subject to price and revenue regulation administered by the Commerce Commission.

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

Nelson Electricity Vital statistics

- Supplies 9,214 consumers in the central Nelson area
- Has a network which is approximately 85% underground
- Has one of the highest consumer densities per kilometre of line ratio of any network in New Zealand, at 34.9 consumers per kilometre of line
- Has one of the most reliable networks in New Zealand
- Has a single point of supply from Transpower at Stoke.

In the year to 31 March 2015 Nelson Electricity recorded a surplus after taxation of $1.767m ($2.244m in 2014). The Nelson Electricity directors consider this an acceptable result, given the level of price regulation and the cost structures in place. A dividend of $2.0m was paid during the year (2014 $nil).

Nelson Electricity complies with the Commerce Commission's price path determinations and all requirements of the quality standards at the assessment date, 31 March 2015, as specified in the Commerce Act (Electricity Distribution Default Price -Quality Path) Determination 2012.

OtagoNet Joint Venture (ONJV)

The network owned by the OtagoNet Joint Venture delivers electricity to the wider Otago region, excluding Dunedin and Central Otago. The joint venture was owned by Marlborough Lines Limited, 51%, Electricity Invercargill Limited, 24.5%, and The Power Company Limited, 24.5%, through their respective investment holding companies: Southern Lines Limited, Pylon Limited and Last Tango Limited. The joint venture was managed – on a commercial basis – by the Invercargill based network management company, PowerNet Limited, and Marlborough Lines. PowerNet also manages the neighbouring Southland networks for Electricity Invercargill Limited and The Power Company Limited.

The Marlborough Lines share of the OtagoNet Joint Venture assets (and the contracting firm Otago Power Services Limited) was sold by Marlborough Lines at 30 September 2014 for $148.0m to the remaining Southland based Joint Venture partners. This resulted in an extraordinary gain of $92.13m on the initial purchase cost of $55.87m from 2002. After equity adjustments, taxation and disposal costs, the net profit from the sale was $60.610m.

Otago Power Services Limited (OPSL)

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

OPSL has a staff of 90, and is based in the rural Otago town of Balclutha, with additional branches in Gore, Palmerston and Ranfurly. The company was managed by Marlborough Lines in conjunction with its own contracting business.

Immediately prior to the sale of OPSL noted above, that company paid a fully imputed dividend of $4.547m to shareholders, (2014 $1.10m).

Horizon Energy Distribution Limited

Attaining a 13.89% shareholding in Horizon has given Marlborough Lines a strategic foothold in a third separate network company. Because Horizon is a listed company (on the NZAX board at the NZX) and its shares are traded, the company cannot be exempt from the Commerce Commission's price and revenue regulation. Given the regulatory constraints on its income, and the lack of liquidity in its shareholding (two shareholders hold over 90%), the benefits of NZX listing are somewhat doubtful – adding another tier of administrative costs for no apparent benefit.

The 13.89% shareholding held by Marlborough Lines is categorised, per NZ IFRS, as a current asset 'held for sale' investment and must be assessed for fair value each year.

The Horizon shares were revalued at year end to a bid price of $4.41 per share, made by the Eastern Bay Energy Trust, resulting in a net gain arising from the revaluation of 'available for sale' financial assets of $0.838m. This has been shown in 'other comprehensive income' within the Statement of Comprehensive Income.

Dividends totalling $0.521m were received from Horizon during the financial year, this being an improvement over the dividends of $0.347m paid for the previous year.

Cash Deposits

Following the sale of the Otago interests noted earlier, significant short term cash deposits are held pending investment. Interest income received for the year was $2.831m.

Investments income summary

The test of any investment is its ability to generate cash flow which exceeds the associated cost of funding and/or which grows existing capital value.

The Marlborough Lines Directors continue to be satisfied with the results achieved by all of the investment companies, particularly with regard to the income constraints imposed on both Nelson Electricity and the OtagoNet Joint Venture by the Commerce Commission.

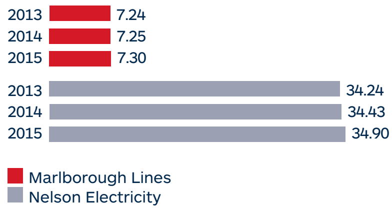
Total cash flows generated from all investments – including management fees and interest received (excluding capital gains) for the year – were $9.695m compared to $7.375m for the 2014 year.

The Marlborough Lines Directors consider this to be a satisfactory result.

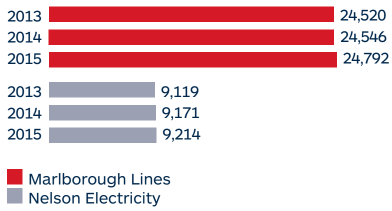
A summary of cash flows generated from investments is provided in the table below.

	2015	2014
Cash Flows from Investments ($m)	9.695	7.375
Holding Value ($m)	138.227	109.521
Cash Flows Generated from Investments	7.01%	6.73%

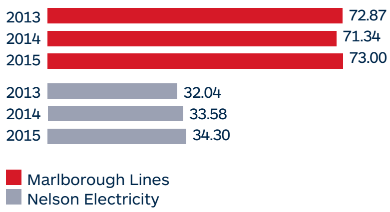
Network customer density
Customers per km of line



Network customer numbers
Number of connections on each network



System maximum demand
Megawatts (MW)



Investment Company Profit and Loss Summary

For the year ended 31 March 2015

	NELSON ELECTRICITY $(000)
Income	
Operating Revenue	10,560
Interest Revenue	11
Other Revenue	122
Total Revenue	10,693
Expenditure	
Operations and Maintenance	5,603
Depreciation	1,687
Interest Expense	809
Audit Fees	25
Directors' Fees	104
Total Expenditure	8,228
Surplus Before Taxation	2,465
Taxation	698
Surplus After Taxation	1,767

Investment Company Balance Sheet Summary

As at 31 March 2015

	NELSON ELECTRICITY $(000)
Shareholder's Equity	
Share Capital	1
Reserves	30,176
Retained Earnings	3,439
	33,616
REPRESENTED BY:	
Current Assets	
Bank	52
Accounts Receivable	923
Inventories	258
	1,233
Current Liabilities	
Creditors and Accruals	898
Employee Entitlements	30
Provision for Tax	40
	968
Non Current Assets	
Property, Plant and Equipment	44,342
Deferred Tax	9
	44,351
Non Current Liabilities	
Term Debt	11,000
Net Assets	33,616

Accounting for Investments

1. Marlborough Lines acquired a 50% share in Nelson Electricity in June 1996. Nelson Electricity is defined under the Financial Reporting Standards (FRSs) as an associate company – that is a company in which an interest in the equity is held and significant influence is exercised, but control is not established. In such cases equity accounting is applied in accord with NZ IAS 28. This requires Marlborough Lines to carry the investment at cost, less any impairment in the Parent accounts, and to equity account its share of Nelson Electricity's undistributed surplus or deficit in the Group accounts. This means that if Nelson has undistributed current year earnings, then Marlborough Lines' share of these earnings is picked up in the consolidation process.
2. The original investments in the OtagoNet Joint Venture and Otago Power Services were completed in July 2002 and were held by Marlborough Lines' fully owned subsidiary Southern Lines Ltd until sale on 30 September 2014.
3. Both of these investments are equity accounted in Southern Lines' financial statements, prior to consolidation with the Marlborough Lines Parent into the Group accounts.
4. Southern Lines, being a fully owned subsidiary of Marlborough Lines, is then consolidated into the Marlborough Lines Group financial statements in accord with NZ IAS 27.
5. An outline of the formal relationship between the Parent company Marlborough Lines and its investments and investment partners is shown in the diagram on page 2.
6. A number of new standards and amendments to standards and interpretations – effective for annual periods beginning on or after 1 July 2014 – have not been applied in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Group – detailed in note 1.21 on page 85.

Directors, Governance, Disclosures & Financial Statements

Board of Directors

David Dew

Chairman

LLB

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 various other companies.

Ken Forrest

Managing Director

BSc Hons (Eng), MIPENZ

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 and he is Chairman of Cuddon Ltd, and a director of other private companies.

Anthony Beverley

MCom (VPM) (Hons) First Class, FNZIV, FPINZ, FINSIA, CFinstD

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 31 years – 20 of those with AMP Capital Investors Ltd, New Zealand's largest fund management company. Anthony is a director of Property for Industry Ltd, Arvida Group Ltd, Harbour Quays A1, D4 and F1F2 Ltd, and other companies. In 2005 he was presented with the Property Institute of New Zealand's premier award in recognition of his contribution to the property industry and wider economy over the course of his career. Anthony is a Chartered Fellow of the New Zealand Institute of Directors, a Fellow of the New Zealand Institute of Valuers, a Fellow of the Property Institute of New Zealand and a Fellow of the Financial Services Institute of Australasia.

James Hay

LLB (Hons)

James Hay was appointed to the Board of Directors in September 2013. He has worked on commercial, leadership, governance, policy and legal issues in infrastructure since 1989, including at the Department of Prime Minister and Cabinet, and Meridian Energy. He is currently part of the leadership team at Central Plains Water Limited.

Jonathan Ross

LLB (Hons), Wellington;
BA and BCL, Oxford

Jonathan Ross was appointed to the Board in September 2014. For 23 years he was a partner of Bell Gully in Wellington and Auckland, specialising in corporate, securities and finance law and transactions. He is a member of the Panel of Experts of P.R.I.M.E. Finance in The Hague. He is also a director of the Reserve Bank of New Zealand.

Tim Smit

BSc Eng (Civil) Hons, MIPENZ

Tim Smit was appointed to the Board in September 2014. Tim is a practicing civil engineer and project manager with more than 30 years' experience and is a Principal of Marlborough Management Services and TMCo. Prior to his appointment as a director, Tim was the Chairman of the Marlborough Electric Power Trust.

Corporate Governance

1. Directors' and management commitment

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

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

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

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

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

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

In order to formalise their commitment to good governance, the Directors maintain a framework of corporate governance policies which includes the following component statements:

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

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

2. Role of Directors

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

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

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

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

3. Statement of Corporate Intent

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

4. Appointment and remuneration of Directors

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

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

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

The Board sets the remuneration of the Managing Director.

5. Responsibility of Directors

In fulfilling its role the responsibilities of the Board include:

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

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

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

6. Regulatory framework

The Company operates in New Zealand and is governed by a range of legislation and regulation. Marlborough Lines aims to make sufficient disclosure so that the reader of the Annual Report will be able to assess the effectiveness of the Company's corporate governance.

7. Current Board membership

The Marlborough Lines Constitution provides for a maximum of eight Directors. The Board presently comprises five non-executive Directors and a Managing Director. At the Annual General Meeting (AGM) in September 2014 Mr Tim Smit and Mr Jonathan Ross were appointed to the Board. Mr Terry Shagin and Mr Des Ashton retired.

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

8. Board operation

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

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

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

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

9. Board meetings

The Board meets at intervals of approximately six weeks and additional meetings are convened 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 the board of its associated investment company, Nelson Electricity Limited.

10. Board committees

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

11. Audit Committee

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

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 an audit of the Company's financial and performance disclosure information provided as a requirement of the Commerce Act. This function is also undertaken on behalf of the Controller and Auditor General.

12. Audit Committee meetings

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

- On 27 June 2014 with the Auditor, Mr Paul Bryden of Deloitte, to formally adopt the financial statements and general disclosures and to endorse signing of the financial statements for the year ended 31 March 2014.
- On 27 March 2015, for discussion and consideration of the financial budget and annual plan for the year ending 31 March 2016.

