

# Corporate Governance

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

The Board endorses the principles embodied in the New Zealand Institute of Directors Code of Best Practice for New Zealand Directors.

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

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

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

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

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

## 1. ROLE OF DIRECTORS

The Board of Directors is responsible to the shareholder of Marlborough Lines Limited for the setting of strategies and objectives in accord with key policies endorsed by the Company's shareholder in the Company's annual Statement of Corporate Intent. The Energy Companies Act 1992 provides that the Directors will forward a draft Statement of Corporate Intent within the first working month of the year and the shareholder will respond with its views during the following month. It is then the Directors' responsibility to monitor management's operation of the business in accord with the targets and policies noted in the Statement of Corporate Intent.

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

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

## **2. RESPONSIBILITY OF DIRECTORS**

In fulfilling its role the responsibilities of the Directorate include:

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

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

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

## **3. BOARD MEMBERSHIP**

The Marlborough Lines constitution provides for a maximum of eight Directors. The Board presently comprises four non-executive Directors and a Managing Director. At the AGM in September 2008 Mr Terry Shagin was reappointed to the Board for a further term. Mr Howard Stone retired according to the rotation rule also at the AGM and was temporarily reappointed by the Directors under rule 21.5 of the company's constitution. Mr Stone subsequently resigned from the board on 28 January 2009.

The Company's constitution provides that one third (or the number nearest one third) of the Directors will retire from office at the Annual General Meeting each year.

This year at the Annual General Meeting Messrs Des Ashton and Ken Forrest will retire according to the rotation rule. Both Messrs Ashton and Forrest are available for reappointment.

#### 4. BOARD OPERATION

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

#### 5. BOARD MEETINGS

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

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

Executive staff are regularly involved in Board discussions 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 appoints directors to its subsidiary Southern Lines limited and to the associated investment companies, Nelson Electricity Limited, Otago Power Services Limited and the OtagoNet Joint Venture.

#### 6. BOARD COMMITTEES

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

#### 7. 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 financial statements, general (statutory) disclosures and regulatory (disclosure) reporting.
- 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.
- Implementation of risk management practices relative to legal compliance, treasury management, taxation, internal control and insurance.

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

In addition to undertaking the statutory audit function on behalf of the Controller and Auditor General, Deloitte also undertake audit of the Company's financial and performance disclosure information provided as a requirement of the Commerce Act. This function is also undertaken on behalf of the Controller and Auditor General. The company had no dealings with Deloitte other than in relation to these audit functions.

#### **8. AUDIT COMMITTEE MEETINGS**

- The Audit Committee met on 24 June 2008 for consideration and adoption of the 2008 Financial Statements for the parent Marlborough Lines Limited.
- The Audit committee met with the Company's Auditor Mr Michael Wilkes of Deloitte on 3 September 2008 for consideration of the "Summary of Audit Findings" and management points raised from the audit.
- The Audit Committee met on 16 December 2008 to confirm the company's acceptance of a letter of undertaking from Deloitte in relation to the provision of audit services for the next three years.

#### **9. BOARD ATTENDANCE**

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

Directors	Meetings Held	Attended
D A Ashton	7	6
R G Butler	7	6
D W R Dew	7	7
K J Forrest	7	7
T M Shagin	7	7
H J Stone	6	4

#### **10. 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.

## **11. SHAREHOLDER**

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

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

The shareholder is able to raise matters for discussion at annual and special meetings of the Company and maintains ultimate control as it is the shareholder that appoints the Directorate.

The Company makes a wide range of additional information available to the shareholder (and all other stakeholders) through the publication of topical newsletters which are sent to every connected customer and the provision of an extensive website.

## **12. 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 risk procedures is part of the Company's quality management system.
- Assessment of operational risk is also included in the ISO quality management system.

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

### **13. QUALITY MANAGEMENT**

Marlborough Lines holds the following accreditations for management systems.

