Annual Report 2017

Marlborough Lines


Challenges
Create
Opportunities

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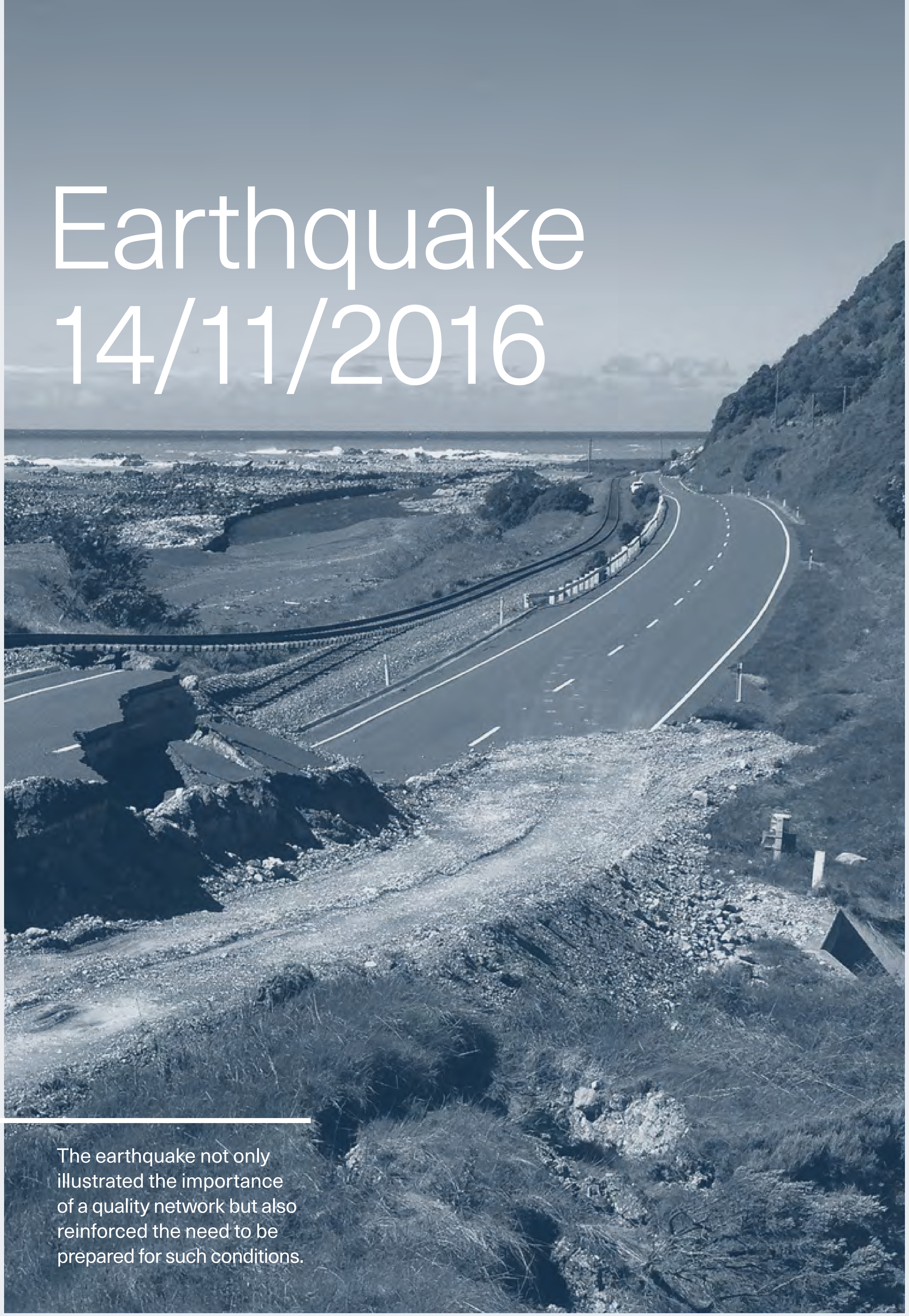
When a 7.8 magnitude earthquake struck at 12.02am near Kaikoura on 14 November 2016, our region confronted a challenge of significant scale.

The effects of this event provided an opportunity for us to demonstrate our ability to respond swiftly. Electricity was restored to every customer capable of receiving a supply within six days and damage at Yealands Winery was overcome to enable a record volume of grapes to be processed.

Challenges create opportunities and we will seek them in all aspects of our operations.

Earthquake 14/11/2016



The earthquake not only illustrated the importance of a quality network but also reinforced the need to be prepared for such conditions.

The earthquake which occurred at 12.02am on 14 November 2016 had an unprecedented magnitude of 7.8.

The forces unleashed by the earthquake were unknown in living memory. Substantial damage occurred, especially along the East Coast. A number of houses were destroyed and many severely damaged.

Significant damage occurred in a number of wineries including that of our own investment company, Yealands Wine Group.

Parts of our electricity network were also damaged but the quality of the assets ensured their resilience. The damage was mostly minimal and typically comprised a multitude of smaller faults. Although in some instances the severity of land movement, which included a change in the direction of the Clarence River, necessitated poles to be realigned or in a few cases lines to be re-routed.

The earthquake was so severe that in places along the Coast there was a horizontal movement of up to 7 metres and vertical movement of 5 metres, all of which occurred at the rate of 7km per second.

Consistent with the parameters of the protective equipment at Transpower's Blenheim substation and that within our 33/11kV substations, supply was lost in whole or in part at 11 zone substations.

Overall some 13,300 customers lost supply when the earthquake struck.

The response of our employees was immediate and after confirming the integrity of the substations and lines supply was progressively restored to 90.2% of our customers within four hours.

Restoration of supply to customers supplied from the Seddon and Ward substations had to be delayed until the integrity of the lines and customer installations could be verified in daylight given the severity of the damage to the Seddon and East Coast areas.

The Seddon substation itself sustained no damage, notwithstanding that the entire land mass in the vicinity of the Seddon substation moved in a north-easterly direction by some 2.5 metres.

Unfortunately within the township of Seddon a number of houses were significantly damaged and were not capable of safely receiving supply.

The severity of the earthquake caused substantial damage to State Highway 1 and other roads to the extent that vehicular access south of Blenheim was closed to the general public and indeed until temporary road repairs were undertaken, even emergency response vehicles such as Marlborough Lines were not able to access the Ward and East Coast areas.

The earthquake not only illustrated the necessity of access and the importance of a quality network, but also reinforced the need to be prepared for such conditions.

Fortunately Marlborough Lines is well resourced and notwithstanding the time required to gain road access and undertake remedial work at the Ward zone substation the Company was able to utilise one of its mobile generators and provide supply immediately to the lines and consumer installations that were capable of receiving electricity supply.

To expedite the restoration of supply a temporary control centre was established by the Company in premises at Ward kindly provided by the owner of the Ward tearooms.

In recognition that some farmers were isolated and were totally dependent upon electricity for provision of stock water and the preparation of food, the Company acquired 40 small diesel generators and delivered these to those in need by four wheel drive or in some cases helicopter.

Because of the intensive effort by the Company after eight days electricity was restored to the last few customers capable of receiving a supply at the extremities of the East Coast line.

Unquestionably this was a superb effort and was only achieved as a consequence of the exceptional individual and collective efforts of Marlborough Lines staff and contractors. Additional lines staff were brought in from as far afield as Timaru and the West Coast to supplement the efforts of our own people.

Every person associated with the restoration, whether they were in the field, the Control Room or within the Company's administration all worked with an absolute commitment to assist in the reinstatement of electricity to all customers.

However the work relative to the earthquake did not conclude with the restoration of supply. As a consequence of the severe earth movements that occurred pole-to-pole inspections had to be undertaken for every line, especially along the East Coast. Similarly all river crossings and major waterway crossings throughout Marlborough had to be checked to ensure their integrity.

In some instances the effects of the earthquake took time to manifest themselves as a potential fault or fault. The situation was exacerbated by the ongoing series of aftershocks.

This necessitated the lines being inspected on a number of occasions. We needed to ensure the lines were safe and sought to identify and eliminate potential faults before they had the opportunity to disrupt supply.

Overall the earthquake had a major impact on the Company's planned capital and maintenance programme which resulted in a number of items being transferred to the 2018 financial year. There is no doubt that the 14 November earthquake posed a number of challenges to the Company and its employees.

Irrespective the earthquake provided the opportunity to demonstrate to our customers the resilience of the Marlborough Lines network, the quality of our resources and the ability of our team to respond.

After the earthquake some 40 small generators were delivered to isolated customers.

Our Operations

Marlborough Lines Investment Ownership Structure as at 30 June 2017

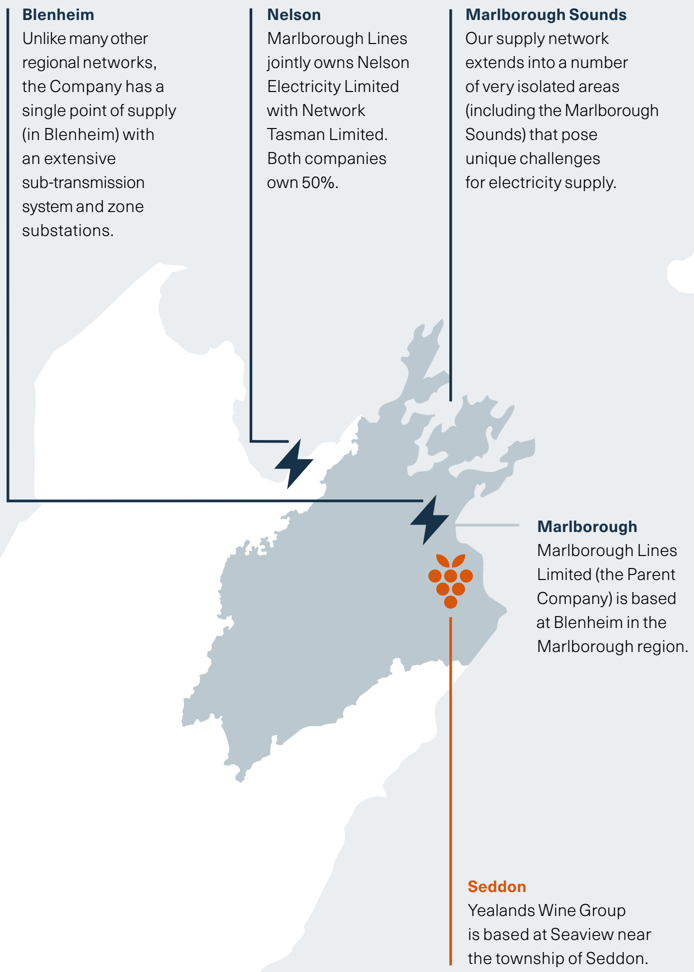
Marlborough Electric Power Trust

Marlborough Lines Limited

Seaview Capital Limited (Investment vehicle) — **100% share**

Nelson Electricity Limited 5 Directors, 4 Staff — **50% share**

Yealands Wine Group Limited 6 Directors, 160 Staff — **86% share**



Throughout our history we have been positive, considered and determined in pursuing opportunities. We are a progressive electricity network owner/ operator proudly delivering electricity to consumers in the Marlborough region of New Zealand.

Aside from the Marlborough electricity network we have uniquely diverse investments including 50% of Nelson Electricity, the entity which delivers electricity to the city of Nelson and an 86% holding in the Yealands Wine Group, one of New Zealand's major wine producers and exporters.

We are continuing to look for further opportunities for investment to benefit our consumers and shareholder, the Marlborough Electric Power Trust.

Our Background

Our genesis was in the generation, distribution and retailing of electricity within the Marlborough region, but as a consequence of the government restructuring of the electricity sector in 1999, we were forced to divest our generation and retail operations. The legislation under which we operate requires that we operate as a successful business. Accordingly the Company has previously invested in the electricity sector external to Marlborough, and has realised its previous investments in Otago and the Eastern Bay of Plenty.

As a consequence of the divestment of these investments, Marlborough Lines acquired funds of some $135 million. A portion of these funds has been utilised to acquire an 86% shareholding in Yealands Wine Group (YWG) and we have additional funds on deposit pending further investment opportunities. The shares of Marlborough Lines are held by the Marlborough Electric Power Trust and the beneficiaries of all our investments are ultimately the electricity consumers of Marlborough.

Our Balance Date

The balance date of Yealands Wine Group is 30 June which is suited to the viticulture industry, particularly given that the value of the crop cannot be determined until post-vintage which is after 31 March, the previous balance date of Marlborough Lines.

Because YWG accounts are required to be consolidated into those of Marlborough Lines, it was appropriate to change the balance date of Marlborough Lines for the 2016 accounts to 30 June and at that time report for a 15 month period. The 12 months to 30 June 2017 is the first 12 month reporting period for the Marlborough Lines Group financial statements.

Notwithstanding Marlborough Lines' balance date being changed from 31 March to 30 June the Company is required to provide regulatory disclosure accounts and network performance statistics to 31 March to meet the requirements of the Commerce Commission and to enable its comparison with other electricity networks.

Marlborough Lines Parent

- Marlborough Lines Limited shareholding comprises 28 million $1.00 shares issued, fully paid up and held by the Marlborough Electric Power Trust
- Total revenue of $58 million
- Total assets of $398 million
- A net worth at 30 June 2017 of $340 million
- Over 25,000 network connections
- An area for network supply covering 11,330km^2
- Network of lines and cables in the order of 3,400km
- 129 Blenheim based staff
- Electricity supply in Marlborough radiates out to a number of isolated rural areas including the Marlborough Sounds, Molesworth Station and the Southern Marlborough Coast
- Excluding the effects of the Kaikoura earthquake, Marlborough Lines is one of the most dependable networks in New Zealand with a reliability greater than Auckland.

Marlborough Lines Group

- Marlborough Lines Parent Company plus:
  - 50% shareholding in Nelson Electricity Limited
  - 86% interest in Yealands Wine Group Limited
- Total assets of $633 million
- Total revenue of $163 million
- 425 staff.

Nelson Electricity

- Nelson Electricity supplies electricity to approximately 9,200 consumers in the Nelson City area through a predominantly underground network, which is one of the most reliable in New Zealand.

Yealands Wine Group

- One of New Zealand's major wine producers
- Annual revenue in excess of $107 million
- An enviable reputation for embracing sustainable practices in the production of award winning wines
- Exports to 75 countries
- Received a significant number of awards for its quality wines including Champion Sauvignon Blanc at the 2016 Air New Zealand Wine Awards.

The Marlborough Region

We are based in Blenheim within the Marlborough region which is home to a population of approximately 43,000 people. Famous for its moderate climate, the region experiences approximately 2,400 sunshine hours each year.

Marlborough is New Zealand's largest wine growing area and now produces over 77% of New Zealand's wine total, which is predominately the world famous Marlborough Sauvignon Blanc. There is more than 24,000ha of land currently planted in grapes and further plantings are continuing.

Marlborough is also well known for its aquaculture, farming, forestry and tourism.

Performance Overview

Our key results were solid

▲

$162.6m

Total operating revenue (Group) (up 0.6%)

Revenue from Yealands Wine Group up 13% to $107.5 million. Comparison of Group result impacted by the prior period being for 15 months (page 14).

▼

$5.6m

Earnings before interest, tax and depreciation EBITDA (Group) (down 77%)

Group EBITDA impacted by the one-off earthquake related costs for which insurance payments are yet to be included. Comparison of Group result impacted by the prior period being for 15 months (page 14).

▼

$1.5m

Net deficit after taxation (Group) (down 104%)

Group deficit also impacted by the one-off earthquake related costs. This figure does not include the net revaluation gain of $60.4 million recorded in Other Comprehensive Income. Comparison of Group result impacted by the prior period being for 15 months (page 14).

▼

$17.4m

Capital and maintenance expenditure to increase capacity and improve reliability (Parent) (down 29.8%)

Decrease is reflective of a 12 month period being compared to a 15 month period. We continue to invest into our network to maintain reliability and safety (page 32).

▼

$9.39m

Discounts, inclusive of GST, paid to Marlborough customers (Parent) (down 0.5%)

An average customer received a discount to their electricity bill of $226 (page 17).

▲▼

$4.285

Dividend paid to the Marlborough Electric Power Trust (Parent) (no change)

Dividend paid to the Trust for distribution to consumers. Each network connection to receive $150 early in 2018 (page 15).

▼

$6.8m

Total cash flows received from funds invested and investments in Nelson and Yealands (Parent) (down 19%)

Current year return represents a 4.7% return on investment. Prior year return included 15 months of results (pages 48 – 53).

▼

396 GWh

Volume of energy delivered over the Marlborough network (Parent) (down 0.1%)

Network volumes have remained stable (page 32).

▲

354.1

Average total minutes of lost supply (Parent) (up 185%)

Reliability of the network significantly impacted by the November 2016 earthquake (page 31).

▲

25,297

Marlborough network connections (Parent) (up 1.2%)

Network volumes have remained stable on the back of 0.8% growth in the number of customer connections.

▲

21,825t

Total grape harvest (Yealands) (up 2.5%)

Increase over the previous 2016 vintage despite challenging weather conditions (page 50).

▲

$107.5m

Wine sales (Yealands) (up 13%)

Yealands sales are projected to increase both nationally and internationally (page 49).

Our Mission

Setting goals and measuring progress

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	Discussion	Further information
Develop and maintain the region's electricity network	The earthquake required a rework of our capital and maintenance programme, but a number of projects were still delivered and maintenance work completed. Our network remains in good health.	• Our Network (Page 30)
Meet both commercial and productivity targets	The level of energy delivered was consistent with previous years, with 396GWh delivered down 0.1% on the prior year.	• Performance Overview (Page 10)
Operate a successful business	Our operating results as recorded by our EBITDA have been impacted by the earthquake, requiring higher operating costs at both MLL and YWG. A portion of the costs incurred by YWG are covered by insurance, with proceeds to be received in the 2017/2018 year. Our discount to consumers and dividend to the Trust have been paid.	• Results in Brief (Page 14) • Review of Financial Statements (Page 58)
Be a good employer	This year we maintained our training and development focus supporting a number of staff through trade and tertiary study. We have also enhanced our employee wellness programme by subsidising gym memberships and providing free skin checks.	• Our People (Page 38)
Use energy as efficiently as possible	We have maintained our ISO 14001 certification for Environmental Management Systems and have completed our three yearly carbon assessment.	• Our Environment (Page 44)
Ensure and promote electrical safety in all aspects of our operation and in the community	This year we recorded no serious harm incidents. We maintained our safety management system certifications, OHSAS 18001:2007 Occupational Health and Safety and NZS 7901:2008 Public Safety, and ACC Tertiary status. We have continued to promote public safety around electricity through regular consumer newsletters and on our website.	• Health and Safety (Page 40)

Goals	Discussion	Further information
▲ **Exceed customer expectation**	Our annual customer survey showed an increase in overall satisfaction to 88% this year from 85% the previous year, with customer satisfaction for faults and reliability well into the 90s. This year we supported a wide range of community initiatives allocating over $237,000 to students and community organisations.	• Statement of Service Performance (Page 102) • Our Community (Page 42)
Use legislative powers fairly	We pledge to use our legislative powers fairly. As a test of this we have maintained our record with Utility Disputes Limited (formerly the Electricity and Gas Complaints Commissioner) of having never had an adverse ruling against the Company.	• We will maintain vigilance in our endeavours to treat customers and the public in a legal, fair and even handed manner.
▲ **Respond to customer demand**	Consistent with previous years, our capital expenditure was primarily focussed on increasing capacity to meet customer demand and improve reliability. While the November 2016 earthquakes imposed some limitations on our ability to meet our programmed requirements, customer requirements were given priority over meeting the network's capital requirements where possible.	• Our Network (Page 30)
Fulfil market requirements in terms of quality and price	This year we maintained all of our external certifications for Quality, Health and Safety, Public Safety and Environmental management systems. Our customer survey indicated continued high level satisfaction with fault responses and reliability – our product is meeting the demand.	• Statement of Service Performance (Page 102)
▲ **Minimise our environmental impact**	We continue to support environmental initiatives through organisations such as the Marlborough Sounds Restoration Trust and the New Zealand Dryland Forest Initiative. We increased our holding in Yealands Wine Group, a company which is noted for its sustainable environmental practices and its commitment to using renewable energy.	• Our Environment (Page 44) • Our Investments (Page 48)

Our targets for the 2017/2018 year are documented in our Statement of Corporate Intent, which is available on our website.

Results in Brief

Group		2018 Targets 12 months	2017 Actual 12 months	2017 Targets 12 months	2016 Actual 15 months (i)	2015 Actual 12 months	2014 Actual 12 months
EBITDA	(ii), (iv)	$41.0m	$5.6m	$31.2m	$24.4m	$20.0m	$22.5m
EBIT	(ii), (iv)	$24.2m	$(4.3)m	$16.1m	$12.0m	$11.2m	$14.1m
Total Revenue Group		$165.8m	$162.6m	$165.7m	$161.5m	$58.3m	$54.2m
Customer Discount (Paid and accrued)		$8.2m	$8.2m	$8.3m	$11.5m	$8.1m	$8.0m
Pre-tax Pre-discount surplus	(ii)	$29.0m	$3.7m	$23.6m	$50.7m	$21.0m	$21.1m
Surplus after taxation	(iii)	$14.0m	$(1.5)m	$9.3m	$36.6m	$9.9m	$9.2m
Total Value of Group Assets		$647.6m	$632.5m	$561.9m	$549.9m	$387.8m	$353.9m
Share Capital		$29.0m	$29.0m	$29.0m	$29.0m	$29.0m	$29.0m
Shareholder's Equity		$443.7m	$434.1m	$390.9m	$385.8m	$333.2m	$257.9m
Net Asset Backing Per Share		$15.85	$15.50	$13.96	$13.78	$11.90	$9.21
Pre-discount Return on Shareholder's Funds	(ii)	6.53%	0.84%	6.04%	13.13%	6.31%	8.18%
Net Interest Bearing Debt		$110.2m	$102.1m	$92.6m	$84.3m	$0.0m	$38.0m
Interest Cover (xEBIT)		5.03	(0.99)	3.88	4.30	0.00	13.93

Parent		2018 Targets 12 months	2017 Actual 12 months	2017 Targets 12 months	2016 Actual 15 months	2015 Actual 12 months	2014 Actual 12 months
EBITDA	(v), (iv)	$21.6m	$18.3m	$19.9m	$22.3m	$16.8m	$14.2m
EBIT	(v), (iv)	$11.6m	$8.9m	$10.4m	$10.5m	$8.0m	$5.9m
Customer Discount (paid and accrued)		$8.2m	$8.2m	$8.3m	$11.5m	$8.1m	$8.0m
Surplus After Taxation	(v)	$9.9m	$9.1m	$9.5m	$10.6m	$9.2m	$7.0m

(i) Actual 2016 results are for the 15 month period from 1 April 2015 to 30 June 2016. All other columns are for 12 months.
(ii) Excludes 2015 gain recognised on disposal of interest in former associates $71.452 million.
(iii) Excludes income tax expense for 2015 of $11.501 million and the gain recognised on disposal on interest in former associates (ii).
(iv) EBITDA and EBIT prior to 2017 have been restated to exclude interest income and foreign exchange gains.
(v) Excludes intercompany subsidiary dividend of $85.611 million.

