# Lines to Vines and Wines

Annual Report 2016

Marlborough Lines

# The Beauty of Blue Sky Thinking

The investment that broke the industry mould — see page 67

Yealands Wine Group, Seaview Vineyard located in the Awatere Valley, Marlborough, is the single largest privately owned vineyard in New Zealand.

**About this report**

This 2016 report summarises Marlborough Lines' operations, activities and financial position for the 15 month period to 30 June 2016 following a change in our balance date from 31 March. Marlborough Lines Limited is the Parent company of the Marlborough Lines Group of companies. In this report we provide as appropriate, numbers and tables for the financial indicators of both the Parent and Group, and where necessary, descriptions of the activities of the individual entities comprising investments within the Group. References in this report for the year means the 15 month calendar period 1 April 2015 to 30 June 2016 except for Parent operational data which, for compliance purposes and in accord with Commerce Commission criteria, is provided for the 12 month period to 31 March 2016. All dollar figures are expressed in New Zealand currency. The Company undertakes only a small print run of the Annual Report and we encourage readers and stakeholders to access the electronic (PDF) version, which can be downloaded from our website www.marlboroughlines.co.nz

**Report objectives**

This report meets the New Zealand compliance and legislative requirements of the Companies Act, The Financial Reporting Act and the Energy Companies Act, whilst also providing easy to read information on Marlborough Lines' aspirations and performance for 2016 – the factors which affect our performance, and our goals for the 2016 year. The industry and regulatory environment in which we operate is complex and for that reason we have provided for our stakeholders an outline of our position, activities and attributes in the supply chain for electricity (see page 26). On pages 62 and 63 we also outline the regulatory environment applicable to our electricity network business.

# Contents



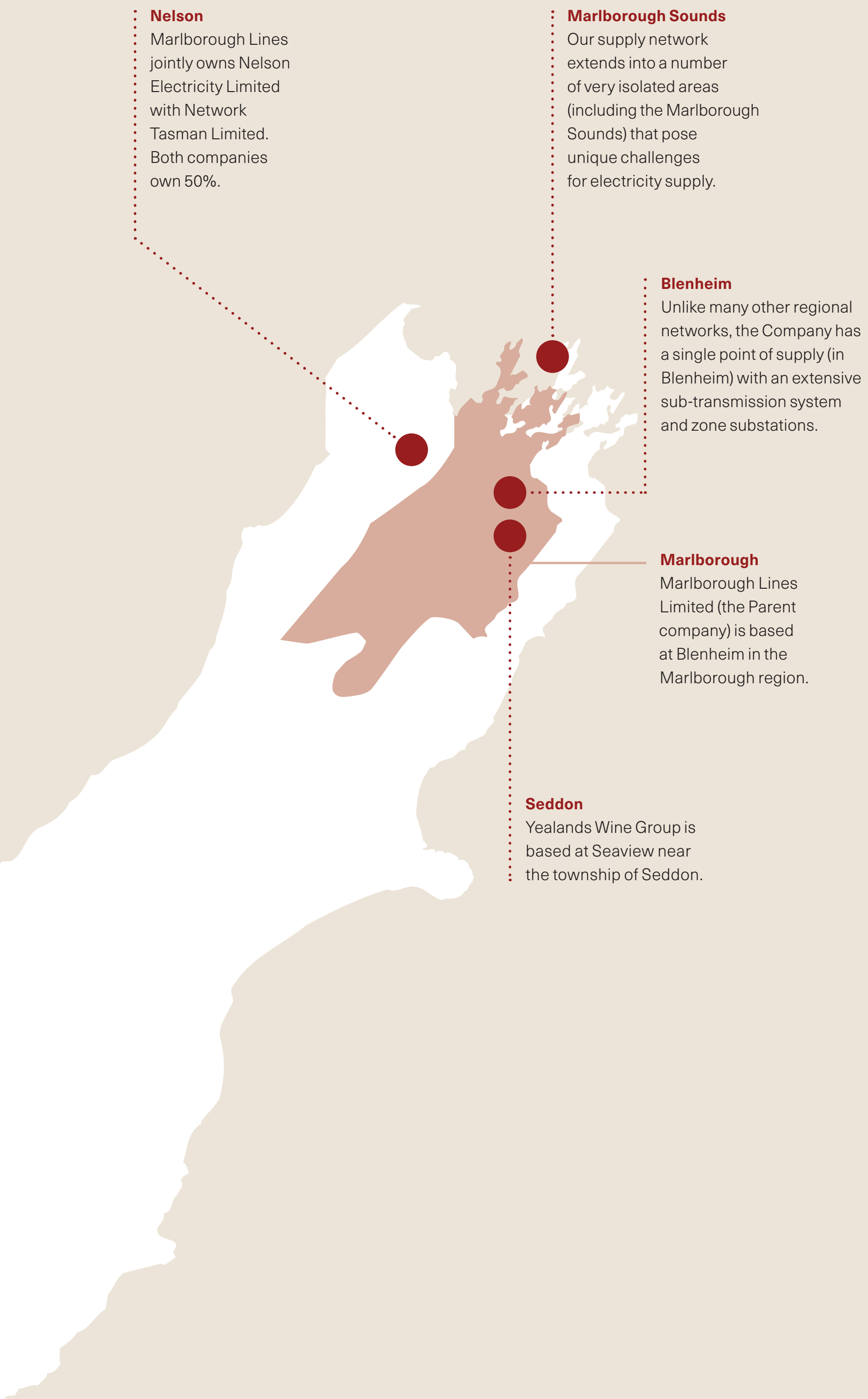
**Marlborough Lines had a great year. The network performed well, our customer reliability set new records and our diversified investment strategy literally bore fruit.**

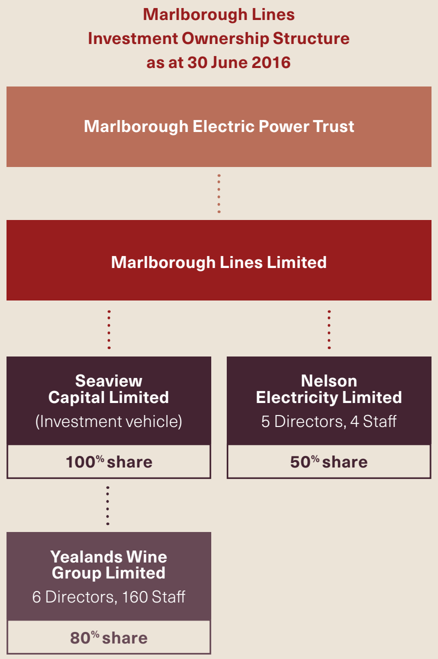
**We bought into the Yealands Wine Group – an investment that is already paying dividends – and we are on the lookout for further opportunities.**

## About Us

# Outlook Meets Opportunity

# Extending our operations






We are a progressive electricity network owner/operator delivering electricity to consumers in the Marlborough region of New Zealand. Over a number of years, we have also invested in electricity networks outside our region. This year, taking a different course, we extended our investment base to include an 80% shareholding in one of New Zealand's major wine companies.

## New territory for us

We seek the best investment opportunities to benefit the electricity consumers of Marlborough, both now, and most importantly, in the future. Our latest investment in the Yealands Wine Group (YWG), is already successful.

Marlborough Lines owns and operates the provincial electricity network supplying electricity to over 25,000 consumers in the Marlborough region at the top of the South Island of New Zealand.

Since 1996, we have also been a substantial investor in other electricity networks within New Zealand, currently owning 50% of Nelson Electricity Limited – which supplies electricity to Nelson city.

In 2014, we sold our 51% shareholding in the OtagoNet distribution network, supplying the Otago region. During 2015, we also sold our 13.89% shareholding in the Whakatane based electricity distributor, Horizon Energy Distribution Limited.

Due to the results of these sales, we were in a position to consider alternative new investments, and on 1 July 2015, Marlborough Lines took up an 80% shareholding in the Yealands Wine Group. YWG is a large Marlborough-based grape grower and wine producer, recognised within the wine industry as a leader in environmental practices and sustainable wine production.

## Changed balance date

As a result of the investment in YWG, Marlborough Lines elected to change its balance date to 30 June. This means that for the Group financial statements, the 2016 numbers represent 15 months of activity for the Marlborough Lines Parent company and 12 months activity for the YWG.

## Vital statistics

*Parent company*

- Marlborough Lines Limited shareholding comprises 28m $1.00 shares issued, fully paid up and held by the Marlborough Electric Power Trust
- Annual operating revenue of $55.4m
- Total assets of $393.5m
- A net worth at 30 June 2016 of $335.4m
- Over 25,000 network connections
- An area for network supply covering 11,330km²
- Network of lines and cables in excess of 3,383km
- 126 Blenheim-based staff.

*The Group*

- The Marlborough Lines Parent company plus:
  - A 50% interest in Nelson Electricity Limited
  - An 80% interest in Yealands Wine Group Limited
  - Total assets of $549.9m
  - Total operating revenue of $163.9m
  - 265 staff.

## Nelson Electricity

Nelson Electricity supplies electricity to some 9,200 consumers in the Nelson city area through a predominantly underground network.

## Yealands Wine Group

YWG is one of Marlborough's larger wine producers, with annual revenues in excess of $95m, and an enviable reputation for embracing sustainable practices in the production of award winning wines.

## The Marlborough region

Marlborough Lines is based in Blenheim, which has a population of 24,000 plus. The Marlborough region experiences approximately 2,400 hours of sunshine each year, which is a major contributing factor in the region's rapid growth to become New Zealand's largest wine growing area. Marlborough now produces over 77% of New Zealand's wine production, including the world famous sauvignon blanc. There is more than 24,000ha of land currently planted in grapes, and further plantings are underway.

Marlborough is also known as being an area of significance for aquaculture farming, forestry and tourism.

## Electricity supply

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

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

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

# Performance overview

## $163.9m

**Group total operating revenue 15 months (up 181%)**

With the acquisition of Yealands Wine Group (YWG) the Marlborough Lines Group has more than doubled its revenue and is now a much more diverse business.

## $36.6m

**Group surplus after taxation 15 months (up 269%)**

Group surplus includes the gain recognised on the acquisition of YWG of $30.4m.

## $29.4m

**Group earnings before interest, tax and depreciation (EBITDA) 15 months (up 29%)**

This result excludes the gain on acquisition and reflects a 15 month period being compared to a 12 month period.

## $24.8m

**Capital and maintenance expenditure to increase capacity and improve reliability 15 months (Parent) (up 19.4%)**

Increase reflects a 15 month period being compared to a 12 month period. Our continued investment is reflected in an increased reliability of supply.

## $9.44m

**Total discounts, inclusive of GST, paid to Marlborough customers 12 months (Parent) (up 1.6%)**

An average domestic customer received a discount to their electricity bill of $226.

## $4.285m

**Total dividend paid to the Marlborough Electric Power Trust 15 months (Parent) (up 140%)**

Dividend paid to the Trust for distribution to consumers. Each network connection will receive $150 early in 2017.

## $8.4m

**Total cash flows received from funds invested and investments in Nelson and YWG 15 months (Parent) (down 14%)**

Current year return represents a 6.31% return on investment. Decrease from prior year which was distorted by gains from the sale of investments in Otago.

## 396GWh

**Volume of energy traded over the Marlborough network 12 months (Parent) (down 0.2%)**

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

## 124.2

**Average total minutes of lost supply 12 months (Parent) (down 6.5%)**

Minutes of lost supply set a record low and we have plans to improve further.

## 25,000+

**Total Marlborough network connections at 30 June 2016 (Parent) (up 0.8%)**

Customer connections reflect the population growth in Marlborough.