- Quality Management Standard ISO 9001:200.
- Environmental Standard 14001:2004.
- Occupational Health and Safety Assessment Series 18001:2007.

The company gained its first quality accreditation in 1996 for its management systems. In general terms these accreditations require precise documentation of systems and procedures together with monthly reviews, 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 Program "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.

## **Marlborough Lines Limited - Company Code of Conduct**

The Company's Code of Conduct (the "Code") is the framework of the standards that the Company's Directors and employees are expected to conduct their professional lives by. This Code is not intended to prescribe an exhaustive list of acceptable and non-acceptable behaviour, rather it is intended to facilitate decisions that are consistent with the Company's values, business goals and legal and policy obligations thereby enhancing performance outcomes.

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.

### **(i) The Company's Commitment**

The Company's Board and senior executives are firmly committed to ensuring members, including themselves, observe the highest standards of ethical behaviour and conduct. This Code is an integral part of the Company's business and behaviour by representatives of the Company, at all levels, must reflect the content of this Code.

### **(ii) Responsibilities to Shareholders and the Marlborough Community**

- a. The Company will ensure that it continues to meet the expectations of its shareholders and the Marlborough community in general by maintaining a core principle of transparency, accurate preparation and efficient delivery of financial information.
- b. The Company will exercise diligence and good faith in the preparation of financial information.

- c. All employees will play their part in ensuring the maintenance of a sound system of controls to safeguard the Company's assets and to manage risk exposure.

**(iii) Responsibilities to Customers, Clients, Suppliers and Competitors**

The Company is committed to ensuring that it acts with integrity in all activities, including the interaction with customers, clients and suppliers. Particularly, the Company must avoid conduct that is misleading or deceptive, or is likely to mislead or deceive.

The Company will compete vigorously in all the markets in which it participates, but will, at all times, act in compliance with the law.

**(iv) Responsibilities to Employees**

The Company is committed to being a responsible corporate citizen that fulfils all legal obligations relating to employment practices and, as a result, enables the Company's Directors and employees to actively enhance the operation of the Company and the community within which we operate.

The Company will provide a workplace that at all times seeks to minimise health and safety risk to our employees. Employees are encouraged to acquaint themselves with all applicable health and safety policies of the Company. The Company has procedures in place regarding serious incident reporting.

Employees should feel that they can discuss, on a confidential basis, any problem associated with their employment with the Company. The Company will endeavour to provide a fair, impartial and confidential determination of the issues raised.

The Company considers diversity in the workforce a very positive factor and is committed to providing a workforce in which everyone is treated fairly and with respect, irrespective of sex, race, sexual orientation, age, disability, religion or ethnic origin.

**(v) Conflicts of Interest**

A conflict of interest occurs when an individual's interests interfere, or appear to interfere, with the Company's interests. The Company expects its people to act in its interests at all times.

The Company's employees will not, without the prior consent of the Company:

- a. engage in any other business or commercial activities which would conflict with their ability to perform their duties to the Company; and
- b. engage in any other activity which could conflict with the Company's interests.

**(vi) Gifts**

The receipt of gifts or favours by Directors and employees of Marlborough Lines from a party with whom Marlborough Lines has a contractual relationship or a potential relationship can potentially lead to the respective position of the individual and the Company being compromised.

Accordingly, the Company has long adhered to the policy that no gifts or favours can be accepted from any party which has any form of contract or potential contract, albeit supplier or customer of Marlborough Lines to any Directors or employee of Marlborough Lines.

In instances where such a gift is provided, the supplier is to be advised that it is a requirement of the Company that Directors and employees not accept such gifts on an individual basis and that if such gifts are received, these will become the property of the Company itself. It may well be that ultimately such gifts may be given to the staff Social Club but each instance will depend on the actual circumstances.

"Gifts" and "personal benefits" can include accommodation, goods, services, discounts, special terms on loans and so on.

**(vii) Corporate Opportunities**

The Company expects its employees to advance its legitimate interests when the opportunity to do so arises.