Yealands Wine Group in Brief

- Total assets 30 June 2017 – $327.9 million
- Annual revenue year to 30 June 2017 – $107.5 million
- $5.5 million dividends declared
- Freehold land – 1,798 hectares
- Processed 21,825 tonnes of grapes
- Exporting wine to over 75 different countries
- Largest solar power generation installation in New Zealand (412kW)
- Winery certified "CarboNZeroCertTM".

Customer Q&A

Marlborough Lines is more than just an electricity distribution business. In this section we provide 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 current and future 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 receives dividend income from Marlborough Lines and then makes its own distributions to electricity customers.

What happens to Marlborough Lines' Company profits?
All surpluses of the Company are either paid to the MEPT as dividends or reinvested within the Company to meet the Company's ongoing 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 35.8 cents in each dollar of their total electricity account (post-discount 27.2 cents) — (see graph on page 17).

Why does Marlborough Lines have shares in the Yealands Wine Group?
Following the sale of its investment in the Otago regional electricity network OtagoNet in 2014, Marlborough Lines retained a significant sum available for reinvestment. In the current electricity environment network companies are restricted in their investment options due to the legislative separation of generation, distribution and retailing of electricity. The Company then looked at alternative investments which would provide continuing future benefits through good annual shareholder returns and longer term capital appreciation. In 2015 the Company bought an 80% share in the Yealands Wine Group (now 86%), an investment which the directors believe met their criteria with the added benefit of being Marlborough based. The dividend streams received in the first two years of ownership have assisted in providing increased returns to all electricity customers in the region (see graph on page 17).

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 $150 tax-free capital distribution from the MEPT. Customers also receive the annual network discount – which for an average domestic customer amounted to $226.38 including GST. Thus, an average domestic customer received $376.38 in total. As with the 2016 financial year, as a result of dividends from the Yealands Wine Group investment the Company has made dividend payments to the MEPT such that the Trust's distribution to customers early in 2018 will be maintained. This will mean a similar level of total cash payment to an average domestic consumer of approximately $376 in the current period.

How are customer benefits calculated – are they increasing or decreasing?
The total customer discount paid in March 2017 for the period ending 30 June 2017 was $8.16 million ($8.21 million last year). The total, including GST, was $9.38 million. The actual discount paid varies per customer as there is a fixed portion and a variable component related to the quantity of electricity used. (The discount components are part of the Company's posted distribution charges. This means that if total revenue and consumption rises then total discount increases. Conversely if revenue and consumption decrease then the total discount will also decrease).

Since 1999, electricity consumers in Marlborough have received discounts totalling $106.6 million excluding GST. An additional $26.1 million has been paid to the MEPT as dividends.

Does the community benefit in any other way from the Company's activities?
Marlborough Lines provides support and sponsorship for a wide range of youth, sporting and community events, many of which are outlined in the Our Community section on page 42. The financial cost of this support in the 2017 year amounted to $237,000.

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 on page 16).

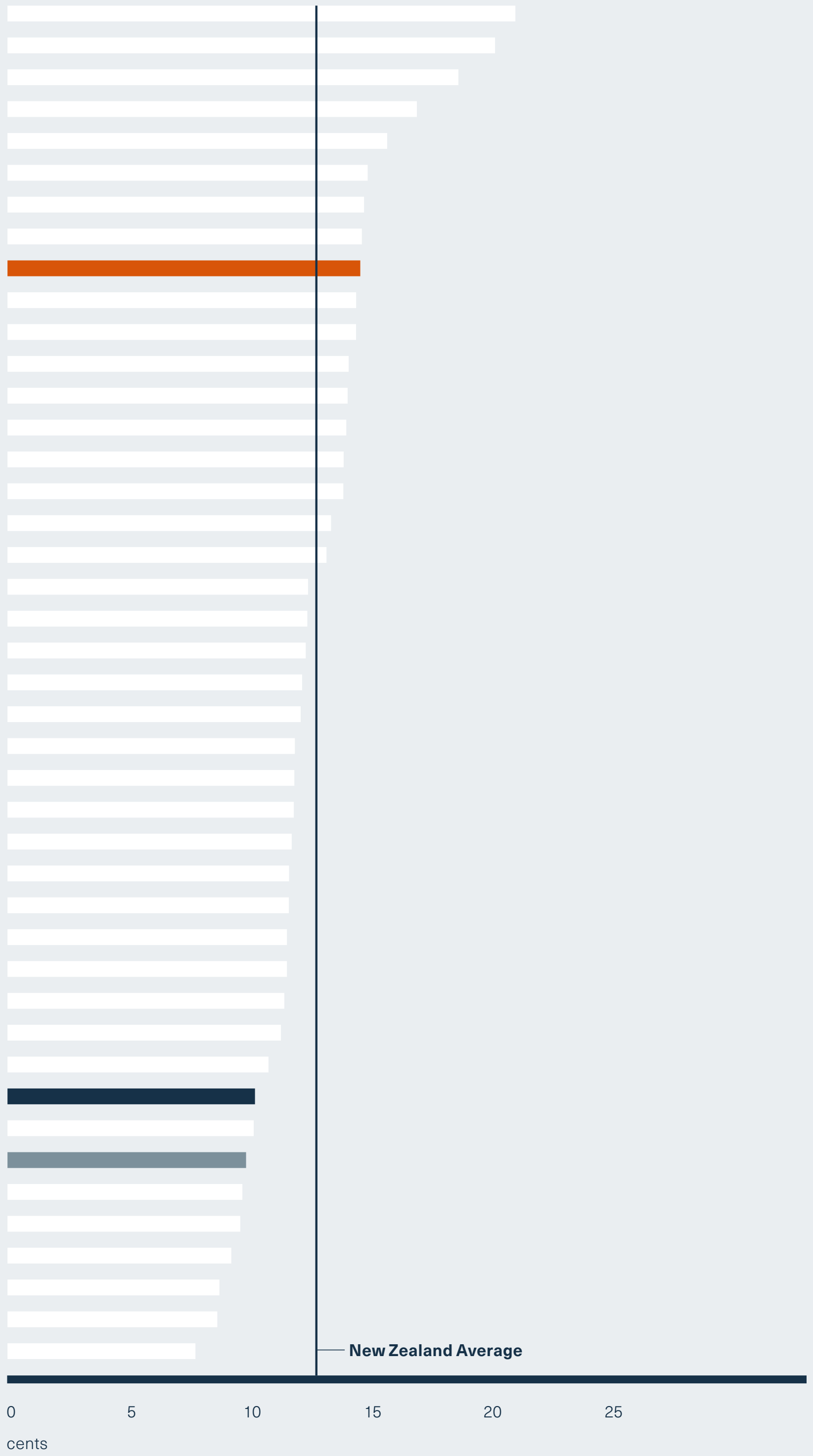
What do the customer surveys undertaken by the Company tell us?
Some 88% of customers responding to an independent survey said they were either very satisfied or satisfied with the Company's overall performance. Customers were asked to rate the Company on a range of performance areas including faults 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. We encourage customers to call in with fault information as often this is invaluable in locating the fault source.

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. Our staff are also knowledgeable in the installation and set-up of distributed generation such as in-house photo-voltaic systems.

Our website 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 www.marlboroughlines.co.nz

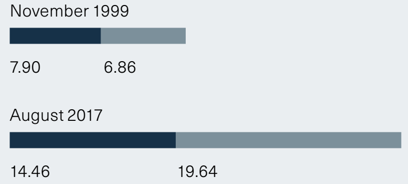
New Zealand network companies annual line cost to a typical domestic customer as at May 2017 (Line charges c/kWh)



Marlborough Lines
Nelson Electricity
Marlborough Lines (less discount and Trust dividend)

This graph depicts annual line charges for an average domestic customer (refer to glossary for definition) as at May 2017 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.

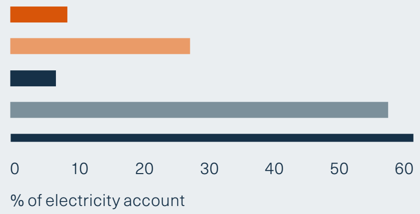
Increase in components of average electricity cost from November 1999 to August 2017 (c/kWh)



Marlborough Lines
Lowest Priced Retailer

In the period from November 1999 to August 2017, Marlborough Lines' network charges, including transmission, have increased by 83.04%, whilst the average domestic charge for retail/ generation has increased by 191.83% (source: Ministry of Business, Innovation and Employment).

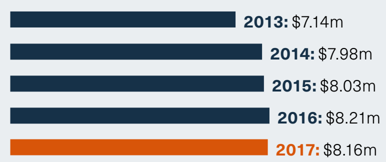
Allocation of the average annual electricity account for a typical domestic customer.



Marlborough Lines Discount 8.6% $226.38
Marlborough Lines Post Discount 27.2% $719.06
Transpower 6.9% $182.56
Energy Retailer 57.3%. $1,512.00

Marlborough Lines' charges on a post-discount basis comprise only 27.2% of the total electricity account for the average domestic customer.

Total customer discounts paid to Marlborough Lines customers



Total discounts paid at $8.16 million was slightly under 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 significant changes in weather patterns.

The Electricity System

1. Power stations
Electricity is principally generated by hydro-electric power stations in the South Island. The North Island has hydro 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.

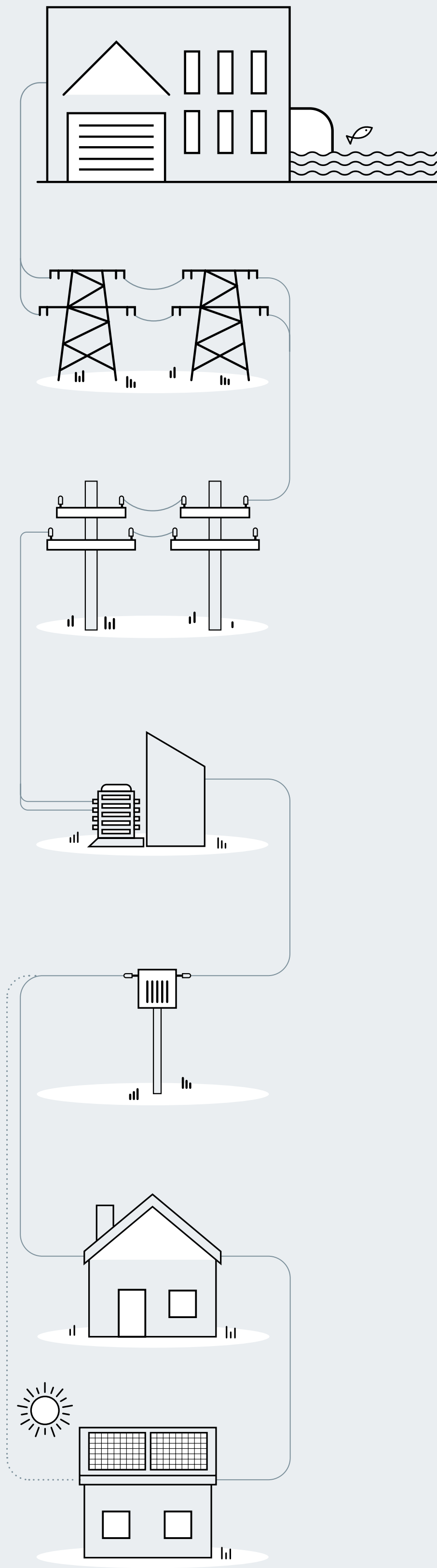
3. Distribution network
Marlborough Lines owns and operates the distribution network within Marlborough. We have a network of lines and cables in excess of 3,383km. We also operate a business unit for the construction and maintenance of lines.

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.

7. Distributed generation
Increasingly customers are installing distributed generation such as photovoltaic panels which can export excess electricity back into the network.



Chairman's Report

A solid performance despite challenges

We had a year which provided both challenges and opportunities. Importantly we have met the challenges and seized upon the opportunities.

Overall our broad objectives remained crystal clear:

- To provide a safe and reliable supply of electricity to meet our consumers' requirements; and
- To increase the value of our assets and the returns for our shareholder.

There is no question that these goals have been met this year.

Our electricity network was truly challenged by an unprecedented magnitude 7.8 earthquake during the year but it performed exceedingly well.

This is testimony to the quality of our network which in itself is a reflection of the Company's longstanding commitment to prudent and timely capital and maintenance expenditure.

During the year we took the opportunity to increase our stake in Yealands Wine Group with the acquisition of a 5% minority parcel of shares at par value which increased our shareholding to 85%. In addition we have provided further share capital, taking our shareholding to 86%.

Not only has Yealands Wine Group provided earnings and shareholder dividends over the 24 months of our investment, but the capital value has increased significantly.

Indeed a revaluation of the company at 30 June has resulted in a conservative uplift in value of $70.1 million. Such a solid value increase over a two year period reinforces the validity of the decision taken by the Marlborough Lines Directorate to undertake this investment.

As expected for the second successive year of ownership, a dividend from Yealands Wine Group has been paid to Marlborough Lines and has in turn been passed to our shareholder. The Marlborough Electric Power Trust has then passed on this amount to electricity consumers as a distribution of capital equating to a non-taxable distribution of $150 per consumer. Marlborough Lines also paid an average discount of $226 to domestic consumers connected to the Marlborough network, meaning an average payment per consumer of $376.

There is no other New Zealand electricity network which has been able to recognise their consumers in this way.

The financial results for Yealands Wine Group to 30 June have been impacted by the inclusion of some non-recurring expenditure such as wine losses and repairs pertaining to the November 2016 earthquake. The corresponding insurance progress payments although received in part have not been included but will be included in the accounts for the current year when they are finalised.

There have also been stock adjustments arising from acquisition accounting.

As a consequence as at 30 June 2017 Yealands incurred an actual loss of $7.2 million and this has resulted in the Marlborough Lines Group recording a loss to 30 June of $1.5 million[1]. This is the result of the accounting treatment required under the rules we report under as explained in the notes to the financial statements.

We still have significant funds on deposit and the capacity to undertake further investment.

It is the expectation of our shareholder that Marlborough Lines will utilise its funds for further investment to provide even greater benefits to electricity consumers connected to the Marlborough Network.

Over the last 12 months we have considered a range of possible investments consistent with the criteria of our investment policy. The fact that we have not made a further investment, other than achieving the additional 6% shareholding of Yealands Wine Group, is indicative of our prudence relative to investment.

Marlborough Lines has a proven record of investment and it is a record we intend to keep intact.

The return and value accretion of our investment in Yealands Wine Group is much greater than the returns we previously received from our investments in the electricity distribution sector.

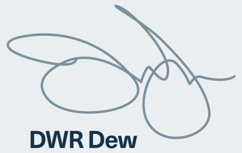
Going forward we have every expectation the value of the Marlborough Lines Group assets will exceed $1 billion. It is the intent of our shareholder that the electricity consumers of Marlborough will benefit further from the Company's investments.

Because we are looking for investment external to the electricity sector it does not mean that we do not have a clear focus on electricity distribution. We do. Our electricity network in Marlborough has quality assets. Our reliability, prior to the November 2016 earthquake, was the sixth best of the 29 electricity distribution networks in New Zealand.

Unlike some other networks in New Zealand we are not faced by a looming wall of expenditure created by deferred maintenance and capital expenditure.

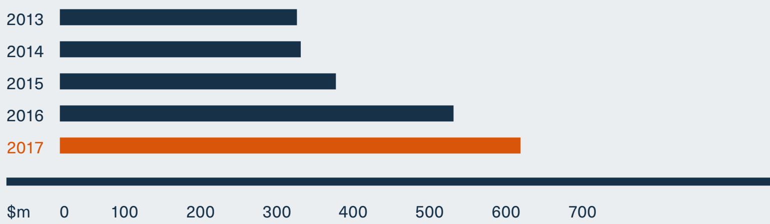
Our record speaks for itself. And the ultimate beneficiaries are the electricity consumers of Marlborough.

Marlborough Lines can look forward to the future with confidence thanks to the support of our shareholder, the focus of our Managing Director and the commitment of our employees and the endeavours of my fellow Directors.



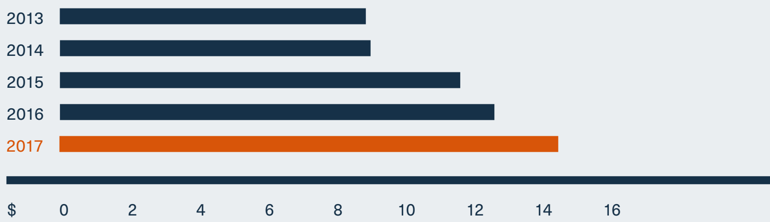
DWR Dew
Chairman

Marlborough Lines Group Total Assets over time



Total assets increased by $82.6 million largely as a result of a revaluation of fixed assets within the Yealands Wine Group.

Net asset backing per share



Net asset backing per share has increased from $2.22 in 2002 to $14.53 per share in 2017, net of the Non-Controlling Interest.

[1] An explanation of Yealands accounts and the flow-on effects to Marlborough Lines' accounts is detailed on page 49.

Managing Director's Report

Challenges and opportunities abound

We were impacted by the earthquake
Unquestionably we faced a number of challenges over the year, the foremost of which was the magnitude 7.8 earthquake of 14 November 2016.

But it also provided the opportunity to demonstrate the resilience of our Network and the resolve of our team to achieve whatever it takes to deliver electricity to our customers.

As has always been the case in major outages our staff and contractors worked without regard to clock or calendar but at all times our systems ensured that all work was undertaken safely.

Overall, the response of our people was superb and our customers appreciated what we achieved.

The possible challenge of responding to an earthquake was always known to us. New Zealand is in an earthquake zone and several fault lines transect Marlborough.

Accordingly we had the opportunity to ensure that our Network was properly designed and constructed to meet earthquake standards and was well maintained.

As a consequence the network damage was predominantly confined to the East Coast of Marlborough and although widespread was relatively minor.

Importantly, as expected, other than minor remedial work caused by substantial ground movement at our Ward substation all other 33/11kV zone substations were unscathed.

We were prepared
Overall our planning ensured we had the necessary resources, competent and diligent staff, quality vehicles, plant and equipment, spares and mobile generators to assist our customers at a time of need.

We also helicoptered in small portable generators to customers who could not be accessed by road.

None of this preparation is without cost. Irrespective our ongoing customer feedback is that our commitment to ensure the resilience of the Network is appreciated.

It is our view customers are entitled to expect that Marlborough Lines, as the provider of an essential service, will be proactive and anticipate problems before they arise or at least minimise them. It is bad enough for people to experience a severe earthquake or extreme event without having the adversity of their situation compounded through the loss of electricity supply.

We accept our safety responsibilities
Similarly we readily accept responsibility in ensuring the health, safety and well-being of our staff, contractors, customers and public.

We recognise we have the opportunity to make a difference and ensure that we have systems in place to prevent harm.

In short we are used to challenges and our staff relish the opportunity to address them.

We embrace dynamic efficiency
We operate in a dynamic environment and change within our industry is inevitable and ongoing.

As the cost of the utilisation of new technology such as photovoltaics, electric vehicles and batteries reduces, their implementation can be expected to be more widespread.

Marlborough Lines will be a catalyst in the utilisation of such technology. We see that a quality network such as that of Marlborough Lines will play an integral part. Our Network is extensive, it has considerable diversity of customer load and has the capacity to meet increased demand.

For our part we will be seeking to achieve dynamic efficiency for the benefit of all those connected to our Network. We see significant opportunities for our Network going forward.

Our pricing must be fair
One of the issues confronting our industry is the structure of pricing and this is currently a focus of the Electricity Authority who are advocating networks move towards pricing which is reflective of costs and service to prevent inappropriate cost transfer between network users as new technologies are introduced.

Within Marlborough Lines we recognise the benefits of cost-reflective pricing but equally we are cognisant that any pricing regime regardless of principles has to be readily understood and widely accepted. It also needs to send appropriate signals which are relevant over a period of years. Unfortunately Government policy/regulation has driven changes in recent years relative to pricing and costs which have caused distortions and anomalies between network users.

The consequences of the low user fixed charge as predicted by the electricity network industry at the time of its introduction have proven to be detrimental to the interests of a large number of electricity users, who in effect are subsidising those on the low user charge. In some instances those using greater volumes of electricity have health issues and are not able to restrict their consumption. The low user fixed charge is an example of a Government policy which has caused distortions and is now an impediment to the introduction of cost-reflective pricing.

Similarly the current regulatory requirement for the Avoided Cost of Transmission payment to be made to generators connected to a network when the cost of transmission is not actually avoided lacks validity. But fortunately in this case the Electricity Authority have recognised this issue and such payments are to be phased out unless transmission savings are actually made.

The regulators recognise the changing electricity environment presents a totally different paradigm than that which has prevailed in the past. Their challenge will to be ensure that the increasingly prescriptive regulatory environment of recent years does not become more so and further increase the costs of regulatory compliance for network companies or stifle the potential opportunities and benefits to electricity users. Certainly we will continue to make representations in this regard.

Our view is there are real benefits in the integration of electricity supplies regardless of location or source of generation and a quality network can be a facilitator in this regard.

Company is strong
Marlborough Lines is in a solid position in relation to its Marlborough electricity network. The same applies to its investments, Yealands Wine Group (YWG) and Nelson Electricity.