## $95.2m

**The Yealands Wine Group acquisition contributed over $95m in gross revenue into the Group revenue (12 months)**

YWG sales are projected to increase both nationally and internationally.

## 21,300 tonnes

**For the year ended 30 June 2016 Yealands Wine Group harvested 21,300 tonnes of grapes**

Grape tonnage processed represented a 21% increase over the previous 2015 vintage and is projected to further increase.



# Results in brief

| Group | Actual[i] 2016 15 months | Target 2016 12 months | Change Over Previous Year | Target 2017 12 months | 2015 12 months | 2014 12 months | 2013 12 months |
|---|---|---|---|---|---|---|---|
| EBITDA (ii) | $29.414m | $21.210m | 28.8% | $32.307m | $22.832m | $22.505m | $23.972m |
| EBIT (ii) | $17.039m | $11.782m | 21.2% | $17.202m | $14.058m | $14.137m | $16.056m |
| Total Revenue (Group) | $163.897m | $53.569m | 181.3% | $165.695m | $58.270m | $54.228m | $51.237m |
| Customer Discount (paid and accrued) | $11.545m | $8.003m | 42.9% | $8.255m | $8.078m | $7.976m | $7.135m |
| Pre-tax Pre-discount Surplus (ii) | $50.674m | $19.785m | 141.0% | $23.598m | $21.025m | $21.098m | $21.397m |
| Surplus after Taxation (iii) | $36.606m | $8.779m | 269.5% | $9.294m | $9.908m | $9.153m | $11.300m |
| Total Value of Group Assets | $549.894m | $389.543m | 41.8% | $561.899m | $387.787m | $353.898m | $344.133m |
| Share Capital | $29.026m | $29.026m | 0.0% | $29.026m | $29.026m | $29.026m | $29.026m |
| Shareholder's Equity | $385.843m | $340.307m | 15.8% | $390.852m | $333.228m | $257.870m | $250.417m |
| Net Asset Backing Per Share | $13.78 | $12.15 | 15.8% | $13.96 | $11.90 | $9.21 | $8.94 |
| Pre-discount Return on Shareholder's Funds (iv) | 13.13% | 5.81% | 108.2% | 6.04% | 6.31% | 8.18% | 8.54% |
| Net Interest Bearing Debt | $84.250m | – | | $92.605m | – | $38.000m | $36.150m |
| Interest Cover (x EBIT) | 4.30 | – | | 3.88 | – | 13.93 | 8.95 |
| **Parent** | | | | | | | |
| EBITDA (v) | $24.858m | $21.010m | 12.0% | $20.949m | $22.192m | $20.424m | $21.912m |
| EBIT (v) | $13.067m | $11.582m | -2.6% | $11.449m | $13.418m | $12.088m | $14.028m |
| Customer Discount (paid and accrued) | $11.545m | $8.003m | 42.9% | $8.255m | $8.078m | $7.976m | $7.135m |
| Surplus After Taxation (v) | $10.553m | $8.579m | 14.3% | $9.460m | $9.229m | $7.031m | $9.442m |

### Yealands Wine Group in brief

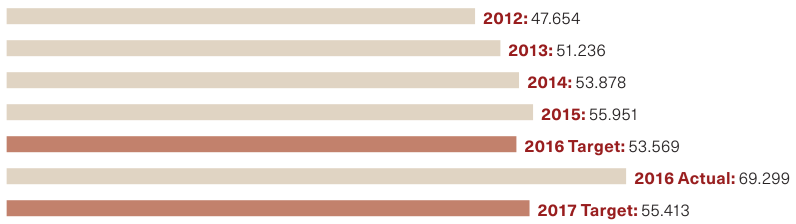
- Total assets 30 June 2016 – $252.806m
- Annual revenue year to 30 June 2016 – $95.244m
- $5.5m dividends declared
- Freehold land – 1,428 hectares
- Processed over 21,300 tonnes of grapes
- Exporting wine to over 80 different countries
- Largest solar power generation installation in New Zealand (412kW)
- Winery certified "CarboNZero[CertTM]"

(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 $71.452m.
(iii) Excludes income tax expense for 2015 of $11.501m and the gain recognised on disposal of interest in former associates (ii).
(iv) Excludes 2015 gain recognised on disposal of interest in former associates (ii).
(v) Excludes intercompany subsidiary dividend for 2015 of $85.611m.

# Parent company

## Total revenue

Parent company $(m)




Total revenue for the 15 months is not directly comparable to the other 12 month results or targets, however consistent volumes on the Marlborough Lines network has meant that our lines revenue has been steady. Our total revenue for the 12 months to March 2016 was $51.96m, $1.6m below target, impacted by lower interest income due to a lower balance on term deposit. Dividends from our investment in YWG had not been received at that point.

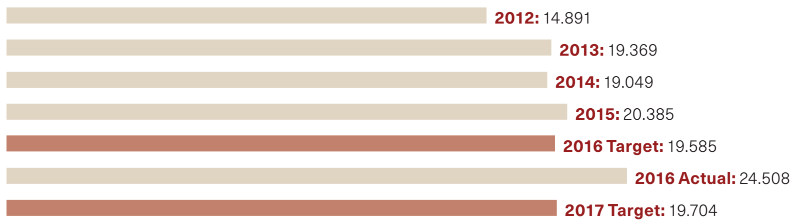
## Operating surplus after tax

Parent company $(m)


Operating surplus after tax for the 15 months is not directly comparable to the other 12 month results or targets. There have been some one-off costs included in the 2016 accounts, including costs associated with the acquisition of YWG and the recognition of a provision for discount, that have negatively impacted the 2016 results. However underlying performance has been consistent with previous results.

## Pre-discount, pre-tax profit

Parent company $(m)




Similar to the above, pre-discount, pre-tax profit for the 15 months is not directly comparable to the other 12 month results or targets. But once adjusted for the different length periods it is comparable with previous years and target.



At the time of setting our targets for this financial year we hadn't envisaged a change of balance date from 31 March to 30 June and a 15 month financial period. Provision of Disclosure Information to the Commerce Commission still has to be for 12 months to 31 March.

## Key targets and results

| Target 2015/16 | Result 2015/16 | Target 2016/17 |
|---|---|---|
| Company surplus before tax and sales discounts $19.585m | $24.508m | $19.704m |
| Company net surplus after tax $8.579m with $8.003m discount | $10.553m with $11.545m of discount included in the result | NPAT $9.46m and discounts of $8.225m |
| Network customer discounts of $8.003m | $8.209m paid and a further $3.336m provided for in the period | $8.225m |
| Capital expenditure target level of $11.848m | $15.574m for the 15 month period | $12.074m |
| Operating turnover target $53.569m | $69.299m revenue stable from the lines business. Revenue includes $4.4m paid from Yealands Wine Group Limited. | $55.413m |
| Target shareholder's equity at year end $334.147m inclusive of deferred tax provision | $335.414m | $340.589m |
| Average number of minutes power supply lost from all causes not to exceed 135 minutes per customer | 124.2 minutes | 145 minutes<br>100 minutes stretch target |

Our Mission

# Setting goals and measuring progress

**As a company we set out to:**

| Goals | Results 2015/16 | Targets 2016/17 |
|---|---|---|
| **Develop and maintain the region's electricity network** | This year the average total minutes lost from all causes was 124 minutes, our best year yet and an improvement over the 133 minutes recorded last year.<br>We incurred capital expenditure of $15.574m for the 15 month period. On a pro-rata basis this is slightly ahead of the twelve month target of $11.848m. See page 33.<br>Maintenance expenditure for the 15 month period totalled $9.196m which is consistent with the estimated target monthly spend. | • Average number of minutes power supply lost from all causes not to exceed 145 minutes per customer with a stretch target of 100 minutes<br>• Capital expenditure target level of $12.074m, a small increase on the previous year's 12 month target<br>• Maintenance expenditure target level of $7.921m. |
| **Meet both commercial and productivity targets** | This year we delivered 396GWh to the Marlborough network compared to a target of 387GWh. The extremely dry 2015/2016 summer period generated a significant increase in irrigation consumption. | • Deliver 398GWh of energy to the Marlborough network (this takes account of a potentially dry year and the still increasing wine industry energy consumption). |
| **Operate a successful business** | We achieved a pre-tax , pre-discount operating profit of $24.508m for the 15 month period which is a slight reduction on the estimate. See commentary on page 80.<br>Paid a shareholder dividend of $4.285m to the Marlborough Electric Power Trust which will enable them to substantially increase their distribution to Trust beneficiaries.<br>We achieved an increase in shareholder value of $52.615m to $385.843m arising from the operating surplus and a gain on acquisition from the Yealands Wine Group investment. | • Achieve Company surplus before tax and sales discounts of $19.704m<br>• Pay a shareholder dividend of $4.285m<br>• Continue to increase shareholder value. |
| **Be a good employer** | This year we maintained our training for all staff including in the areas of health and safety and trade and tertiary study.<br>Our programme of presentation breakfasts for all staff has enabled focus on a wide range of topics related to health and safety and teamwork. See page 51. | • Continue presentation breakfasts with not less than eight to be conducted<br>• Provide opportunities for trade and tertiary training with the goal of providing all staff with the opportunity to achieve their potential<br>• Enhance our wellness programme<br>• Gain new ISO 45001 Occupational Health and Safety standard which is to replace the current OHSAS 18001 standard. |
| **Use energy as efficiently as possible** | Electricity consumption within the two main Marlborough Lines sites is monitored monthly for variances. Small scale solar generation at six sites including the head office also contributes to reducing the grid demand.<br>Our ISO Environmental certification provides for monitoring of fuel and electricity usage, the use of "energy saving modes" on equipment where possible and the regular maintenance of high usage equipment such as air conditioners.<br>Potential energy losses are considered in the design, purchase and operation of all network assets. | • To further improve our energy/electricity consumption and transport fuels<br>• To complete a new efficiency audit for electricity/energy consumption. |



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.

| Goals | Results 2015/16 | Targets 2016/17 |
|---|---|---|
| **Ensure and promote electrical safety in all aspects of our operation and in the community** | Following the passing of the Health and Safety at Work Act 2015, we adopted a new Health and Safety Charter. This is the overarching document to reinforce our compliance with the new legislation.<br>Despite our best efforts we recorded one serious harm incident this year.<br>We maintained our safety certifications, OHSAS 18001:2007 Occupational Health and Safety and NZS 7901:2008 Public Safety, and ACC Tertiary status.<br>We have continued to promote public safety around electricity through regular consumer newsletters and on our website. | • Set up the reporting, representative and committee requirements of the new legislation<br>• Achieve zero serious harm accidents<br>• Maintain Health and Safety certifications and ACC accreditation. |
| **Exceed customer expectation** | This year we again surveyed our customers. Overall satisfaction declined from 89% to 85%, although the customer satisfaction for faults and reliability was 96%.<br>This year we supported a wide a wide range of Community initiatives allocating over $260,000 to students and organisations. See page 54.<br>This year as a result of the Company's investment in the Yealands Wine Group the Company was able to treble the size of the dividend paid to the Marlborough Electric Power Trust. This will generate a significant increase in distributions to electricity consumers who are the Trust's beneficiaries. | • Maintain a high level of customer satisfaction<br>• Maintain support for community and youth oriented initiatives<br>• Demonstrate the worth of the Company's external investments through providing dividends at a similar level to the Company's shareholder. |
| **Use legislative powers fairly** | We pledge to use our legislative powers fairly. As a test of this we have maintained our record with the Electricity and Gas Complaints Commissioner Scheme 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** | We incurred capital expenditure of $15.574m. The requirement for capital expenditure matches our programme of capital replacements and also customer demand for new lines, both for residential subdivision development and continuing expansion relating to the wine industry. | • Target level of capital expenditure of $12.074m. |
| **Fulfil market requirements in terms of quality and price** | This year we maintained all of our external certifications for Quality Management, Health and Safety and the Environment.<br>We met or exceeded all Electricity Authority and Commerce Commission Code of Practice and Disclosure requirements.<br>Our customer survey indicated continued high level satisfaction with fault responses and reliability – our product is meeting the demand. | • We will maintain appropriate external certifications for our business<br>• We will continue to meet all regulatory code and reporting requirements<br>• We will survey customer satisfaction levels to ascertain those areas where customers indicate we can do better. |
| **Minimise our environmental impact** | We maintained our external ISO environmental certification. See page 39.<br>We continue to support the Marlborough Sounds Restoration Trust (MSRT) programme which is removing wilding pines throughout the Marlborough Sounds.<br>We also maintained support for the New Zealand Dryland Forests Initiative (NZDFI) in their long term Eucalypt breeding trial programme. See page 61.<br>This year we introduced more specific recycling options in our offices for a wide range of materials with new colour coded bins.<br>We took up a controlling interest in the Yealands Wine Group, a company which is noted for its sustainable environmental practices and its commitment to using renewable energy. See pages 64-77. | • We will maintain our ISO environmental standard<br>• We will maintain support for the MSRT and NZDFI<br>• We will continue to explore greater internal recycling initiatives with the aim of reducing our already small contribution to the region's landfill<br>• In the new year we will undertake a further cyclical assessment of the Company's carbon emissions. |