13. Board attendance

During the year seven Board meetings were held with 100% attendance by each director individually.

DIRECTORS	ATTENDED
D A Ashton	3
A M Beverley	7
D W R Dew	7
K J Forrest	7
J M G Hay	7
T M Shagin	3
C J Ross	4
T H Smit	4

14. Conflicts of interest

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

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

Entries in the Company's interests register are detailed in the General Disclosures section of the report.

15. Shareholders

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

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

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

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

16. Risk management

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

A range of risk management/legal compliance policies have been developed including:
- Treasury Risk
- Insurance Risk
- Trade Practices Compliance
- Environment and Resource Management
- Employment and Human Rights
- IT Risk (including e-mail/internet usage and disaster recovery).

Operational risks to the Company are assessed regularly including through:
- Prudent site management
- Meetings between relevant staff
- Monthly management meetings which address current and ongoing issues as part of the quality management system
- Review and amendment of the annual Asset Management Plan
- Separate emergency preparedness plans
- Review and audit of disaster recovery procedures
- Evaluation of operational risk and procedures as part of the Company's ISO Quality Management System
- Evaluation of Company wide risks through the use of external consultants
- Management reports to the Board on a quarterly basis in respect of legal compliance and risk management.

17. Quality management

Marlborough Lines holds the following accreditations for management systems:
- Quality Management Standard AS/NZS ISO 9001:2008
- Environmental Standard AS/NZS ISO 14001:2004
- Occupational Health and Safety Assessment Series OHSAS 18001:2007
- Safety Management Systems for Public Safety NZS 7901.

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

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

18. Marlborough Lines Limited – Company Code of Conduct

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

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

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

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

The Code is subject to annual review.

General Disclosures

For the year ended 31 March 2015

Introduction

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

1. Principal activities of the Company

During 2014/2015 Marlborough Lines Limited has maintained its focus as a leading and innovative electricity network investor, owner and operator. The Company and Group has also invested in and operated related electrical contracting services. Beyond Marlborough, investments have been in electricity networks in the Nelson and Otago regions and in a medium size contracting company based in Balclutha.

In September 2014 the Group sold its 51% stake in the OtagoNet Joint Venture businesses. It is intended that the proceeds of the sale will be applied to further investments to provide ongoing benefit to the electricity consumers of not only today but the future. The Marlborough Lines Parent company also holds an investment in the Nelson based electricity network company, Nelson Electricity Limited, and during 2010 the Company acquired a 13.89% shareholding in the Whakatane based network, Horizon Energy Distribution Limited.

2. Review of financial performance

2.1 Results for the year ended 31 March 2015

	GROUP 2015 $(000)	GROUP 2014 $(000)	**PARENT 2015 $(000)**	PARENT 2014 $(000)
Operating Profit	12,906	12,379	93,649	5,850
Net Profit Before Tax Expense	84,399	13,122	97,918	11,073
Income Tax Expense	14,540	3,969	3,078	4,042
Net Profit After Tax for the Year	69,859	9,153	94,840	7,031
Other Comprehensive Income Net of Tax	838	–	838	–
Net Surplus Attributable to the Shareholders	**70,697**	**9,153**	**95,678**	**7,031**

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 shareholders authorised the following dividend payments for the 2014/2015 financial year.

First and Final Dividend	30 March 2015	$1,785,000

Full imputation credits were attached to all dividend payments.

Ordinary Shares Issued	28 million
Value of Share Capital (Parent Net Assets at Current Valuation)	$329.98 million

4. Auditors

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

FEES PAID TO AUDITORS (FOR GROUP)	AUDIT FEES	OTHER FEES
Deloitte	$74,682	$34,975

5. Information on Directors of Marlborough Lines Limited

DIRECTOR	QUALIFICATIONS AND EXPERIENCE	SPECIAL RESPONSIBILITIES	TOTAL REMUNERATION AND OTHER BENEFITS	
			2015	2014
D W R Dew	LLB Principal Dew & Company, Solicitors, Blenheim. Director, Nelson Electricity Ltd. Director of other companies.	Chairman	$85,088	$68,488
A M Beverley	MCom (VPM) (Hons) First Class, FNZIV, FPINZ, FINSIA, CFInstD Director, Property for Industry Ltd. Director, Harbour Quays A1, D4 and F1F2 Ltd. Director of other companies. Trustee, Schools Amalgamated Forest Trust.	Non-executive Director	$35,834	$33,520
K J Forrest	BSc Hons (Eng), MIPENZ Registered Electrical Engineer. Director, Nelson Electricity Ltd. Chairman, Cuddon Ltd. Director of other companies.	Managing Director	$559,200	$459,200
J M G Hay	LLB (Hons) General Manager, Commercial Operations Central Plains Water Limited. Director, Winjam Advisory Limited.	Non-executive Director	$35,834	$17,366
C J Ross	LLB Director Reserve Bank of New Zealand. Director of other companies.	Non-executive Director Appointed 19 September 2014	$19,600	–
T H Smit	Principal TMCo. Director of other companies.	Non-executive Director Appointed 19 September 2014	$19,600	–
D A Ashton	BE, C Eng (UK), MRAeS Defence Acquisition Executive.	Non-executive Director Retired 19 September 2014	$16,328	$33,520
T M Shagin	Doctor of Law JD (UCLA), BA (CSUN) Chairman, No.1 Family Estate Ltd.	Non-executive Director Retired 19 September 2014	$16,328	$33,520

Director's fees totalling $44,583 earned by Mr K Forrest through membership of the boards of Nelson Electricity Limited, Otago Power Services Limited and the OtagoNet Joint Venture are paid to Marlborough Lines Limited.

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

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

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 2015	NUMBER OF EMPLOYEES 2014
$100,000 – $110,000	3	8
$110,000 – $120,000	8	4
$120,000 – $130,000	2	3
$140,000 – $150,000	1	–
$190,000 – $200,000	–	1
$210,000 – $220,000	1	–
$220,000 – $230,000	–	1
$230,000 – $240,000	1	1
$240,000 – $250,000	1	–
$250,000 – $260,000	–	1
$260,000 – $270,000	–	1
$270,000 – $280,000	1	–
$310,000 – $320,000	1	–

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

9. Donations

During the year the Company made tertiary education grants totalling $25,860.

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

D W R Dew
Chairman

K J Forrest
Managing Director

23 June 2015

Financial Statements 2015

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 Group and the results of their operations and cash flows for the year ended 31 March 2015.

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 2013.

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 2015.

This report is dated 23 June 2015 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.

D W R Dew
Chairman

K J Forrest
Managing Director

K M Deaker
Chief Financial Officer/
Company Secretary

Consolidated statement of comprehensive income

For the year ended 31 March 2015

	NOTES	GROUP 2015 $(000)	GROUP 2014 $(000)	PARENT 2015 $(000)	PARENT 2014 $(000)
Continuing Operations					
Revenue	2	55,439	54,201	136,182	47,640
Operating Expenses	3	25,681	25,478	25,681	25,478
Depreciation, Amortisation and Impairment	3	8,774	8,368	8,774	8,336
Customer Discounts		8,078	7,976	8,078	7,976
Total		**42,533**	**41,822**	**42,533**	**41,790**
OPERATING PROFIT		**12,906**	**12,379**	**93,649**	**5,850**
Finance Income	2	2,831	27	5,380	6,238
Finance Costs		1,111	1,015	1,111	1,015
Net Finance Income (Cost)		1,720	(988)	4,269	5,223
Share of Equity Accounted Investments Net Surplus (Loss)	16.5	(1,679)	1,731	–	–
Gain Recognised on Disposal of Interest in Former Associates	16.6	71,452	–	–	–
PROFIT BEFORE TAX EXPENSE		**84,399**	**13,122**	**97,918**	**11,073**
Income Tax Expense	4	14,540	3,969	3,078	4,042
NET PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**69,859**	**9,153**	**94,840**	**7,031**
Other Comprehensive Income					
Items that may be reclassified subsequently to profit and loss:					
Net Fair Value Gain on Available-For-Sale Financial Assets		838	–	838	–
Income Tax on Other Comprehensive Income		–	–	–	–
OTHER COMPREHENSIVE INCOME NET OF TAX		**838**	**–**	**838**	**–**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		**70,697**	**9,153**	**95,678**	**7,031**

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

Consolidated statement of changes in equity

for the year ended 31 March 2015

	GROUP SHARE CAPITAL $(000)	GROUP REVALUATION RESERVES $(000)	GROUP RETAINED EARNINGS $(000)	GROUP TOTAL EQUITY $(000)
CONSOLIDATED GROUP				
Balance as at 1 April 2013	29,026	56,329	165,062	250,417
Total Comprehensive Income for the Year				
Net Profit for the Year	–	–	9,153	9,153
Other Comprehensive Income Net of Tax				
Revaluation of Plant, Property and Equipment	–	–	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**–**	**–**	**9,153**	**9,153**
Transactions with Owners Recorded Directly in Equity				
Dividends Paid to Equity Holders	–	–	(1,700)	(1,700)
BALANCE AS AT 31 MARCH 2014	**29,026**	**56,329**	**172,515**	**257,870**
Balance as at 1 April 2014	29,026	56,329	172,515	257,870
Total Comprehensive Income for the Year				
Net Profit for the Year	–	–	69,859	69,859
Other Comprehensive Income				
Disposal of OtagoNet Joint Venture Investment	–	(19,986)	19,986	–
Reversal of Deferred Tax on Disposal of OtagoNet Joint Venture Investment	–	6,446	–	6,446
Revaluation of Held for Sale Investments	–	838	–	838
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**–**	**(12,702)**	**89,845**	**77,143**
Transactions with Owners Recorded Directly in Equity				
Dividends Paid to Equity Holders	–	–	(1,785)	(1,785)
BALANCE AS AT 31 MARCH 2015	**29,026**	**43,627**	**260,575**	**333,228**

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

Parent statement of changes in equity

For the year ended 31 March 2015

	PARENT SHARE CAPITAL $(000)	PARENT REVALUATION RESERVES $(000)	PARENT RETAINED EARNINGS $(000)	PARENT TOTAL EQUITY $(000)
PARENT				
Balance as at 1 April 2013	29,026	39,335	162,399	230,760
Total Comprehensive Income for the Year				
Net Profit for the Year	–	–	7,031	7,031
Other Comprehensive Income Net of Tax				
Revaluation of Plant, Property and Equipment	–	–	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**–**	**–**	**7,031**	**7,031**
Transactions with Owners Recorded Directly in Equity				
Dividends Paid to Equity Holders	–	–	(1,700)	(1,700)
BALANCE AS AT 31 MARCH 2014	**29,026**	**39,335**	**167,730**	**236,091**
Balance as at 1 April 2014	29,026	39,335	167,730	236,091
Total Comprehensive Income for the Year				
Net Profit for the Year	–	–	94,840	94,840
Other Comprehensive Income Net of Tax				
Revaluation of Held for Sale Investments	–	838	–	838
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**–**	**838**	**94,840**	**95,678**
Transactions with Owners Recorded Directly in Equity				
Dividends Paid to Equity Holders	–	–	(1,785)	(1,785)
BALANCE AS AT 31 MARCH 2015	**29,026**	**40,173**	**260,785**	**329,984**