Quality investments
The Company's most significant investment, that of YWG, is one of New Zealand's major wine exporters underpinned by quality winery assets and in excess of 1,000 hectares of vineyards. Going forward the challenge of YWG is to satisfy the demand for the company's quality products and more grapes will be required – a great opportunity when the company has additional land, an efficient modern winery adjacent to its vineyards and the marginal cost of increased production of quality wines is relatively low.

It is satisfying to report that in the two years in which Marlborough Lines has owned Yealands Wine Group the increase in value to Marlborough Lines has been some $70 million which represents an internal rate of return of 33.7%

Our future is positive
The challenge for the Company going forward is to continue to undertake other investments to maximise the investment funds held within the Company and opportunities will continue to be assessed in accord with the Company's investment policy.

We look forward to the challenges which come our way and we will pursue opportunities beneficial to our electricity customers and shareholder. Overall the Company has quality assets, has a commitment to continuous improvement, is in a strong financial position and has the personnel to take the Company forward.

Marlborough Lines is in this position because of the individual and collective efforts of the Company's staff and Directorate and it has the support of its shareholder and customers, all of whom I am pleased to acknowledge.

Marlborough Lines can look to the future with confidence.

K J Forrest
Managing Director

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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 Yealands Wine Group (YWG) Ltd and Nelson Electricity Ltd and a director of 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 at a national level. His current directorships include: YWG, Nelson Electricity Ltd and Cuddon Ltd – along with other companies.

Jonathan Ross
Director
LLB Hons, BCL, BA

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 and is a director of the Reserve Bank of New Zealand.

Tim Smit
Director
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. Prior to his appointment as a director, Tim was the Chairman of the Marlborough Electric Power Trust.

Ivan Sutherland
Director
VFM, ANZIV, MNZM

Ivan was appointed to the Board in September 2015. He was one of the early pioneers of the Marlborough wine industry, developing his own vineyards and subsequently the wine label Dog Point. Ivan has an extensive sporting background with NZ Rowing and is still heavily involved administratively. He was previously a director of Marlborough Lines from 2000–2003 and Chairman of OtagoNet from 2002–2003.

Peter Forrest
Director
BCom, ACA

Peter was appointed to the Board in September 2015. He has been a director of WK Advisors and Accountants Ltd since 1984, specialising in taxation. Peter was a former chairperson of the Marlborough Chamber of Commerce and an inaugural trustee of the Marlborough Electric Power Trust. He is a director of YWG.

Phil Robinson
Director
NZCQS, MInstD

Phil was appointed to the Marlborough Lines Board in September 2015. He is Managing Director of Robinson Construction Ltd and is involved in business interests that include several construction and development related companies. Phil is a director of various other companies.

Steven Grant
Director
BCom, LLB Hons

Steven was appointed to the Board in February 2017. After commencing his career as a lawyer at Bell Gully, Steven moved into investment banking, working for Macquarie Bank in London and then in Auckland. More recently, he worked for PricewaterhouseCoopers and Northington Partners, specialising in business sales, acquisitions, mergers, and capital raising transactions. He is a director of The New Zealand Automobile Association Limited and various other privately-held companies.

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Senior Management

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.

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).

Wayne Stronach
Engineering Manager
BE (Electrical), MIPENZ (Electrical)

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.

Gareth Jones
Chief Financial Officer
BCom, CA

Gareth joined Marlborough Lines in April 2016, and is responsible for the Group's finance, administration and ICT systems. Gareth is a Chartered Accountant, with previous experience working at KPMG in both audit and corporate finance areas. He has significant experience in the electricity distribution sector, having held a number of senior finance roles at Powerco Limited for the five years prior to joining Marlborough Lines.


Protector

Our Network

354.1

Average total minutes of lost supply

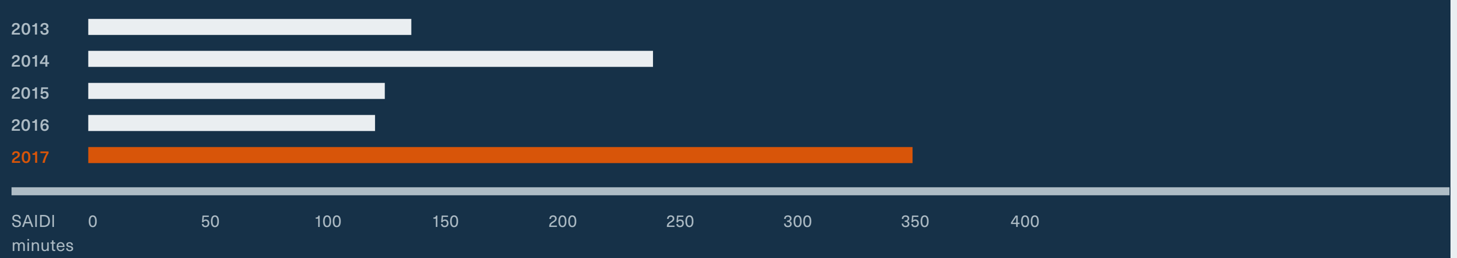
$8.4m

Capital expenditure on our network

$9.1m

Maintenance expenditure on our network

Customer outages



Average customer minutes of lost supply from all causes. The 2017 result was higher due to the impact of the earthquake.

Reliability shaken by earthquake

The earthquake of 14 November 2016 had a huge impact on the reliability statistics of our network.

For the previous year, total minutes of lost supply for customers was a record low of 124 minutes, with a total of only 61 minutes being attributed to unplanned outages and the remainder to scheduled shutdowns.

Conversely, for the year ended 31 March 2017 the total minutes of lost supply was 354 minutes, with 51 minutes attributed to scheduled shutdowns and the balance of 303 minutes to unplanned outages.

The earthquake alone caused a loss of 176 minutes and a further 30 minutes were contributed by storms.

We are disappointed the reliability of our network was markedly less than that of last year, but the context tells the story. The impact of the November magnitude 7.8 earthquake was considerable. As designed, network protection equipment automatically switched off supply at major substations. Numerous faults were experienced but were typically relatively easy to address. Lack of road access inhibited restoration of supply. Severe ground movement meant every aspect of the network had to be properly checked along with consumer installations.

The safety of our network and ensuring customer installations are capable of receiving a supply will always transcend the importance of a reliability target. Irrespective, our staff and contractors made every endeavour to quickly restore supply which on occasion was under difficult circumstances.

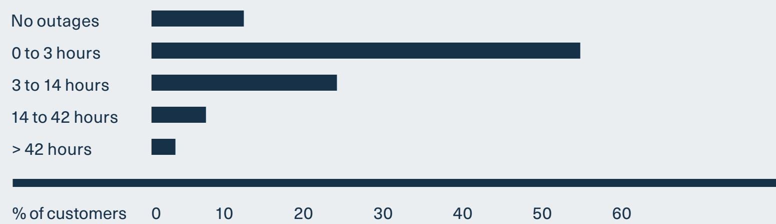
SAIDI total minutes lost

	2017 SAIDI	2016 SAIDI
Total Minutes Lost	354	124
Less Planned Outages	51	63
Total Minutes Lost by unplanned outages	303	61
Less Minutes Lost by Extreme Events	176	–
Less Minutes Lost by Remote Lines	64	25
Total Minutes Lost by Urban and Rural Faults	63	36

Network reliability comparative numbers

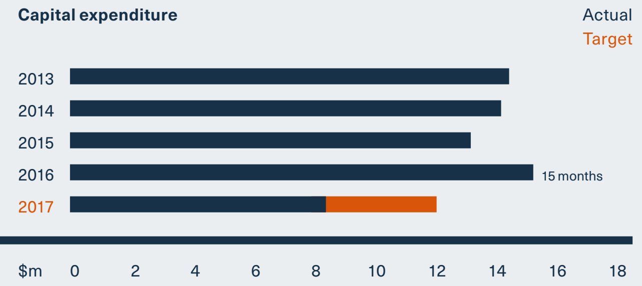
	2018	2017	2016
Unplanned outages			
Actual minutes		303	61
Target minutes	80	80	115
Planned outages			
Actual minutes		51	63
Target minutes	65	65	70

Reliability of supply



Whilst the November 2016 earthquake disrupted supply for a small number of East Coast consumers, supply reliability for most consumers was at a similarly high level as last year.

Capital expenditure

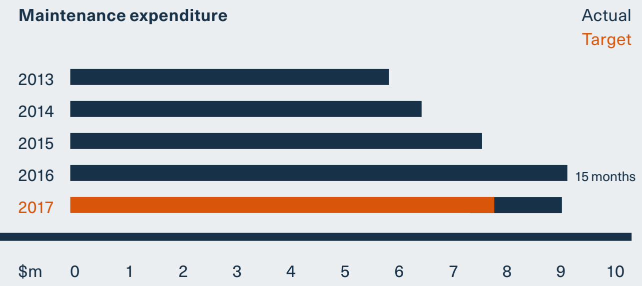


Capital expenditure comparative numbers

	2018 ($m)	2017 ($m)	2016 ($m)
Actual		8.354	15.574
Target	12.224	12.074	11.848

As the above graph and table shows, capital expenditure was less than target due to resources being diverted to earthquake repairs.

Maintenance expenditure

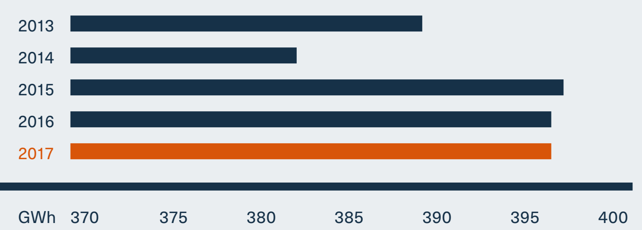


Maintenance expenditure comparative numbers

	2018 ($m)	2017 ($m)	2016 ($m)
Actual		9.060	9.196
Target	8.084	7.921	7.632

In contrast to capital expenditure, maintenance costs exceeded target due to the November 2016 earthquake.

Energy delivered to the Marlborough network



Overall consumption across the Marlborough Lines network has been stable for the last three years between 396 and 397 GWh.

Prudent expenditure is an investment

We have always regarded prudent maintenance and capital expenditure as an investment in public safety, in maintaining the quality of our assets and providing the reliability our customers rightly expect.

Unquestionably, the damage inflicted by the earthquake would have been much worse, were it not for the high quality of our network.

Unfortunately when there is significant ground movement or liquefaction it is sometimes inevitable that poles have to be realigned to ensure proper ground clearance. And on occasions after an earthquake ground movement is gradual.

Our capital and maintenance expenditure for the year is detailed in our comprehensive Asset Management Plan, available from our website (www.marlboroughlines.co.nz). The plan sets out our capital and maintenance programme over the year and the following 10 years.

Regrettably, a combination of factors precluded the attainment of the capital programme we had planned. These were:

- The consequences of the earthquake necessitating resources being diverted elsewhere, not only at the time of the earthquake but also the ongoing need to ensure the network was safe following repeated aftershocks
- Customer requirements were given priority over meeting the network's capital requirements (where such work could be deferred)
- Delays in completion of scheduled work by contractors, including the late delivery of equipment.

We intend to transfer the capital work scheduled for the year ended 30 June 2017 to be completed alongside capital work for the current year.

As a further consequence of the earthquake and receipt of additional geotechnical advice, we will be replacing the current Renwick substation as soon as practicable.

It has been in-situ since 1927 and is located on a potential fault line. Subject to the necessary planning consents, it is proposed a new substation will be largely completed in the current year, although it was not included within our most recent Asset Management Plan.

Over the year our radio communications and SCADA systems have been further enhanced with the establishment of four new radio repeater sites and the installation of further remote switching devices, such that as at 30 June we had some 290 devices which can be remotely controlled on our network. This equipment proved to be particularly valuable in minimising restoration times following the earthquake.

A constant eye on vegetation management

Aside from the maintenance undertaken directly on our electricity network, we also necessarily allocate considerable resources to keeping trees and vegetation clear of our lines. This is necessary to not only maximise reliability of supply but to minimise fire risk.

Disappointingly, despite our commitment to maximising reliability of supply and minimising fire risks, we continue to be limited by the inadequacies of the current Tree Regulations.

The Regulations prescribe tightly defined clearance zones with insufficient distances between a line and a tree, particularly given both trees and lines can be subject to considerable movement in strong winds. It remains our firm view that these Regulations must be changed and based on principles applicable to the situation, rather than perceived theoretical criteria.

Our network presents unique challenges

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

Generally within urban areas and the more densely populated rural areas, we invariably have alternative 11kV options for supply.

Our longest rural 11kV feeder is at Linkwater and supplies 326km of line. The integrity of supply in this case is dependent on every component along the entire line route performing and the line remaining free of external interference from trees, animals and other factors.

Maintaining such rural lines can be challenging with disproportionate costs. Approximately 80% of our lines supply only about 20% of our customers. While 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 safely restore supply we will.

Actions to mitigate earthquake risk

It has always been acknowledged that Marlborough is an area of potentially high earthquake risk and this has been taken into account when considering the design and operations of all parts of our network. The performance of our network is regularly reassessed relative to earthquake risk and a major reassessment was undertaken following the test imposed by the November earthquake.

We will continue to utilise all relevant criteria and available information to maximise the integrity of our network under earthquake conditions. The construction of a new 33/11kV substation at Renwick following additional geotechnical information we received is such an example.

Generally, unless there is severe liquefaction, a quality overhead network is reasonably resilient in the event of a major earthquake. Underground cables however, pose the greatest area of risk, particularly where the direction of the earthquake is transverse to the direction of the cables or where there is severe liquefaction.

This situation could potentially apply to the CBD of Blenheim. In these circumstances it may be necessary to consider the provision of an alternate temporary supply.

From an overall perspective, and within practicable limits, proper consideration has been given to firstly eliminating the potential for earthquake damage and secondly restoring supply following a serious earthquake.

Marlborough Lines has an Emergency Preparedness Plan and maintains an ongoing, close liaison with Marlborough Civil Defence.

Maintaining international standards
In keeping with our commitment to excellence and continuous improvement, Marlborough Lines has embraced international management systems that are subject to six monthly external audits, ensuring standards are maintained.

We have achieved certifications for:

- Quality ISO 9001
- Environment ISO 14001
- Occupational Health and Safety BS OHSAS 18001
- Electricity and Gas Industries – Safety Management Systems for Public Safety NZS 7901.

These standards are integral to all aspects of our operations. Our procedures and processes are currently being revised to ensure compliance with the new ISO 45001 Occupational Health and Safety Standard expected to be issued in 2018.

Alternative customer energy sources
In addition to meeting our customer requirements through the delivery of electricity, we also facilitate the connection of electricity generation at customer premises.

Irrespective, the cost of a photovoltaic installation is not currently economic for most of our customers, with the cost for batteries or wind generation also largely prohibitive.

As the cost of photovoltaics reduces we do expect the number of installations to increase. We will assist those connected to our network to either consume or generate electricity and deliver it as required across our network.

Our network is not capacity constrained and going forward has the ability to charge electric vehicles as their incidence increases.

Overall we are proud of our network in terms of its safety, quality and the reliability it provides to our customers.

The complexity of regulations specific to our industry

Industry regulations are complex and changes can have a significant impact on our network. This past year the key work streams for the Electricity Authority (EA) have been around transmission and distribution pricing. However its previously proposed changes to transmission pricing are currently being revaluated as the economic rationale for the proposal was found to contain errors.

The Commerce Commission largely completed its periodic review of the rules and requirements for regulating network companies, with a relatively benign impact on networks.

An encouraging development is the emergence of a political consensus that the Low Fixed Charge Regulations need to be reconsidered.

Electricity Authority Regulatory Work Streams

Review of Distribution Pricing

The Authority is proposing an industry led approach to the reform of network charges for distribution services. It has outlined that charges need to reflect the services provided and the costs of providing these services. There is concern by the Authority that the current method of charging for network services in New Zealand may ultimately lead to increases in prices that could otherwise be avoided. It has been identified that the current approach to pricing may encourage consumers to invest in photovoltaic panels when such is not economically efficient.

All distributors were required to provide an initial "road map" of their plans for pricing reform by April 2017 and regular updates by network companies in this regard are required.

Marlborough Lines' road map highlighted our particular concerns in relation to cost reflective pricing requirements;

- that the incidence of smart meters installed by retailers in Marlborough is low and such inhibits significant structural changes such as Time of Use pricing
- the low user fixed charge imposed by regulatory requirements is not reflective of costs and has imposed significant distortions resulting in cross-subsidy from other users
- similarly remote uneconomic lines required by previous regulation require cross-subsidy from other network users.

These issues illustrate the need for consistency of regulation and Government policy within the electricity industry.

Review of Transmission Pricing Methodology (TPM)

The Authority has delayed the next step in changing the way the costs of running the national grid are allocated between users. The proposed changes to the guidelines for the Transmission Pricing Methodology had the potential to significantly impact on the distribution sector and other industry participants in that some regions faced large price increases.

The Authority has acknowledged errors within its previous proposal and has undertaken to carry out a reassessment including the cost benefit analysis which supported the changes.

Transpower has meanwhile proposed undertaking an "operational review" which may result in incremental improvements in the current charging methodology.

Review of Distributed Generation Pricing Principles

During the past year the Authority further considered pricing principles for distributed generation. It confirmed its initial view that payments made by network companies, in accord with regulatory requirements to distributed generators connected to their local networks, are economically inefficient. But implementation of the change has been deferred for 12 to 18 months. We concur that these payments should end. Rules around other charges levied by networks to distributed generation currently remain unchanged but will be subject to further review in the future.

Commerce Commission

Review of Input Methodologies

The Input Methodologies (IMs) are the rules, requirements and processes applying to the regulation of Network companies under Part 4 of the Commerce Act 1986. Although Marlborough Lines is exempt from price control, the IMs influence the return received from the Company's investment in Nelson Electricity and also determine the way information is disclosed.

During the past 12 months the Commerce Commission completed its periodic review of the IMs. Some changes announced in December 2016 included:

- a small reduction in the target rate of return for electricity lines businesses
- restrictions on how distributors allocate operating costs between regulated and non-regulated activities
- bringing forward returns on some assets which may be impacted by new technologies.


500
Marlborough
Lines

Our People

300

Staff employed by our Subsidiaries and associates

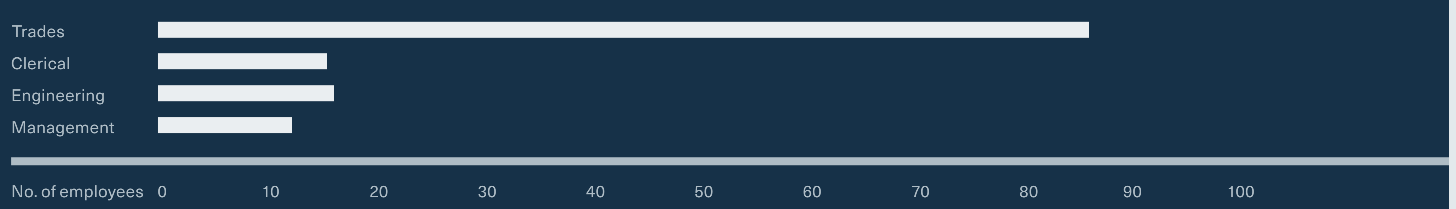
129

Staff employed by Marlborough Lines in Blenheim

8,274

Total hours spent training our staff

Employees by occupation



The predominance of trades and engineering staff reflects the technical nature of building and maintaining an electricity distribution network

Building opportunity at every level

Marlborough Lines has a talented and stable team of people throughout the Company. Operating an electricity network and managing significant investments requires a wide range of skills and capabilities. We have accomplished people in all areas of our operations and work hard to create an environment where they are safe, enjoy coming to work, feel valued, stimulated and challenged.

Our quality working conditions, along with Marlborough's great climate and range of recreational opportunities all add to the stability of our workforce. At 30 June 2017 we employed 129 full-time equivalent staff spread across a range of employment areas.

Constantly developing and extending potential
Maintaining a team of qualified, skilled and highly employable people, particularly in the electricity industry, can be challenging and requires a holistic approach to employment. We focus on ensuring our employees are satisfied, challenged and rewarded so their first choice is to remain part of our valued team.

We encourage every employee to achieve their potential and actively support them to gain qualifications in a range of fields and professions, as well as offering ongoing training and development opportunities.

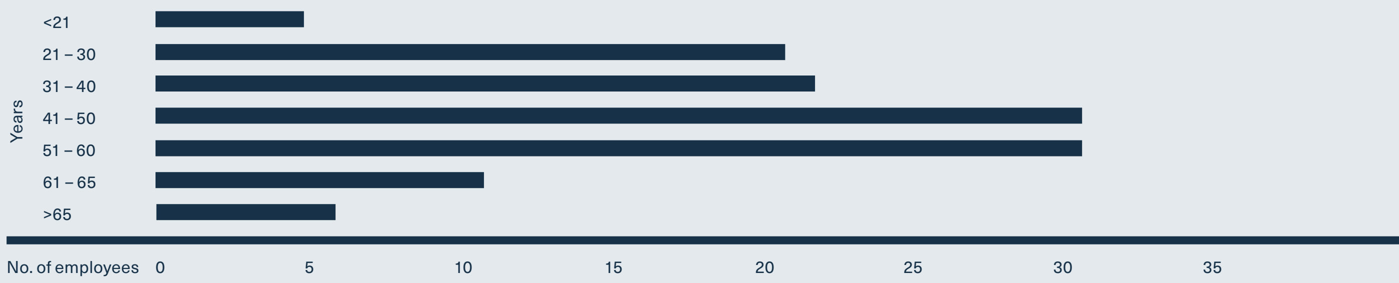
We are an equal opportunities employer and recognise the benefits of a diverse workforce.

Celebrating 50 years – a unique and impressive milestone
On 5 January 2017 Brian Tapp completed 50 years' of service with Marlborough Lines and its predecessors. Brian started his career as a draughting cadet in 1967.

Brian seized every opportunity to develop and expand his potential. He has always been a dedicated employee. His ongoing education and training saw him reach the position of Network Operations Manager and he's played a major role in improving the quality of our network over the years.

His impressive contribution was recognised during the year, which included the presentation of a certificate by the Company's Chairman commemorating 50 years' of completed service – something no other employee has achieved.

Employees by age bracket



The average age of our team is 44.6 years. We have a good spread across all age groups.