Chairman's Report

# We are proud of our achievements

**Marlborough Lines has had another exceptional year and is continuing to grow shareholder value. But Marlborough Lines is more than just a Marlborough electricity distribution company. We hold a 50% shareholding in Nelson Electricity, the electricity network that supplies Nelson city and also own a majority share (80%)[1] in the Yealands Wine Group (YWG).**

Within the Marlborough electricity network there is no debt, and the Company has significant funds at its disposal for further investment.

That we are in such a strong position is testimony to Marlborough Lines' strategy and performance over a period of years.

Our asset backing per share has increased from $1.51 in 1999 when Marlborough Lines was established as a network company, to $13.78 at 30 June 2016.

The realisation of the Company's previous investments in networks in Otago and the Eastern Bay of Plenty provided funds of some $135m.

Because of a paucity of investment opportunity in the electricity sector – and with the full support of our shareholder, the Marlborough Electric Power Trust – we turned our attention to other commercial opportunities.

Fundamentally, our strategy is to focus on investments where there are solid earnings, the opportunity for capital growth and where we can add value. YWG – as the world's flagship of sustainable wine production and a major player in the New Zealand wine sector easily satisfied this criteria.

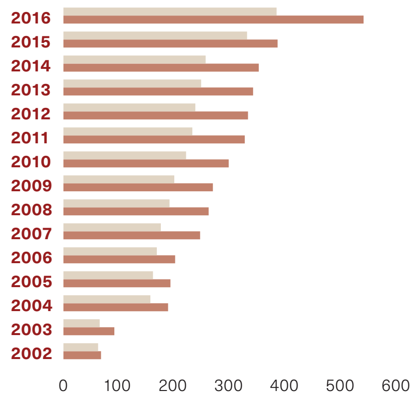
Indeed, in the 12 months since we have owned a majority of YWG, the profits have been enhanced, and it is clear from the marked increase in viticulture land value over the last 12 months that the value of our YWG investment has increased substantially.

The beneficiaries of our shareholder are the consumers of the day connected to the Marlborough electricity network. These beneficiaries will receive an increased annual distribution arising from Marlborough Lines' investments, in addition to the discount they receive as a result of paying network charges to Marlborough Lines – something that will be the envy of other electricity consumers in New Zealand.

Because the beneficiaries of our shareholder are inter-generational, we have the capacity to consider investments on the same basis.

1. Post June we acquired a further 5% increasing our shareholding to 85%

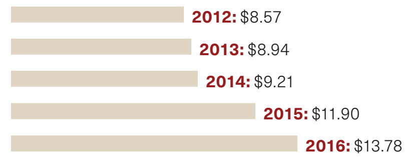
**Marlborough Lines Group – Shareholder wealth**
$(m)




Net Assets
**Total Assets**

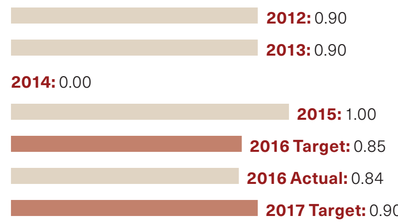
Net shareholder wealth has increased from $62.2m in 2002 to $385.8m in 2016.

**Net asset backing per share**
$




Net asset backing has increased from $2.22 in 2002 to $13.78 in 2016, an increase of 520%.

**Dividends received from Nelson Electricity**
$(m)




Marlborough Lines has received a steady stream of dividends from Nelson Electricity. No dividend was paid in 2014 whilst the Company funded a major substation project.

**Profitability summary**

| | 2016 EBITDA $(m) | 2016 EBIT $(m) | 2016 Surplus $(m) | 2016 Tax $(m) |
|---|---|---|---|---|
| Marlborough Lines | 24.858 | 13.067 | 10.553 | 2.410 |
| Consolidated Group | 29.414 | 17.039 | 36.606 | 2.523 |

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

We will continue to expand our investment portfolio in a considered way in accord with the criteria of our investment policy. Further investment may not necessarily be related to the electricity or wine sectors.

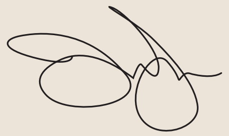
Marlborough Lines has a proud record of investment and wealth accretion for its shareholders. We are committed to building on this solid foundation – and the ultimate beneficiaries of our investments will be the electricity consumers connected to the Marlborough electricity network.

The achievements of Marlborough Lines and its ability to assess potential opportunities going forward is testimony to the calibre of our Managing Director and Directorate and I am pleased to acknowledge their valued contributions.

Equally, I am pleased to record my appreciation for the contribution of all staff within Marlborough Lines and our investment companies, Nelson Electricity and YWG.

Overall their efforts have contributed to our success.

Marlborough Lines can only maximise investment opportunities with the support of its shareholder, and accordingly I extend my sincere thanks to the Chairman of the Marlborough Electric Power Trust and his fellow Trustees for their support.



**DWR Dew**
*Chairman*



Our strategy is to focus on investments where there are solid earnings, the opportunity for capital growth and where we can add value. Yealands Wine Group easily satisfied this criteria.

Yealands Estate Winery located in Seaview Vineyard in the Awatere Valley, Marlborough, functionally operates as one of the most innovative, sustainable wineries anywhere in the world.



Managing Director's Report

# Sustainability is integral to our operations

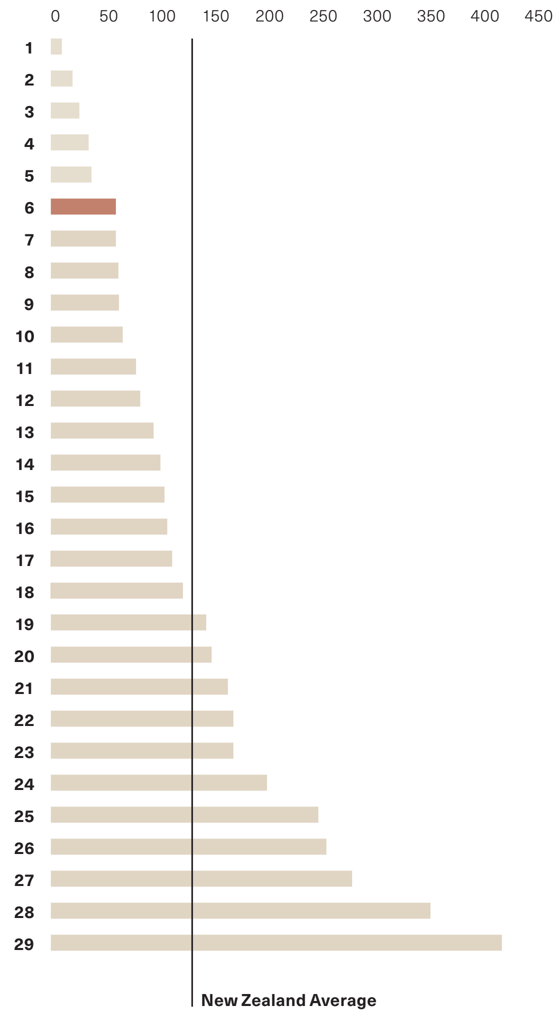
**It is often said that the key determinant of sustainability in any business is cash flow. But there are a number of contributing factors that must collectively combine to ensure the sustainability of cash flow itself.**

Meeting customer expectations is essential. Our customer feedback is that invariably they require a 24 hour supply for 365 days of the year. Electricity is essential to do business, communicate and to generally enable people to go about their lives. Which is why reliability of supply is paramount to us.

Our cumulative capital and maintenance expenditure over a period of years has substantially enhanced reliability of supply. Our customer minutes of lost supply to 31 March 2016 were a record low. In parts of Blenheim there has not been an electricity outage since 2012. In fact, despite the significant geographical region and challenges of terrain and difficulties of access that come with our network, reliability bettered most of New Zealand's other network companies. But we are not resting on our achievements.

We are committed to a programme of continuous improvement in all aspects of our operations.

**New Zealand lines companies 2015/2016 SAIDI comparison unplanned interruptions**
Unplanned SAIDI minutes




Other New Zealand lines companies
Marlborough Lines

Source: Commerce Commission

(SAIDI minutes is the average time the supply is unavailable to all customers)


In parts of Blenheim there has not been an electricity outage since 2012.

The continued utilisation of new cost effective technology, network surveillance, enhancement of work practices and an overall proactive approach to betterment is integral to maximising reliability of supply.

Our independent surveys endorse our approach to reliability with customer satisfaction levels of 96%. Criteria are being met with an overall satisfaction level of 85%.

Increasingly customers are gaining choice within the electricity industry. In Marlborough there are now 14 electricity suppliers from whom electricity users can choose to purchase their energy. As the cost of photovoltaics reduces, electricity users will also have the choice of deciding whether to produce some of their electricity requirements in the future.

From the perspective of Marlborough Lines we embrace the dynamic environment in which we operate and are committed to working with our customers to ensure their best interests are met.

Our Network will continue to provide reliable 24/7/365 supply to meet customer demands and if required cater for the vagaries of production from photovoltaic panels.

For those customers with generation capacity greater than their requirements, our Network will enable them to maximise the value of their production by delivering it to another customer's load.

For the one constant, amongst the variability of photovoltaic production will be the continued reliability of our Network and our commitment to customer service.

Sustainability relative to our environment is fundamental to us. We have specific environmental objectives and have quality systems to ensure these criteria are achieved. Simply Marlborough Lines is part of the community it serves. Enhancing, respecting and ensuring the sustainability of our environment is integral to our operations.

On 4 April 2016 the new Health and Safety at Work Act 2015 became effective. An Act, the objectives of which we embraced years before its introduction. For to us the safety of our people, staff, contractors and public has always been, and continues to be the very first priority of our business.

To us people matter. Unquestionably safety is a key ingredient in the sustainability of our operations.

Just as we seek sustainability in our Marlborough Lines Parent operations we also seek sustainability within our investments as demonstrated with our investment in Yealands Wine Group (YWG).

Aside from being a financially sound investment, YWG has been independently judged as the most environmentally sustainable winery in the world by several jurisdictions. Indeed it received international exposure as the first winery in the world to be awarded the DQS Green Company "GC Mark" in recognition for its sustainability focus.