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

Statement of financial position

as at 31 March 2015

	NOTES	GROUP 2015 $(000)	GROUP 2014 $(000)	PARENT 2015 $(000)	PARENT 2014 $(000)
Equity					
Share Capital	5	29,026	29,026	29,026	29,026
Revaluation Reserves	6	43,627	56,329	40,173	39,335
Retained Earnings	6	260,575	172,515	260,785	167,730
TOTAL EQUITY		**333,228**	**257,870**	**329,984**	**236,091**
Non Current Liabilities					
Retirement Benefit Obligations	11	706	630	706	630
Deferred Income Tax Liabilities	4	43,454	51,278	43,454	43,525
Term Borrowings	10	–	38,000	–	38,000
TOTAL NON CURRENT LIABILITIES		**44,160**	**89,908**	**44,160**	**82,155**
Current Liabilities					
Trade and Other Payables	9	4,209	3,780	8,478	3,780
Employee Entitlements	9	960	816	960	816
Current Income Tax Liabilities		5,230	1,524	961	1,744
Other Current Liabilities		–	–	5,000	–
TOTAL CURRENT LIABILITIES		**10,399**	**6,120**	**15,399**	**6,340**
TOTAL EQUITY AND LIABILITIES		**387,787**	**353,898**	**389,543**	**324,586**
Non Current Assets					
Plant, Property and Equipment	12,13,14	232,975	229,220	232,975	229,136
Intangible Assets	15	1,806	1,645	1,806	1,645
Investments in Subsidiaries	16	–	–	5,000	5,000
Loans and Advances to Subsidiaries	16	–	–	–	47,619
Loans and Advances to Associates	16	–	–	–	1,530
Investments in Associates Accounted for Using the Equity Method	16	14,914	95,047	11,670	11,670
Investment in Horizon Energy Distribution Limited	17	–	14,474	–	14,474
Investment Property	17	2,210	2,210	2,210	2,210
TOTAL NON CURRENT ASSETS		**251,905**	**342,596**	**253,661**	**313,284**
Current Assets					
Cash and Cash Equivalents		2,122	568	2,122	568
Short-Term Investments		108,000	–	108,000	–
Trade and Other Receivables	7	5,896	5,906	5,896	5,906
Other Current Assets	7	–	202	–	202
Inventories	8	4,552	4,626	4,552	4,626
Investment in Horizon Energy Distribution Limited	17	15,312	–	15,312	–
TOTAL CURRENT ASSETS		**135,882**	**11,302**	**135,882**	**11,302**
TOTAL ASSETS		**387,787**	**353,898**	**389,543**	**324,586**

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

Consolidated statement of cash flows

for the year ended 31 March 2015

	GROUP 2015 $(000)	GROUP 2014 $(000)	**PARENT 2015 $(000)**	PARENT 2014 $(000)
Cash Flows from Operating Activities				
Receipts from Customers	47,886	44,189	47,886	44,750
Receipts from Associates	2,903	7,377	2,903	7,027
Interest Received	2,824	20	2,824	20
Dividends Received	3,840	908	87,132	347
Payments to Suppliers and Employees	(32,533)	(33,245)	(32,549)	(33,245)
Interest Paid	(1,197)	(1,599)	(1,197)	(1,599)
Income Tax Paid	(12,260)	(2,855)	(3,960)	(2,705)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**11,463**	**14,795**	**103,039**	**14,595**
Cash Flows from Investing Activities				
Proceeds from Sale of Plant, Property and Equipment	107	138	107	138
Net Purchase/Sale of Investments	147,497	–	–	–
Purchase of Plant, Property and Equipment	(12,225)	(12,991)	(12,225)	(12,991)
Amounts Advanced to Related Parties	2,497	(1,666)	58,418	(1,466)
NET CASH GENERATED (USED) IN INVESTING ACTIVITIES	**137,876**	**(14,519)**	**46,300**	**(14,319)**
Cash Flows from Financing Activities				
Proceeds from Borrowings	21,000	17,000	21,000	17,000
Repayment of Borrowings	(59,000)	(15,150)	(59,000)	(15,150)
Dividends Paid to Company's Shareholders	(1,785)	(1,700)	(1,785)	(1,700)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	**(39,785)**	**150**	**(39,785)**	**150**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**109,554**	**426**	**109,554**	**426**
Cash and Cash Equivalents at Beginning of Year	568	142	568	142
CASH AND CASH EQUIVALENTS AT 31 MARCH	**110,122**	**568**	**110,122**	**568**

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

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

for the year ended 31 March 2015

	GROUP 2015 $(000)	GROUP 2014 $(000)	PARENT 2015 $(000)	PARENT 2014 $(000)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**69,859**	**9,153**	**94,840**	**7,031**
Add/(Less) Non Cash Items				
Depreciation and Amortisation	8,774	8,368	8,774	8,336
Income from Vested Assets and Capital Contributions	(1,231)	(842)	(1,231)	(842)
Gains on Revaluation of Existing Investments	–	(23)	–	–
Non Cash Items in Relation to Investing/Financing Activities				
Share of Associate Net Profit	1,679	(1,731)	–	–
Loss on Sale of Fixed Assets	575	630	575	630
Current Charge to Deferred Taxation	(1,378)	885	(71)	715
Net Gain Recognised on Disposal of Interest in Former Associates	(71,452)	–	–	–
Income Tax on Other Comprehensive Income	–	–	–	–
CHANGES IN WORKING CAPITAL ITEMS				
(Increase)/Decrease in Assets				
(Increase)/Decrease in Accounts Receivable	212	(1,094)	212	(1,094)
(Increase)/Decrease in Inventories	74	(128)	74	(128)
Increase/(Decrease) in Liabilities				
Increase/(Decrease) in Accounts Payable and Other Payables	425	(758)	4,698	(758)
(Decrease) in Subsidiary Current Account	–	–	(4,269)	–
Increase/(Decrease) in Tax Payable Balance	3,706	252	(783)	622
Increase in Employee Entitlements	220	83	220	83
NET CASH FLOWS FROM OPERATING ACTIVITIES	**11,463**	**14,795**	**103,039**	**14,595**

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

Notes to the financial statements

For the year ended 31 March 2015

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 Limited Parent company and its fully owned subsidiary Southern Lines Limited. The Group also includes investment in the associate company Nelson Electricity Limited. A significant shareholding is also held in the listed electricity network owner Horizon Energy Distribution Limited.

From 1 April 2014, the new Financial Reporting Act 2013 came into force replacing the Financial Reporting Act 1993. The change in legislation has not had any material impact on the Group's obligation to prepare general purpose financial statements. In addition to the change in legislation, the External Reporting Board of New Zealand ("the XRB") has released a new accounting standards framework which establishes the financial standards to be applied to entities with statutory financial reporting obligations. The Group currently reports under New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). Under the new XRB framework the Company will continue to apply NZ IFRS as applicable for Tier 1 for-profit entities when preparing its consolidated Group financial statements. These financial statements have also been prepared in accordance with the requirements of the Companies Act 1993 and the Energy Companies Act 1992.

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 company 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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value and value in use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The other principal accounting policies are also detailed as follows.

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 2015, that have the potential to cause a material adjustment to the carrying amounts of assets and liabilities are disclosed below.

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

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

1.5 Basis of consolidation

(i) Subsidiaries

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

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

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

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

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

(ii) 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 company financial statements. Such dividends received typically reduce the equity adjustment for the share of associates' post acquisition profits.

(iii) 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) Sale 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 shareholder's 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 Taxation

(i) Current 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).

(ii) Deferred tax

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.

(iii) Current and deferred tax for the year

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

1.9 Inventories and work in progress

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

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 the comparable sales method.

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 discounted cash flow methodology. The fair values are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings and electricity distribution network is not materially different from their fair values.

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

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

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, any capitalised interest and an allowance for overheads.

1.11 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subject to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in the profit and loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

1.12 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.

1.13 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 indefinite life and are not depreciated.

1.14 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.

1.15 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.

1.16 Financial assets

(i) Investments
Investments in subsidiaries, associates and joint ventures are recognised at cost less impairment in the Parent company 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) Held 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 less costs to sell at reporting date. Any revaluation movements are recognised in other comprehensive income.

1.17 Financial liabilities

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

(ii) Borrowings
Borrowings are recorded initially at fair value plus any transaction costs. Borrowings are subsequently recognised at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

Borrowings are classified as non current liabilities where the Group holds an agreement with the lender which includes the right to settle the liability in an accounting period at least 12 months after the balance date.

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

1.18 Derivative financial instruments

From time to time 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.

1.19 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.

1.20 Cash flows and definitions

Cash and cash equivalents comprise of 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.

1.21 Application of new and revised international financial reporting standards (IFRSs)

There were no standards, amendments and interpretations to existing standards that were adopted by the Group from 1 April 2014.

1.22 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and interpretations which are considered relevant to the Group but not yet effective for the year ended 31 March 2015 have not been applied in preparing the financial statements:

IFRS 9, Financial Instruments: Classification and Measurement
IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013) together will replace parts of IAS 39, Financial Instruments: Recognition and Measurement. The new standard:

- Simplifies the measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value; and
- Adds requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities.

The effective date is annual periods beginning on or after 1 January 2018. The Company is yet to assess NZ IFRS 9's full impact and intends to adopt NZ IFRS 9 no later than 1 April 2018.

IFRS 15, Revenue from Contracts with Customers
This standard was issued in May 2014, and will replace all existing guidance for revenue recognition, including IAS 11, Construction Contracts and IAS 18, Revenue. The effective date is annual periods beginning on or after 1 January 2017. The Company has not yet fully evaluated the impact this standard will have on the Group's financial statements.

2. Revenue

	GROUP 2015 $(000)	GROUP 2014 $(000)	PARENT 2015 $(000)	PARENT 2014 $(000)
Network Revenue	42,636	40,400	42,636	40,400
Operating Revenue – Related Parties	2,549	6,211	–	–
Transmission Loss Rental Rebates	274	379	274	379
External Contracting Revenue	3,709	4,122	3,709	4,122
Property Rentals:				
– Investment Properties	53	53	53	53
– Other Properties	45	32	45	32
Capital Contributions	145	196	145	196
Vested Assets	1,086	842	1,086	842
Miscellaneous Income	1,102	1,619	1,102	1,269
Dividends:				
– Subsidiaries	–	–	85,611	–
– Equity Accounted Associates	3,319	–	1,000	–
– Others	521	347	521	347
Operating Revenue	55,439	54,201	136,182	47,640
Interest Income:				
– Bank Deposits	2,831	27	2,831	27
– Related Parties	–	–	2,549	6,211
Interest Revenue	2,831	27	5,380	6,238
Total Revenue	58,270	54,228	141,562	53,878

3. Expenditure

Profit before taxation has been arrived at after charging:

	GROUP 2015 $(000)	GROUP 2014 $(000)	**PARENT 2015 $(000)**	PARENT 2014 $(000)
Remuneration of Auditors:				
– Audit of the Financial Statements	75	82	**75**	82
– Other Audit and Assurance Related Services Provided by the Principal Auditor relating to the audit of the Commerce Commission Information Disclosure	35	55	**35**	55
Directors' Fees	229	202	**229**	202
Depreciation:				
– Buildings	310	279	**310**	279
– Network Reticulation System	6,791	6,633	**6,791**	6,601
– Plant and Equipment	1,379	1,250	**1,379**	1,250
Amortisation Expense	294	206	**294**	206
Bad Debts Written Off (Recovered)	(6)	(29)	(6)	(29)
Employee Benefits:	–	–	–	–
– Retirement Gratuities	104	41	**104**	41
– Employer Superannuation Contributions (Defined Contribution Schemes)	229	200	**229**	200
Donations (Educational Grants)	26	52	26	52
Losses/(Gains) from Foreign Currency	–	(3)	–	(3)
Loss on Disposal of Plant, Property and Equipment	575	630	**575**	630
Rental and Operating Lease Expenses	60	44	60	44