Health & Safety

0

Serious harm incidents occurred during the year

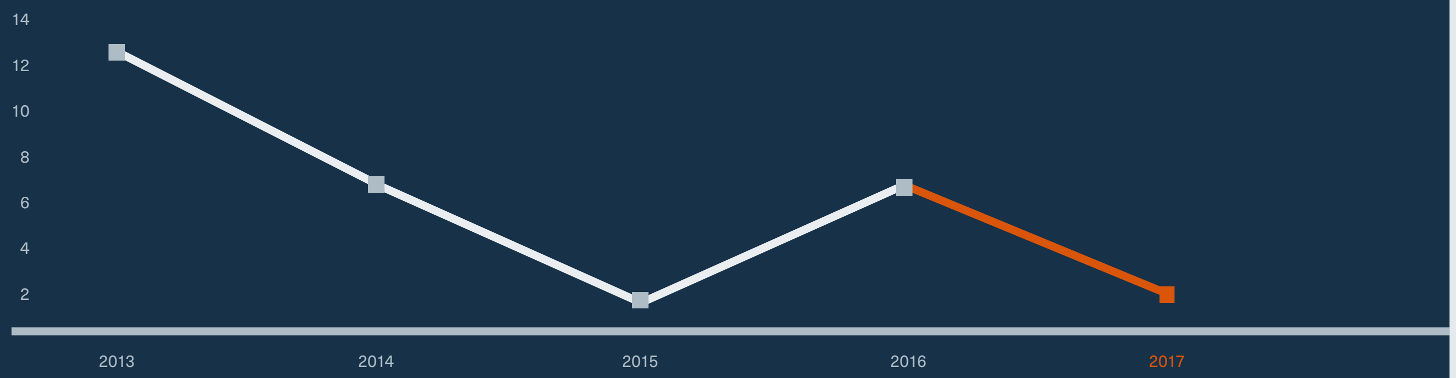
1.7

Lost time incident frequency rate (per 200,000 hours)

18001

OHSAS 18001, Occupational Health and Safety Assessment series and NZS 7901, Electricity and Gas Industries - Safety Management systems for public safety certifications

Lost Time Incident Frequency Rate (per 200,000 hours)



This graph shows the number of lost time incidents per 200,000 hours worked. Whilst the downward trend is pleasing we need to maintain vigilance in relation to all aspects of our work.

Health and safety is our first priority

We work in an industry where risks are ever-present and it is our responsibility to take all practicable steps to eliminate risk for our staff, contractors, customers and members of the public.

Our Health & Safety foundations

Our Health and Safety Charter and Policy, adopted by our Directorate, provides the foundation for safety within Marlborough Lines, but we recognise documents on their own can't create a safe environment. We continually strive to maintain a culture where everyone has the highest regard for safety and acknowledges their individual responsibilities and obligations.

Our actions are wide ranging and include education, training, support, continual review of work practices, appropriate management systems with related actions, trust and open communication.

These are all essential ingredients to ensure a vibrant health and safety culture and during the year we focussed on improving our performance in each of these areas.

Critically, each employee, regardless of position, is empowered to halt any work should health or safety concerns arise in any part of Marlborough Lines' operations.

We hold ISO and ACC certification in health and safety. Our systems are independently audited and we have planned to achieve certification in the new ISO 45001 Occupational Health and Safety standard as soon as it is finally issued in 2018.

Employee engagement is key

Consistent with the provisions of the Health and Safety at Work Act 2015, we facilitated elections during the year for Health and Safety Representatives (HSRs). The Company also provided them with relevant training and ongoing support.

Our elected HSRs also became members of our long-established Health and Safety Committee which meets on a regular basis and includes management representatives. This is an important development in strengthening employee engagement and further improving health and safety within Marlborough Lines.

Working with contractors

Sub-contractors are frequently on our work-sites, and our own staff on the work-sites of other entities. We have strict procedures in place to ensure that the safety standards within each of our work environments are no less than those that would prevail within Marlborough Lines.

Safety of our public

We are aware, of course, that our operations and assets have the potential to impact on our customers and general public.

Properly we have strict systems and procedures in place to ensure safety is a priority in all aspects of our operations and the safety of all parties is fundamental.

Part of this includes ongoing inspection programmes to check all assets are in a safe condition and no-one is at risk from the potential dangers of electricity which can include fire.

In areas of greater potential risk to the public such as schools, boat ramps, water crossings and so on, we take special care and inspect them on a more frequent basis.

Supporting a fit and healthy team

We are committed to nurturing the health of our people - improving fitness, enhancing individual life skills and ensuring the successful operation of our business.

A big part of providing a reliable electricity supply is the need for our staff to respond on a 24/7 basis, sometimes in arduous conditions. It is our responsibility to support them to do this. Our wellness programme provides a variety of health and well-being initiatives to keep our team well, supported and safe.

Targets for 2018 adopted

The Board has adopted a number of Health and Safety targets for the 2017/2018 year including:

- Achieve zero harm incidents
- Improve employee health and wellbeing by offering and promoting wellness initiatives
- Maintain ACC Workplace Safety and Fleet Management qualifications
- Achieve certification in the new ISO 45001 Occupational Health and Safety Management System standard when it is issued
- Obtain an independent review of the Company's health and safety management systems.

Our Community

17

Significant community activities supported

$31k

Tertiary education grants awarded

$206k

Given to community events and initiatives by way of sponsorships and donations

Contributing to our community

As one of the larger corporates in Marlborough, we have always sought to contribute to our community by supporting events and initiatives that help make our region a unique place to live.

In some instances we contribute financially through sponsorship and in others we assist with our technical expertise and by providing temporary electricity supplies to facilitate community events.

For the year in review we gave $237,000 in sponsorship, donations and tertiary study grants (last year $260,000). In addition to that most of our in-kind and on-site support for events was given free of charge.

Events and initiatives we supported during the year included:

- Marlborough Lines Stadium 2000 as Lead Sponsor
- Marlborough Lines Science and Technology Fair as Primary Sponsor
- Marlborough Schools Tertiary Study Awards
- Marlborough Cancer Society
- Life Flight Trust
- Picton Maritime Festival
- Garden Marlborough
- Blenheim and Picton Christmas Parades
- Central Rowing Performance Centre
- University of Canterbury Electric Power Engineering Centre
- Marlborough Chamber of Commerce Business Awards
- Marlborough Wine and Food Festival
- Havelock Mussel Festival
- Classic Fighters Omaka Airshow
- Marlborough Riding for the Disabled
- Marlborough Sounds Restoration Trust.

Going forward we will continue supporting our community (financial and in-kind) for Marlborough events and initiatives. This includes maintaining our focus of supporting the education and advancement of Marlborough youth through primary sponsorship of the Marlborough Lines Science and Technology Fair and continuing provision of Tertiary Study Awards, meeting all existing sponsorship commitments and considering further sponsorship in accord with budgetary and sponsorship criteria.

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.

Our Environment

0

All six major 33/11kV substations emit zero noise

CO2

Company carbon emission assessment completed

14001

ISO 14001, Environmental Management Systems certified

The challenge of caring for our environment is readily accepted

We will always look to minimise the impact of our operations on the environment. This can sometimes be challenging but we will take every opportunity to apply our commitment to sound environmental management, benefiting the community.

We have an Environmental Policy which governs all aspects of our operations relative to the environment. Within that we have measures in place to ensure the requirements of our Environmental Policy are met, so in every instance our environmental impact is minimised.

As a further indication of our commitment, we continue to maintain the internationally recognised ISO 14001 environmental management system certification.

Going further to be a good neighbour
The construction of a major 33/11kV zone substation in a residential area could typically be seen as a difficult challenge for an electricity distribution company. We saw it as an opportunity to create a building to blend in with its neighbourhood, housing the transformers and switchgear while emitting zero noise.

We now have six such substations and, as an endorsement of their quality, we received full landowner support when seeking to establish a new substation in Renwick. Indeed, we have been told by the neighbours of a 33/11kV substation in a residential area of Blenheim that our substation is the ideal neighbour - an attractive building on a landscaped property, well maintained and with no noise.

When providing electricity supplies, either by underground cable or overhead line, we will always consider the environmental impacts, working to minimise those wherever possible.

We measure our carbon footprint
We measure our carbon emissions and undertook a voluntary corporate greenhouse gas assessment for the year ended 30 June 2017. The emissions calculated are shown in the table on the right.

We last undertook an assessment in the 2014 financial year. While calculated emissions have increased since 2014, due to changes in emission factors' values and adjustments to calculation methodologies, the nett emissions are approximately the same due largely to the growth of Marlborough Lines' owned forests/plantations offsetting emissions.

We are committed to reducing greenhouse gas emissions where practicable. Examples include recent efforts to procure more fuel efficient vehicles, intra-office waste segregation to reduce recyclable goods and green waste going to landfill.

It should be noted that approximately 75% of Marlborough Lines' carbon emissions are through transmission and distribution network 'losses'. If these are excluded from calculations, then our overall nett emissions would be negative, i.e. the offsets from the Marlborough Lines' owned forests/plantations are greater than the equivalent CO_2 emissions.

We support environmental initiatives
This year we continued our financial support of the Marlborough Sounds Restoration Trust's Wilding Pine Eradication Programme, whose goal is to restore and protect the natural environment of the Marlborough Sounds. The programme is achieving significant results with the poisoned wilding pines rotting to insignificance and being replaced by native species.

We also continued our support of the New Zealand Dryland Forests Initiative (NZDFI) Eucalypt breeding programme. The vision of the NZDFI is for New Zealand to be a world-leader in breeding ground-durable eucalypts, and to be home to a valuable sustainable hardwood industry based on eucalypt forests, by 2050.

As part of our commitment to the NZDFI's research and development, we also planted out our own 60 hectare property in Eucalypt trees in 2011 to provide a sustainable source of cross-arm timber.

We will maintain our support of these initiatives in 2018.

Scope 1 Emissions	**2016/2017 kg CO_2**
Fuel usage	783,760
Fugitive emissions	10,790
Total	**794,550**
Scope 2 Emissions	
Electricity - end use	90,410
Total	**90,410**
Scope 3 Emissions	
Electricity - T&D losses	3,858,970
Taxis	930
Rental cars	690
Air travel	32,850
Waste to Landfill	46,200
Contracted boat travel	8,310
Contracted helicopters	26,790
Contractors fuel use	318,800
Total	**4,293,540**
Total Emissions	**5,178,500**
Offsets	
Forested land	1,918,590
Total Offsets	**1,918,590**
Nett Carbon Emissions	**3,259,910**

Uniquely Diverse Investments

Our Investments

$107.5m

Total YWG revenue

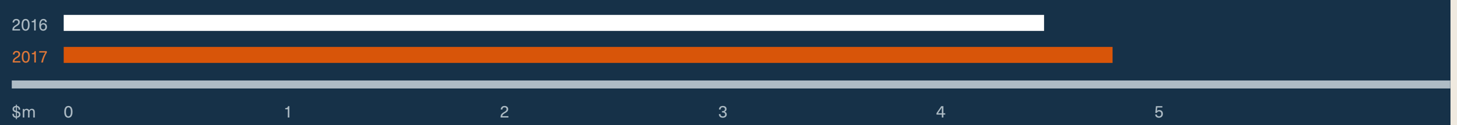
$70.1m

Revaluation gain recorded on YWG assets

$6.8m

Total cash flows received from funds invested and investments in Nelson and YWG

YWG dividends received



This year the dividend from Yealands increased from $4.4m to $4.706m.

Our investments are underpinned by solid assets

We are proud of our investment in Yealands Wine Group
The primary reasons for the purchase of our 80% shareholding in Yealands Wine Group were the proven earnings and the underlying capital value of the land and assets, together with the opportunity for capital growth.

The financial results that have flowed from the time of the acquisition of our shareholding in July 2015 have proven the validity of our investment.

Yealands Wine Group overview
Yealands Wine Group is a company based in Seaview, Marlborough with 1,798 hectares of freehold land including 1,056 hectares of planted vineyard and a winery with consented processing capacity of 27,000 tonnes. It is the sixth largest exporter in the New Zealand wine industry with global distribution to more than 75 countries.

Marlborough Lines Limited acquired 80% of Yealands Wine Group on 1 July 2015. A further 5% was acquired on 30 August 2016 and a further 4.35 million shares were issued to Marlborough Lines on 29 March 2017, bringing Marlborough Lines' total shareholding to 85.6%.

Yealands recorded a net tax loss of $7.2m
Yealands has had a challenging financial year. The revenue was a record $107.5 million (up 13%) however the company sustained an after tax loss of $7.2 million for the year ended 30 June 2017.

The 14 November 2016 earthquake had a significant impact on the reported results of the company as it required the write-off/impairment of a large number of wine tanks, the loss of wine and the costs related to the reinstatement of the winery production capacity prior to the 2017 vintage.

Although the company has received some insurance payments for the repairs, because the insurance claim has not yet been finalised, these proceeds will be recognised as revenue in the reported results for the year ending 30 June 2018.

The Yealands results were also negatively affected by the accounting requirements to revalue the acquired inventory on 1 July 2015 up to fair value which in effect resulted in the 2015 inventory having been recorded as sold at no profit, with that profit being recorded as part of the discount on acquisition recorded in the prior year result.

Yealands also recorded a comprehensive profit of $53.2m
A market valuation was undertaken on Yealands Wine Group property as at 30 June 2017 with the independent registered valuer assessing the value of all Yealands vineyards and the Seaview Winery at a combined value of $173.6 million. This has resulted in a $70.1 million uplift in the carrying values of the assets. This valuation uplift has resulted in Yealands Wine Group recording a total comprehensive profit for the year of $53.2 million.

Overall a significant return on our investment
The total cost of Marlborough Lines' 85.6% holding of Yealands Wine Group is $99.1 million. Incorporating the revaluation gains has increased the value of Yealands equity as at 30 June 2017 to $189.3 million of which our share of equity stands at $162 million.

In addition to the capital return, and the funding of capital expenditure, Yealands was also able to pay a dividend of $5.5 million to its shareholders, with $4.7 million paid to Marlborough Lines. Since acquisition on 1 July 2015, Marlborough Lines has received $9.1 million of fully imputed dividends from Yealands Wine Group.

The total internal rate of return, including dividends and revaluations, in the two years of Marlborough Lines' ownership equates to 33.79%.

The earthquake also provided operational challenges
The challenges presented by the earthquake were significant given that it occurred some four months from vintage. It had a substantial impact on the Winery at Seaview. Many tanks sustained substantial damage and a number were damaged beyond repair.

But the Yealands team seized the opportunity to demonstrate their prowess and the entire winery was up and running in time for the 2017 vintage. The achievement of the company's staff and contractors in completing the restoration of the winery in time for the 2017 vintage was exceptional.

And the 2017 vintage had its challenges

The 2017 vintage will long be remembered for the two cyclones experienced in Marlborough prior to vintage with resultant heavy rain. But fortunately with good drainage and wind flow at the unique Seaview location, along with excellent planning and decision making, grape quality was good and quality wines have been produced for another vintage.

The total volume of grapes processed was 21,825 tonnes which was an increase of 2.5% on the previous year.

Water supply has been secured

At the time of acquisition it was identified the risks associated with a drought in Marlborough could be eliminated if the Seaview Vineyard had additional seasonal storage.

Accordingly Yealands has constructed a significant storage dam and are well advanced in the construction of a second dam which is scheduled for completion later this year.

The first dam was constructed at a cost of approximately $2.5 million and the second will be a similar amount with both funded from operational cash flows.

These two dams will augment existing water storage at Seaview.

Going forward not only will these dams be of immense benefit for irrigation they will also be landscaped, provide bird habitat and be accessible to members of the public.

Additional Marlborough planting is underway

In recognition of the ongoing demand for grapes Yealands has planted a further area of some 35 hectares on its coastal Capeview property.

It also commenced preliminary work in relation to planting an adjacent farm property purchased for vineyard expansion.

Subject to achieving resource consents it is intended that some of this land will be planted in the spring of 2017.

Whilst the company has plans for further plantings in Marlborough, during the year it contracted to sell its vineyards and small winery located in the Hawkes Bay area. It is the company's intention to focus on its wine production in Marlborough.

Winery Development

Consents have been obtained to increase the capacity of the Seaview Winery to 27,000 tonnes in recognition of:

- The ongoing demand for the company's product;
- The projected volume of grapes which will be produced from the company's increased plantings;
- The benefits of being able to maximise wine quality through timely harvest at vintage; and
- The efficiency of processing.

The expansion of the winery included the installation of over 110 tanks with a volume in excess of 17 million litres.

Appointment of CEO

During the year Mr Adrian Garforth was appointed CEO of Yealands Wine Group and took up his position in January 2017.

Mr Garforth has substantial international experience in all sectors of the wine industry and is a Master of Wine. He currently holds the position of Deputy Chairman of the prestigious international group of Wine Masters.

The company is pleased to have attracted a CEO of Mr Garforth's calibre and the Yealands Wine Group have every confidence Yealands will continue to prosper and grow under his leadership.

Market update

At the beginning of the year Yealands was challenged by the political environment in Britain when the Brexit referendum resulted in the decision to exit from the European Union. This resulted in a weaker pound and in effect increased the cost of New Zealand wine. Irrespective, Yealands wine sales globally in 2017 were 16.83 million litres which was an increase of 30% on the previous year.

Prospects for the 2018 year

The company remains optimistic for continued sales particularly in the international markets and has plans in place to enable further sales to be achieved.

The additional irrigation storage contained within the new dams will provide a greater level of comfort should a dry summer prevail and the improvements undertaken at the Winery to improve capacity will augur well for the 2018 vintage.

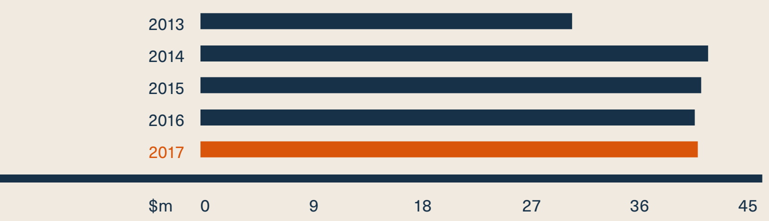
The continued acknowledgements gained by Yealands Wine Group at international wine shows and its recognition in relation to sustainability will engender ongoing customer support.

International Recognition

Yealands has won numerous trophies recognising the quality of its wines and the underlying efforts of the team in the production of sustainable wines. Highlights for the year included:

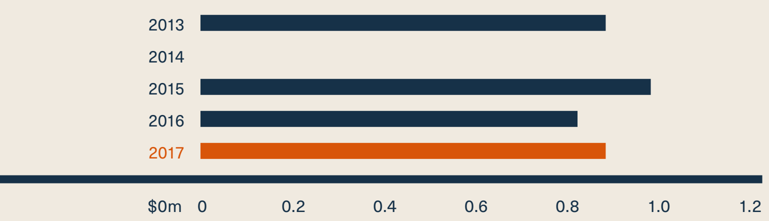
- Runner-up Renewal Energy Implementation Award for solar panel installation – the Drinks Business Green Awards (UK).
- Trophy at the Hong Kong International Wine and Spirits Competition 2016 for the Yealands Estate Single Vineyard Pinot Noir 2015.
- Trophy at the Air New Zealand Wine Awards 2016 for Champion Red for the Yealands Estate Single Vineyard Pinot Noir 2015.
- Trophy at the Air New Zealand Wine Awards 2016 for Champion Sauvignon Blanc for the Baby Doll Sauvignon Blanc 2016.
- Highly Awarded at the Sydney International Wine Competition. An impressive medal haul of three top 100/Blue Gold, two Blue Gold and four Golds.
- Platinum medal for International Award of Excellence in Sustainable Wine Growing at the Botanical Research Institute of Texas (BRIT) 2017.
- The Drinks International Wine Tourism Challenge awarded Most Innovative Tourism Experience 2017 to Yealands Wines for the White Road Tour.
- Yealands received certification as New Zealand's first butterfly friendly organisation by the Moths and Butterflies Trust of New Zealand (NZMBT) for Butterfly Gully.

NEL RAB value



As at 31 March 2017 NEL had a Regulatory Asset Base value of $41.2m, 0.4% up on prior year.

NEL dividends received



NEL paid a dividend of $0.9m in 2017, consistent with its target. In 2014 shareholders agreed to forgo dividends in favour of expenditure on capital projects.

Nelson Electricity Limited

Nelson Electricity 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 and appoints two directors to the Board, with an independent Chairman.

NEL has continued its strong performance with net profit after tax for the year ended 31 March 2017 of $2.302 million, up 20% on last year's $1.915 million.

NEL generated $3.975 million of operating cash and as a result was able to repay $1.6 million of debt and also fund a $1.8 million dividend to its shareholders.

NEL's Regulated Asset Base, upon which it earns a regulated rate of return, is $41.2 million as at 31 March 2017. The rate of return will be reset to come into effect on 1 April 2020 with the rate largely dependent on the five year government bond rate prevailing during the three months between July and September 2019.

NEL, having constructed a new 33/11 kV zone substation and installed a third 33kV supply cable, is in a strong position going forward with only routine expenditure projected. NEL will continue to operate as an efficient lines business with industry leading reliability.

Cash holdings

As at 30 June 2017 Marlborough Lines also held $30.7 million of funds either on call or on term deposit with two major New Zealand trading banks. Interest rates have been low over the year with a return on our funds at bank averaging 3.2%. Marlborough Lines has actively considered a number of investment opportunities over the year to enable these funds to yield a higher return, however none of the opportunities met our criteria for investment.

Investments income summary

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

Total cash flows generated from all investments, including management fees and interest received for the year (but excluding capital gains), were $6.8 million compared to $8.3 million for the 15 month prior period.

The Marlborough Lines directors consider this to be a satisfactory result in a year where available interest rates for funds on deposit have been at historic lows.

As discussed, in addition to the cash return, a substantial unrealised capital gain has been recorded on our investment in Yealands Wine Group. This uplift hasn't been included in the table below, but should be factored in when considering the overall level of return on our investments.