Importantly from the perspective of our shareholder, the Marlborough Electric Power Trust, Marlborough Lines and its investments need to provide sustainability of benefits on an intergenerational basis to the electricity consumers of Marlborough both as users of electricity and as beneficiaries of the Trust.

It is our expectation, going forward, that the value of Marlborough Lines' investments will grow to exceed the worth of the Marlborough Network business with resultant benefits to our shareholder and to provide increased financial distributions to those connected to the Marlborough Lines Network.

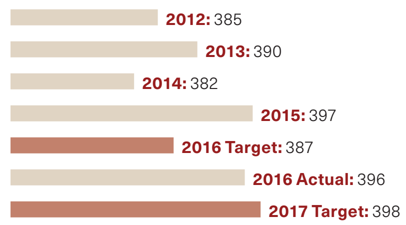
Within the Company there is a clear vision which will enhance the sustainability of the Marlborough Lines Group going forward. Importantly we have plans to implement the vision and the people with the ability to put the plans into effect.

Marlborough Lines has solid foundations. It has quality assets within its Marlborough electricity Network, its investment in Nelson Electricity and within Yealands Wine Group. It has funds available for further investment.

That Marlborough Lines is in such a sustainable position is the result of the individual and collective efforts of Directors and staff, not only within Marlborough Lines but within our investment companies Nelson Electricity and Yealands Wine Group. Accordingly I am pleased to acknowledge the contribution of them all.

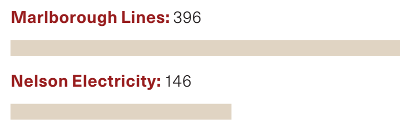
**K J Forrest**
*Managing Director*

**Energy delivered to the Marlborough network**
GWh




Overall consumption across the Marlborough Lines network has been stable in the 385-395GWh range for the last five years. We anticipate some increase as more wine processing takes place in Marlborough.

**Energy delivered to all our networks**
GWh




Nelson Electricity's annual consumption has stabilised at around 145/146GWh. Nelson reticulates a tightly defined area which is virtually fully developed.

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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*

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 Otago Power from 2002–2003.

**Peter Forrest**
*Director*
*BCom (Canterbury), 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.

# 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*

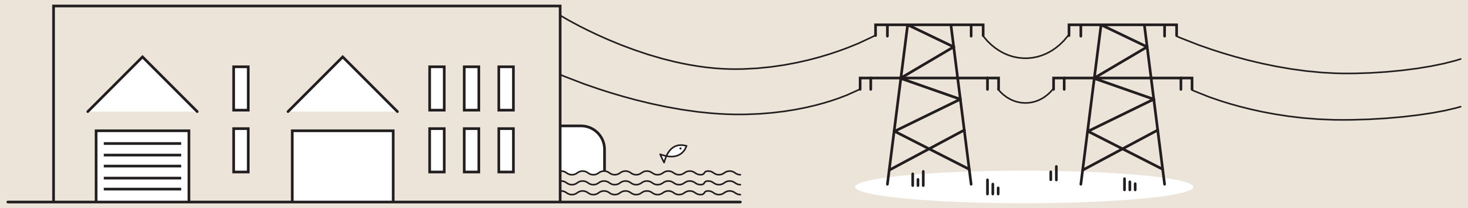
Gareth joined Marlborough Lines in April 2016, and is responsible for the Group's finance, administration and ICT systems. Gareth is a Chartered Accountant, with previous experience working at KPMG in both audit and corporate finance areas. He has significant experience in the electricity distribution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

Day-to-Day Operations

# Proactivity Benefits Customers

One of our SCADA/radio repeater stations is located on the Wither Hills overlooking the township of Blenheim. The SCADA system indicates the status of the network at any time and this information is available internally and to our customers.

# 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.

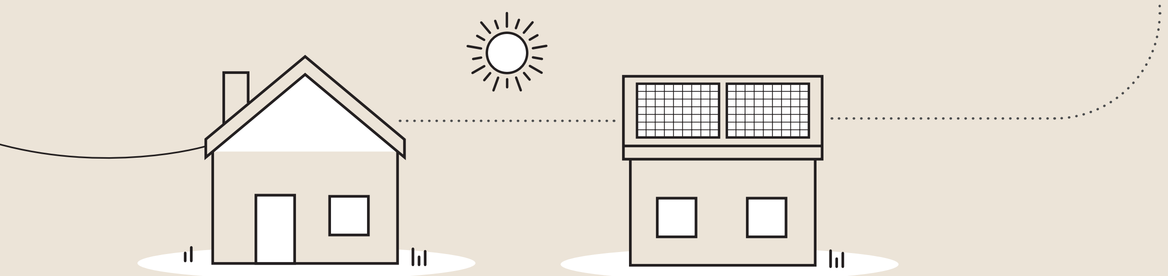
**2. Transmission lines**
Transpower owns and operates the National Grid. This consists of transmission lines and the equipment used to connect the major generators with the distribution networks.

## Marlborough Lines

**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.



# Customer Q&A

***Q&A: 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.

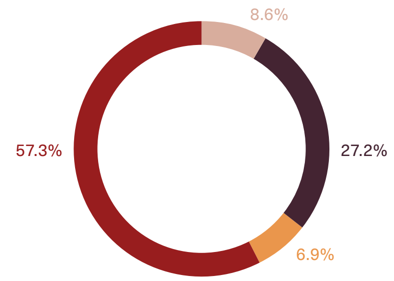
**What are the main duties of the Marlborough Electric Power Trust?**
The MEPT operates as nominal shareholder, appointing Directors, approving the annual Statement of Corporate Intent and receiving Marlborough Lines dividends. The MEPT also makes its own distributions from its income to electricity customers.

**What happens to Marlborough Lines' Company profits?**
All surpluses of the Company are either paid to the MEPT as dividends or reinvested in 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 36 cents in each dollar of their total electricity account (post-discount 27 cents). See graph on right.

**Why did Marlborough Lines invest in the Yealands Wine Group?**
In 2014 Marlborough Lines sold its investment in the Otago regional electricity network OtagoNet. This sale process yielded a gain (profit) of just under $100m. Because there was a paucity of investment opportunities in the electricity sector we looked at alternative investments which would provide intergenerational benefits through good annual shareholder returns, and also offer the prospect of longer term capital appreciation. Buying an 80% share in the Yealands Wine Group (YWG) satisfied these criteria with the added benefit of being Marlborough based. The dividend stream received from the first year of ownership in turn enhances increased distributions to all electricity customers in the region. See graph on right.

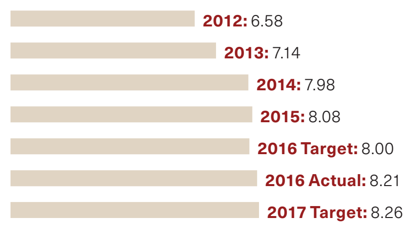
**Allocation of the average electricity account for a typical domestic customer**




**Marlborough Lines discount:** $226.45
**Marlborough Lines post discount:** $719.06
**Transpower:** $182.56
**Energy retailer:** $1,512.00

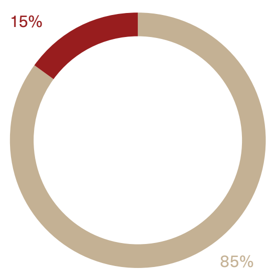
Marlborough Lines' charges on a post-discount basis comprise just 27.2% of the total electricity cost for an average domestic customer.

**Total customer discounts paid to Marlborough Lines customers**
$(m)




Discount components are posted as part of the pricing schedule. This means that the total discount cost can change according to the annual consumption level.

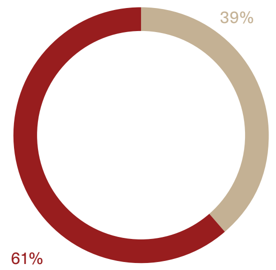
**Number of network connections**




Domestic
Non-domestic

Currently domestic consumption is declining marginally each year as customers make choices about energy efficient lighting and photovoltaic generation. Non-domestic consumption is increasing by a similar amount.

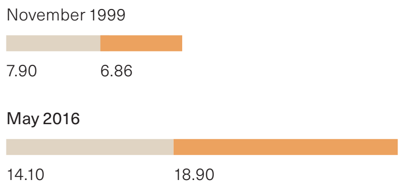
**Total electricity consumption by end use category**




Domestic
Non-domestic

Domestic customers comprise 85% of connections but use only 39% of the energy consumed in Marlborough.

**Increase in components of average electricity cost from November 1999 to May 2016**
c/kWh




Marlborough Lines
Lowest Priced Retailer

Since 1999 Marlborough Lines' network charges including those of Transpower have increased by 78.48%. In the same period the lowest priced retailer charges have increased by 180.83%.

## How do customers benefit from Marlborough Lines' investments?

Ultimately the purpose of Marlborough Lines' investments is to provide benefits to those connected to Marlborough Lines' network. During the past year each customer received a $50 capital distribution from the MEPT. In the current year as a result of dividends from the YWG investment the Company has made additional dividend payments to the MEPT such that the Trust's distribution to customers early in 2017 will increase from $50 to $150 per connection.

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

The total customer discount paid in March 2016 for the period ending 30 June 2016 was $8.209m (up from $8.078m last year). The total, including GST, was $9.44m. A typical domestic customer (consuming 8,000 kWh) received a discount of $226.38. The actual discount paid varies per customer as there is a fixed portion and a variable component related to the quantity of electricity used.

*Since 1999, electricity consumers in Marlborough have received discounts totalling $110.6m. An additional $21.8m has been paid to the MEPT as dividends.*

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

Marlborough Lines provides sponsorship for a range of youth, sporting and community events, many of which are outlined in the community section on page 52.

## 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 right.

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

Some 85% 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 do customers think about our network reliability?

Our survey tells us 96% of customers are either satisfied or very satisfied with our performance. We have ongoing plans to further improve the areas over which we can control.

## 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.

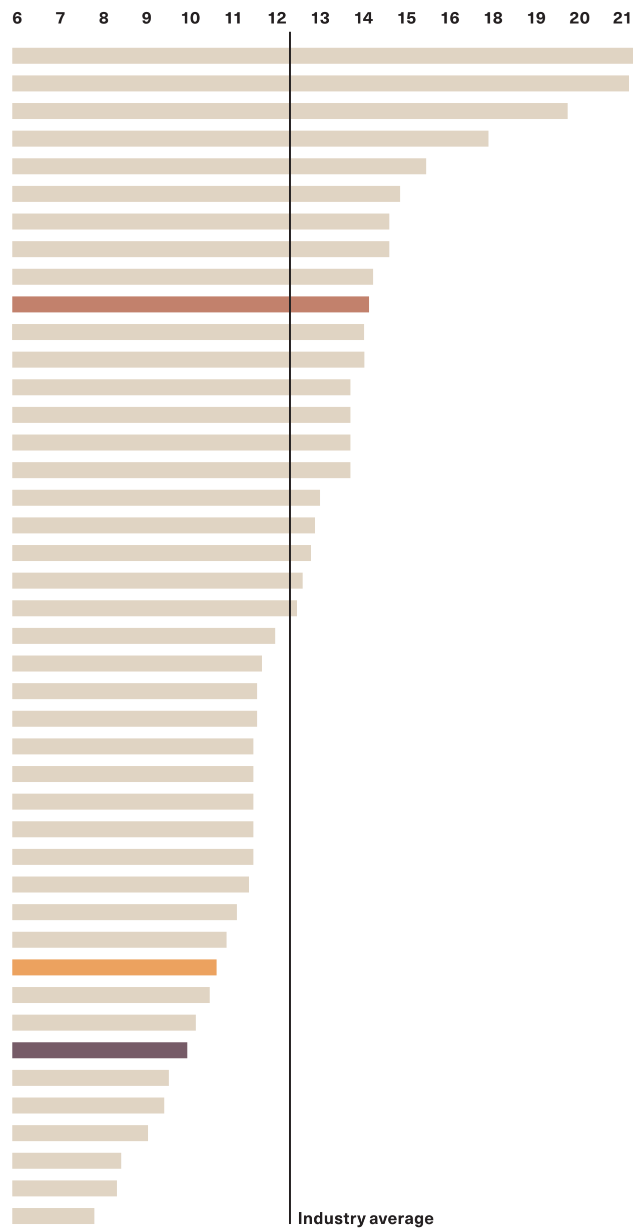
## Can customers get advice from Marlborough Lines about energy efficiency?