4. Taxation

4.1 Income taxes relating to continuing operations

	GROUP 2015 $(000)	GROUP 2014 $(000)	PARENT 2015 $(000)	PARENT 2014 $(000)
Tax Expense comprises:				
Current Tax Expense/(Income)	15,957	3,020	3,149	3,262
Adjustments Recognised in the Current Year in Relation to the Current Tax of Prior Years	–	65	–	65
Deferred Tax Expense Relating to the Origination and Reversal of Temporary Differences	(1,417)	884	(71)	715
Total Tax Expense	14,540	3,969	3,078	4,042

The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:

	GROUP 2015 $(000)	GROUP 2014 $(000)	PARENT 2015 $(000)	PARENT 2014 $(000)
Profit Before Tax from Continuing Operations	84,399	13,122	97,918	11,073
Prima Facie Income Tax Calculated at 28%	23,632	3,674	27,417	3,100
Plus/(Less) Taxation Adjustments:				
– Exempt Dividends	–	–	(23,971)	–
– Non Deductible Expenses	158	–	58	–
– Net Benefit of Imputation Credits	(1,075)	(254)	(426)	(97)
– Equity Accounted Earnings of Associates	(7)	(338)	–	–
– Net Investment Realisation	(8,168)	–	–	–
– Recognition of Previously Unrecognised Deferred Tax	–	875	–	875
– Other Permanent Differences	–	(53)	–	99
Under/(Over) Provision of Income Tax in Previous Year	–	65	–	65
Income Tax Expense Recognised in the Statement of Comprehensive Income	14,540	3,969	3,078	4,042

4.2 Deferred taxation

	OPENING BALANCE $(000)	CHARGED TO INCOME $(000)	CHARGED TO EQUITY $(000)	OTHER $(000)	CLOSING BALANCE $(000)
CONSOLIDATED GROUP FOR THE YEAR ENDED 31 MARCH 2015					
Deferred Tax Liabilities					
Plant, Property and Equipment	51,669	(1,335)	(6,446)	–	43,888
Deferred Tax Assets					
Provisions	(377)	(44)	–	–	(421)
Doubtful Debts and Impairment Losses	(14)	1	–	–	(13)
	(391)	(43)	–	–	(434)
Net Deferred Tax Liability	51,278	(1,378)	(6,446)	–	43,454
CONSOLIDATED GROUP FOR THE YEAR ENDED 31 MARCH 2014					
Deferred Tax Liabilities					
Plant, Property and Equipment	50,801	868	–	–	51,669
Deferred Tax Assets					
Provisions	(360)	(17)	–	–	(377)
Doubtful Debts and Impairment Losses	(48)	34	–	–	(14)
	(408)	17	–	–	(391)
Net Deferred Tax Liability	50,393	885	–	–	51,278
PARENT COMPANY FOR THE YEAR ENDED 31 MARCH 2015					
Deferred Tax Liabilities					
Plant, Property and Equipment	43,916	(28)	–	–	43,888
Deferred Tax Assets					
Provisions	(377)	(44)	–	–	(421)
Doubtful Debts and Impairment Losses	(14)	1	–	–	(13)
	(391)	(43)	–	–	(434)
Net Deferred Tax Liability	43,525	(71)	–	–	43,454
PARENT COMPANY FOR THE YEAR ENDED 31 MARCH 2014					
Deferred Tax Liabilities					
Plant, Property and Equipment	43,216	700	–	–	43,916
Deferred Tax Assets					
Provisions	(359)	(18)	–	–	(377)
Doubtful Debts and Impairment Losses	(47)	33	–	–	(14)
	(406)	15	–	–	(391)
Net Deferred Tax Liability	42,810	715	–	–	43,525

4.3 Imputation credit memorandum account

	GROUP 2015 $(000)	GROUP 2014 $(000)	PARENT 2015 $(000)	PARENT 2014 $(000)
Balance at Beginning of Year	37,216	34,179	35,586	32,767
Prior Period Adjustment	–	–	–	–
Attached to Dividends Paid in the Year	(694)	(661)	(694)	(661)
Attached to Dividends Received	1,493	353	591	135
Tax Refund/Transfer	(8)	–	(8)	–
Income Tax Payments During the Year	15,924	3,345	15,924	3,345
Balance at End of Year	53,931	37,216	51,399	35,586

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 million shares and all shares are fully paid up. All shares carry equal rights to distributions.

5.2 Share capital

	GROUP 2015 $(000)	GROUP 2014 $(000)	PARENT 2015 $(000)	PARENT 2014 $(000)
28 million Ordinary Shares	29,026	29,026	29,026	29,026

6. Retained earnings/revaluation reserves

6.1 Retained earnings

	GROUP 2015 $(000)	GROUP 2014 $(000)	PARENT 2015 $(000)	PARENT 2014 $(000)
Retained Earnings Balance at Beginning of Year	172,515	165,062	167,730	162,399
Net Profit for the Year	69,859	9,153	94,840	7,031
Transfer from Properties Revaluation Reserve	19,986	–	–	–
Dividends	(1,785)	(1,700)	(1,785)	(1,700)
Retained Earnings Balance at End of Year	260,575	172,515	260,785	167,730

6.2 Reserves (net of income tax)

Properties Revaluation	42,789	56,329	39,335	39,335
Investments Revaluation	838	–	838	–
Reserves Balance at End of Year	43,627	56,329	40,173	39,335

6.3 Properties revaluation reserve

	GROUP 2015 $(000)	GROUP 2014 $(000)	PARENT 2015 $(000)	PARENT 2014 $(000)
Balance at the Beginning of the Year	56,329	56,329	39,335	39,335
Decrease Due to the Disposal of Associate	(19,986)	–	–	–
Reversal of Deferred Tax on Disposal of Associate	6,446	–	–	–
Balance at End of Year	42,789	56,329	39,335	39,335

The properties revaluation reserve arises on revaluation of land and buildings and reticulation system assets to fair value. When these assets are sold, the portion of the properties revaluation reserve that relates to that asset is transferred directly to retained earnings.

The Parent company and Group Properties Revaluation Reserve comprises revaluations in the following categories:

Land and Buildings	3,696	3,696	3,696	3,696
Reticulation System Assets	35,858	35,858	35,639	35,639
Associate Entities	3,235	16,775	–	–
Total	42,789	56,329	39,335	39,335

6.4 Investments revaluation reserve

Balance at the Beginning of the Year	–	–	–	–
Net Gain Arising on Revaluation of Available-For-Sale Financial Assets	838	–	838	–
Balance at End of Year	838	–	838	–

The investments revaluation reserve represents the cumulative gains and losses arising on the revaluation of available-for-sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

7. Trade and other receivables

	GROUP 2015 $(000)	GROUP 2014 $(000)	PARENT 2015 $(000)	PARENT 2014 $(000)
The balance of Accounts Receivable comprises:				
Network and Other Trade Debtors	4,491	4,557	4,491	4,557
GST Receivable	1,071	1,034	1,071	1,034
Retailer Prudential Security held in Trust	379	365	379	365
Other Current Financial Assets:				
– Interest Rate Swaps	–	202	–	202
Allowance for Impairment of Accounts Receivable (Note 18)	(45)	(50)	(45)	(50)
Total	5,896	6,108	5,896	6,108

Included in the Company's trade receivables balance are debtors with a carrying value of $63,439 (2014 $68,716) which are past due at reporting date. The Company has provided for $45,052 (2014 $50,016) of this balance through the allowance for impairment in the table above. The remaining amount has not been provided for as there has been no significant change in the credit quality and the amounts are considered recoverable.

8. Inventories and work in progress

	GROUP 2015 $(000)	GROUP 2014 $(000)	**PARENT 2015 $(000)**	PARENT 2014 $(000)
Reticulation Stock	4,552	4,626	4,552	4,626
Work in Progress	–	–	–	–
Total	4,552	4,626	4,552	4,626

9. Trade and other payables

	GROUP 2015 $(000)	GROUP 2014 $(000)	**PARENT 2015 $(000)**	PARENT 2014 $(000)
In current liabilities the balance of Trade and Other Payables comprises:				
Trade Creditors	3,658	3,415	7,927	3,415
Retailer Prudential Security Held in Trust	379	365	379	365
Customer Work in Progress	172	–	172	–
Employee Entitlements[1]	960	816	960	816
Total	5,169	4,596	9,438	4,596

1. The provision for employee entitlements represents annual leave and vested long service leave accrued.

10. Non current borrowings

The Parent company term debt facility with the Westpac Banking Group was repaid and cancelled in September 2014.

	FACILITY LIMIT	**MATURITY DATE**	**GROUP 2015 $(000)**	GROUP 2014 $(000)	**PARENT 2015 $(000)**	PARENT 2014 $(000)
Bank Term Debt Facility	–	–	–	38,000	–	38,000

The interest rate is linked to the 90 day Bank Bill Rate. The effective rate at 31 March 2014 was 3.86%.

11. Other non current liabilities – retirement benefit obligations

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 2015 $(000)	GROUP 2014 $(000)	**PARENT 2015 $(000)**	PARENT 2014 $(000)
Retirement Benefit Obligations	706	630	706	630

12. Plant, property and equipment – Group

GROUP	CAPITAL WORK IN PROGRESS AT COST $(000)	LAND AT FAIR VALUE $(000)	BUILDINGS AT FAIR VALUE $(000)	ELECTRICITY RETICULATION NETWORK AT FAIR VALUE $(000)	PLANT AND EQUIPMENT AT COST $(000)	TOTAL $(000)
Cost or Valuation						
Balance 1 April 2013	2,413	8,433	18,677	353,955	13,689	397,167
Additions	1,985	122	1,536	10,106	2,015	15,764
Revaluations	–	–	–	–	–	–
Disposals/Adjustments	(2,413)	84	(205)	(1,596)	(540)	(4,670)
Balance 31 March 2014	1,985	8,639	20,008	362,465	15,164	408,261
Additions	2,294	–	212	9,641	2,840	14,987
Revaluations	–	–	–	–	–	–
Disposals/Adjustments	(1,985)	–	112	(2,390)	(497)	(4,760)
Balance 31 March 2015	2,294	8,639	20,332	369,716	17,507	418,488
Accumulated Depreciation and Impairment						
Balance 1 April 2013	–	–	7,250	155,463	9,716	172,429
Disposals/Adjustments	–	–	(29)	(1,064)	(457)	(1,550)
Depreciation Expense	–	–	279	6,633	1,250	8,162
Revaluation Adjustments	–	–	–	–	–	–
Balance 31 March 2014	–	–	7,500	161,032	10,509	179,041
Disposals/Adjustments	–	–	5	(1,695)	(318)	(2,008)
Depreciation Expense	–	–	310	6,791	1,379	8,480
Revaluation Adjustments	–	–	–	–	–	–
Balance 31 March 2015	–	–	7,815	166,128	11,570	185,513
Net Book Value as at 31 March 2014	1,985	8,639	12,508	201,433	4,655	229,220
Net Book Value as at 31 March 2015	2,294	8,639	12,517	203,588	5,937	232,975