Accounting for our investments

Yealands is a fully consolidated subsidiary

Under the Financial Reporting Standards (FRSs), YWG is defined as a subsidiary of Marlborough Lines (because Marlborough Lines can exert control over the company, due to its 86% ownership stake) and is fully consolidated into the Marlborough Lines financial statements. The FRSs require that 100% of the YWG profit be included in the Marlborough Lines Group Income Statement and 100% of the assets and liabilities of YWG be shown on the Marlborough Lines Group Balance Sheet. The share of YWG not owned by Marlborough Lines is accounted for through the Non-Controlling Interest value shown on the Income Statement, Statement of Equity and Balance Sheet.

Nelson Electricity is an associate company

Nelson Electricity is defined under the 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. Thus, Marlborough Lines is required to carry the investment at cost, less any impairment in the Parent accounts, and to equity account its share of NEL's undistributed surplus or deficit in the Group accounts. This means that if NEL has undistributed current year earnings, then Marlborough Lines' share of these earnings is picked up in the consolidation process.

A summary of cash flows generated from investments

	2017	2016	2015	2014	2013
Cash Flows from Investments ($m)	6.8	8.3	9.7	7.4	7.4
Holding Value ($m)					
Nelson Electricity	15.3	15.0	14.9	15.0	13.8
OtagoNet JV	–	–	–	76.4	74.5
Otago Power Services	–	–	–	3.6	3.3
Horizon Energy Distribution	–	–	15.3	14.5	14.5
Yealands Wine Group	99.1	89.2	–	–	–
Term deposits	29.4	28.0	108.0	–	–
Total value of investments	143.8	132.2	138.2	109.5	106.1
Cash Flows Generated from Investments	4.74%	6.31%	7.01%	6.73%	6.99%

Note: 2016 was a 15 month period, but only includes 12 months of results from YWG and the annual dividend from NEL.

Financial Statements, Governance & Disclosures

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Review of Financial Statements

We've simplified our financial statements

Consolidated Group results are shown

This is the first year that Marlborough Lines, in accordance with NZ IFRS, has opted to present only consolidated Group results. This is to decrease the size of our financial statements and make them easier to interpret. We are however conscious that there may be readers that are interested in the Marlborough Lines Limited Parent company results, and these have been presented separately as a note to the financial statements (page 68).

Comparative numbers are for a 15 month period

In the prior year Marlborough Lines elected to change its balance date to 30 June coming into effect on 30 June 2016. This has resulted in the comparative 2016 period being for 15 months, rather than a typical year, making direct comparison between periods difficult. The 15 month comparative period includes only 12 months of results from our investment in Yealands Wine Group Limited, which the Company acquired effective from 1 July 2015.

Performance of the Group

Trading results have been negatively impacted by the November 2016 earthquake

The November 2016 Kaikoura earthquake has had a significant impact on the reported operations of the Group. While it only increased the operating expenses of the electricity lines business moderately (circa $0.5 million), the real impact is seen within the results of Yealands. The earthquake caused the write off of $3.4 million of wine tanks and $6.4 million of additional costs incurred. It is expected that the majority of these costs will be covered by insurance proceeds, but as a claim has not yet been finalised, no insurance proceeds have been recognised in the 2017 results.

Reported profitability is also negatively affected by accounting requirements

As discussed last year, the NZ IFRS accounting requirements require the revaluation of assets to fair value upon acquisition. This resulted in the Yealands inventory on hand at 1 July 2015 being revalued upwards by $35.7 million, reported as part of the 'Discount arising on acquisition of subsidiary'. As this inventory is sold, the Cost of Sales is increased, effectively making no profit on those sales. $25.7 million of this cost uplift flowed through the trading results last year and a further $8.4 million was recognised this year.

The reported net profit after tax for the year is negative

As a result of the costs related to the earthquake and the accounting requirements, as mentioned above, the reported net profit after tax of the Group is a loss of $1.5 million. Backing the after tax impacts of these two one-off adjustments out results in a net profit after tax of $11.6 million.

However the Yealands assets have been revalued with a net $60.4 million increase

In accordance with accounting requirements, the property assets of Yealands have been valued by an independent valuer as at 30 June 2017. This has seen a $70.1 million uplift to the property assets of Yealands, offset in part by a deferred tax liability recognised for $9.7 million, with the net effect recorded in Other Comprehensive Income. This uplift in valuation is a reflection of both the favourable price that was achieved at acquisition on 1 July 2015 and also the strong growth in the value of Marlborough vineyards over that time. Of the $174 million of value of property, more than 80% of it comes from the vineyard and winery located at Seaview, Marlborough. The planted vineyard land at Seaview was valued at $131,600 per hectare based upon recent Awatere Valley sales, with additional value held in plantable land and hill grazing land. The Seaview winery which has a current capacity of 24,000 tonnes was valued at $19.3 million on a depreciated replacement cost basis. Yealands also owns six additional vineyards at various Marlborough locations, with the assessed value ranging from between $81,000 to $174,000 per hectare.

Performance of Marlborough Lines parent entity

Revenues are stable

Electricity network revenue for the year to 30 June 2017 was $43.5 million, which is slightly up on the 2016 result of $43.1 million, once 2016 has been adjusted to reflect a 12 month period. Modest growth in the number of customer connections and stable energy consumption volumes helped in holding revenues steady. An average 2% increase was made to prices during the year because of inflationary pressures on costs.

Operating expenditure is up

Operating expenditure on our network is up as we have had to incur additional maintenance on our network following the Kaikoura earthquake. This involved a massive fault response including mobilising field crews from three other electricity lines businesses, using helicopters to transport field staff and equipment and a lot of overtime being worked. The earthquake also led to the re-prioritisation of our work programme for the year and a number of capital projects were delayed as efforts were put into restoration activities, such as straightening poles, re-tensioning conductor, and asset inspection (including checking line heights).

Net profit on an adjusted basis is up on previous year

Net profit for the Parent Company of $9.1 million for the year, is up on the prior year result of $8.4 million (when adjusted to a 12 month period). A number of items assisted with the current year result including the receipt of a higher dividend from both Yealands and Nelson Electricity and increased connection activity on our network resulting in higher capital contribution and vested asset income.

Our balance sheet is strong

Our balance sheet has grown to more than $600m

The full consolidation of the YWG balance sheet and the revaluation of the YWG assets has assisted in the Group's total assets increasing 15% from $549.9 million from the prior year, to $632.5 million as at 30 June 2017.

Debt levels remain low

Yealands had term borrowings secured against its assets of $102.1 million as at 30 June 2017. This represents a debt ratio of 31% on YWG's total assets of $327.9 million. This debt is not guaranteed or secured in any way by Marlborough Lines Limited. The Marlborough Lines parent currently holds no debt, and as at 30 June 2017 had $30.7 million of funds in the banking system awaiting further investment.

Equity has increased

Equity attributable to the Marlborough Electric Power Trust, as 100% owners of the parent entity has increased 13% from $358.6 million to $406.7 million during the year.

Cash flow

Operating cash flows remain strong

Group net cash flows from operating activities of $30.2 million for 2017, were up on last year's result of $26.6 million.

Capital expenditure has increased

The Group has spent $42.3 million on the purchase of Plant, Property and Equipment this year, an increase from $32.3 million the year before. This increase is primarily related to the acquisition of further land at Seaview to optimise production efficiency and investment at the winery to increase capacity and also replace damaged tanks after the earthquake. Capital expenditure within the Parent Company was down on the prior year as the focus was on restoration efforts following the earthquake (largely operating expenditure), rather than major capital works.

Cash distributions to the Trust are stable

This year Marlborough Lines paid a dividend to the Marlborough Electric Power Trust of $4.285m (2016: $4.285m) to enable a $150 distribution to electricity consumers in the Marlborough region, to be paid in early 2018.

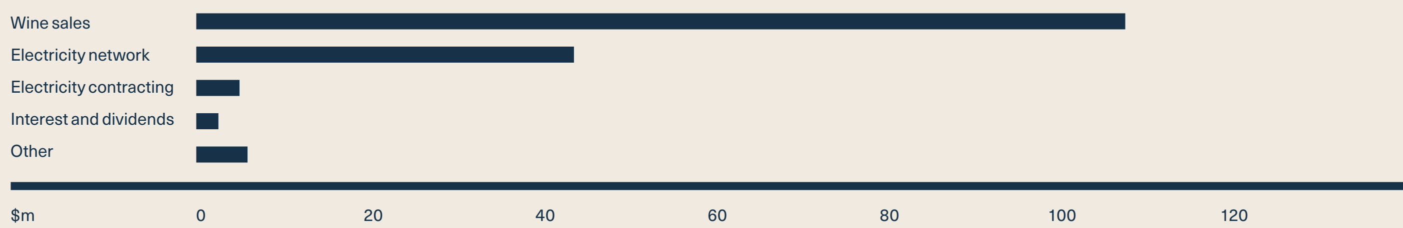
The remaining amount included within dividends paid is the amount that YWG paid to the non-controlling interest in that company via two dividend payments on 1 July 2016 (declared 30 June 2016) and 30 June 2017. The $9.1 million of dividends paid by YWG to MLL during the year are eliminated upon consolidation of the Group accounts.

The future – what happens next at Marlborough Lines?

Marlborough Lines will adapt with the changes in the electricity industry

Marlborough Lines continues to be in a strong financial position and has an Asset Management Plan that provides for the region's electricity needs in the foreseeable future. The strength of our balance sheet ensures the Company is well positioned both to weather volatility and to grow the business. We now have investments in YWG and NEL - and funds on term deposit that can be used to take advantage of new investment opportunities for the benefit our shareholder and consumers.

Group revenue type



Revenue from wine sales accounts for 66% of total group turnover.

Financial Statements 2017

The Directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which materially reflect the financial position of the Marlborough Lines Limited Group and the results of its operations and cash flows for the year ended 30 June 2017.

The Directors consider that the financial statements of the Group have been prepared using accounting policies appropriate to the Group's circumstances, consistently applied, and supported by reasonable and prudent judgements and estimates and that all applicable New Zealand Equivalents to 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 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 Group and to prevent and detect fraud and other irregularities.

The Directors are pleased to present the financial statements of the Marlborough Lines Limited Group for the year ended 30 June 2017.

This report is dated 27 September 2017 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
27 September 2017

K J Forrest
Managing Director
27 September 2017

Consolidated Statement of Comprehensive Income

For the 12 month period ended 30 June 2017

	Notes	Group Year to 30 June 2017 $000	Group 15 Months to 30 June 2016 $000
Continuing Operations			
Revenue	3	161,524	158,873
Operating Expenses	4	(138,130)	(124,354)
Customer Discounts		(8,186)	(11,545)
Operating surplus before non-recurring expenses		**15,208**	**22,974**
Non-recurring expenses – earthquake related asset impairment	5	(3,428)	–
Non-recurring expenses – earthquake related stock loss and costs	5	(6,384)	–
Operating surplus		**5,396**	**22,974**
Share of Equity Accounted Investments Net Surplus (Loss)	9	251	118
Net Fair Value Gain on Investment Property	10	–	461
Gain recognised on disposal of Available-For-Sale Financial Asset		–	838
EBITDA		**5,647**	**24,391**
Depreciation and Amortisation	6, 7	(9,947)	(12,375)
Financial Income	16	1,044	2,676
Financial Expenses	16	(2,207)	(8,355)
Realised/unrealised foreign exchange gains	16	942	2,347
Discount arising on acquisition of subsidiary	8	–	30,445
Profit Before Tax Expense		**(4,521)**	**39,129**
Tax Benefit/(Expense)	23	2,991	(2,523)
Net Profit for the period		**(1,530)**	**36,606**
Other Comprehensive Income			
Items that may be reclassified subsequently to profit or loss			
Net Fair Value Gain on Available-For-Sale Financial Assets		–	(838)
Net Change in Foreign Currency Translation Reserve		(28)	(68)
Asset revaluation	6	70,142	–
Tax effect of asset revaluation		(9,740)	–
Other		32	–
Other Comprehensive Income Net of Tax		**60,406**	**(906)**
Total Comprehensive Income for the period		**58,876**	**35,700**
Net profit for the period attributable to:			
Owners of the Company		(636)	30,539
Non-Controlling Interests	19	(894)	6,067
		(1,530)	**36,606**
Total comprehensive income for the period attributable to:			
Owners of the Company		51,036	29,633
Non-Controlling Interests	19	7,840	6,067
		58,876	**35,700**

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

Consolidated Statement of Changes in Equity

For the 12 month period ended 30 June 2017

	Group Share Capital $000	Group Revaluation Reserves $000	Group FCTR $000	Group Retained Earnings $000	Attributable to Owners of the Parent $000	Non Controlling Interest $000	Group Total Equity $000
Balance at 1 April 2015	29,026	43,627	–	260,575	333,228	–	333,228
Total Comprehensive Income for the 15 month period							
Net Profit for the 15 month period	–	–	–	30,539	30,539	6,067	36,606
Other Comprehensive Income Net of Tax							
Disposal of Held for Sale Investments	–	(838)	–	–	(838)	–	(838)
Net change in Foreign Currency Translation Reserve	–	–	(68)	–	(68)	–	(68)
Total Comprehensive Income for the 15 month period	**–**	**(838)**	**(68)**	**30,539**	**29,633**	**6,067**	**35,700**
Transactions with Owners Recorded Directly in Equity							
Dividends Paid to Equity Holders	–	–	–	(4,285)	(4,285)	(1,100)	(5,385)
Non-Controlling Interest arising on acquisition (Note 19)	–	–	–	–	–	22,300	22,300
Balance at 30 June 2016 (15 Month period)	**29,026**	**42,789**	**(68)**	**286,829**	**358,576**	**27,267**	**385,843**
Balance at 1 July 2016	**29,026**	**42,789**	**(68)**	**286,829**	**358,576**	**27,267**	**385,843**
Total Comprehensive Income for the 12 month period							
Net Profit for the 12 month period	–	–	–	(636)	(636)	(894)	(1,530)
Other Comprehensive Income Net of Tax							
Net change in Foreign Currency Translation Reserve	–	–	(10)	–	(10)	(18)	(28)
Net change in Asset Revaluation Reserve	–	51,682	–	–	51,682	8,720	60,402
Other	–	–	–	–	–	32	32
Total Comprehensive Income for the 12 month period	**–**	**51,682**	**(10)**	**(636)**	**51,036**	**7,840**	**58,876**
Transactions with Owners Recorded Directly in Equity							
Dividends Paid to Equity Holders	–	–	–	(4,285)	(4,285)	(794)	(5,079)
Movement in Non-Controlling Interest	–	–	–	1,377	1,377	(6,952)	(5,575)
Balance at 30 June 2017 (12 Month period)	**29,026**	**94,471**	**(78)**	**283,285**	**406,704**	**27,361**	**434,065**

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

Consolidated Statement of Financial Position

As at 30 June 2017

	Notes	Group 30 June 2017 $000	Group 30 June 2016 $000
Non-Current Assets			
Plant, Property and Equipment	6	460,855	375,198
Intangible Assets	7	2,538	2,834
Investments in Associates Accounted for Using the Equity Method	9	15,283	15,032
Investment Property	10	–	3,111
Total Non-Current Assets		**478,676**	**396,175**
Current Assets			
Cash and Cash Equivalents		10,678	6,998
Short-Term Investments		22,375	28,000
Income Tax Receivable		1,755	1,279
Trade and Other Receivables	11	34,372	28,399
Inventories	12	78,232	86,838
Derivatives	21	1,099	2,144
Investment Property Held-For-Sale	10	3,111	–
Property, Plant and Equipment Held-For-Sale		2,228	61
Total Current Assets		**153,850**	**153,719**
Total Assets		**632,526**	**549,894**
Non-Current Liabilities			
Finance Lease Payable		–	26
Retirement Benefit Obligations		575	568
Deferred Tax Liability	23	53,470	48,608
Term Borrowings	15	75,000	75,000
Total Non-Current Liabilities		**129,045**	**124,202**
Current Liabilities			
Trade and Other Payables	13	37,074	23,225
Finance Lease Payable		192	455
Employee Entitlements	14	2,971	2,633
Derivatives	21	2,079	4,286
Term Borrowings	15	27,100	9,250
Total Current Liabilities		**69,416**	**39,849**
Equity			
Share Capital	17	29,026	29,026
Revaluation Reserves and Foreign Currency Translation Reserve	18	94,393	42,721
Retained Earnings		283,285	286,829
Equity Attributable to Owners of the Company		406,704	358,576
Non-Controlling Interests	19	27,361	27,267
Total Equity		**434,065**	**385,843**
Total Equity and Liabilities		**632,526**	**549,894**

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

Consolidated Statement of Cash Flows

For the 12 month period ended 30 June 2017

	Note	Group Year to 30 June 2017 $000	Group 15 Months to 30 June 2016 $000
Cash Flows from Operating Activities			
Receipts from Customers		159,886	164,979
Receipts from Associates		190	223
Interest Received		1,044	2,676
Dividends Received		900	1,118
Payments to Consumers, Suppliers and Employees		(125,023)	(132,880)
Interest Paid		(4,415)	(3,770)
Income Tax Paid		(2,362)	(5,713)
Net Cash generated from Operating Activities	**26**	**30,220**	**26,633**
Cash Flows from Investing Activities			
Proceeds from Sale of Plant, Property and Equipment		4,329	447
Acquisition of subsidiary		–	(115,987)
Cash acquired on acquisition		–	7,024
Sale of Investments		–	15,312
Purchase of Plant, Property and Equipment		(42,319)	(32,260)
Purchase of Intangible Assets		(271)	(558)
Net Cash used in Investing Activities		**(38,261)**	**(126,022)**
Cash Flows from Financing Activities			
Proceeds from Borrowings		151,250	109,622
Repayment of Borrowings		(133,400)	(100,372)
Cash (paid to)/received from Non-Controlling Interest		(5,575)	22,300
Dividends Paid		(6,179)	(7,285)
Net Cash generated from Financing Activities		**6,096**	**24,265**
Net (Decrease) / Increase in Cash and Cash Equivalents		(1,945)	(75,124)
Cash and Cash Equivalents at the beginning of the period		34,998	110,122
Cash and Cash Equivalents at the end of the period		**33,053**	**34,998**

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

Statement of Accounting Policies

For the 12 month period ended 30 June 2017

Reporting Entity

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.

The 'Group' for financial reporting purposes comprises:

- Marlborough Lines Limited (Parent Company)
- Yealands Wine Group Limited (86% owned subsidiary)
- Seaview Capital Limited (100% owned holding company)
- Southern Lines Limited (100% owned holding company)
- Nelson Electricity Limited (50% owned associate company).

The Group's primary activities relate to electricity distribution in the upper South Island of New Zealand and the production of wine which is sold both nationally and internationally.

Statement of Compliance

The Group reports in accordance with Tier 1 for-profit accounting standards under XRB A1: Accounting Standard Framework. These financial statements have also been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 2013 and the Energy Companies Act 1992.

Basis of Preparation

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

The 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.

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

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.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company: has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns.

Comparative Figures

These 30 June 2017 financial statements are comparing a 12 month period to a 15 month period. The 15 month period for the 2016 financial period for the Group includes only 12 months of results from Yealands Wine Group Limited as it was acquired on 1 July 2015.

Changes in Accounting Policies

There are no changes to significant accounting policies.

Notes to the Financial Statements

Key Judgements and Estimates

This Key Judgements and Estimates section provides information on the subjective assessments made by management that affect the reported results.

1 Key Judgements and Estimates

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 30 June 2017, that have the potential to cause a material adjustment to the carrying amounts of assets and liabilities are disclosed below. In summary they are:

Fair Value of Electricity Reticulation Network	Note 6	Plant, Property and Equipment
Fair Value of Land, Buildings, Vineyard Improvements and Bearer Plants	Note 6	Plant, Property and Equipment

1.1 Critical Accounting Estimate – Fair Value of Electricity Reticulation Network

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.

Electricity Reticulation Network assets belonging to the Parent Company were revalued as at 30 June 2016 to fair value using discounted cash flow methodology as assessed by independent valuer PricewaterhouseCoopers. The valuation carried out is consistent with NZ IAS 16: Property, Plant and Equipment, and in the absence of specific market evidence of relevance to Marlborough Lines Limited's 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 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.

Model Input	Key assumption	Sensitivity modelled	Impact on value
Revenue growth	Real price growth 0%	5% movement in revenue	6.8% movement
	Consumer growth 0.3%		
	Volume growth per ICP 0%		
Operating expenditure	Consistent with AMP	5% movement in opex	1.8% movement
Discount rate	6.0% to 6.5%	0.5% movement in rate	4.1% movement
RAB multiple	1.0 to 1.05	0.05 increase	3.7% movement

The carrying value of reticulation system assets was found to be within the valuation range and no adjustment was made for 2016.

In the current year management reviewed the key assumptions used in the 30 June 2016 valuation and found no reason to change the assessment of fair value.

1.2 Critical Accounting Estimate – Fair Value of Land, Buildings, Vineyard Improvements and Bearer Plants

Land and Buildings (not including reticulation system assets), Vineyard Improvements and Bearer Plants are revalued to fair value periodically by independent 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 are carried out in accordance with NZ IAS 16: Property, Plant and Equipment.

In the current year the properties owned by Yealands Wine Group Limited were subject to a valuation as at 30 June 2017 by external, independent property valuer Colliers International, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The valuation basis was a market based direct comparison.

Key assumptions include the assessed value of the Seaview vineyard land and improvements ($131,600 per hectare) and the Seaview Winery which was valued on a Depreciated Replacement Cost basis at $19.3 million.

The fair value of the land, buildings, vineyard improvements and bearer plants was assessed at $173.6 million, resulting in a $70.1 million uplift on the 30 June 2017 carrying values.

1.3 Critical Accounting Estimate – Impairment

The Company's Directors are of the view that there is no significant impairment in value existing in relation to the carrying values at balance date following the addition of new purchases at cost, annual depreciation charges and disposals in the usual course of business.

Performance

This Performance section provides information on how the Group earned its revenue and provides a breakdown of operating expenditure. Also, as the Company has opted to simplify its financial statements and display only consolidated Group results, the Parent Company information has been provided as a note below to inform readers of how it has performed as an individual entity.