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 including domestic photovoltaic systems

## Our website

*www.marlboroughlines.co.nz* contains a wealth of information of interest to our customers. Customers can access information about the Company, its history, management and annual reports as well as electrical safety, energy efficiency, network pricing, fault information and network status. See website layout diagram on page 150.

**New Zealand network companies annual line cost to a typical domestic customer as at May 2016**
Line charges c/kWh




Marlborough Lines
Marlborough Lines (less discount & Trust distribution)
Nelson Electricity

This graph depicts actual annual line charges for an average domestic customer (refer to glossary for definition) as at May 2016 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.

# Our Network



## 2016 Highlights:

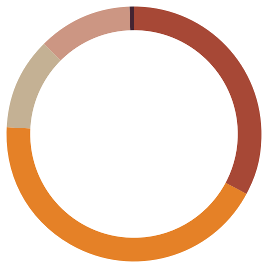
- Total minutes of lost supply to 31 March 2016 was an all-time record low of 124.2 minutes
- Minutes of supply lost by unplanned outages to 31 March 2016 was a record low of 61 minutes
- Achieved 9.7 faults per 100 kilometres of line, compared with our target of 10 for the period to 31 March 2016
- 34% of customers in Blenheim have not had a single electricity interruption since 2012
- $15.57m spent on capital expenditure to increase capacity and enhance reliability of supply
- $9.2m invested in maintenance to enhance reliability and maintain asset value.

## 2017 Targets:

- Reliability not to exceed 145 minutes of lost supply with stretch target of 100 minutes
- Achieve less than 9 faults per 100 kilometres of line
- Continue with ongoing surveillance to identify potential faults and eliminate them prior to any impact
- Have zero fires caused by the Marlborough Lines Network
- Ensure that all parts of the Marlborough electricity network are safe.

# Reliability best ever

**How reliable was the supply?**
Hours/% of customers



**No outages** 33%
**0 to 3 hours** 42%
**3 to 14 hours** 12%
**14 to 42 hours** 12%
**>42 hours** <1%

With the lowest total outage hours recorded in the last ten years, we believe that our maintenance and renewal programme is making a difference.

**SAIDI total minutes lost**

| | 2016 SAIDI | 2015 SAIDI |
|---|---|---|
| Total minutes lost | 124 | 133 |
| Less planned outages | 63 | 55 |
| Total minutes lost by unplanned outages | 61 | 78 |
| Less minutes lost by extreme events | – | – |
| Less minutes lost by remote lines | 25 | 39 |
| Total minutes lost by urban and rural faults | 36 | 39 |

Increasingly our customers expect reliability of electricity supply every instant of the day, especially in urban areas.

We are proud to say that for the year ended 31 March 2016, the total minutes of lost supply for customers on our network was an all-time record low of 124.2 minutes – with a total of 61.1 minutes being attributed to unplanned outages and the remainder to scheduled shutdowns. By way of comparison, our total minutes of lost supply is less than the total minutes of lost supply experienced in the city of Auckland for each of the last two years (2016: 135.2, 2015: 155.3).

For the 15 month period ended 30 June 2016, our total customer minutes of lost supply – including both planned and unplanned outages – was 147 minutes, which is also an excellent result.

If we were to exclude the remote areas of our network, overall, the total period for which supply was not available was only 74.5 minutes to 31 March 2016, and 87.9 minutes to 30 June 2016.

That we were able to achieve such reliability is testimony to our continuing proactive approach and the identification of potential faults through regular network inspections, and then taking timely remedial action. Analysis of surveillance data is also a key component, along with an active tree management and vegetation control programme.

## Prudent expenditure is an investment

The cumulative impacts of our capital and maintenance expenditure over a period of years has been a primary determinant in enhancing the reliability of our network.

We have never regarded prudent maintenance as unnecessary cost rather, we see it as an investment in both assets and reliability. The consequences of our network investment programme are now clearly apparent in the quality of the Marlborough Lines network and are reflected in our best yet reliability statistics.

Our capital expenditure is driven by customer requirements both in terms of capacity of supply and reliability, and of course safety requirements, which take precedence over all other criteria.

During the past year, major work included the completion of the construction of a steel pole line from Blenheim to Rai Valley to replace a hardwood pole line built in the mid-1940s and the reconstruction of a significant section of the Waihopai Valley 33kV line. Work also included the installation of a number of remotely operated circuit breakers and the reconstruction of older 11kV/415V substations in the commercial area of Blenheim.



We are proud to say that for the year ended 31 March 2016, the total minutes of lost supply for customers on our network was an all-time record low of 124.2 minutes – with a total of 61.1 minutes being attributed to unplanned outages and the remainder to scheduled shutdowns.

Our capital and maintenance expenditure is detailed in our comprehensive Asset Management Plan, which is available from our website (www.marlboroughlines.co.nz). The Plan sets out our capital and maintenance programme over the next ten years.

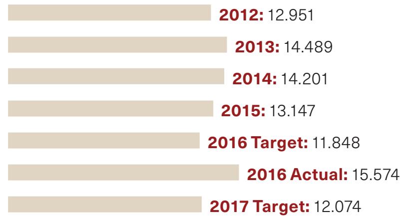
Overall, we are immensely proud of our network in terms of its safety, quality and the reliability it delivers to our customers.

Marlborough Lines' network is in a great position going forward. Major 33kV lines which were approaching the end of their lives have been replaced with new steel pole lines that now have a life expectancy of some 80 years. Significant reconstruction of 11kV lines was also undertaken and the insulation level has been increased to 22kV. This will enable the capacity of the line to be doubled in the future.

Six of our major 33/11kV substations have now been reconstructed with N-1 transformer capacity of 16.5MVA. Importantly, the substations are integrated into our environment and emit zero noise.

The majority of our transformer fleet is relatively new and the replacement of the few remaining older transformers is scheduled in our Asset Management Plan.

**Annual capital expenditure**
$(m)




Transmission and distribution line renewals and upgrades accounted for $8.5m in the 2016 period. Main substation and underground reticulation accounted for a further $3.1m.

**Capital expenditure comparative numbers**

| | 2017 Target $(m) | 2016 Actual $(m) | 2015 Actual $(m) |
|---|---|---|---|
| Capital expenditure | 12.074 | 15.574 | 13.147 |

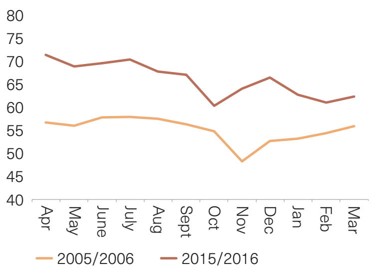
Our actual capital expenditure for 2016 reflects a 15 month period and is consistent with a decreasing trend once adjusted to be a 12 month result following significant investment in previous years.

**Maintenance expenditure comparative numbers**

| | 2017 Target $(m) | 2016 Actual $(m) | 2015 Actual $(m) |
|---|---|---|---|
| Maintenance expenditure | 7.921 | 9.196 | 7.590 |

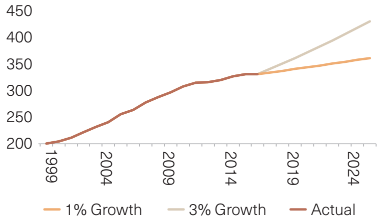
Our maintenance expenditure was lower in 2016 once adjusted to reflect a 12 month result. Maintenance levels can vary depending on weather events. We have also continued with our scheduled maintenance programme.

**Total system monthly maximum demand**
MW



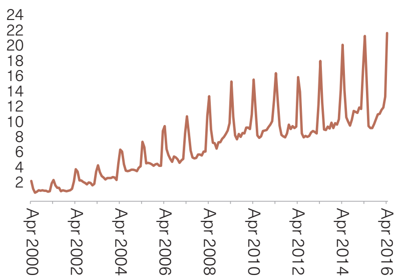

Our greatest system peak is now in April caused by the wine vintage. We also have a lesser peak in December/January caused by irrigation loads.

**Distribution transformer capacity connected to Network**
MVA




Growth in installed transformer capacity is continuing with a number of new subdivisions currently under construction.

**Winery maximum demand by month**
Total all wineries MVA




Electricity loads for wine processing are continuing to climb.

## Using new technology where cost effective to improve reliability

Over the last two years the reliability of the network supplied from Havelock has improved as a consequence of the installation of a ground fault neutraliser. The ground fault neutraliser is ingenious new technology which eliminates the need for outages in respect of a single earth fault.

That is why, in the current year, we propose to install a ground fault neutraliser for the Linkwater substation which supplies a significant portion of the Marlborough Sounds and includes a feeder of some 326km in length.

Aside from improving reliability, the use of this equipment will reduce the risk of fire being caused from an earth fault. This aspect is of particular concern to us, given that the Marlborough Sounds areas supplied from Linkwater can be subject to extreme fire risk at the height of summer.

## Being proactive on fire-risk

As an indication of how seriously Marlborough Lines takes its responsibilities around eliminating potential fire risk, we are the only New Zealand network involved in real time management of our network based on daily information provided by the New Zealand Rural Fire Service. We are in the second year of a trial programme, whereby the Rural Fire Service give us actual daily fire risk data. Accordingly, we alter the settings at which our circuit breakers operate in terms of sensitivity to fault current and the reclosing of circuit breakers.

## Safety transcends supply obligations

At times of extreme drought, fire prevention assumes a greater priority than the restoration of supply. This approach is consistent with our philosophy that the safety of our public and consumers transcends provision of electricity supply.

## Controlling trees and vegetation is an ongoing issue

In this accounting period we spent $2.75m on vegetation management. Our staff undertake surveillance of lines, both from helicopter and on the ground, to ensure the network is kept free of interference from trees and vegetation.

*Restricted by the inadequacy of Tree Regulations*

Ironically, despite our commitment to maximising reliability of supply and minimising fire risks, we are 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, especially in strong winds. The situation is further exacerbated when measuring regulatory prescribed distances is not practicable such as where a line crosses a gully and is in the proximity of a tree – upwards of 40 metres above the ground. It is our view that these Regulations should be based on principles applicable to the situation, rather than perceived theoretical criteria.

## Considering customer supply – always a factor

Continuity of customer supply permeates our approach to all work undertaken on our network. Where practicable, relative to safety and costs, our work is undertaken with the network remaining alive –using specialist live line teams. Conversely, when supply has to be switched off, where possible we seek to minimise the area affected by providing an alternative supply from another feeder. In the case of single circuit supplies, we try to maintain supply with mobile generators connected to our network. These generators have proven to be particularly helpful in minimising loss of supply – not only during shutdowns, but also when supply is lost because of faults.

## Rural lines present unique challenges

We have a single point of supply at Transpower's Blenheim substation and our 33kV network delivers electricity to 16, 33/11kV substations throughout our area. Although there are multiple 33kV lines supplying five Blenheim 33/11kV zone substations, and these provide several options for alternative supply, the majority of our other 33/11kV substations have dual 33kV supply with the exception of Linkwater, Ward and Leefield.