13. Plant, property and equipment – Parent company

PARENT	CAPITAL WORK IN PROGRESS AT COST $(000)	LAND AT FAIR VALUE $(000)	BUILDINGS AT FAIR VALUE $(000)	ELECTRICITY RETICULATION NETWORK AT FAIR VALUE $(000)	PLANT AND EQUIPMENT AT COST $(000)	TOTAL $(000)
Cost or Valuation						
Balance 31 March 2013	2,413	8,433	18,677	353,522	13,689	396,734
Additions	1,985	122	1,536	10,106	2,015	15,764
Revaluations	–	–	–	–	–	–
Disposals/Adjustments	(2,413)	84	(205)	(1,596)	(540)	(4,670)
Balance 31 March 2014	1,985	8,639	20,008	362,032	15,164	407,828
Additions	2,294	–	212	9,641	2,840	14,987
Revaluations	–	–	–	–	–	–
Disposals/Adjustments	(1,985)	–	112	(1,957)	(497)	(4,327)
Balance 31 March 2015	2,294	8,639	20,332	369,716	17,507	418,488
Accumulated Depreciation and Impairment						
Balance 1 April 2013	–	–	7,250	155,146	9,716	172,112
Disposals/Adjustments	–	–	(29)	(1,064)	(457)	(1,550)
Depreciation Expense	–	–	279	6,601	1,250	8,130
Revaluation Adjustments	–	–	–	–	–	–
Balance 31 March 2014	–	–	7,500	160,683	10,509	178,692
Disposals/Adjustments	–	–	5	(1,346)	(318)	(1,659)
Depreciation Expense	–	–	310	6,791	1,379	8,480
Revaluation Adjustments	–	–	–	–	–	–
Balance 31 March 2015	–	–	7,815	166,128	11,570	185,513
Net Book Value as at 31 March 2014	1,985	8,639	12,508	201,349	4,655	229,136
Net Book Value as at 31 March 2015	2,294	8,639	12,517	203,588	5,937	232,975

14. Plant, property and equipment – continued

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

	GROUP 2015 $(000)	GROUP 2014 $(000)	PARENT 2015 $(000)	PARENT 2014 $(000)
Land	3,873	4,012	3,873	4,012
Buildings	7,989	7,787	7,989	7,787
Electricity Reticulation Network	59,914	57,689	59,914	57,605
Plant and Equipment	6,403	5,020	6,403	5,020
Total	78,179	74,508	78,179	74,424

Reticulation system assets belonging to the Parent company were revalued as at 1 April 2012 to fair value using discounted cash flow methodology as assessed and certified by independent valuers Lynne Taylor and Craig Rice of PricewaterhouseCoopers. Subsequent additions are recorded at cost. The valuation carried out is consistent with NZ IAS 16, and in the absence of specific market evidence of relevance to Marlborough Lines' network assets, the valuation was undertaken by way of discounted cash flow in order to establish fair value. In order to derive the valuation a forecasting model was developed which incorporates the latest regulatory input methodologies. The model forecasts cash flows for a ten year period, and derives a terminal value for the cash flows beyond the ten year forecast. The resulting valuation has been expressed as a range based on the discount rate, and sensitivity analysis was conducted on the key input assumptions to test their impact on value.

Key assumptions made

- Capital expenditure that is necessary to maintain existing network capability
- Operating expenditure consistent with the current AMP, subject to assumed efficiencies of approximately $750k per annum
- Real price growth of 0% per annum post FY2014
- Cash flows are pre-discount from FY2015
- Average growth of electricity supplied to customers of 1.1% per annum
- Average ICP growth of 0.5% per annum
- 5.8% and 6.6% discount rates which derive the range of our valuations.

Sensitivity

Valuation is most sensitive to changes in the discount rate. A change in the discount rate of 0.5% will have a 4.5% change in the value of the network assets.

The valuation is moderately sensitive to operating costs growth rates:

- The average impact on the midpoint valuation of 5% movement in operating costs is approximately 1.8%.

The carrying value of reticulation system assets was found to be within the valuation range and no adjustment was made for 2013.

Land and buildings (not including reticulation system assets), belonging to the Parent company were revalued to fair value as at 1 April 2012 in accord with values provided by Alexander Hayward Limited, registered property valuers. Subsequent additions are recorded at cost. The assessments of value are all based on market conditions and market evidence available at the date of valuation and were carried out in accordance with NZ IAS 16 and NZ IAS 40. The valuation resulted in an uplift in value of $952,000 (shown in other comprehensive income for 2013), and a small fair value impairment of $83,000 shown with continuing operations.

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.

Assets acquired subsequent to the adoption of the above valuations are recorded at the value of the consideration given to acquire the asset and the value of other directly attributed costs which have been incurred in bringing the assets to the location and condition necessary for their intended service less subsequent depreciation.

Regulatory valuation – modified Optimised Deprival Valuation

The regulatory values of assets used to supply electricity lines services for the Parent company is $215m as at disclosure year ended 31 March 2014. The latest equivalent value for the Nelson Electricity Limited Network System assets (50% owned by the Marlborough Lines Group) is $42.2m as at 31 March 2014.

14.1 Fair value measurement of the Group's land, buildings and network assets

The Group's freehold land, buildings and network assets are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent impairment losses.

Details of the Group's freehold land, buildings and network assets and information about the fair value hierarchy as at 31 March 2014 and 2015 are as follows:

	LEVEL 3	FAIR VALUE AS AT 2015
Land	8,639	8,639
Buildings	12,517	12,517
Electricity Reticulation Network	203,588	203,588

	LEVEL 3	FAIR VALUE AS AT 2014
Land	8,639	8,639
Buildings	12,508	12,508
Electricity Reticulation Network	201,349	201,349

The categorisation of fair value measurements into the different levels of the fair value hierarchy depends on the degree to which the inputs to fair value measurements are observable and the significance of the inputs to the fair value measurement. Level 3 inputs are unobservable inputs for the assets.

Unobservable inputs are those for which market data is not readily available. Instead, they are developed using the best available assumptions that would be used for the purposes of pricing the assets and are described in note 14. The carrying value of the assets recognised in the financial statements approximate their fair values. The fair values included in Level 3 categories above have been determined in accordance with generally accepted pricing models and there has been no change in the valuation technique used.

There have not been any transfers into or out of Level 3 of the fair value hierarchy.

15. Intangible assets – Parent company and Consolidated Group

Parent company and consolidated group	SOFTWARE $(000)	EASEMENTS $(000)	TOTAL $(000)
Cost			
Balance at 1 April 2013	2,714	1,135	3,849
Additions	320	102	422
Disposals/Adjustments	(3)	–	(3)
Balance at 31 March 2014	3,031	1,237	4,268
Additions	351	103	454
Disposals	(2)	–	(2)
Balance at 31 March 2015	3,380	1,340	4,720
Accumulated Amortisation and Impairment			
Balance at 1 April 2013	2,419	–	2,419
Amortisation Expense	206	–	206
Disposals	(2)	–	(2)
Balance at 31 March 2014	2,623	–	2,623
Amortisation Expense	294	–	294
Disposals/Adjustments	(3)	–	(3)
Balance at 31 March 2015	2,914	–	2,914
Net Book Value as at 31 March 2014	408	1,237	1,645
Net Book Value as at 31 March 2015	466	1,340	1,806

16. Investments in subsidiaries and associates

16.1 Marlborough Lines investments in subsidiaries

		2015 % INTEREST HELD	2014 % INTEREST HELD
Name of Entity	Southern Lines Limited	100	100
Principal Activity	Investments in Electricity Networks		
Balance Date	31 March		
Capital Investment Date	30 June 2002		
		$(000)	$(000)
Shares		5,000	5,000
Term Loan		(5,000)	26,000
Shareholder Loan		(4,269)	21,619
Total		(4,269)	52,619

16.2 Marlborough Lines investments in associate entities

		2015 % INTEREST HELD	2014 % INTEREST HELD
Name of Entity	Nelson Electricity Limited	50	50
Principal Activity	Electricity Network Operator		
Balance Date	31 March		
Acquisition Date	19 June 1996		

16.3 Southern Lines investments in associates (Otago Power Services Limited)

		2015 % INTEREST HELD	2014 % INTEREST HELD
Name of Entity	Otago Power Services Limited	–	51
Principal Activity	Electricity Network Construction and Maintenance		
Balance Date	31 March		
Acquisition Date	30 June 2002		
Divestment Date	30 September 2014		

This investment is treated as an associate for accounting purposes because effective control of Otago Power Services Limited is shared on an equal basis with the other shareholders.

16.4 Southern Lines investments in associates (OtagoNet Joint Venture)

Name of Entity	OtagoNet Joint Venture	–	51
Principal Activity	Owner of Otago Regional Electricity Network		
Balance Date	31 March		
Acquisition Date	30 June 2002		
Divestment Date	30 September 2014		

This investment is treated as an associate for accounting purposes because effective control of the OtagoNet Joint Venture is shared on an equal basis with the other shareholders.

16.5 Results of the Group's associate entities

The Group share of the results of its associate entities is as follows:

	GROUP 2015 $(000)	GROUP 2014 $(000)
Share of Surpluses Before Tax	4,705	8,660
Less Taxation	(541)	(758)
Less Dividends/Distributions Received	(5,843)	(6,171)
(Loss)/Gain Attributable to Associate Entities	(1,679)	1,731

16.6 Change in the Group's ownership interest in an associate

In the prior year, the Group held a 51% interest in the OtagoNet Joint Venture and Otago Power Services Limited and accounted for the investments as an associate. In September 2014, the Group disposed of this interest to a third party for proceeds of $148.0 million (received in September 2014). This transaction has resulted in the recognition of a gain in the profit or loss (before tax), calculated as follows.

	GROUP 2015 $(000)
Proceeds of Disposal	148,000
Less Carrying Amount of Investment on the Date of Disposal	(76,045)
Less Costs of Disposal	(503)
Gain Recognised	71,452

The gain recognised in the current year comprises a realised profit of $71.955 million being the proceeds of $148.0 million less $76.045 million carrying amount of the interest disposed of. A current tax expense of $12.148 million arose on the gain realised in the current year mainly in respect of tax depreciation recovered on assets disposed.