2 Parent Company Information

Statement of Comprehensive Income

For the 12 month period ended 30 June 2017

	Parent Year to 30 June 2017 $000	Parent 15 Months to 30 June 2016 $000
Continuing Operations		
Revenue	56,888	66,695
Operating Expenses	(30,417)	(34,195)
Customer Discounts	(8,186)	(11,545)
Operating surplus	**18,285**	**20,955**
Net Fair Value Gain on Investment Property	–	461
Gain recognised on disposal of Available-For-Sale Financial Asset	–	838
EBITDA	**18,285**	**22,254**
Depreciation and Amortisation	(9,422)	(11,791)
Finance Income	1,014	2,604
Finance Costs	(68)	(104)
Profit Before Tax Expense	**9,809**	**12,963**
Income Tax Expense	(690)	(2,410)
Net Profit for the period	**9,119**	**10,553**
Other Comprehensive Income		
Items that may be reclassified subsequently to profit or loss		
Net Fair Value Gain on Available-For-Sale Financial Assets	–	(838)
Other Comprehensive Income Net of Tax	**–**	**(838)**
Total Comprehensive Income for the period	**9,119**	**9,715**

Parent Company Balance Sheet Information

	Parent 30 June 2017 $000	Parent 30 June 2016 $000
Total Assets	397,743	393,523
Total Liabilities	57,494	58,109
Net Assets	**340,249**	**335,414**

3 Revenue

	Group Year to 30 June 2017 $000	Group 15 Months to 30 June 2016 $000
Electricity Network Revenue	43,518	53,864
Wine Sales	107,459	95,245
External Contracting Revenue	4,515	4,532
Vested Assets	1,409	1,035
Dividends from Equity Accounted Associates	900	840
Dividends from other investments	–	278
Other Income	3,723	3,079
Operating Revenue	**161,524**	**158,873**

Accounting Policy – Revenue Recognition

Revenue comprises the fair value of consideration received for the sale of goods and services, excluding GST, rebates and discounts and after eliminating sales within the Group.

Revenue is recognised as follows:

- Electricity Network Revenue is recognised when an entity in the Group has delivered the service to the buyer
- Wine Sales are recognised when an entity in the Group has delivered to the buyer the significant risks and rewards of ownership of the goods. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer or at the Free on Board (FOB) port / delivery point or as otherwise contractually determined. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, or where there is continuing management involvement with the goods
- External 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
- Certain network extensions are gifted to companies in the Group in return for the company concerned assuming maintenance responsibility, and are classified as Vested Assets. 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
- Dividend revenue is recognised when the shareholder's right to receive payment is established
- Revenue from the provision of contract wine processing services, included in Other Income, is recognised in the Statement of Comprehensive Income on a percentage of completion basis.

4 Expenditure

	Group Year to 30 June 2017 $000	Group 15 Months to 30 June 2016 $000
Profit before taxation has been arrived at after charging:		
Remuneration of Auditors – Audit of the Financial Statements	148	139
Remuneration of Auditors – 2016 financial period overruns	26	–
Remuneration of Auditors – Other Assurance Services	21	39
Remuneration of Auditors – Other Services	32	–
Directors' Fees	605	581
Bad Debts Written Off (Recovered)	37	61
Employee Benefits – Retirement Gratuities	39	115
Employee Benefits – Employer Superannuation Contributions	664	767
Educational Grants	31	28
Loss on Disposal of Plant, Property and Equipment	129	299
Rental and Operating Lease Expenses	875	887
Wine Cost of Sales	77,772	66,960
Wine Distribution and Selling Expenses	23,994	16,586
Other Operating and Administrative Expenses	33,756	37,892
	138,130	**124,354**

Explanatory Note – Impact of Acquisition Accounting on Wine Cost of Sales
Wine Cost of Sales in 2016 and to a lesser extent in 2017 have been affected by acquisition accounting requirements, with Inventory written up to fair value at the time of acquisition.

5 Non-recurring expenses

	Note	Group Year to 30 June 2017 $000	Group 15 Months to 30 June 2016 $000
Asset impairment – damaged tanks	6	3,428	–
Expenses incurred and stock loss		6,384	–
Earthquake related expenses		**9,812**	**–**

Explanatory Note – Impact of earthquake
As a result of the November 2016 Kaikoura Earthquake, Yealands Wine Group incurred costs in maintaining services and reinstating damaged facilities. As at 30 June 2017 the insurance claim was yet to be lodged and costs are ongoing.

Long Term Assets

This Long Term Assets section provides information on the assets that create Group revenue and also the amounts spent on those assets.

6 Plant, Property and Equipment

Consolidated Group	Electricity Reticulation Network at Fair Value $000	Land at Fair Value $000	Buildings at Fair Value $000	Vineyard Improvements at Fair Value $000	Bearer Plants at Fair Value $000	Vehicles Plant and Equipment at Cost $000	Capital Work in Progress at Cost $000	Total $000
Cost or Valuation								
Balance at 1 April 2015	369,716	8,639	20,332	–	–	17,507	2,294	418,488
Acquisition through business combination	–	35,475	13,686	34,141	5,401	37,519	–	126,222
Additions	11,589	6,194	1,631	1,182	–	9,473	5,225	35,294
Disposals	(2,354)	(231)	(234)	–	–	(1,285)	(2,294)	(6,398)
Balance at 30 June 2016	**378,951**	**50,076**	**35,415**	**35,324**	**5,401**	**63,214**	**5,225**	**573,606**
Additions	6,743	4,352	2,720	5,893	633	13,790	11,958	46,088
Revaluation	–	35,790	4,319	19,642	6,827	–	164	66,742
Disposals/adjustments	(4,646)	(4,002)	(953)	1,328	1,386	(4,680)	(5,225)	(16,791)
Balance at 30 June 2017	**381,048**	**86,216**	**41,501**	**62,187**	**14,247**	**72,324**	**12,122**	**669,645**
Accumulated Depreciation and Impairment								
Balance at 1 April 2015	166,128	–	7,815	–	–	11,570	–	185,513
Disposals/Adjustments	(1,990)	–	(31)	–	–	(1,017)	–	(3,038)
Depreciation Expense	8,694	–	589	1,063	162	5,425	–	15,933
Balance at 30 June 2016	**172,832**	**–**	**8,373**	**1,063**	**162**	**15,978**	**–**	**198,408**
Disposals/Adjustments	(3,997)	–	(121)	392	(2)	(2,224)	–	(5,952)
Depreciation Expense	7,084	–	536	1,377	168	5,726	–	14,891
Impairment	–	–	–	–	–	3,428	–	3,428
Impairment released	–	–	–	–	–	(813)	–	(813)
Revaluation – write back	–	–	(252)	(2,828)	(319)	–	–	(3,400)
Balance at 30 June 2017	**175,919**	**–**	**8,536**	**4**	**9**	**22,095**	**–**	**206,562**
Net Book Value								
Balance at 30 June 2016	206,119	50,076	27,042	34,261	5,239	47,236	5,225	375,198
Balance per above	205,129	86,216	32,965	62,183	14,238	50,229	12,122	463,083
Less Assets Held-For-Sale	–	(1,782)	(153)	(109)	(158)	(26)	–	(2,228)
Balance at 30 June 2017	**205,129**	**84,434**	**32,812**	**62,074**	**14,080**	**50,203**	**12,122**	**460,855**

Depreciation relating to Yealands Wine Group Limited of $5.569 million (2016: $4.289 million) has been allocated to the cost of producing the following year's vintage and is included in the cost of inventory.

As at 30 June 2017 some assets of the Consolidated Group were subject to a registered general security agreement to secure bank loans (see Note 15).

Accounting Policy – Basis of Measurement

The electricity reticulation 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.

Land, buildings, vineyard developments and bearer plants 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 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 are not materially different from their fair values.

The Group's plant and equipment assets (including vehicles) are recorded at cost less depreciation.

Accounting Policy – Changes to Valuation

Any revaluation increase arising on the revaluation of property, plant and equipment is credited to the asset revaluation reserve (through Other Comprehensive Income), 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 property, plant and equipment 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.

Accounting Policy – Depreciation

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	Method	Useful Life
Buildings	Straight line over	40 to 70 years
Electricity Reticulation Network	Straight line over	15 to 70 years
Plant, Equipment and Motor Vehicles	Diminishing value basis	2 to 20 years
Vineyard Improvements	Straight line over	30 to 35 years
Bearer Plants	Straight line over	30 to 35 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.

Accounting Policy – Impairment

The Group reviews the carrying value of its tangible assets 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.

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.

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

Explanatory Note – Impact of Fair Value Measurement on Asset Values

Carrying amounts of plant, property and equipment that are measured at fair value, are shown below if they had been recognised under the cost model.

Bearer plants were moved to fair value measurement in the current year after previously being valued at cost. This compares to their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and impairment losses.

	Fair value category	Fair value as at 30 June 2017 $000	Fair value as at 30 June 2016 $000	Historic cost value as at 30 June 2017 $000	Historic cost value as at 30 June 2016 $000
Electricity Reticulation Network	Level 3	205,129	206,119	61,442	62,381
Land	Level 3	86,216	50,076	45,352	45,617
Buildings	Level 3	32,965	27,042	25,259	23,010
Vineyard Improvements	Level 2	62,183	34,261	42,545	35,324
Bearer Plants	Level 2	14,238	5,239	7,252	5,239
Total		**400,731**	**322,737**	**181,850**	**171,571**

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 or liabilities.

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.

There have been adjustments to the Fair Value as at 30 June 2017 further discussed in the Critical Accounting Estimate Note 1.2.

7 Intangible Assets

	Easements $000	Software $000	Trademarks $000	Total $000
Cost				
Balance at 1 April 2015	1,340	3,380	–	4,720
Acquisition through business combination	–	31	421	452
Additions	75	1,137	94	1,306
Balance at 30 June 2016	**1,415**	**4,548**	**515**	**6,478**
Additions	165	126	65	356
Disposals/Transfers	–	(1,139)	–	(1,139)
Balance at 30 June 2017	**1,580**	**3,535**	**580**	**5,695**
Accumulated Amortisation and Impairment				
Balance at 1 April 2015	–	2,914	–	2,914
Amortisation Expense	–	662	68	730
Balance at 30 June 2016	**–**	**3,576**	**68**	**3,644**
Amortisation Expense	–	549	76	625
Disposals/Transfers	–	(1,112)	–	(1,112)
Balance at 30 June 2017	**–**	**3,013**	**144**	**3,157**
Net Book Value				
Balance at 30 June 2016	1,415	972	447	2,834
Balance at 30 June 2017	**1,580**	**522**	**435**	**2,538**

As at 30 June 2017 some assets of the Consolidated Group were subject to a registered general security agreement to secure bank loans (see Note 15).

Accounting Policy – Recognition and Amortisation
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.

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).

Trademarks are amortised on a straight-line basis in the Statement of Comprehensive Income over their estimated useful lives, from the date that they are available for use. They have an estimated useful life of 10 years.

Accounting Policy – Impairment
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.

Investments

This Investments section provides information on the various entities that make up the Group, including any acquisition or disposal undertaken. It also includes information on the value of property held for investment, rather than operational purposes.

8 Business Combinations

8.1 Subsidiaries Acquired

No subsidiaries have been acquired in the current year. In the previous year the following subsidiary was acquired.

Name of Entity	Principal activity	Date of acquisition	Proportion of voting equity acquired	Consideration transferred $000
Yealands Wine Group Limited	Vineyard and Winery	1 July 2015	80%	89,200

Yealands Wine Group Limited was acquired to diversify the Group's business interest and provide unregulated returns. Cash consideration of $89.2 million was paid.

Accounting Policy – Business Combinations
Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition, with the exception of deferred tax assets or liabilities which are recognised and measured in accordance with NZ IAS 12 Income Taxes. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired, is recognised as goodwill. If the cost of the acquisition is lower than fair value a discount on acquisition is recognised. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the discount is credited to profit or loss in the period of acquisition.

8.2 Purchase Price Apportionment

Acquisition related costs of $1.8 million have been excluded from the consideration transferred and have been recognised as an expense in the Statement of Comprehensive Income in the 2016 year, within the 'operating expenses' line item.

Assets and liabilities recognised at the date of acquisition	2017 $000	2016 $000
Assets acquired:		
Current assets	–	120,062
Non-current assets	–	126,674
Liabilities acquired:		
Current liabilities	–	(19,125)
Non-current liabilities	–	(81,179)
Net assets acquired	**–**	146,432
Consideration transferred by Marlborough Lines Limited	–	89,200
Consideration transferred by non-controlling interest (20% in Yealands Wine Group Limited)	–	22,300
Consideration paid from cash acquired in Yealands Wine Group Limited	–	4,487
Total consideration paid	**–**	**115,987**
Discount on acquisition	**–**	**30,445**

Explanatory Note – Discount on Acquisition

At the time of acquisition the Group was required to apportion the consideration paid across the fair value of assets and liabilities acquired. The fair value of assets and liabilities acquired amounted to $146.4 million, resulting in a gain upon acquisition of $30.4 million which is included in non-operating items in the Statement of Comprehensive Income.

The majority of this gain is due to the requirement under NZ IFRS 3: Business Combination, to fair value inventory, which has created an uplift of $35.9 million from the previous carrying value which was held at the lower of cost or net realisable value. The inventory fair value uplift is partly offset by a resultant deferred tax liability not previously recognised.

The consideration paid to acquire the shares was made up of $111.5 million from the new shareholders and $4.5 million from cash that had been acquired. The fair value of the acquired receivables is the same as the gross contractual amount receivable and the best estimate of the amount expected to be collected.

8.3 Non-Controlling Interests

The non-controlling interest recognised at acquisition date was measured by reference to the fair value of its share of the assets and liabilities acquired.

Accounting Policy – Recognition

Non-controlling interests that are present ownership interests and entitle their owners to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another NZ IFRS.

9 Investments in Subsidiaries and Associates

9.1 Group Entities

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

	Note	Year End	Effective Ownership 30 June 2017	Effective Ownership 30 June 2016
Investment held by Marlborough Lines Limited				
Nelson Electricity Limited (Associate)		31 March	50%	50%
Seaview Capital Limited		30 June	100%	100%
Southern Lines Limited		30 June	100%	100%
Valhalla Properties Limited	De-registered September 2016	31 March	–	100%
Verne 35 Limited	De-registered September 2016	31 March	–	100%
Investment held by subsidiary of Marlborough Lines Limited				
Seaview Water Group Limited		30 June	44%	–
Yealands Wine Group Limited		30 June	86%	80%
Yealands Estate Limited		30 June	86%	80%
Yealands Estate Wines Limited		30 June	86%	80%
Yealands Estate Wines (Australia) Limited		30 June	86%	80%
Yealands Estate Wines (USA) Limited		30 June	86%	80%
Yealands Estate Wines (USA) LLC		30 June	86%	80%
Yealands Estate Wines (UK) Limited		30 June	86%	80%

All shares in the Parent Company entity Marlborough Lines Limited are held by the Trustees of the Marlborough Electric Power Trust. Yealands Wine Group Limited is the parent entity of the six companies listed below it.

9.2 Marlborough Lines Investments in Subsidiaries

	Parent 2017 $000	Parent 2016 $000
Investment in Seaview Capital Limited	99,125	89,200
Investment in Southern Lines Limited	5,000	5,000
Total Investments in Subsidiaries	**104,125**	**94,200**

Accounting Policy – Investments in 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 subsidiaries, Yealands Wine Group Limited and Southern Lines Limited. Consistent accounting policies are used in the preparation and presentation of the consolidated financial statements. In preparing the consolidated financial statements all inter-company balances and transactions and unrealised gains arising within the Group are eliminated.

9.3 Marlborough Lines Investments in Associates

Marlborough Lines Limited acquired a 50% interest in Nelson Electricity Limited, an electricity network operator based in Nelson, on 19 June 1996.

	Group 2017 $000	Group 2016 $000
Investment in Nelson Electricity Limited Shares	12,950	12,950
Less Share Repurchase (2001)	(2,500)	(2,500)
Plus Share of Associate Revaluation	3,674	3,674
Less Share of Post Acquisition Results	(61)	(312)
Interest in Associate Entity (Excluding Goodwill)	**14,063**	**13,812**
Current Balance Associate Goodwill	1,220	1,220
Total Interest in Associate Entity (Including Goodwill)	**15,283**	**15,032**

Accounting Policy – Investments in 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 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.

9.4 Results of the Group's Associate Entities

	31 March 2017 $000	31 March 2016 $000
A summary of Nelson Electricity Limited's results is as follows:		
Assets as at 31 March	43,472	44,278
Liabilities as at 31 March	15,362	16,670
Revenue for Year Ended 31 March	10,791	10,360
Net Profit After Tax	2,302	1,915
The Group share of the results of its associate entities is as follows:		
Share of Surpluses Before Tax	1,590	1,360
Less Taxation	(439)	(402)
Less Dividends / Distributions Received	(900)	(840)
(Loss)/Gain Attributable to Associate Entities	**251**	**118**

10 Investment Property

	Group 2017 $000	Group 2016 $000
Opening Balance	3,111	2,210
Additions	–	440
Revaluation Gains	–	461
Closing Balance	**3,111**	**3,111**
Less Investment Property classified as Held-For-Sale	(3,111)	–
Closing Balance	–	**3,111**

Accounting Policy – Basis of Measurement

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.

Explanatory Note – Investment Property

The Parent Company has two investment properties which are carried at fair value as at 30 June 2017.

The properties were valued by Alexander Hayward Limited, registered property valuers, in accordance with NZ IAS 40. These valuations have been undertaken applying a market sales model. No changes to the carrying values have been made during 2017. This is considered to be Level 2 in the fair value hierarchy.

One of these properties is subject to a five year lease at balance date and has generated $52,800 in lease revenue in the 2017 financial year.

A decision had been made to sell both properties by 30 June 2017 and therefore Investment Property is classified as current assets Held-For-Sale at balance date.

Working Capital

This Working Capital section provides information on the assets that are going to provide cash in the short-term and the liabilities that are due to be settled with that cash. There is not a separate note on the Group's cash position, but this is shown on the face of the balance sheet.

11 Trade and Other Receivables

	Group 30 June 2017 $000	Group 30 June 2016 $000
The balance of Accounts Receivable comprises:		
Trade Debtors	30,644	24,176
GST Receivable	1,423	549
Retailer Prudential Security held in Trust	399	392
Accrued Income	1,136	633
Prepayments	862	2,724
Related party advances	18	12
Provision for Impairment of Accounts Receivable	(110)	(87)
Total	**34,372**	**28,399**

Accounting Policy – Recognition and Impairment

Accounts receivable, including intergroup receivables are valued at amortised cost less impairment.
All known bad debts have been written off during the period under review.

A provision for impairment is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market rates and, where appropriate, the risks specific to the asset.

Explanatory Note – Carrying value of Debtors

Included in the Company's trade receivables balance are debtors with a carrying value of $167,665 (2016: $145,031) which are past due at reporting date. The Company has provided for $110,183 (2016: $86,942) 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.

12 Inventories and Work In Progress

	Group 30 June 2017 $000	Group 30 June 2016 $000
Electricity Reticulation Stock	5,049	3,909
Bulk Wine	62,383	69,247
Bottled Wine	5,677	10,330
Packaging and Labels	606	485
Work in Progress (Next vintage)	4,517	2,867
Total	**78,232**	**86,838**

As at 30 June 2017 some assets of the Consolidated Group were subject to a registered general security agreement to secure bank loans (see Note 15).

Accounting Policy – Valuation

Wine inventories are valued at the lower of cost or deemed cost and net realisable value. Cost is calculated on an average cost basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Included in the cost of Wine inventory is the fair value of the grapes (agricultural produce) at the time the grapes are harvested. Inventory costs also include a systematic allocation of appropriate overheads, including winery and vineyard costs and depreciation, that relate to bringing inventories to their present location and condition. The allocation of production overheads is based on the normal capacity of the production facilities.

The deemed cost for the Group's agricultural produce (grapes) is fair value at harvest date less estimated point-of-sale costs (if any) in accordance with NZ IAS 41 'Agriculture'. Fair value of grapes is determined by reference to the market prices of grapes in the local region in which the grapes are grown, at the time of harvest.

Vineyard costs that are incurred subsequent to harvest up to balance date do not qualify as agricultural produce or biological assets under NZ IAS 41 and are accounted for under NZ IAS 2: Inventories, as Inventories – Work in Progress (Next vintage).

Reticulation Stock comprises of 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.

Inventory acquired as part of the business acquisition on 1 July 2015 is recorded at fair value.

13 Trade and Other Payables

	Group 30 June 2017 $000	Group 30 June 2016 $000
In current liabilities the balance of Trade and Other Payables comprises:		
Trade Creditors	27,584	17,718
Dividend Payable	–	1,100
Provision for Discount	3,356	3,335
GST Payable	236	410
Retailer Prudential Security Held in Trust	399	392
Deferred Revenue	5,499	270
Total	**37,074**	**23,225**

Accounting Policy – Recognition

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.

Explanatory Note – Deferred Revenue

As at 30 June 2017 Yealands Wine Group had received an advance from their insurers of $5.5 million pending the finalisation and lodgement of their claim for damage incurred as a result of the November 2016 earthquake. These funds will be recognised as revenue upon acceptance of a claim of greater than this amount by the insurers.

14 Employee Entitlements

	Group 30 June 2017 $000	Group 30 June 2016 $000
Employee Entitlements	2,971	2,633
Total	**2,971**	**2,633**

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

Accounting Policy – Recognition

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.

Accounting Policy – Measurement

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.

Debt and Equity

This Debt and Equity section provides information on how the Group's operations are financed and the cost of that financing through interest and dividend payments. It also includes information on the value of the Group that is not held by the shareholders of Marlborough Lines Limited, through the Non-Controlling Interest in Yealands Wine Group Limited.

15 Term Borrowings

	Group 30 June 2017 $000	Group 30 June 2016 $000
Current	27,100	9,250
Non-current	75,000	75,000
Total	**102,100**	**84,250**

Terms and repayments schedule

The terms and conditions of outstanding non-current facilities were as follows:

Lender	Nominal Interest Rate	Year of Maturity	Currency	Face Value $000	Carrying Amount $000
ASB Bank Limited	3.14%	2018	NZD	10,000	10,000
ASB Bank Limited	3.34%	2020	NZD	20,000	20,000
ASB Bank Limited	3.49%	2022	NZD	45,000	45,000
Total interest-bearing liabilities				**75,000**	**75,000**

Accounting Policy – Recognition and Classification

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.