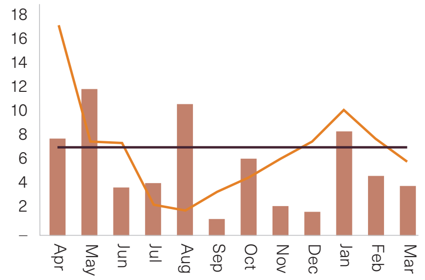
Where we have multiple 33kV supplies, typically we can lose a line without incurring loss of supply but this is not the case where the substation is dependent upon a single line. Within urban areas and the more densely populated rural areas, we generally have alternative options for supply.

Our longest rural 11kV feeder supplies 326km of line – the integrity of supply in such cases is dependent on every component along the line length performing and the line remaining free of external interference from trees, animals and other factors.

Maintaining such rural lines can be challenging and the costs are disproportionate. 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 get there to fix things safely we will be there.

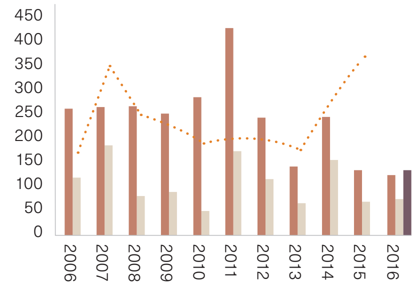


**Unplanned outages**
Minutes lost per customer



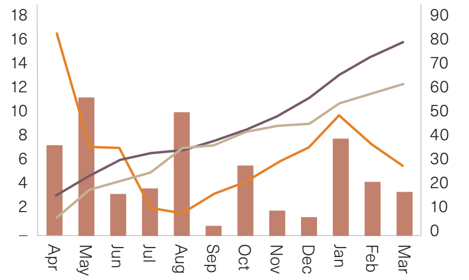

Month actual
Last year actual
Month Target

**Minutes of lost supply comparison**
Total SAIDI (minutes)




Actual
Actual (excluding remote lines)
Target
Average

**Marlborough Network minutes of lost supply by faults only**
Monthly minutes per customer
Cumulative minutes per customer




Monthly minutes per customer 2015/16
Monthly minutes per customer 2014/15
Cumulative minutes per customer 2015/16
Cumulative minutes per customer 2014/15

Marlborough Lines has an Emergency Preparedness Plan and a close liaison with Marlborough Civil Defence on an ongoing basis.

**Actions around earthquake risk**

We are aware that Marlborough is identified as being an area of potentially high earthquake risk and take this fact into account when considering the design and operation of all parts of our network.

As in other aspects of our operations, our specifications and requirements regarding earthquakes are subject to ongoing review and further enhancement.

During the year we undertook further modifications to the structure of our older 11kV/415V substations in Blenheim and this work will be completed in the current year.

As was demonstrated with the Christchurch earthquakes, the greatest area of risk lies with underground cables, where the direction of the earthquake is transverse to the direction of the cables. This situation would likely apply in the CBD of Blenheim. However, in such circumstances we are confident alternative supply could be provided relatively quickly.

The major Seddon earthquakes of 2013 had no impact on our 33/11kV substations, although as expected in such circumstances, some overhead conductors clashed and dropped to the ground as ground movement caused displacement of some poles.

Irrespective, from an overall perspective and within practicable limits, proper consideration has been given to firstly eliminating earthquake risk and secondly restoring supply following a serious earthquake.

Marlborough Lines has an Emergency Preparedness Plan and a close liaison with Marlborough Civil Defence on an ongoing basis.

Underground electricity cables make up approximately 16% of our total reticulation and this will slowly increase with district planning requirements.

As part of its drive for sustainability, the Yealands Estate Winery has the largest photovoltaic installation in New Zealand (412kW).

### Adhering to international standards

We believe that quality equipment is wasted unless we have quality systems. Performance can only be attained or improved through measurement. Every aspect of our operations is required to meet standards. Some are regulatory but others are self-imposed.

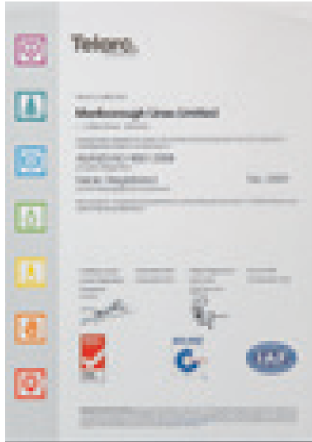
In keeping with our commitment to excellence and continuous improvement, Marlborough Lines has embraced international management systems that are subject to six monthly external audits to ensure that standards are maintained.

We have achieved the internationally recognised ISO certification for:

- Quality ISO 9001
- Environment ISO 14001.

As well as the British Standard for Occupational Health and Safety OHSAS 18001, and the New Zealand standard for Public Safety NZS 7901.

The above standards are integral to all aspects of our operations and our procedures and processes are currently being revised to ensure compliance with the new ISO 45001 Occupational Health and Safety standard. A draft of ISO 45001 is currently available, with the standard itself expected to be published in December 2017.



### Facilitating alternative customer energy sources

Our focus is on maximising the performance of our electricity network – not just in terms of delivering electricity to those connected to our network. We also provide the opportunity for customers to inject any electricity surplus to their requirements (be it from wind or photovoltaic sources) back into the network. Here in Marlborough we have a customer with New Zealand's largest photovoltaic installation (412kW) and also the country's largest customer-owned wind generator (500kW).

The cost of a photovoltaic installation is currently not economic for the majority of our customers as is the cost for wind generation. Similarly the same applies to storage batteries, which are currently very expensive relative to the capacity provided.

Increasingly, as the cost of photovoltaics reduces we expect the number of installations to rise.

From our perspective, we will facilitate the opportunity for those connected to our network to either consume or generate electricity and we will move it as required across our network.

### Keeping abreast of technology

Over a period of years, we have liaised with the Advanced Electric Power Engineering Centre of Canterbury University to ensure the quality of photovoltaic inverters and control systems are developed as fit for purpose.

Marlborough Lines itself has a number of photovoltaic panels which are monitored and we make this information available for research purposes.

In the future it is not unrealistic to envisage electric cars being charged from our network and feeding back into it on other occasions. But again, as with photovoltaics and battery storage, the cost of electric vehicles will have to reduce markedly before their use becomes widespread in Marlborough.

Marlborough Lines is continuing to keep abreast of technology that provides electricity by alternative means and will facilitate its utilisation and interconnection with the network as required.

# Our People

Mark Stevens in our cross-arm workshop. We still use a significant volume of imported hardwood for cross arms. We have recently planted a Eucalypt forest to provide our own timber resource.



## 2016 Highlights and results:

— Continued our programme of presentation breakfasts for all staff to enhance Company culture with topical guest presenters, with six undertaken (13 since inception in 2014)

— Continued to provide opportunities for staff to advance and achieve their potential

— Training qualifications were obtained relative to:

- Electrical trade
- Live line work
- Supervision
- Management
- Accounting.

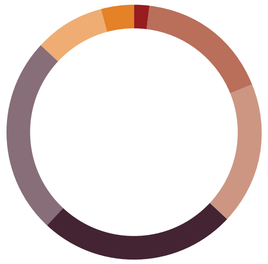
## 2017 Targets:

— Continue presentation breakfasts to enhance Company culture with not less than eight to be conducted

— Provide opportunities for trade and tertiary training with the goal of giving all staff the opportunity to achieve their potential

— Enhance our Wellness Programme through considering and offering additional initiatives.

**Staff age**



**Under 21:** 2%
**21 to 30:** 17%
**31 to 40:** 18%
**41 to 50:** 25%
**51 to 60:** 25%
**61 to 65:** 9%
**Over 65:** 4%

The average age of our team is 45.65 years – similar to last year. We think this is a good balance which also reflects the fact that staff are tending to remain in employment longer than previously. Retirement is by agreement with the Company rather than being a mandatory age. Women make up 15% of the workforce.

**Employees by occupation 2016**

**Management:** 10%
**Engineering:** 11%
**Clerical:** 13%
**Trade:** 66%

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

**Employee length of service 2016**

**0 to 5:** 29%
**6 to 10:** 27%
**11 to 15:** 22%
**16 to 20:** 4%
**21 to 25:** 2%
**26+ years:** 16%

We have maintained a reasonable spread of experience. Currently some 60% of our staff have been with us for less than 10 years. The overall average years of service is 10.82 years.

Carol Cairns and Tracey Stewart are both involved in our integrated GIS vegetation management system.

## Employing and growing great staff

Operating an electricity network requires a wide range of vocations and abilities. We want the most talented people working in all aspects of our operations. We also want our workforce to enjoy coming to work, to feel rewarded, stimulated and challenged and above all to be safe while they are at work.

The provision of quality working conditions, coupled with Marlborough's great climate and a range of recreational opportunities, contribute to the stability of our workforce.

Although our workforce is not without some turnover, the level of turnover is low allowing us to retain a high level of experience across the many trades and vocations within our organisation.

At 30 June 2016 we employed 126 full time equivalent staff (last year 128) spread across the following employment areas:

- Aboriculture
- Accountancy
- Administration
- Economics
- Electrical engineering
- Information technology
- Network design and construction
- Project management.

Maintaining a large workforce of qualified, skilled and very employable people – particularly in the electricity industry, can be challenging and requires taking a holistic approach to employment. We are committed to ensuring that all staff have equal access to study, training and advancement.

Employment mobility is an inevitable fact of life these days. International competition exists for qualified staff and in recent years the electricity industry in New Zealand has been targeted by consultants offering great employment packages for experienced tradespeople to work in other locations.

We need to keep our employees satisfied, challenged and rewarded so that staying with the Company is their first choice. This also ensures that the Company achieves a return on the investment in trade training and tertiary qualifications it provides to staff.



Newly qualified Line Mechanic, Nic Williams, assembling crossarms on a new pole.

## Recognising talent – developing potential

For many of our employees their career path starts with "on the job" training similar in nature to a conventional apprenticeship. Line mechanics and arborist trainees join experienced teams where practical training occurs in addition to more formal study requirements. Similarly, we grow our apprentice electricians "in house" through having them work across a wide range of electrical applications before they become fully trades certified.

In recognition of the shortage of electrical engineers in our industry, over recent years we have very successfully built up our engineering capability by identifying potential employees at university level and financially supporting them with their study programmes through to graduation, before employing them.

As part of a wider mandate to support electrical engineering education, we continue to support the University of Canterbury Electric Power Engineering Centre of Excellence. The Centre was established in 2002 in response to a growing industry shortage of qualified electric power engineers. Its purpose is to promote and support the education of power engineers and the study of power engineering as a field of excellence in New Zealand. All of our graduate engineers have studied at Canterbury University and been exposed to this programme.

Our support for tertiary study is not just limited to electrical engineering. During the period in review we supported five employees undertaking tertiary study in the fields of management, administration and accounting to enable our employees to develop and grow and to bring new ideas and thinking into the Company.

Attaining qualifications is not the end of the story. We also support our staff to gain membership of the related professional associations. This is important as it brings requirements for continuing professional education as well as the obvious networking opportunities. Membership of the Chartered Accountants Australia New Zealand for example requires our qualified accountants to undertake a certain number of hours of continuing education each year to maintain currency. The Institute of Professional Engineers has similar requirements for engineers.

Marty Moran, Kyle Marfell, Jarred Worner, Daryn Pope and Gareth McCorkindale are part of our vegetation control team.

## Wellness programme

Keeping our staff healthy, happy and available is important to us and critical for the successful operation of our business.

Inherent in the provision of a reliable electricity supply is a need for our staff to respond on a 24/7/365 basis, sometimes in arduous conditions. All of which requires a fit and healthy workforce.