16.7 Interest in associate entities (Nelson Electricity Limited)

	GROUP 2015 $(000)	GROUP 2014 $(000)	PARENT 2015 $(000)	PARENT 2014 $(000)
Shares	12,950	12,950	12,950	12,950
Less Share Repurchase (2001)	(2,500)	(2,500)	(2,500)	(2,500)
Plus Share of Associate Revaluation	3,673	3,635	–	–
Less Share of Post Acquisition Results	(429)	(313)	–	–
Interest in Associate Entity (Excluding Goodwill)	13,694	13,772	10,450	10,450
Current Balance Associate Goodwill	1,220	1,220	1,220	1,220

16.8 Interest in associate entities (Otago Power Services Limited)

Shares	–	535	–	–
Plus/Less Share of Post Acquisition Results	–	2,118	–	–
Plus Term Advance to Associate Entity	–	967	–	–
Interest in Associate Entity	–	3,620	–	–

16.9 Interest In associate entities (OtagoNet Joint Venture)

Joint Venture Capital	–	55,335	–	–
Less/Plus Share of Post Acquisition Results	–	2,868	–	–
Plus Term Advance to Associate Entity	–	1,530	–	1,530
Plus Share of Associate Revaluation	–	16,702	–	–
Interest in Associate Entity	–	76,435	–	1,530
Total Interest in Associate Entities (Including Goodwill)	14,914	95,047	11,670	13,200

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

		2015 $(000)	2014 $(000)
Nelson Electricity Limited	Capital Commitments	153	351
	Contingencies	–	–

16.11 Southern Lines share in associate capital commitments and contingencies (51%)

OtagoNet Joint Venture	Capital Commitments	–	783
	Contingencies	–	190

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

Assets as at 31 March	–	154,034
Liabilities as at 31 March	–	7,161
Revenue for Year Ended 31 March	18,222	34,426
Net Profit Before Tax	5,466	11,836
Share of Profit (51%)	2,788	6,036

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

	2015 $(000)	2014 $(000)
Assets as at 31 March	–	9,273
Liabilities as at 31 March	–	4,178
Revenue for Year Ended 31 March	7,662	12,800
Net Profit After Tax	966	1,458
Share of Profit (51%)	493	744

16.14 Marlborough Lines share of associate (Nelson Electricity Limited) assets, liabilities, revenue and expenditure

Assets as at 31 March	45,584	46,459
Liabilities as at 31 March	11,968	12,610
Revenue for Year Ended 31 March	10,693	10,210
Net Profit After Tax	1,767	2,244
Share of Profit (50%)	884	1,122

17. Investments

17.1 Investment property

	GROUP 2015 $(000)	GROUP 2014 $(000)	**PARENT 2015 $(000)**	PARENT 2014 $(000)
Opening Balance 1 April 2014	2,210	2,210	2,210	2,210
Revaluation Gains/(Losses)	–	–	–	–
Closing Balance 31 March 2015	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 2015. This property was valued by Alexander Hayward Limited, registered property valuers, in accordance with NZ IAS 40. This valuation has been undertaken applying a market sales model, and no adjustment to the carrying value has been made for 2015. This property is subject to a five year lease at balance date and is expected to generate $52,000 in lease revenue in the 2016 financial year.

17.2 Assets classified as held for sale

INVESTMENT IN HORIZON ENERGY DISTRIBUTION LIMITED (HEDL)	**GROUP 2015 $(000)**	GROUP 2014 $(000)	**PARENT 2015 $(000)**	PARENT 2014 $(000)
Opening Balance 1 April 2014	14,474	14,474	14,474	14,474
Revaluation Gains/(Losses)	838	–	838	–
Closing Balance 31 March 2015	**15,312**	**14,474**	**15,312**	**14,474**

The 13.89% shareholding held by Marlborough Lines is categorised per NZ IFRS as a current asset 'held for sale' investment and must be assessed for fair value allowing for disposal costs each year. On 4 May 2015 Horizon Energy Distribution Limited (HEDL) received a copy of a Substantial Product Holder Notice given by the Trustees of the Eastern Bay Energy Trust (EBET) attaching a Pre-Bid Agreement between EBET and Marlborough Lines Limited. The offer contemplated to be made under the Pre-Bid Agreement is an offer by EBET to all HEDL shareholders for all the ordinary shares in HEDL at a price of not less than $4.41 per share. The offer is to be on terms substantially the same as set out in the form attached to the Pre-Bid Agreement. Marlborough Lines Limited who own 13.89% of HEDL's shares, has agreed to accept such an offer made in accordance with the Pre-Bid Agreement. The obligation on EBET who own 77.29% of HEDL's shares, to make an offer is conditional upon it receiving all necessary approvals under its Trust Deed required for the entry into the Pre-Bid Agreement and the making of the Offer. Consistent with the requirements of NZ IFRS 5 the investment in HEDL has been revalued to fair value less costs to sell of $4.41 per share, which is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. A gain of $0.838 million has been recognised in other comprehensive income.

17.3 Fair value measurement of the Group's investments

The Group's investment value as at 31 March has been arrived at on the basis of a valuation carried out on the respective dates by independent valuers in the case of investment property, and market transaction (in the case of Horizon Energy Distribution Limited shares), not related to the Group.

Details of the Group's investments and information about the fair value hierarchy as at 31 March 2014 and 2015 are:

	LEVEL 2	LEVEL 3	FAIR VALUE AS AT 2015
Investment Property	–	2,210	2,210
Investment in Horizon Energy Distribution Limited	15,312	–	15,312

	LEVEL 2	LEVEL 3	FAIR VALUE AS AT 2014
Investment Property	–	2,210	2,210
Investment in Horizon Energy Distribution Limited	–	14,474	14,474

The carrying value of the assets recognised in the financial statements approximate their fair values. The fair values included in Level 3 categories above have been determined in accordance with generally accepted pricing models and there has been no change in the valuation technique used.

The investment in HEDL has moved from Level 3 in 2014 to Level 2 in 2015 due to a pre-bid agreement being reached with a purchaser of this investment as per note 17.2.

18. Current provisions

	GROUP 2015 $(000)	GROUP 2014 $(000)	PARENT 2015 $(000)	PARENT 2014 $(000)
PROVISION				
Allowance for Impairment of Receivables				
Opening Balance	50	102	50	102
Debts Written Off Against Provision	(2)	(23)	(2)	(23)
Debts Recovered	(22)	(29)	(22)	(29)
Additions to Provision	19	–	19	–
Closing Balance	45	50	45	50

19. Dividends

	GROUP 2015	GROUP 2014	PARENT 2015	PARENT 2014
Amounts recognised as distributions to equity holders in the period:				
Total Dividends ($000)	1,785	1,700	1,785	1,700
Cents per Share	6.375	6.071	6.375	6.071

20. Commitments

20.1 Capital commitments

	GROUP 2015 $(000)	GROUP 2014 $(000)	PARENT 2015 $(000)	PARENT 2014 $(000)
Capital Expenditure Committed to at Balance Date but Not Recognised in the Financial Statements	695	835	695	835

20.2 Operating leases

Operating lease commitments payable

The Parent company leases a small number of indoor substation sites and rural radio repeater sites and is subject generally to rental commitments for at least ten years going forward.

The Parent company also leases various plant and machinery under cancellable operating lease agreements. The lease expenditure charged to the income statement during the year is disclosed in note 3.

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

No Later than One Year	41	37	41	37
Later than One Year and No Later than Five Years	162	144	162	144
Later than Five Years	332	274	332	274
Total	535	455	535	455

21. Contingent liabilities

As at 31 March 2015 the Company has no material 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 investing. 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 closed out its interest rate swaps due to repayment of borrowings.

Interest rate swaps in place as at 31 March were as follows:

	AVERAGE CONTRACTED RATE GROUP AND PARENT		NOTIONAL PRINCIPAL VALUE GROUP AND PARENT		FAIR VALUE ASSETS (LIABILITIES) GROUP AND PARENT	
	2015 %	2014 %	**2015 $(000)**	2014 $(000)	**2015 $(000)**	2014 $(000)
Maturing in Less than One Year	–	4.09	–	7,000	–	(27)
Maturing in Greater than One and Less than Two Years	–	4.25	–	5,000	–	(36)
Maturing in Greater than Two and Less than Five Years	–	3.72	–	11,000	–	265
Total	–	–	–	23,000	–	202

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 borrowing interest rates had been 50 basis points lower or higher the Group's net profit would increase/decrease by $nil (2014: $190,000).

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 2015 Marlborough Lines Limited had foreign currency contracts outstanding amounting to fair value of $nil (2014: $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 has been no breach of covenants during the year.

There have been no material changes to the Group's management of capital during the reporting period.

22.8 Classification of financial instruments

	HELD FOR SALE FINANCIAL ASSETS $(000)	LOANS & RECEIVABLES $(000)	OTHER $(000)	OTHER AMORTISED COST $(000)	TOTAL CARRYING AMOUNT $(000)
CONSOLIDATED GROUP AS AT 31 MARCH 2015					
Current Assets					
Cash and Cash Equivalents	–	2,122	–	–	2,122
Short-Term Deposits	–	108,000	–	–	108,000
Trade and Other Receivables	–	5,896	–	–	5,896
Investment in Horizon Energy Distribution Limited	15,312	–	–	–	15,312
Non Current Assets					
Investments Accounted for Using the Equity Method	–	–	–	14,914	14,914
Total Financial Assets	15,312	116,018	–	14,914	146,244
Current Liabilities					
Trade and Other Payables	–	–	–	4,209	4,209
Employee Entitlements	–	–	–	960	960
Non Current Liabilities					
Employee Entitlements	–	–	–	706	706
Total Financial Liabilities	–	–	–	5,875	5,875
CONSOLIDATED GROUP AS AT 31 MARCH 2014					
Current Assets					
Cash and Cash Equivalents	–	568	–	–	568
Trade and Other Receivables	–	5,906	–	–	5,906
Other Current Financial Assets	–	–	202	–	202
Non Current Assets					
Investment in Horizon Energy Distribution Limited	14,474	–	–	–	14,474
Investments Accounted for Using the Equity Method	–	–	–	95,047	95,047
Total Financial Assets	14,474	6,474	202	95,047	116,197
Current Liabilities					
Trade and Other Payables	–	–	–	3,780	3,780
Employee Entitlements	–	–	–	816	816
Non Current Liabilities					
Term Loans	–	–	–	38,000	38,000
Employee Entitlements	–	–	–	630	630
Total Financial Liabilities	–	–	–	43,226	43,226

22.8 Classification of financial instruments – continued

	HELD FOR SALE FINANCIAL ASSETS $(000)	LOANS & RECEIVABLES $(000)	OTHER $(000)	OTHER AMORTISED COST $(000)	TOTAL CARRYING AMOUNT $(000)
PARENT COMPANY AS AT 31 MARCH 2015					
Current Assets					
Cash and Cash Equivalents	–	2,122	–	–	2,122
Short-Term Deposits	–	108,000	–	–	108,000
Trade and Other Receivables	–	5,896	–	–	5,896
Investment in Horizon Energy Distribution Limited	15,312	–	–	–	15,312
Non Current Assets					
Investment in Subsidiaries	–	–	5,000	–	5,000
Investments Accounted for Using the Equity Method	–	–	11,670	–	11,670
Total Financial Assets	15,312	116,018	16,670	–	148,000
Current Liabilities					
Trade and Other Payables	–	–	–	8,478	8,478
Other Current Financial Liabilities	–	–	5,000	–	5,000
Employee Entitlements	–	–	–	960	960
Non Current Liabilities					
Employee Entitlements	–	–	–	706	706
Total Financial Liabilities	–	–	5,000	10,144	15,144
PARENT COMPANY AS AT 31 MARCH 2014					
Current Assets					
Cash and Cash Equivalents	–	568	–	–	568
Trade and Other Receivables	–	5,906	–	–	5,906
Other Current Financial Assets	–	–	202	–	202
Non Current Assets					
Investment in Horizon Energy Distribution Limited	14,474	–	–	–	14,474
Investment in Subsidiaries	–	–	5,000	47,619	52,619
Loans and Advances to Associates	–	1,530	–	–	1,530
Investments Accounted for Using the Equity Method	–	–	11,670	–	11,670
Total Financial Assets	14,474	8,004	16,872	47,619	86,969
Current Liabilities					
Trade and Other Payables	–	–	–	3,780	3,780
Employee Entitlements	–	–	–	816	816
Non Current Liabilities					
Term Loans	–	–	–	38,000	38,000
Employee Entitlements	–	–	–	630	630
Total Financial Liabilities	–	–	–	43,226	43,226

22.9 Fair value measurement of the Group's financial assets and financial liabilities

The fair value of the Group's financial assets and financial liabilities are measured at fair value on a recurring basis.