Explanatory Note

Yealands Wine Group Limited is the borrower for the term borrowing of the Group.

Of the $27.1 million current amount, $17.1 million relates to a Working Capital Facility. The remaining ASB Bank Limited term facilities range in remaining terms from 1 year through to 5 years, with a final expiry date on 15 July 2022.

ASB Bank Limited holds a security over leasehold improvements and freehold property titles of Yealands Wine Group Limited. Yealands Wine Group Limited and its subsidiaries provide an unconditional and irrevocable guarantee to ASB Bank Limited.

There is no guarantee or security provided by Marlborough Lines Limited in relation to these term facilities.

16 Net Financing Income

	Group Year to 30 June 2017 $000	Group 15 Months to 30 June 2016 $000
Financial Income		
Interest Income on Bank Deposits	1,044	2,676
Total Finance Income	**1,044**	**2,676**
Financial expenses		
Interest Cost – Term Borrowings	(4,347)	(3,965)
Interest Cost – Other	(68)	(104)
Unrealised interest rate swap gain/(loss)	2,208	(4,286)
Total Finance Expenses	**(2,207)**	**(8,355)**
Realised/unrealised foreign exchange gains/(losses)		
Realised foreign exchange gain	2,243	675
Unrealised foreign exchange (loss)/gain	(1,301)	1,672
Total gains/(losses) on financial instruments	**942**	**2,347**

Accounting Policy – Revenue Recognition

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

17 Share Capital

	Group 30 June 2017 $000	Group 30 June 2016 $000
28 million Ordinary Shares	29,026	29,026
Total	**29,026**	**29,026**

Explanatory Note – Share Capital

Marlborough Lines Limited's 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.

18 Revaluation Reserves and Foreign Currency Translation Reserve

18.1 Revaluation Reserves

Revaluation reserves for the Group include the Property Revaluation Reserve and the Investments Revaluation Reserve

	Group Year to 30 June 2017 $000	Group 15 Months to 30 June 2016 $000
Properties Revaluation Reserve		
Balance at the beginning of the period	42,789	42,789
Increase in fair value of land, buildings, vineyard improvements and bearer plants, net of tax	60,402	–
Balance at end of period	**103,191**	**42,789**
Attributable to Non-Controlling Interest	8,720	–
Attributable to owners of the Parent	94,471	42,789
Balance at end of period	**103,191**	**42,789**

Explanatory Note – Revaluation Reserve

The properties revaluation reserve arises on revaluation of Land, Buildings, Vineyard Improvements, Bearer Plants 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.

	Group 30 June 2017 $000	Group 30 June 2016 $000
The Group Properties Revaluation Reserve comprises revaluations in the following categories:		
Land, Buildings, Vineyard Improvements and Bearer Plants	64,098	3,696
Reticulation System Assets	35,858	35,858
Associate Entities	3,235	3,235
Total	**103,191**	**42,789**

	Group Year to 30 June 2017 $000	Group 15 Months to 30 June 2016 $000
Investments Revaluation Reserve		
Balance at the Beginning of the period	–	838
Net Gain Arising on Revaluation of Available-For-Sale Financial Assets	–	–
Reclassified to profit and loss on disposal	–	(838)
Balance at end of period	**–**	**–**

Explanatory Note – Investment Revaluation Reserve

In the 2015 financial year Marlborough Lines held 13.89% of the shares in Horizon Energy Distribution Limited which were classified as a current asset held for sale. On 4 May 2015 Marlborough Lines accepted an offer from the Eastern Bay of Plenty Trust at a price per share of $4.41, and recognised a revaluation gain in other comprehensive income in the 2015 financial year. This transaction was settled on 3 July 2015 and the disposal recognised in the period ended 30 June 2016.

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.

18.2 Foreign Currency Translation Reserve (FCTR)

	Group Year to 30 June 2017 $000	Group 15 Months to 30 June 2016 $000
Balance at the beginning of the period	(68)	–
Movement for the period	(28)	(68)
Balance at end of period	**(96)**	**(68)**
Attributable to Non-Controlling Interest	(18)	–
Attributable to owners of the Parent	(78)	(68)
Balance at end of period	**(96)**	**(68)**

Accounting Policy – Foreign Currency Transactions

For the purposes of presenting consolidated financial statements, the balance sheets of foreign subsidiaries are translated into New Zealand dollars using exchange rates prevailing at balance date. Income and expense items are translated at the exchange rates ruling at the date of the transaction. Exchange differences relating to the translation of assets and liabilities from their functional currencies to the Group's presentation currency (i.e. New Zealand dollars) are recognised directly in other comprehensive income and accumulated in the FCTR.

19 Non-Controlling Interests

	Group 2017 $000	Group 2016 $000
Balance at the beginning of the period	27,267	–
Non-controlling interest arising on acquisition of Yealands Wine Group Limited	–	22,300
Reduction to Non-Controlling Interest following share transfer	(6,952)	–
Share of profit for the period	(894)	6,067
Share of other comprehensive income	8,734	–
Less share of dividends received	(794)	(1,100)
Balance at end of the period	**27,361**	**27,267**

Accounting Policy – Non-Controlling Interest

Non-Controlling Interests that are present ownership interests and entitle their owners to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the Non-Controlling Interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

The Non-Controlling Interest recognised upon acquisition of Yealands Wine Group Limited was measured by reference to the fair value of its share of the assets and liabilities acquired (refer Note 8).

Explanatory Note – Non-Controlling Interest

Seaview Capital Limited acquired 80% of the shares in Yealands Wine Group Limited with an effective date of 1 July 2015. The consideration paid was less than the fair value of the assets and liabilities acquired, resulting in a discount on acquisition (refer Note 8).

The non-controlling interest was attributed with 20% of the discount on acquisition.

In the current year 5% of the existing share capital was acquired by Seaview Capital Limited from the Non-Controlling Interest and a further $4.35 million of share capital was provided by Seaview Capital Limited to Yealands Wine Group Limited to acquire further land for vineyard development. These transactions have reduced the Non-Controlling Interest in the share capital of Yealands Wine Group Limited to 14.44%. These share transactions have reduced the value of the Non-Controlling Interest by its loss in share of the net assets of Yealands Wine Group Limited at the time of the transaction.

20 Dividends

	Group 2017 $000	Group 2016 $000
Amounts recognised as distributions to equity holders in the period:		
Total Dividends ($000)	4,285	4,285
Cents per Share	15.304	15.304

Financial Risk Management

This Financial Risk Management section provides information on the financial risks facing the Group, the sensitivity of the results to those risks and how those risks are managed. The Financial Instruments note provides information on how the assets and liabilities of the Group are measured.

21 Financial Risk Management

21.1 Financial Risk Management

The Group is exposed to financial risks relating to the operations of the Group. These risks include credit risk, liquidity risk, market risk (including currency risk and interest rate risk) and agricultural risk.

The agricultural activity of the Group's subsidiary Yealands Wine Group Limited consists of the management of vineyards to produce grapes for use in the production of wine. The primary financial risk associated with this activity occurs due to the length of time between expending cash on the purchase or planting and maintenance of grape vines and on harvesting grapes, and ultimately receiving cash from the sale of wine to third parties. Yealands strategy to manage this financial risk is to actively review and manage its working capital requirements. In addition, the Group maintains credit facilities at a level sufficient to fund Yealands working capital during the period between cash expenditure and cash inflow. At balance date, Yealands had unused credit facilities in the form of undrawn bank loan facilities of $15.84 million (2016: $25.75 million).

21.2 Market Risk Management

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- Forward foreign currency exchange contracts to hedge the exchange rate risk arising on the export of wine principally to the United States, United Kingdom, Europe and Australia; and
- Interest rate swaps to mitigate the risk of rising interest rates.

21.3 Foreign Currency Risk Management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved parameters utilising forward foreign currency exchange contracts.

	Group 2017 $000	Group 2016 $000
Foreign currency denominated assets and liabilities at balance date are:		
Cash and cash equivalents	1,036	185
Trade and other receivables	9,181	5,244
Trade and other payables	(232)	(319)
	9,985	**5,110**

Sensitivity analysis

The Group is mainly exposed to US dollars (USD), Australian dollars (AUD) and Euros (EUR). The following sensitivity analysis shows the impact on the consolidated net surplus of a reasonably possible change of 10% in the New Zealand dollar against the respective major currencies, with all other variables remaining constant.

Any change in the net surplus for the period would result in a corresponding movement in equity. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for the listed percentage change in foreign currency rates.

Change in New Zealand dollar against foreign currency

	$000 AUD	$000 EUR	$000 USD	$000 Other
Impact on Group 2017 net surplus:				
10% increase	(148)	(502)	(184)	(73)
10% decrease	181	614	225	90
Impact on Group 2016 net surplus				
10% increase	(169)	(213)	(68)	(14)
10% decrease	206	261	83	17

Forward foreign currency exchange contracts

It is the policy of the Group to enter into forward foreign currency exchange contracts to cover specific foreign currency payments and receipts up to 100% of the 12 month exposure generated. The Group also enters into forward foreign currency exchange contracts to manage the risk associated with anticipated sales and purchase transactions out to 24 months within 85% of the exposure generated, subject to certain criteria being met. Forward foreign currency exchange contracts are measured at fair value through the Statement of Comprehensive Income. The fair value of forward foreign currency exchange contracts is based on market values of equivalent instruments at the reporting date.

Currency	2017 $000	2016 $000
EUR	23,218	14,947
USD	5,968	6,759
AUD	3,807	3,299
GBP	350	–
Notional principal of outstanding contracts:	**33,343**	**25,005**

21.4 Interest Rate Risk Management

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.

The Parent has no external borrowings. All term debt facilities were repaid and cancelled in September 2014.

Subsidiaries of the Group are exposed to interest rate risk as they borrow funds at both fixed and floating interest rates. The risk is managed by the Group through maintaining an appropriate mix between fixed and floating rate borrowings and the use of interest rate swap contracts. Hedging activities are evaluated regularly with the assistance of independent advice to align with interest rate views and defined risk appetite, ensuring optimal hedging strategies are applied or protecting interest expense through different interest rate cycles.

The Group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest Rate Sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 200 basis point (2%) increase or decrease is used and represents management's assessment of the reasonably possible change in interest rates.

The following sensitivity analysis shows the impact on the consolidated net surplus if interest rates had been 2% lower or higher, with all other variables remaining constant. Any change in the net surplus for the period would result in a corresponding movement in equity. This is mainly attributable to the Group's high level of funds held in term deposits during the year offset by the Group's exposure to interest rates on its variable rate borrowings.

Change in interest rate %	2017 $000	2016 $000
Impact on Group net surplus:		
2.0% increase	117	534
2.0% decrease	(117)	(560)

The Group's sensitivity to interest rates has decreased during the year due to an increase in term borrowings.

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between the fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on debt held. The fair value of interest rate swaps are based on market values of equivalent instruments at the reporting date as disclosed below.

	2017 $000	2016 $000
Notional principal of outstanding contracts:	85,000	75,000

The interest rates applicable to the interest rate swap contracts during the year were 2.850% to 3.695% per annum. Interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are used to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. These are measured at fair value through the Statement of Comprehensive Income. The interest rate swaps and the interest payments on the loan occur simultaneously on a quarterly basis. The floating rate on the interest rate swaps is the three month BKBM rate. The Group settles the difference between the fixed and floating interest rate on a net basis.

21.5 Credit Risk Management

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. In respect of its electricity business 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. In respect to wine sales the Group has adopted a policy of only trading with customers for whom trade credit insurance has been granted by the Group's trade credit insurance provider or on cash terms.

Credit exposure is monitored on an ongoing basis and within counterparty limits that have been approved by the Group's trade credit insurance provider. 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 11.

21.6 Liquidity Risk Management

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.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Less than 1 year $000	1-2 years $000	2-5 years $000	Over 5 years $000
2017 Contractual Maturity				
Trade and other payables	37,074	–	–	–
Interest cost on term debt	2,272	2,359	5,666	–
Term borrowings	27,100	10,000	20,000	45,000
2016 Contractual Maturity				
Trade and other payables	23,225	–	–	–
Interest cost on term debt	2,105	2,807	6,642	1,723
Term borrowings	9,250	–	30,000	45,000

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instrument that settle on a net basis and the undiscounted gross inflows/(outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined independently by the counterparty to the instruments at the reporting date.

	Less than 6 months $000	6-12 months $000	1-2 years $000	Over 2 years $000
2017 Liquidity Analysis				
Interest rate swaps – net settled cash outflows	281	563	1,082	3,089
Forward exchange contracts – cash outflows	11,046	10,062	11,381	855
2016 Liquidity Analysis				
Interest rate swaps – net settled cash outflows	242	484	968	3,586
Forward exchange contracts – cash outflows	9,610	10,072	5,323	–

21.7 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. The fair values of financial assets and liabilities are determined as follows:

- the fair value of financial assets and liabilities with standard terms and conditions and traded on active markets are determined with reference to the quoted market prices; and
- the fair value of derivative instruments are calculated based on discounted cash flows using market inputs.

Investments in subsidiaries and equity accounted investments have not been fair valued as there is no observable market price.

Fair value measurements recognised in the Statement of Financial Position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

	Fair value category	Group 2017 $000	Group 2016 $000
Derivative financial assets – Current	Level 2	1,099	2,144
Total financial assets		**1,099**	**2,144**
Derivative financial liabilities – Current	Level 2	2,079	4,286
Total financial liabilities		**2,079**	**4,286**

The financial assets and liabilities of the Group that are measured at fair value subsequent to initial recognition are included in Level 2 as the fair value of these instruments are not quoted on an active market and are determined by using valuation techniques. These valuation techniques rely on observable market data and are provided by ASB Bank Limited.

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

Any gain or loss resulting from fair value measurement are recognised in the Statement of Comprehensive Income.

Change in fair value of financial assets/liabilities

	Group 2017 $000	Group 2016 $000
Foreign currency forward contracts	1,099	2,144
Interest rate swaps	(2,079)	(4,286)
	(980)	**(2,142)**

21.8 Capital Risk 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 17), reserves and retained earnings (Note 18). The Group 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.

Yealands Wine Group Limited is subject to a number of banking covenants in relation to the term debt facility outlined in Note 15. There has been no breach of covenants during the year.

The Group's objective is to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to retain or modify the capital structure, the Group may adjust the amount of dividends paid to shareholders or sell assets to reduce debt.

The Group's policies in respect of capital management and allocation are reviewed regularly by management.

There were no changes in the Group's approach to capital management during the period.

22 Financial Instruments

22.1 Classification of Financial Instruments

Consolidated Group as at 30 June 2017

Financial Assets	Loans and Receivables $000	Held for Trading (FVTPL) $000	Other Amortised Cost $000	Total Carrying Amount $000
Current Assets				
Cash and Cash Equivalents	10,678	–	–	10,678
Short-Term Deposits	22,375	–	–	22,375
Trade and Other Receivables	32,086	–	–	32,086
Derivatives	–	1,099	–	1,099
Total Financial Assets	**65,139**	**1,099**	**–**	**66,238**

Financial Liabilities	Held for Trading (FVTPL) $000	Other Financial Liabilities $000	Total Carrying Amount $000
Current Liabilities			
Trade and Other Payables	–	36,838	36,838
Derivatives	2,079	–	2,079
Term Borrowings	–	27,100	27,100
Non Current Liabilities			
Term Borrowings	–	75,000	75,000
Total Financial Liabilities	**2,079**	**138,938**	**141,017**

Consolidated Group as at 30 June 2016

Financial Assets	Loans and Receivables $000	Held for Trading (FVTPL) $000	Other Amortised Cost $000	Total Carrying Amount $000
Current Assets				
Cash and Cash Equivalents	6,998	–	–	6,998
Short-Term Deposits	28,000	–	–	28,000
Trade and Other Receivables	25,125	–	–	25,125
Derivatives	–	2,144	–	2,144
Total Financial Assets	**60,123**	**2,144**	**–**	**62,267**

Financial Liabilities	Held for Trading (FVTPL) $000	Other Financial Liabilities $000	Total Carrying Amount $000
Current Liabilities			
Trade and Other Payables	–	22,815	22,815
Derivatives	4,286	–	4,286
Term Borrowings	–	9,250	9,250
Non Current Liabilities			
Term Borrowings	–	75,000	75,000
Total Financial Liabilities	**4,286**	**107,065**	**111,351**

GST Payable, GST Receivable and Prepayments do not meet the Financial Instrument definition and are not included above.

Accounting Policy – Financial Instruments

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.

Accounting Policy – 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 and forward foreign exchange contracts 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. This is known as Fair Value Through the Profit and Loss (FVTPL).

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.

Other

This section provides other information that is of interest to the readers including the Group's tax status, transactions with related parties, remuneration of Directors and key management personnel and information on developments post balance date.

23 Taxation

23.1 Income Taxes Relating to Continuing Operations

	Group Year to 30 June 2017 $000	Group 15 Months to 30 June 2016 $000
Tax Expense comprises:		
Current Tax Expense/(Income)	1,887	3,548
Deferred Tax Expense Relating to the Origination and Reversal of Temporary Differences	(4,724)	(1,025)
Deferred Tax Expense Prior period Adjustment	(154)	–
Tax (Benefit)/Expense	**(2,991)**	**2,523**
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:		
Profit Before Tax from Continuing Operations	**(4,521)**	**39,129**
Prima Facie Income Tax Calculated at 28%	(1,266)	10,956
Plus/(Less) Taxation Adjustments:		
Non Deductible Expenses and Deferred Revenue	1,072	(7,730)
Net Benefit of Imputation Credits	(2,573)	(435)
Prior period Adjustment	(154)	–
Equity Accounted Earnings of Associates	(70)	(33)
Net Investment Realisation	–	(235)
Tax (Benefit)/Expense Recognised in the Statement of Comprehensive Income	**(2,991)**	**2,523**

Accounting Policy – Recognition and Measurement

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).

23.2 Deferred Taxation

Consolidated Group for the 12 months ended 30 June 2017

	Opening Balance $000	Charged to Income $000	Charged to Equity $000	Acquired on Acquistion $000	Closing Balance $000
Deferred Tax Liabilities					
Plant, Property and Equipment	41,400	(820)	9,740	–	50,320
Inventory	7,351	(3,122)	–	–	4,229
	48,751	**(3,942)**	**9,740**	**–**	**54,549**
Deferred Tax Assets					
Provisions for Employee Entitlements, Retirement Obligations and Doubtful Debts	(118)	(929)	–	–	(1,047)
Doubtful Debts and Impairment Losses	(25)	(7)	–	–	(32)
	(143)	(936)	–	–	(1,079)
Net Deferred Tax Liability	**48,608**	**(4,878)**	**9,740**	**–**	**53,470**

Consolidated Group for the 15 months ended 30 June 2016

	Opening Balance $000	Charged to Income $000	Charged to Equity $000	Acquired on Acquistion $000	Closing Balance $000
Deferred Tax Liabilities					
Plant, Property and Equipment	43,888	(231)	–	(2,257)	41,400
Inventory	–	(1,084)	–	8,435	7,351
	43,888	**(1,315)**	**–**	**6,178**	**48,751**
Deferred Tax Assets					
Provisions for Employee Entitlements, Retirement Obligations and Doubtful Debts	(421)	303	–	–	(118)
Doubtful Debts and Impairment Losses	(13)	(12)	–	–	(25)
	(434)	**291**	**–**	**–**	**(143)**
Net Deferred Tax Liability	**43,454**	**(1,024)**	**–**	**6,178**	**48,608**

Accounting Policy – Recognition and Measurement

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 that have been enacted or substantively enacted at reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that reflect how the Group expects 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 specifically permitted by accounting standards.

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

23.3 Imputation Credit Memorandum Account

	Group Year to 30 June 2017 $000	Group 15 Months to 30 June 2016 $000
Balance at beginning of period	57,682	53,931
Attached to Dividends Paid in the period	(1,666)	(1,666)
Attached to Dividends Received	2,180	2,146
Tax Refund/Transfer	(1,000)	1
Income Tax Payments during the period	1,600	3,270
Balance at end of period	**58,796**	**57,682**

24 Related Parties

24.1 Marlborough Electric Power Trust

The Company pays dividends to the Marlborough Electric Power Trust, as outlined in Note 20.

24.2 Parties Associated with Group Directors

Related party	Relationship	Product sold or services rendered $000	Product purchased or services received $000	Balance receivable $000	Balance payable $000
Marlborough Lines Limited Director relationships – 2017					
Construction Coatings Limited	Director	–	2	–	–
Cuddon Limited	Director	5	40	–	1
Outer Limits Limited	Director	37	–	–	–
Precast Systems Limited	Director	–	34	–	10
Redwood Developments Limited	Director	9	–	–	–
Yealands Wine Group Limited Director relationships – 2017					
PJ Radich Family Trust		3	477	3	225
P.Y.G. Limited	Director	179	2,321	16	157
Radich Law	Partner	2	632	–	21
Marlborough Lines Limited Director relationships – 2016					
Construction Coatings Limited	Director	–	26	–	–
Cuddon Limited	Director	59	63	–	1
Dog Point Vineyard Limited	Director	–	2	–	–
Outer Limits Limited	Director	133	–	11	–
Precast Systems Limited	Director	–	79	–	1
Redwood Developments Limited	Director	77	–	–	–
Robinson Construction Limited	Director	–	416	–	–
Scaffold Marlborough Limited	Director	–	1	–	–
Yealands Wine Group Limited Director relationships – 2016					
Medway Vineyard Limited	Director	–	4,000	–	–
PJ Radich Family Trust		–	585	–	293
P.Y.G. Limited	Director	81	1,342	12	173
Radich Law	Partner	2	592	–	46

Directors fees paid to Directors are disclosed in Note 25.

Explanatory Note – Related Party Transactions
The amounts included in the disclosure above are inclusive of GST paid (if any).

Radich Law (an entity associated with Peter and Miriam Radich) provides legal advice to Marlborough Lines Limited and Yealands Wine Group Limited. Amounts paid to Radich Law include disbursements paid via Radich Law to third parties that total $165,509 in the current period. PJ Radich Family Trust (an entity associated with Peter and Miriam Radich) supplies grapes to Yealands Wine Group Limited. P.Y.G Limited (an entity associated with Peter Yealands) hires earth moving machinery to Yealands Wine Group Limited. Robinson Construction Limited (an entity associated with Phil Robinson) provides construction services to Marlborough Lines Limited. Medway Vineyard Limited (an entity associated with Peter Yealands) sold a vineyard to Yealands Wine Group Limited.