The Company's employees will not:

- a. take any opportunity discovered through the use of the Company's property, information or position for themselves; or
- b. use the Company's property (including its name), information or position for personal gain; or
- c. compete with the Company.

**(viii) Confidentiality**

The Company's customers, suppliers, colleagues and other stakeholders entrust it daily with their confidential communications and information. Confidential information includes all information not in the public domain that has come to the attention of one of the Company's Directors or employees by virtue of engagement with the Company.

The Company's Directors and employees will maintain and protect the confidentiality of confidential information entrusted to the Company about customers, work colleagues, suppliers, stakeholders and the Company's business and financial affairs, except where disclosure is allowed or required by law.

**(ix) Behaviours**

The actions and statements of the Company's Directors and employees, whether to customers, suppliers, competitors, or employees, can impact on the way people see the Company and whether they choose to do business with us.

The Company's Directors and employees will:

- a. conduct themselves in a way that demonstrates that their honesty is beyond question and will not commit behaviour that has the potential to bring the Company's image into disrepute;
- b. deal honestly with the Company, professional advisors, customers, and suppliers;

- c. not enter into transactions or make promises on behalf of the Company that the Company does not intend to honour;
- d. undertake their duties with care and diligence;
- e. ensure that any personal opinions expressed are clearly identified as their own and are not represented to be the views of the Company;
- f. if relevant and to the best of their ability, use reasonable endeavours to ensure that the Company's records and documents, including financial reports, are true, correct and conform to the Company's reporting standards and internal controls; and
- g. not accept or offer bribes or improper inducements to or from anyone.

**(x) Compliance with Laws and Policies**

The Company's Directors and employees are strongly encouraged to familiarise themselves with and comply with the Company's policies and all other policies, frameworks and processes at all times (including those relating to equal employment opportunities and health and safety).

The Company's Directors and employees will:

- a. abide by the laws, rules and regulations of the countries in which they are operating;
- b. undertake training on legal obligations and policies; and
- c. comply with all statutory and internal disclosure requirements on a timely basis.

**(xi) Delegated Authority**

The Board delegates management of the day-to-day affairs and management responsibilities of the Company the Managing Director who will deliver the strategic direction and goals determined by the Board. This delegation includes:

- a. operating the Company's business within the parameters set by the Board from time to time and, where a proposed transaction, commitment or arrangement exceeds these parameters, referring the matter to the Board for its consideration and approval;
- b. developing business plans, budgets and company strategies for the Board's consideration and, to the extent that they are approved by the Board, implementing these plans, budgets and strategies;
- c. identifying and managing business risks, and if those risks could materially affect the Company or its business, formulating strategies to manage those risks;
- d. managing the Company's current financial and other reporting mechanisms to ensure that they are functioning effectively to capture all relevant material information on a timely basis; and

- e. implementing the Company's internal controls, policies and procedures, monitoring these controls, policies and procedures and ensuring that they are appropriate and effective.

The Company's employees will:

- a. only act within the delegated authority framework and any authority that may be specifically given to them as a delegate authority holder; and
- b. ask their manager if they are uncertain as to their delegated authority.

**(xii) Reporting Concerns**

The Company has escalation procedures for the reporting of any breach of this Code, legal obligation or other policies of the Company.

If one of the Company's employees becomes aware of a breach of this Code or any breach of a legal obligation or other policy of the Company, they are encouraged to report it to their manager. If this is not appropriate in the circumstances, they should report the breach to another appropriate person such as the Chairman or the Managing Director.

The Company will stand behind any employee who, acting in good faith reports a breach, serious problem or wrongdoing. The identity of the person making the report will be kept confidential where possible – there may be situations however where the proper investigation of the matter inadvertently identifies the reporter or requires their identification.

Any person who knowingly makes a false report of a legal or policy breach may be subject to disciplinary action.

If one of the Company's employees receives a report under the Company's escalation procedures they have specific responsibilities.

**(xiii) Review**

This Code is subject to annual review.