Each year we map leave statistics to ascertain any apparent trends – particularly in relation to sick leave. Last year sick leave totalled 3.05% of total workforce hours. This year the total was 2.67% – a reduction on last year. Despite one serious harm accident being recorded this year, our recorded ACC hours (that is hours for which Accident Compensation payments were being received) also declined from 1.68% to 1.48% of total workforce hours. Monitoring of these statistics together with a range of other measures will result in an improvement in our staff wellbeing. See below Analysis of workforce hours table.

## Analysis of workforce hours

| Type | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| Normal working hours | 83.14% | 84.86% | 83.17% | 84.90% | 84.52% | 82.81% | 83.70% | 83.16% | 81.76% |
| Annual leave | 6.63% | 7.00% | 7.64% | 6.83% | 7.35% | 7.74% | 6.84% | 6.56% | 7.27% |
| Sick leave | 2.90% | 2.97% | 3.20% | 2.55% | 2.86% | 2.82% | 2.75% | 3.05% | 2.67% |
| ACC leave | 1.13% | 0.73% | 1.53% | 1.13% | 0.24% | 1.11% | 0.90% | 1.68% | 1.48% |
| Public holidays | 4.99% | 3.40% | 3.24% | 3.30% | 3.75% | 4.14% | 4.05% | 4.17% | 4.77% |



**As shown in the table below we have a range of initiatives and benefits in place to improve the collective health of our workforce and enhance individual life skills.**

Defibrillators are provided throughout our premises and in all Marlborough Lines vehicles. Our staff are trained in their use and undertake refresher training at our Safety Days.

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

# Health and Safety

## 2016 Results:

- Recorded one serious harm incident
- Directorate adopted a new Health and Safety Charter incorporating the requirements of the Health and Safety at Work Act 2015 (HSWA)
- Reviewed and updated our policies and procedures to meet the requirements of the HSWA
- Established additional remote radio repeater sites to improve radio coverage for the safety of staff
- Continued the installation of "Smartrak" interactive GPS equipment with units now installed in all of our operational vehicles (78% of our vehicle fleet)
- Maintained our certifications in:
  - OHSAS 18001:2007 Occupational Health and Safety
  - NZS 7901:2008 Safety Management Systems for Public Safety
- Maintained our ACC Workplace Safety Management Practices – Tertiary Accreditation.

## 2017 Targets:

- Achieve zero harm incidents
- Enhance our health and safety culture through implementation of a staff survey and development of an improvement plan
- Appoint Health and Safety Representatives and provide training in accord with the HSWA
- Undertake staff training identified in the annual training plan
- Reduce occurrence of muscular/skeletal type injuries by 25%
- Reduce occurrence of incidents and injury from major hazards
- Obtain an independent review of the Company's safety systems
- Gain certification in new standards:
  - ISO 45001 Occupational Health and Safety standard (replaces OHSAS 18001:2007)
  - NZS 7901:2014 Safety Management Systems for Public Safety certification (replaces NZS 7901:2008)
- Maintain ACC Workplace Safety Management Practices – Tertiary Accreditation
- Implement the ACC Fleet Saver programme covering workplace, on-road and in-cab safety.

## Marlborough Lines is committed to providing a safe and healthy work environment by ensuring:

Systems are in place to identify, minimise and, wherever practical, eliminate hazards

Full commitment by management and staff to detecting and managing hazards and safety issues, and continually improving the Company's health and safety systems

All plant and tools used in, or associated with our work, are fit for the purpose and subject to safety inspections with current certification.

All Company assets are subject to regular inspections

All network assets are subject to inspections in accordance with relevant legislation and codes so that they are fit for their purpose and do not compromise public safety or security of supply

Each of the Company's operating divisions will establish a set of health and safety objectives each year from which the Company will compile an overall set of objectives. These will be reviewed each year as part of the Company's annual ISO quality control programme review and will ensure compliance with the Health and Safety in Employment Act 1992

The Company will work with ACC and Occupational Health and Safety agencies to maintain appropriate status and approved systems for health and safety, and will support the safe and early return to work of injured employees should injury occur

All our contractors and subcontractors will be advised of our commitment to safety and will be required to accept and share the responsibility to carry out all work in accordance with accepted safety criteria

Our staff will always be fully trained in safe working practices in accordance with the relevant codes of practice and legislative requirements and all staff, including managers, will be required to understand health and safety management relative to their roles. Zero tolerance towards safety lapses will achieve our zero target.

## A new era of health and safety legislation

In 2015 the New Zealand Government enacted new health and safety legislation entitled the "Health and Safety at Work Act 2015" (HSWA). The legislation became effective on 4 April 2016 and is broadly based on the Australian equivalent.

The HSWA shifts the focus from monitoring and recording health and safety incidents to proactively identifying and managing risks, an emphasis previously practised within Marlborough Lines. It ensures that everyone involved in a workplace has a role to play in health and safety and makes responsibilities clear for the business or undertaking itself (the PCBU), the Officers of the PCBU, its workers and other people who come into the workplace. It also ensures hat ultimate responsibility for creating the necessary systems rests with the Managing Director and Directors.

In 2015 the Marlborough Lines Directors adopted a new Health and Safety Charter which provides the foundation for health and safety practices within the Company.

Worker engagement, participation and representation are key aspects of the HSWA, including the opportunity for employees to elect Health and Safety Representatives and request formation of a Health and Safety Committee. Marlborough Lines has operated a staff Health and Safety Committee for a number of years and the Committee meets on a regular basis. Post balance date the Company facilitated an election process for the appointment of seven Health and Safety Representatives who will also be members of the Health and Safety Committee.

All of the processes and procedures relating to the Company's ISO Management Systems and Public Health and Safety certifications have been reviewed against the new legislation and amendments made to incorporate the requirements of the HSWA.

## Zero harm for all is our safety commitment

In building, operating and maintaining our electricity reticulation system we need to provide adequate safeguards for customers, the public, our staff and contractors.

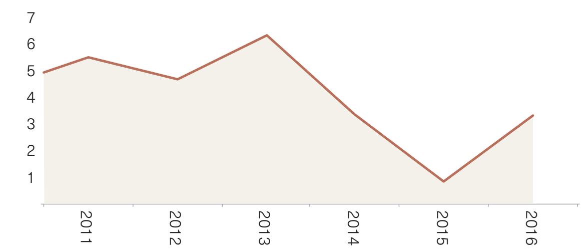
Proper identification of potential hazards, mitigation of risks and clear communication are essential ingredients in ensuring the safety of all. We operate in a dynamic environment with a wide range of conditions and factors which need to be taken into account. The risks are ever present and it is paramount vigilance is maintained at all times.

For a number of years our internal accident statistics have been trending down. This year we experienced one serious harm accident and that is one too many. Our own staff are constantly exposed to a number of risks whether working in proximity to lines, working at height or working with heavy plant and equipment.

One serious accident indicates we have some work to do. Investigations and reviews don't change past events but they do give us opportunities for improvement going forward and improve we must.

**Lost time incidents**

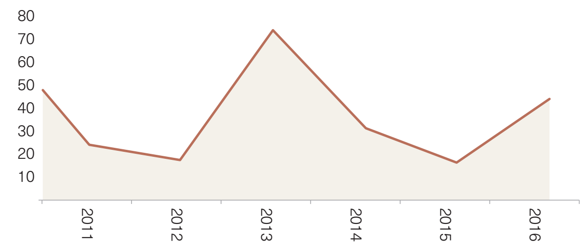
Frequency rate per 100,000 hours worked




The recent downward trend in incidents against time worked was halted this year as a result of one serious harm accident. Whilst the average could still be said to be trending down, we have work to do and vigilance relative to safety must be maintained.

**Lost time incidents**

Days lost per 100,000 hours worked




One serious harm accident this year did not help the numbers causing a reversal of the recent trend. This was an unnecessary reminder that we can never afford to be complacent in relation to safety.


## Growing our health and safety culture

We have separate certifications for Occupational Health and Safety (OHSAS 18001:2007) and Public Safety (NZS 7901:2008). These certifications are part of our systems to ensure that our staff, customers and the general public are kept free from harm relative to our operations. Irrespective of our certifications and systems for safety it is our firm view that our culture and attitude to safety within Marlborough Lines will continue to be the principal determinant in ensuring the safety of our staff, customers and the public.

It is imperative that we individually accept personal responsibility for our own safety and the safety of our workmates, customers and the public.

A key aspect of our safety culture and the achievement of our safety objectives, is that each employee regardless of position is empowered to halt any work should safety concerns arise in any part of Marlborough Lines' operations.

Open communication and recognition of "near miss events" is also acknowledged as being a necessary to provide ongoing opportunities for improvement. The widely recognised "Incident Cause Analysis Method" (ICAM) is utilised to investigate near misses and accidents.

We encourage suggestions for improvement in safety and have a programme in place for the recognition of staff safety initiatives.



## Staff presentation breakfasts

We recognise that building and maintaining a strong health and safety culture is a key contributor to workplace health and safety. In 2014 we launched our staff presentation breakfast programme as another initiative to help reinforce our health and safety culture.

These presentation breakfasts commence at 7.00am and have provided the opportunity for a range of health and safety topics to be addressed. All of these presentations serve to heighten awareness of health and safety issues and are in addition to safety training specific to our industry.

## Drug and alcohol testing programme

We have had a random drug and alcohol testing programme in place for a number of years, which has the full support of our staff and contractors. Every new employee must achieve a negative drug and alcohol test prior to employment. Similarly every contractor undertaking work for the Company must accept the requirements of our drug and alcohol programme.

## Safety in our community

We recognise and readily accept our responsibilities in ensuring our public are not subject to harm from our network or any part of our operations.

The safety of our network relative to the public is inherent in all aspects of our operations.

All parts of our network are designed and constructed to satisfy relevant safety standards and codes together with meeting industry best practice.

We use quality materials in recognition of the need for long life assets which will endure to the maximum extent possible the ravages of extreme storms and earthquakes.

Ongoing daily surveillance of our network is integral to ensuring the safety of our customers and public. All parts of our network are subject to scheduled inspection. Inspection of trees adjacent to our lines is also an important part of our commitment to public safety (see page 34).

We give areas of greater potential risk to the public such as proximity to schools, boat ramps, water crossings etc. special attention and inspect these areas on a more frequent basis.

As part of our commitment to keeping our community safe each of our customer newsletters contains an aspect of safety in relation to our network, trees or customers' utilisation of electricity.

## Driver safety in remote areas

We are continuing to refine our use of the Smartrak GPS based vehicle tracking system. A total of 78% of our fleet vehicles have a global positioning unit (GPS) and panic button installed.

This is primarily a safety resource to ensure that we know vehicle and driver locations – particularly given the remote nature of much of our supply area and the need for staff to sometimes work alone.

The built in intelligence of the system enables the following functions to be used for safety and in our fleet management programme:

- Location tracking
- Rollover alarms and panic buttons
- Analysis of off road kilometres to enable road user charge refunds
- Monitoring of excessive use of speed and vehicle body roll
- Prompting for routine vehicle servicing requirements and compliance with Warrants of Fitness, Certificates of Fitness and Road User Charges requirements
- Reporting on fuel consumption and relative efficiency when linked to the fuel company card systems.

# Our Community

Marlborough Lines Stadium 2000 attracts
over 500,000 visitors each year.

*Photo courtesy of Warren and Mahoney*



## 2016 Highlights

- Lead sponsor of the Marlborough Lines Stadium 2000
- Primary sponsor of the Marlborough Lines Science and Technology Fair
- Gave $28,265 in tertiary study awards to secondary school and tertiary students
- Provided over $260,000 in financial support to community organisations, events and initiatives
- Supported community events through provision of advice and services free of charge.