All products and services rendered and received were completed on normal arms length commercial terms. The Group did not undertake any other transactions with parties associated with Directors of the Marlborough Lines Limited Group.

24.3 Subsidiary Companies – Yealands Wine Group Limited

	2017 12 months $000	2016 15 months $000
Director's Fees Paid to Marlborough Lines Limited for Mr K Forrest	50	48
Purchases from Yealands Wine Group Limited	32	11
Electricity assets paid for by Yealands Wine Group Limited	–	156
Amounts receivable from Yealands Wine Group Limited	5	5

24.4 Subsidiary Companies – Seaview Capital Limited

Dividend receivable from Seaview Capital Limited	–	4,400

24.5 Subsidiary Companies – Southern Lines Limited

Term Debt owed by Marlborough Lines Limited	5,000	5,000

24.6 Associate Entities – Nelson Electricity Limited

	2017 12 months $000	2016 15 months $000
Director's Fees Paid to Marlborough Lines Limited for Mr K Forrest	23	29
Management Fees charged to Nelson Electricity Limited by the Company	117	147
Amounts owed by Nelson Electricity Limited	59	63

Explanatory Note – Associate Entities
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 period 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.

25 Key Management Personnel

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

	Group Year to 30 June 2017 $000	Group 15 Months to 30 June 2016 $000
Directors' Fees	605	581
Salaries and Short Term Employee Benefits	3,835	3,552
Termination Benefits Paid	–	56
Compensation during the period	**4,440**	**4,189**

	Group 30 June 2017 $000	Group 30 June 2016 $000
Termination Benefits accrued as at balance date	185	185

26 Reconciliation of Profit to Net Cash Generated from Operating Activities

	Group Year to 30 June 2017 $000	Group 15 Months to 30 June 2016 $000
Profit for the Year from Continuing Operations	**(1,530)**	**36,606**
Add/(Less) Non Cash Items		
Depreciation and Amortisation	15,258	16,876
Asset Impairment	3,026	–
Fair value adjustment to Inventory	12,924	–
Income From Vested Assets and Capital Contributions	(1,747)	(1,106)
Net Fair Value Gain on Investment Property	–	(461)
Gain on Disposal of Available-For-Sale Financial Asset	–	(838)
Discount arising on Acquisition of Subsidiary	–	(30,445)
Other non cash items	(1,221)	(1,141)
Non Cash Items in Relation to Investing/Financing Activities		
Share of Associate Net Profit	(251)	(118)
Loss on Sale of Fixed Assets	129	299
Current Charge to Deferred Taxation	(4,878)	(1,025)
Changes in Working Capital Items		
(Increase)/Decrease in Assets		
(Increase)/Decrease in Accounts Receivable	(1,283)	777
(Increase)/Decrease in Inventories	(4,318)	3,737
(Increase)/Decrease in Assets held for sale	–	(61)
Increase/(Decrease) in Liabilities		
Increase/(Decrease) in Accounts Payable and Other Payables	14,850	5,985
(Decrease)/Increase in Tax Payable Balance	(476)	(2,169)
Increase/(Decrease) in Employee Entitlements	24	(18)
(Decrease)/Increase in Finance Lease Payable liabilities	(287)	(265)
Net Cash Generated from Operating Activities	**30,220**	**26,633**

27 Commitments

27.1 Capital Commitments

	Group 30 June 2017 $000	Group 30 June 2016 $000
Capital expenditure committed to at Balance Date but not recognised in the financial statements	5,795	5,551

27.2 Operating Leases

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 4.

Yealands Wine Group Limited has operating lease commitments which includes office leases and medium to long term vineyard and land leases, which allow the Group to access prime viticultural land in Marlborough.

Land leases may provide Yealands Wine Group Limited the right of first refusal to renew the lease in the event that the land is still available for lease. Vineyard leases are on five year terms with rights of renewal and land leases are on twenty-five year terms.

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

	Group 30 June 2017 $000	Group 30 June 2016 $000
No Later than One Year	626	765
Later than One Year and no Later than Five Years	1,791	2,161
Later than Five Years	924	1,001
	3,341	**3,927**

Accounting Policy – Operating Leases

Operating lease rentals are recognised on a systematic basis that is representative of the time pattern of the benefit to the Group.

Payments made under operating leases are recognised in the Statement of Comprehensive Income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Statement of Comprehensive Income over the lease term on a straight-line basis as an integral part of the total lease expense.

The Group has entered into long term vineyard leases which allow the Group to control the growing and harvesting of the grapes used in the production of finished product. After taking into consideration the terms and conditions within the leases, it is believed that the lessor retains the significant risks and rewards of ownership and the leases are accordingly classified as operating leases.

Accounting Policy – Finance Leases

Leases are classified as finance leases whenever the terms of the lease transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Each lease payment is apportioned between the finance charge and the reduction of the outstanding liability. The interest expense component of finance lease payments is recognised in the Statement of Comprehensive Income using the effective interest rate method.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term on an effective interest rate basis.

27.3 Grape Purchase Commitments

In the ordinary course of business Yealands Wine Group Limited has agreements with grape growers which requires it to purchase grapes. These agreements may be for terms of one to three years.

28 Contingent Assets and Liabilities

Yealands Wine Group intends to lodge an insurance claim for property damage and business interruption resulting from the November 2016 earthquake. Insurance proceeds are likely to be received however the amount was not measurable as the claim was yet to be lodged.

There were no other contingent assets or liabilities at balance date (2016: Nil).

Accounting Policy – Financial Guarantee Contracts

The Group has not adopted the amendments to NZ IAS 39 and NZ IFRS 4 in relation to financial guarantee contracts. Where the companies in the Group enter into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the companies consider these to be insurance arrangements, and account for them as such. In this respect, the Group treats these guarantee contracts as a contingent liability until such time as it is probable that the companies will be required to make payments under these guarantees.

29 New and Revised Accounting Standards and Interpretations

The following standards and interpretations which are considered relevant to the Group but not yet effective for the period ended 30 June 2017 have not been applied in preparing the financial statements:

	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
NZ IFRS 9, Financial Instruments: Classification and Measurement	1 January 2018	30 June 2019
NZ IFRS 15, Revenue from Contracts with Customers	1 January 2018	30 June 2019
NZ IFRS 16, Leases	1 January 2019	30 June 2020

The Company has not yet fully evaluated the impact that these standards will have on the Group's financial statements.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

There were no standards, amendments and interpretations to existing standards that were adopted by the Group from 1 April 2015.

30 Events Subsequent to Balance Date

Sale of Held-For-Sale assets

At balance date the Group held a number of different properties for sale with a combined carrying value of $5.3 million including a vineyard in the Hawke's Bay, a farm near Kekerengu and four residential properties in and around Blenheim. At reporting date a number of offers had been accepted on these properties and they are at different stages of completion. The expected net sales proceeds from the properties sold is expected to be approximately $0.8 million above the carrying values reported at balance date.

Yealands Wine Group Insurance Proceeds

Subsequent to balance date Yealands received a further $2.73 million from their insurers in relation to the damage incurred as a result of the November 2016 earthquake, bringing the total funds received in advance of the lodgement of the claim to $8.23 million. The Group expects that the insurance claim will be finalised in the year to 30 June 2018, with those insurance proceeds recognised as income in the Statement of Comprehensive Income.

Statement of Service Performance

For the year ended 30 June 2017 (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 this report presents the Company's performance against these targets for the year in review.

1.

Target: To achieve a percentage net operating surplus after interest and tax to shareholders funds of at least 6.00%, adding back discounts and using the accounting carrying values to establish the value of net assets/shareholder's funds.

Result: Achieved 4.26% on average shareholder's funds of $337.4 million for the year. This result is after including Marlborough Lines Limited network assets at valuation and adding back customer discounts adjusted for tax.

2.

Target: To achieve a target return on equity (ROE) of at least 6.00% after tax from Nelson Electricity Limited and Yealands Wine Group Limited.

Result: Nelson Electricity achieved a return on equity of 8.26%, with profit for the year to 31 March 2017 of $2.302 million (2016: $1.915 million).

Yealands Wine Group recorded profit for the year to 30 June 2017 of $53.161 million (2016: $31.317 million) including a $60.4 million net revaluation gain, resulting in an overall return of 32.55%. This overall return includes capital gains and is an indication of return on equity invested.

3.

Target To achieve a percentage of shareholder's funds to total assets which is prudent but able to accommodate business expansion. (2016: Actual 86.4%)

Result The ratio is 85.4%, which provides an opportunity for expansion.

4.

Target: Customer minutes lost by scheduled shutdowns of the Company's network to not exceed 65 minutes compared with an average of 60 minutes lost per customer for the years 2013/2014/2015.

Result: The outcome was an average of 51 minutes lost per customer for the year to 31 March 2017 with no major incidents being recorded. This number is fairly steady and is reflective of the quantity and type of work performed on our network.

5.

Target: Customer minutes lost on the Company's system through internal faults to not exceed an average of 80 minutes compared with an average of 112 minutes for the years 2013/2014/2015.

Result: The outcome was an average of 303 minutes (2016: 61 minutes) lost per customer for the year to 31 March 2017. The substantial result this year was severely impacted by the 14 November 2016 earthquake which caused lost supply initially to large parts of our network and restoration of supply down the east coast towards Kaikoura took days to repair. Excluding the impact of the earthquake our performance was 127 minutes, above target of 80 minutes, negatively impacted by a number of storm events during the year.

6.

Fault Restoration Targets for the year to 31 March 2017

Area	Target Times	Repaired Out of Target	Repaired Within Target	Total Number of Faults	% in Target	% Out of Target
Urban	1.00	15	13	28	46%	54%
Urban Other	1.50	11	9	20	45%	55%
Rural	4.00	85	217	302	72%	28%
Rural Remote	8.00	37	87	124	70%	30%
Total 2017		**148**	**326**	**474**		
Total 2016		**30**	**249**	**279**		

7.

Target: The Company will survey its consumer base to ascertain satisfaction levels with the Company's performance.

Result: Consumer satisfaction with Marlborough Lines' performance remains very high. 88% of the sample was Satisfied/Very Satisfied with the Company's Overall Performance (2016: 85%). Domestic consumer's satisfaction with Marlborough Lines' overall performance has increased by 6% this year to be more than Commercial consumers. The Domestic consumer weighted average score is 87% (2016: 81%). The weighted average score for Commercial consumers is 83% (2016: 83%).

8.

Target The Company will undertake to provide newsletters to all electricity consumers summarising its financial result, and including energy efficiency and safety information and other topical matters on at least four occasions in the year.

Result: Two Connections newsletters have been published during the year.

9.

Target The Company shall provide its shareholder, the Marlborough Electric Power Trust with an updated Five Year Financial Model at the commencement of each financial year.

Result: The Company provided its shareholder, the Marlborough Electric Power Trust, with an updated Five Year Financial Model at the commencement of the financial year beginning 1 July 2016.

10.

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

Result: In accord with the posted price/discount requirements $8.164m (excl GST) was paid to Electricity Retailers in March 2017 (2016: $8.209m).

11.

Target: The anticipated total dividend for the year to 30 June 2017 was $4,285,000.

Result: The Company paid a fully imputed dividend to the Marlborough Electric Power Trust of $4,285,000 in June 2017 (2016: $4,285,000).

Independent Auditor's Report

Deloitte.

To the readers of Marlborough Lines Limited's Group Financial Statements and performance information for the year ended 30 June 2017

The Auditor-General is the auditor of Marlborough Lines Limited (the Group). The Auditor-General has appointed me, Paul Bryden, using the staff and resources of Deloitte Limited, to carry out the audit of the financial statements and the performance information of the Group on his behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Group on pages 61 to 101, that comprise the statement of financial position as at 30 June 2017 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 performance information of the Group for the year ended 30 June 2017 on pages 102 to 103.

In our opinion:

- the financial statements of the Group:
  - present fairly, in all material respects:
  - its financial position as at 30 June 2017; and
  - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand and in accordance with the New Zealand equivalents to International Financial Reporting Standards.
- the performance information of the Group presents fairly, in all material respects, the Group's achievements measured against the performance targets adopted for the year ended 30 June 2017.

Our audit was completed on 27 September 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the Group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is also responsible on behalf of the Group for preparing performance information that is fairly presented.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the Group for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Energy Companies Act 1992.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and performance information.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the consolidated financial statements and performance information. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit we have carried out engagements in the areas of Information disclosure, and fraud awareness which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the Group.

Paul Bryden
for Deloitte Limited
On behalf of the Auditor-General
Christchurch, New Zealand

Corporate Governance Statement

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.

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 including a Code of Conduct. 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.

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.

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.

The Marlborough Lines Constitution provides for a maximum of eight Directors. The Board presently comprises seven non-executive Directors and a Managing Director. Each year the Company's Constitution requires one-third of the Directors, excluding the Managing Director 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.

At the Annual General Meeting (AGM) in December 2016 Mr David Dew and Mr Tim Smit were reappointed to the Board. Mr Steven Grant was appointed to the Board in February 2017.

This year at the AGM Mr Jonathan Ross and Mr Ivan Sutherland will retire according to the rotation rule. Messrs Ross and Sutherland are available for reappointment to the Board.

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

The Board sets the remuneration of the Managing Director.

Board responsibilities

The Board is responsible for the overall direction and management of Marlborough Lines including:

- Approving network pricing requirements
- Approving financial and non-financial targets and regularly monitoring and reviewing financial performance against those targets
- 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
- Evaluating the performance of the Managing Director
- Reporting financial results to the shareholder

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.

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.

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 100% owned subsidiaries Southern Lines Limited and Seaview Capital Limited. It nominates individual directors from time to time to boards of its majority owned subsidiary Yealands Wine Group Limited and associated investment company Nelson Electricity Limited.

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.

The entire Board meets as an Audit Committee in respect of all audit matters. In particular the Board recognises that it has specific responsibility to safeguard the integrity of the Company's financial and regulatory reporting.

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

The Board also meets with the Auditor at least once annually 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.

Board attendance

During the year to 30 June 2017 nine Board meetings were held and attended by Directors as follows:

Directors	Meetings Held	Attended
D W R Dew	9	9
K J Forrest	9	9
P J Forrest	9	9
S J Grant	3	3
P I Robinson	9	9
C J Ross	9	9
T H Smit	9	9
I C Sutherland	9	8

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.

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
- 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.

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.

The Company has a Risk Management Policy and framework incorporating the ISO 31000:2009 risk management processes.

Risks are identified through a variety of methods including on-site checklists, visual hazard inspection, reporting of accidents and near misses and formal risk reviews.
The Company monitors and reviews these risks on a regular basis and reports key risks and their management to the Board.

Health and safety management
The Board has a strong commitment to ensuring that the Company's employees, contractors and the public are kept safe.

Monthly reports to the Board provide information relative to the Company's health and safety performance.

Marlborough Lines holds the following certifications for management systems:

- Occupational Health and Safety Assessment Series OHSAS 18001:2007
- Electricity and Gas Industries – Safety Management Systems for Public Safety NZS 7901:2008.

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.

Quality management
Marlborough Lines holds the following certifications for management systems:

- Quality AS/NZS ISO 9001:2008
- Environmental AS/NZS ISO 14001:2004

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

General Disclosures

for the 12 month period ended 30 June 2017

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 2016/2017 Marlborough Lines Limited has maintained its focus as a leading and innovative electricity network investor, owner and operator. The Company has also invested in and operated related electrical contracting services. The Company holds a significant investment in Yealands, a Marlborough vineyard and winery and an investment in the Nelson based electricity network company, Nelson Electricity Limited.

2. Review of financial performance

2.1 Results for the 12 month period ended 30 June 2017

Operating Profit	Group 2017 $000 12 Months	Group 2016 $000 15 Months
Net Profit/(Loss) After Tax for the Year	(1,530)	36,606
Other Comprehensive Income Net of Tax	60,406	(906)
Total Comprehensive Income	**58,876**	**35,700**

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 satisfactory state.

3. Dividends
The Directors and shareholders authorised the following dividend payments for the 2016/2017 financial year.

First and Final Dividend	**30 June 2017**	**$4,285,000**
Full imputation credits were attached to all dividend payments.		
Ordinary Shares Issued		28 million
Value of Share Capital (Parent Net Assets at Current Valuation)		$340.249 million

4. Auditors

In accordance with Section 45 of the Energy Companies Act 1992, the Office of the Auditor General is responsible for the audit of Marlborough Lines Limited. In accordance with Section 29 of the Public Finance Act 1977 the Office of the Auditor General 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 Christchurch – For Marlborough Lines Limited Group	$73,000	$53,000
Deloitte Christchurch – 2016 Financial period overruns	$26,000	$0
Deloitte Wellington – For Yealands Wine Group Limited Group	$75,000	$0

5. Information on Directors of Marlborough Lines Limited

			Total Remuneration and Other Benefits	
Director	**Qualifications and Experience**	**Special Responsibilities**	**2017**	**2016**
D Dew	LLB Principal Dew & Company, Solicitors, Blenheim Director Yealands Wine Group Limited Director Nelson Electricity Limited Director of other companies	Chairman	$89,750	$94,686*
K Forrest	BSc Hons (Eng), MIPENZ, Registered Electrical Engineer Director Nelson Electricity Limited Chairman Cuddon Limited Director of other companies	Managing Director	$459,200	$480,394*
P Forrest	BCom, ACA Director WK Advisors and Accountants Director Yealands Wine Group Limited Director of other companies	Non-executive Director Appointed 25 September 2015	$43,375	$30,658
S Grant	BCom, LLB (Hons) Director New Zealand Automobile Association Director of other companies	Non-executive Director Appointed 13 February 2017	$17,506	–
P Robinson	NZCQS, MInstD Managing Director of Robinson Construction Limited Director of other companies	Non-executive Director Appointed 25 September 2015	$43,375	$30,658
C Ross	LLB (Hons), BCL, BA Director Reserve Bank of New Zealand Director of other companies	Non-executive Director	$43,375	$38,762*
T Smit	BSc Eng (Civil) Hons, MIPENZ Principle TMCo Director of other companies	Non-executive Director	$43,375	$38,762*
I Sutherland	VFM, ANZIV, MNZM Director Dog Point Vineyard Limited Director of other companies	Non-executive Director Appointed 25 September 2015	$43,375	$30,658

* Annualised to reflect a 12 month period

Director's fees totalling $76,667 earned by Mr K Forrest through membership of the boards of Nelson Electricity Limited and Yealands Wine Group Limited are paid to Marlborough Lines Limited.

All Marlborough Lines Limited directors are directors of the Company's wholly owned subsidiaries Southern Lines Limited and Seaview Capital Limited. No additional directors fees were paid by these subsidiaries.

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

6. Information on Directors of Yealands Wine Group Limited

Director	Appointment/Retirement	Directors Fees 2017	Directors Fees 2016
P Radich (Chairman)		$79,539	$50,000
D Dew		$50,000	$46,909
K Forrest		$50,000	$47,919
P Forrest	Appointed 4 July 2016	$49,597	–
M Thompson	Appointed 4 July 2016	$49,597	–
P Yealands*		–	–
M Radich	Resigned 16 August 2016	$6,317	$50,000
J Shewan	Resigned 7 December 2016	$45,764	$105,000

* P Yealand's remuneration is as an employee of Yealands Wine Group and he receives no directors fees.

7. Interests Register

The Interests Register records the following matters:

7.1 Directors' interests in contracts

There have been instances of payments being made to entities in which Directors have an interest in during the financial year. These are documented in the related party note of the financial statements and have been undertaken on an arms-length commercial basis.

7.2 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.

8. 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.

9. Employee remuneration

Details of remuneration paid to employees of the Marlborough Lines Group which are required to be disclosed are below. These amounts for the 2016 year have been annualised to reflect a 12 month period.

Remuneration Range	Number of Employees Parent 2017	Number of Employees Parent 2016	Number of Employees Subsidiaries 2017	Number of Employees Subsidiaries 2016
$100,000 – $110,000	7	2	6	8
$110,000 – $120,000	5	5	2	5
$120,000 – $130,000	3	3	7	3
$130,000 – $140,000	2	3	2	2
$140,000 – $150,000	1	–	2	1
$150,000 – $160,000	1	2	1	1
$160,000 – $170,000	–	1	4	3
$170,000 – $180,000	1	–	1	1
$180,000 – $190,000	–	–	–	1
$190,000 – $200,000	–	–	–	1
$200,000 – $210,000	–	–	2	–
$210,000 – $220,000	–	–	2	–
$220,000 – $230,000	–	1	–	–
$230,000 – $240,000	1	1	–	1
$240,000 – $250,000	3	–	–	–
$250,000 – $260,000	–	2	3	–
$290,000 – $300,000	–	1	–	–
$370,000 – $380,000	–	–	–	2
$540,000 – $550,000	–	–	1	–
$560,000 – $570,000	–	–	1	–

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

10. Donations

During the year the Company made tertiary education grants totalling $31,000. This is in addition to the support the Group provides to many organisations throughout the year by way of sponsorships and donations.

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

D W R Dew
Chairman
27 September 2017

K J Forrest
Managing Director
27 September 2017

Glossary

Term	Description
AS/NZS ISO	Australian/New Zealand Standard/International Organisation for Standardisation.
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.
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.
NZ IFRS	New Zealand International Financial Reporting Standards.
SAIDI	System Average Interruption Duration Index – the average time supply unavailable to all customers.
SCADA	Supervisory Control and Data Acquisition.
SF_6 Gas	Sulphahexafluoride Gas.
WACC	Weighted Average Cost of Capital.

History

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 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 Ltd.

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 Ltd.

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 Ltd shareholding.

2015

Marlborough Lines broadens its investment base by acquiring an 80% shareholding in the Marlborough based Yealands Wine Group.

2016

Marlborough Lines increases its investment in Yealands to 86%.

Annual Report Awards

Each year, for the past thirteen 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 – 2017, 2016, 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

Directory

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Deloitte on behalf of the Controller and Auditor General

Bankers
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ASB Bank, New Zealand

Solicitors
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Simpson Grierson, Auckland

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PricewaterhouseCoopers, Wellington/Auckland

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