Details of the Group's financial assets and financial liabilities and information about the fair value hierarchy as at 31 March 2015 are as follows:

	LEVEL 2	LEVEL 3	FAIR VALUE AS AT 2015
Financial Liabilities			
Retirement Benefit Obligations	–	706	706

The carrying value of the assets recognised in the financial statements approximate their fair values. The fair values included in Level 3 categories above have been determined in accordance with generally accepted pricing models and there has been no change in the valuation technique used.

There have not been any transfers into or out of Level 3 of the fair value hierarchy.

23. Key management personnel

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

	GROUP 2015 $(000)	GROUP 2014 $(000)	PARENT 2015 $(000)	PARENT 2014 $(000)
Directors' Fees	229	202	229	202
Salaries and Short-Term Employee Benefits	1,838	1,635	1,838	1,635
Termination Benefits	188	97	188	97
Total	2,255	1,934	2,255	1,934

24. Group entities

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

	EFFECTIVE OWNERSHIP 2015	EFFECTIVE OWNERSHIP 2014	YEAR END
Southern Lines Limited	100%	100%	31 March
Nelson Electricity Limited	50%	50%	31 March
OtagoNet Joint Venture	–	51%	31 March
Otago Power Services Limited	–	51%	31 March

All shares in the Parent company 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.

	2015 $(000)	2014 $(000)
Dividends Paid to the Trust	1,785	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

During the year Marlborough Lines Limited purchased goods and services from Cuddon Limited, a Company in which a Marlborough Lines Director is a Director. These services cost $34,011 (2014: $98,592). All services were received and supplied on normal commercial terms. The balance outstanding at year end was $7,015 (2014: $8,382).

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

25.3 Subsidiary companies – Southern Lines Limited

	2015 $(000)	2014 $(000)
Term Debt Borrowing from Marlborough Lines Limited	(5,000)	26,000
Shareholder Loans from Marlborough Lines Limited	(4,269)	21,619
Interest Payments to Marlborough Lines Limited	–	6,211

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 Limited also received dividends from Nelson Electricity Limited.

	2015 $(000)	2014 $(000)
Director's Fees Paid to Marlborough Lines Limited for Mr K Forrest	18	15
Management Fees Charged to Nelson Electricity Limited by the Company	102	121
Amounts Owed to Nelson Electricity Limited	–	137
Amounts Owed by Nelson Electricity Limited	9	38

25.5 Associate entities – Otago Power Services Limited

Otago Power Services Limited was considered an associate company for accounting purposes by virtue of Southern Lines Limited owning 51% of that company's shares. Effective control was 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. In September 2014, the Group disposed of this interest to a third party as per note 16.6.

	2015 $(000)	2014 $(000)
Dividend Paid by Otago Power Services Limited to Southern Lines Limited	2,319	561
Director's Fees Paid to Marlborough Lines Limited for Mr K Forrest	15	22
Interest Received by Southern Lines Limited for Short-Term Advances	25	40
Management Fees Paid by Otago Power Services Limited to Marlborough Lines Limited	115	230
Amounts Owed by Otago Power Services Limited to Marlborough Lines Limited	–	41

25.6 Joint Venture investment

Marlborough Lines Limited subsidiary Southern Lines Limited owned 51% of the OtagoNet Joint Venture. In September 2014, the Group disposed of this interest to a third party as per note 16.6.

	2015 $(000)	2014 $(000)
Revenue Received from the OtagoNet Joint Venture	2,525	5,610
Management Fees Paid to Marlborough Lines Limited	212	400
Management Fees Paid to Marlborough Lines Limited for Mr K Forrest	12	29
Amounts Owed by the OtagoNet Joint Venture to Marlborough Lines Limited	–	410
Advances to OtagoNet Joint Venture by Marlborough Lines Limited	–	1,530

26. Events subsequent to balance date

On 13 May 2015 Horizon Energy Distribution Limited (HEDL) announced an audited net profit after tax of $4.102 million for the year ended 31 March 2015. A fully imputed dividend of 8 cents per share will be paid on 26 June 2015. The total dividend of 14 cents per share for the year, which includes the interim dividend of 6 cents per share paid in December 2014 is lower than the total of 15 cents per share paid in 2014.

On 4 May 2015 HEDL received a copy of a Substantial Product Holder Notice given by the Trustees of the Eastern Bay Energy Trust (EBET) attaching a Pre-Bid Agreement between EBET and Marlborough Lines Limited. The offer contemplated to be made under the Pre-Bid Agreement is an offer by EBET to all HEDL shareholders for all the ordinary shares in HEDL at a price of not less than $4.41 per share. The offer is to be on terms substantially the same as set out in the form attached to the Pre-Bid Agreement. Marlborough Lines Limited who own 13.89% of HEDL's shares, has agreed to accept such an offer made in accordance with the Pre-Bid Agreement. The obligation on EBET who own 77.29% of HEDL's shares, to make an offer is conditional upon it receiving all necessary approvals under its Trust Deed required for the entry into the Pre-Bid Agreement and the making of the offer.

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 company or Group operations.

Statement of service performance

For the year ended 31 March 2015 (statistics for Parent company)

Explanatory Note: Requirements of Sections 39 and 44 of the Energy Companies Act 1992

Marlborough Lines Limited is required to publish a Statement of Corporate Intent each year which must be approved by the Company's shareholders prior to publication. This document must include a number of financial and operational targets, and the report detailed on this page notes the Company's performance against these targets for the year in review.

TARGET		RESULT
1	To achieve a percentage net operating surplus after interest and tax to shareholder's funds of at least 6%, adding back discounts and using Discounted Cash Flow (DCF) to establish the value of net assets/shareholder's funds.	Achieved 5.32% on average shareholder's funds of $330m for the year. This result is after including Marlborough Lines Limited network assets at valuation using DCF methodologies, and adding back customer discounts adjusted for tax. This excludes the intercompany dividend received by the Parent from Southern Lines Limited arising from the gain recognised on dissolution of the interest in the OtagoNet Joint Venture and Otago Power Services Limited.
2	To achieve a percentage of shareholder's funds to total assets which is prudent but able to accommodate business expansion (31 March 2014 Actual 72.7%).	The ratio has increased to 84.7% through the repayment of bank debt following the dissolution of the OtagoNet Joint Venture investment.
3	To achieve a target return on equity of at least 6% after tax from Nelson Electricity Limited (31 March 2014 Actual 6.86%).	Achieved a return on equity of 5.24%. Profit for the year from Nelson Electricity Limited was $1.767m (2014 $2.244m). This large reduction from the prior year arises from the recognition of a full year's expenditure for interest and depreciation upon completion of a major capital project at Nelson Electricity Limited.
4	To achieve a target return on equity of at least 6.5% after tax from the Company's OtagoNet Joint Venture investment (31 March 2014 Actual 6.05% excluding adjustments for goodwill and revaluations).	The 51% interest in the OtagoNet Joint Venture and Otago Power Services Limited was sold on 30 September 2014. The gain recognised on the disposal of these investments (above holding value, and after taxes and costs) was $71.452m.
5	Customer minutes lost by scheduled shutdowns of the Company's network to not exceed 75 minutes compared with an average of 66 minutes lost per customer for the years 2012/2013/2014.	The outcome was an average of 55.1 minutes lost per customer with no major incidents being recorded.
6	Customer minutes lost on the Company's system through internal faults to not exceed an average of 120 minutes compared with an average of 142 for the years 2012/2013/2014.	The outcome was an average of 77.8 minutes (186.9 minutes for 2014) lost per customer. The large decrease from last year was due to there being very few extreme events of nature whereby 2014 recorded two earthquakes centred on the east coast of Marlborough and other extreme climatic events (wind storms and lightning) that battered the network.

7

FAULT RESTORATION TARGETS

AREA	TARGET TIMES	REPAIRED OUT OF TARGET	REPAIRED WITHIN TARGET	TOTAL NUMBER OF FAULTS	% IN TARGET	% OUT OF TARGET
Urban	1.00	8	1	9	11%	89%
Urban Other	1.50	6	3	9	33%	67%
Rural	4.00	65	88	153	58%	42%
Rural Remote	8.00	27	105	132	80%	20%
Total 2015		**106**	**197**	**303**		
Total 2014		145	350	495		

8

The Company will distribute discounts to the region's electricity consumers.

In accord with the posted price/discount requirements $8.078m (excl GST) was paid to Electricity Retailers in March 2015 (2014 $7.976m).

9

The anticipated total dividend for the year to 31 March 2015 was $1.785m.

During the year the Company paid fully imputed dividends to the Marlborough Electric Power Trust totalling $1.785m (2014 $1.7m).

The Company also provided its shareholder, the Marlborough Electric Power Trust, with an updated Five Year Financial Model at the commencement of the financial year.

10

The Company will survey its consumer base to ascertain satisfaction levels with the Company's performance throughout the year.

Consumer satisfaction with Marlborough Lines' performance remains very high. 89% of the sample was Satisfied/Very Satisfied with the Company's overall performance (2014: 88%). Residential consumers continue to be more satisfied with Marlborough Lines' overall performance than commercial consumers. The residential consumer weighted average score is 86% (2014: 85%). The weighted average score for commercial consumers is 77% (2014: 83%).

11

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 consumers. Energy efficiency and the safe use of electricity have also been promoted through the Company's newsletters to consumers. The Company has additionally continued to provide advice and technical assistance for a wide range of cultural and regional events which celebrate the province of Marlborough.

Audit report

Deloitte.

TO THE READERS OF MARLBOROUGH LINES LIMITED AND GROUP'S FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2015

The Auditor-General is the auditor of Marlborough Lines Limited (the 'Company') and its subsidiaries. The Auditor-General has appointed me, Paul Bryden, using the staff and resources of Deloitte, to carry out the audit of the financial statements and the statement of service performance of the Company and Group, consisting of Marlborough Lines Limited and its subsidiaries (collectively referred to as 'the Group'), on her behalf.

Opinion on the financial statements and the statement of service performance

We have audited:

- the financial statements of the Company and Group on pages 69 to 103, that comprise the statement of financial position as at 31 March 2015, 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 Marlborough Lines Limited Group on pages 104 to 105.

In our opinion:

- the financial statements of the Company and Group:
  - present fairly, in all material respects:
    - its financial position as at 31 March 2015; and
    - its financial performance and cash flows for the year then ended; and
  - have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards
- the statement of service performance of the Company and Group:
  - presents fairly, in all material respects, the Company's and Group's achievements measured against the performance targets adopted for the year ended 31 March 2015; and
  - has been prepared in accordance with generally accepted accounting practice.

Our audit was completed on 24 June 2015. This is the date at which our opinion is expressed.

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

Basis of opinion

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

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the 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 in the statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the statement of service performance whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Company's and Group's financial statements and statement of service performance in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's 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 the disclosures in the financial statements and in the statement of service performance; and
- the overall presentation of the financial statements and the statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the statement of service performance. Also we did not evaluate the security and controls over the electronic publication of the financial statements and the statement of service performance.

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 the preparation and fair presentation of financial statements and a statement of service performance for the Company and Group, in accordance with New Zealand equivalents to International Financial Reporting Standards and generally accepted accounting practice.

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 is also responsible for the publication of the financial statements and the statement of service performance, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the Energy Companies Act 1992.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 45(1) of the Energy Companies Act 1992.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit we have carried out assignments in the areas of Other Audit and Assurance Related Service relating to the audit of the Commerce Commission Information Disclosure, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Company and Group.

Paul Bryden
Deloitte
On behalf of the Auditor-General
Christchurch, New Zealand

Supplementary information in relation to the Parent company

1. Network pricing

Marlborough Lines' network charges were increased by 3.8% for the financial year ended 31 March 2015. From 1 April 2015 the Company has elected to keep prices constant, (i.e. 0% movement), due to an end to the Transpower increased charges arising from its new capital investment and current projections for operating expenditure remaining flat. Economic activity in the Marlborough region continues to be impacted by slow growth 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 consumer, at 8,000kWh per year, have increased by 78.5% over 16 years to February 2015. While the retail portion of the account for the same consumer group has increased by up to 174.1% (depending on the retailer), over the same period. All figures have been sourced from the Ministry of Business, Innovation and Employment (MBIE).

Marlborough Lines' network charges for a typical domestic consumer (defined by the MBIE as using 8,000kWh per year) were as follows at 31 March:

- Marlborough Lines (before discount) 2015 14.10 cents/kWh
- Marlborough Lines (before discount) 1999 7.90 cents/kWh

Marlborough Lines has continued to provide discounts to customers. In the year to 31 March 2015 discounts totalling $8.078m excluding GST ($7.976m in 2014) were paid to the electricity retailers for distribution to electricity customers. The discount to a typical domestic consumer as defined by MBIE was $226.38. The Company anticipates providing total approximate discounts of $8.003m excluding GST in the financial year ending 31 March 2016.

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 2014 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 2006	260	2.9	89.8	561	11.6
Marlborough Lines 2007	353	4.2	84.7	646	14.0
Marlborough Lines 2008	265	2.9	91.8	651	13.8
Marlborough Lines 2009	250	2.0	126.0	622	12.9
Marlborough Lines 2010	284	2.8	100.0	650	14.5
Marlborough Lines 2011	423	2.8	149.2	565	12.2
Marlborough Lines 2012	241	2.1	117.6	615	14.1
Marlborough Lines 2013	139	1.4	102.1	524	13.6
Marlborough Lines 2014	243	1.6	148.9	746	21.2
NZ Average 2014	284	2.5	117.6	462	21.8
Marlborough Lines 2015	**133**	**1.5**	**91.9**	**510**	**11.6**

All results, except 2015, have been audited. The 2015 numbers are due for audit in August 2015. The Company's rolling SAIDI was 42 minutes under target for faults in the 2015 year.

3. Network statistics – Marlborough Lines Limited

	2011	2012	2013	2014	2015
Total System Length kms	3,349	3,368	3,374	3,387	3,395
Transformer Capacity kVA	309,560	318,088	321,485	328,759	332,697
Maximum Demand kW	70,247	72,068	72,871	71,344	72,609
Energy into Network GWh	383.815	384.754	390.297	382.232	396.844
Total Consumers	24,270	24,359	24,520	24,546	24,796

4. Regulatory asset base 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 for the Commerce Commission. Closing ODV as at 31 March 2004: $100.396m

ELECTRICITY NETWORK SYSTEM FIXED ASSETS FOR YEAR ENDING:	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m
Regulatory Opening Value	187.239	196.334	202.181	207.971	215.025
Regulatory					
– Additions	13.451	11.639	12.607	13.161	11.814
– Revaluations	4.513	3.038	1.709	3.188	0.180
– Depreciation	(8.870)	(8.829)	(8.526)	(9.295)	(9.504)
– Other Movements	–	–	–	–	
Regulatory Closing Value	196.334	202.181	207.971	215.025	217.515

The notional regulatory value at 31 March 2014 had increased to $215.025m as a result of indexing of all values, based on Commerce Commission specified indexation rates and after adding yearly asset movements as provided in the above table. The value depicted for 31 March 2015 will not be audited until later in the year.

5. Capital expenditure

Marlborough Lines' commissioned capital expenditure in the following categories during the following years as at 31 March:

CATEGORY	ACTUAL 2013 $m	ACTUAL 2014 $m	TARGET 2015 $m	ACTUAL 2015 $m	PROJECTED 2016 $m
Transmission and Distribution	6.531	6.181	7.628	6.031	5.819
Main Substations	2.791	1.424	2.504	2.531	3.623
Underground Reticulation	3.067	2.575	0.483	0.481	0.611
Radio Equipment	0.355	0.278	0.210	0.196	0.135
Plant and Tools	0.178	0.844	0.229	0.361	0.142
Transport	0.787	0.865	1.060	1.517	0.240
Land and Buildings	0.203	1.466	0.390	0.537	0.415
Office Equipment	0.577	0.568	0.826	1.494	0.863
Total	14.489	14.201	13.330	13.147	11.848

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 Plan

In accordance with Section 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 2015 plan are available on request from Marlborough Lines or from the Company's website at *www.marlboroughlines.co.nz*.

7. Major contractual relationships

Marlborough Lines contracts with Transpower Ltd for the provision of national grid services. The Company currently supplies distribution network services to 11 different retailers being: Trustpower, Genesis Energy, Meridian Energy, Mercury-Mighty River Power, Contact Energy, Pulse-Just Energy, Tiny Mighty Power, Opunake Hydro, Energy Online, Simply Energy and GLOBUG, who retail electricity to customers in the Marlborough region.

8. Summary of financial results

PARENT COMPANY ONLY	ACTUAL 2013	ACTUAL 2014	TARGET 2015	ACTUAL 2015	PROJECTED 2016
Operating Turnover	$51.236m	$53.878m	$54.582m	$55.951m	$53.569m
Discounts Paid (excl GST)	$7.135m	$7.976m	$8.025m	$8.078m	$8.003m
Total Shareholders' Equity[1]	$273.570m	$279.616m	$285.003m	$373.438m	$377.601m
Net Asset Backing ($/share)	$9.77	$9.99	$10.18	$13.34	$13.49
EBIT/Ave Net Funds Employed	6.19%	5.18%	5.12%	4.74%	3.49%
Return on Average Equity	4.17%	3.01%	3.28%	3.26%	2.58%

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

Company structure

TRUST BENEFICIARIES
Marlborough customers connected to network

MARLBOROUGH ELECTRIC POWER TRUST
6 Trustees (Shareholder)

MARLBOROUGH LINES LTD DIRECTORATE
6 Directors

MANAGING DIRECTOR

- Engineering Manager
- Operations Manager
- Commercial Manager
- Chief Financial Officer/ Company Secretary
- General Manager – Contracting
- Purchasing Manager
- Executive Project Manager

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***

www.marlboroughlines.co.nz

HOME PAGE

ABOUT US
- About Us
- Our History
- Our People
- Ownership and Management
- Annual Reports
- Corporate Responsibility
- Disclosures

OUR NETWORK
- Operating Region Map
- The Electricity System
- Network Status

CAREERS
- Current Vacancies
- Apply Now

OUR SERVICES
- Get Connected
- Contracting Services

NEWS
- News Articles
- Download Connections

SAFETY
- Your Safety
- Trees and Powerlines
- Working Near Network Assets
- General Information

USEFUL INFO
- Useful Info

COMMUNITY
- Sponsorship
- Education

ONLINE SERVICES
- Contractor Portal

Notice of Annual General Meeting

Notice is hereby given that the twenty-second Annual General Meeting of the shareholder of Marlborough Lines Limited will be held at the Company's offices in Alfred Street, Blenheim on 25 September 2015 at 3.00pm.

Ordinary business

1. To receive and consider the annual reports of the Chairman and Directors, the Statement of Accounts and Auditor's Report for the year ended 31 March 2015.
2. During the 2014/15 financial year the shareholder authorised payment of dividends totalling $1.785m. There is no recommendation for a final dividend for the year ended 31 March 2015.
3. To elect Directors.
   The Directors advise that Mr Anthony Beverley and Mr James Hay have resigned from office. Pursuant to clause 21.7 of the Company's constitution no Directors retire at the meeting under the rotation rule.
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

KM Deaker
Company Secretary
20 August 2015

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
25 September 2015 at 3.00pm
Venue: Marlborough Lines registered office
1-3 Alfred Street, Blenheim

Financial results announced
Half year: November
Final year: June

Directory

Management

K J Forrest, *BSc Hons (Electrical Eng), MIPENZ*
Managing Director

K M Deaker, *BCom, CA*
Chief Financial Officer/Company Secretary

K L Hume-Pike, *BCom, LLB, INFINZ (Cert)*
Commercial Manager

S J McLauchlan, *MNZIM*
General Manager Contracting

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

B L Tapp, *NZCE, REA*
Operations Manager

Address

Registered Office of Company
1-3 Alfred Street, Blenheim 7240

Postal Address
PO Box 144, Blenheim 7240

Auditors

Deloitte on behalf of the Controller and Auditor General

Bankers

Westpac Banking Corporation, New Zealand

Solicitors

Radich Law, Blenheim

Financial and Tax advisors

PricewaterhouseCoopers, Wellington/Auckland

Glossary

ACC Accident Compensation Corporation.

AS/NZS ISO Australian/New Zealand Standard/ International Organisation for Standardisation.

Average Domestic Customer Defined by the Ministry of Business, Innovation and Employment 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.

CAIDI Customer Average Interruption Duration Index – the average duration of an interruption that a customer experiences during the period.

EBIT Earnings Before Interest and Taxation.

EBITDA Earnings Before Interest Taxation Depreciation and Amortisation.

GWh Gigawatt hour – 10^6 kWh, measurement of energy.

GXP Grid exit point.

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.

MBIE Ministry of Business, Innovation and Employment.

MW Megawatt – 1,000 kilowatt rate at which power is used.

MVA 1,000 kVA.

N-1 This status allows for capacity to be maintained if one unit of production (typically a line or transformer) is removed from service.

NPAT Net Profit After Tax.

NZ IFRS New Zealand International Financial Reporting Standards.

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_6 Gas Sulphahexafluoride Gas.

Tangata Whenua Māori term for indigenous inhabitants, literal translation means 'people of the land'.

WACC Weighted Average Cost of Capital.

Index

A brief history of Marlborough Lines

1923

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.

1923

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.

1927

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.

1993

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

1993

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.

1996

Marlborough Electric acquires a 50% share in Nelson Electricity Limited which reticulates electricity to the Nelson City area.

1998

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.

1999

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 electricity reticulation systems.

2002

Marlborough Lines acquires a 51% share of the Otago regional electricity network operator OtagoNet and also a 51% share of related contracting company Otago Power Services Limited.

2010

Marlborough Lines acquires a 13.89% shareholding in the Whakatane based electricity network, Horizon Energy Distribution Limited.

2014

Marlborough Lines sells its 51% share of the Otago investments.

2015

Marlborough Lines sells its Horizon Energy Distribution Limited shareholding.

Annual report awards

Each year, for the past eleven 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.

Australasian Reporting Awards

Gold Award – 2015, 2014, 2013, 2012, 2011
Silver Award – 2010, 2009, 2008, 2007, 2006, 2005

NZ Institute of Chartered Accountants

Best report by a small to medium corporate – 2008

This document is printed on an environmentally responsible paper, produced using Elemental Chlorine Free (ECF), Third Party certified pulp from Responsible Sources, and manufactured under the strict ISO14001 Environmental Management System.

Design and Production: **Designworks.**

Marlborough Lines | 1-3 Alfred Street | PO Box 144 | Blenheim 7240 | New Zealand | T +64 3 577 7007 | F +64 3 579 3806 | www.marlboroughlines.co.nz