## 2017 Targets

- Continue lead sponsorship of Marlborough Lines Stadium 2000
- Continue support (financial and in-kind) for Marlborough events and initiatives
- Maintain 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
- Meet all existing sponsorship commitments and consider any further sponsorship in accord with budgetary and sponsorship criteria.

Electricity is one of the life bloods of our community. Providing a safe and reliable supply is our most important function. However, as one of the larger corporates in the region we also believe that we should play an active and much wider role in the community through supporting community projects and initiatives.

Sometimes we contribute financially through sponsorship or donations. On other occasions we assist with our technical expertise and by providing portable power reticulation to enable cooking, refrigeration and lighting for events, or by donating the means of power supply – cables or overhead lines into buildings.

The Marlborough region has become known for some truly world class events including the annual Wine and Food Festival, The International Sauvignon Blanc Celebration 2016, the biennial Classic Fighters Omaka Airshow and Garden Marlborough. Marlborough Lines is proud to be associated with these events, which are a resounding success meaning the entire local economy benefits both on the day and through follow up visits by impressed customers. We believe that our assistance is helping to make Marlborough a better place to live.

For the year in review, Marlborough Lines provided support to 29 different organisations and events. This equated to over $260,000 (last year $200,000) in sponsorships and donations. Added to that most of our in-kind and on-site support for the festivals was given free of charge.

**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 determining who in the community to 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.

**Good community stories**

Marlborough Lines has been the lead sponsor of Stadium 2000 since 2006. The Stadium, located in Blenheim, is an international standard sports and events centre, also providing aquatic facilities and a health and fitness centre. It is the most popular sporting/event facility in the region (in excess of 500,000 visitors per year) and is used for a range of community activities other than sport. The Stadium is the biggest single recipient for Marlborough Lines' community support and it benefits the greatest number of people in keeping with our support criteria.

In more recent annual reports we have described at some length our involvement with Stadium 2000, the Wine and Food Festival, the Classic Fighters Omaka Airshow and the Marlborough Sounds Restoration Trust. This year we also provided significant support to Garden Marlborough and to the Marlborough branch of Riding for the Disabled.



Barewood Garden in the Awatere Valley, Marlborough is recognised as a Garden of National Significance by the New Zealand Gardens Trust, and is a popular attraction on the Garden Marlborough garden tours.

**Helping others grow and enjoy good gardens**

This year we chose to add some support to Garden Marlborough – another iconic Marlborough event and one of New Zealand's premier garden festivals.

This festival which is put together annually by a dedicated team of volunteers, spans four days in November each year and attracts hundreds of visitors from all over New Zealand.

Despite a very dry and warm climate, Marlborough boasts some superb gardens both old and new, rural and urban. Garden Marlborough activities include:

- Seven different garden tours, some in Blenheim, some rural and one reaching out into the Marlborough Sounds
- 11 garden related workshops which range from garden planning and landscaping to food growing, preparation and preserving
- A garden fete featuring a temporary village of stalls offering plants, crafts, art and a variety of garden products, tools, implements and decorations
- A garden party which includes food and wine stalls, a florally inspired catwalk show, art auctions and a variety of on-site live music.

In helping to underwrite costs for an event such as this we are mindful of the boost to the local economy.

Attracting a large number of visitors to the Marlborough region promotes a trickle-down effect with many sectors of the local economy benefiting including travel, transport, accommodation, hospitality, arts and crafts, and other tourism attractions in addition to those businesses active in the gardening/ landscaping/building sector.

**More horsepower for the disabled**

The Marlborough Branch of Riding for the Disabled (RDA) is based on land beside the main Marlborough Lines Contracting and Stores complex at Taylor Pass in Blenheim.

Earlier this year in the spirit of being neighbourly and in recognition of the benefits provided by Riding for the Disabled, Marlborough Lines answered an S.O.S. and assisted in the purchase of "Pepsi" – a new four footed addition to the RDA stable in Blenheim. "Pepsi" is a 12 year old mare chosen for her temperament suited to the horse therapy programme.

Paediatricians and physiotherapists recognise riding as an effective tool in assisting intellectually and physically challenged children and adults.

"Pepsi" has been a very popular addition to the fleet, has fitted in well and is providing the required riding experiences for anyone with a disability.

Having contributed to the purchase of "Pepsi", we have also undertaken to meet the necessary maintenance costs to keep "Pepsi" on the road so to speak.




## 2016 Highlights and results

- Completed the audit and renewal process to maintain our ISO 14001:2004 Environmental certification
- Continued financial support for the Marlborough Sounds Restoration Trust (MSRT) wilding pine eradication programme and finalised a MOU with the Trust
- Maintained support for the New Zealand Drylands Forest Initiative (NZDFI) Eucalypt breeding programme
- Completed the first section of high lift pruning and thinning in our 46ha Quayle Stream Eucalypt forest
- Continued to reduce the proportion of petrol powered vehicles in our fleet (2014 26%, 2015 20%, 2016 17%)
- Introduced colour coded "in-house" rubbish sorting and recycling for paper, organics, plastics glass metals and landfill.

## 2017 Targets

- Gain certification in new ISO 14001:2015 Environmental Management Systems Standard
- Maintain our support for the MSRT for its wilding pine eradication scheme
- Continue sponsorship support for the NZDFI Eucalypt breeding programme
- Complete first prune and thinning across the entire 46ha Quayle Stream Eucalypt forest
- Continue fleet conversion to diesel vehicles
- Continue to enhance our recycling culture and focus in relation to metals, fluids, timber and office wastes
- Complete a new assessment of the Company's carbon emissions
- Maintain our programme of property beautification around prominent substations and buildings
- Maintain our programme of small wind turbine research
- Keep abreast of new developments in photovoltaics, batteries and electric vehicles.

# Environmental policy objectives

| Our aim is to: | And in practice |
|---|---|
| *Exceed the minimum legislative requirements where practicable.* | Marlborough Lines management is required to report immediately to the Directorate in the event of any non-compliance. A review of environmental compliance is provided to the Directorate quarterly. |
| *Regularly review our environmental ISO certification and the objectives, targets and procedures, to ensure ongoing compliance and improvement.* | The Company undertakes an external audit process every 12 months for the ISO Environmental Management System standard. A regular programme of internal audit meantime recognises and records improvements to the environmental management processes. Awareness is raised through a culture of regular staff meetings and additional training programmes, including (for example) oil spill response and sump cleaning training, site compliance reviews relating to storing dangerous or inflammable goods, and fire response training undertaken by vegetation control staff . |
| *Promote employee and contractor environmental awareness through appropriate training and education programmes.* | External contractors' commitment to environmental management is considered when evaluating for preferred contractor status. Company management and external auditors undertake regular inspections of worksites where external contractors are used. |
| *Cooperate with all regulatory agencies.* | The Company maintains a close relationship with the Marlborough District Council (the local government agency responsible for environmental matters), who we consult with about potential hazards and on rare occasions actual hazard management. |
| *Responsibly manage all hazardous substances to avoid, reduce or mitigate the effect of any accidental release of contaminants.* | A significant risk for the Company is the accidental or malicious release of transformer oil. This is mitigated by the ready availability of spill control materials, and more recently – in relation to the larger zone substations – civil construction design, which ensures that no oil can disperse into the surrounding ground. |



**Expectations have changed**

In bygone decades, as electricity reticulation was rolled out across New Zealand, having a supply was more important than the aesthetics of line construction.

Times have changed and so has our awareness for both the environment and customer preferences. District plans and resource consent requirements play a much greater role in ensuring a level of environmental protection which is balanced against the costs involved.

In 2002 we obtained certification in the ISO 14001 Environmental Management Systems standard. Adherence to this standard ensures we identify and manage our activities that have environmental impacts in order to protect the environment, and that we follow a process of continual improvement with respect to our systems and approach to environmental issues.

Some of the approaches we have taken and initiatives we are involved in where we believe we are making a real difference to environmental impacts are discussed in this section.

The objectives listed below cover aspects which the Company must consider in the design, building and maintenance of the electricity system and in how we look after our equipment and maintain an emergency capacity to respond in the rare event when the power system fails.

| Our aim is to: | And in practice |
|---|---|
| *Recycle components and materials where practicable.* | The Company has moved to ensure that recycling everyday materials (paper, cardboard, glass) happens at all levels of the business. Where possible steel overhead line components are re-galvanised to give them a further life. Significant quantities of aluminium, brass and copper also become available for recycling and these are tendered to recycling firms. |
| *Promote energy efficiency to the community by providing advice.* | The Company provides advice on energy efficiency through its technical advisory service (available to anyone), customer newsletters, website and trade promotions in the news media. |
| *Facilitate the connection of renewable energy resources within our network.* | The Company is responsible for providing a grid that will accommodate new technology including small-scale, renewable, embedded generation such as photovoltaic panels. We work with generation providers to enable connection to the local network. |
| *Ensure environmental principles are used in planning network extensions or reconstructing existing networks.* | We are currently renewing key older stretches of electricity reticulation in the main arterial routes with updated components. 1920s-style steel lattice work towers and older hardwood and concrete poles are being replaced with taller hexagonal section steel poles which significantly improves visual impact. Additionally suburban zone substation designs which mirror modern housing are being used together with appropriate landscaping to provide an aesthetically pleasing result. See page 60. |
| *Seek to minimise losses through the operation of our network.* | All contributing factors are monitored and considered when capital expenditure is undertaken e.g. purchasing low loss transformers. |
| *Make our environmental policy publicly available and to become known as an environmentally responsible company.* | The Company's Environmental Policy is outlined on our website: www.marlboroughlines.co.nz |


Our suburban substations have been extensively landscaped, enhancing the environment in which they are located.

## Suburban substations blend in

All of our suburban zone substations, which in many instances look like well-appointed suburban homes, have been extensively landscaped. Along the way we have achieved two Garden Marlborough awards for Best Commercial Frontage at Springlands Substation (2013) and Best Use of NZ Native Plants for Marlborough Lines Park, Sinclair Street in 2015.

Good environmental design is not just about visual aspects. As well as being easy on the eye, our substations have zero noise emission and minimal electro-magnetic fields at their boundaries. Fully sealed transformers have nitrogen cushions above the oil to prevent oil venting to the outside and the ingress of moisture to the inside.

## Is this the best climate in New Zealand?

Marlborough (and more specifically the town of Blenheim) regularly competes for the greatest annual hours of sun in New Zealand. The steadily reducing capital cost of photovoltaic generation equipment together with high sunshine hours and a local Government funding scheme is resulting in a steady uptake of this equipment (known in the industry as “distributed generation”).

Marlborough Lines, like most distribution networks, has moved to ensure our reticulation system can handle consumer owned generation particularly given that excess units of electricity are injected back into the grid system when the household does not require them.

The table below indicates the movement towards consumer owned photovoltaic generation. In recent years there has also been installed in Southern Marlborough, some 2.35MVA of wind turbine generation (eight machines on three sites) to take advantage of the prevailing blustery local environment.

## Applications to connect distributed generation

| Year ending | No. of new applications | Total applications |
|---|---|---|
| 31 March 2011 | 2 | 2 |
| 31 March 2012 | 2 | 4 |
| 31 March 2013 | 20 | 24 |
| 31 March 2014 | 47 | 74 |
| 31 March 2015 | 73 | 144 |
| 31 March 2016 | 78 | 222 |

The total connected load to March 2016 for smaller distributed generation is 1.122 MVA. Most are domestic installations and in the range of 2.5 to 5kW.

The table of connections also indicates some stabilising of the rate of installations. Although installation costs are still reducing, the energy retailers have reduced the purchase value for excess units fed back into the local grid. A greater test perhaps for the local grid owners will be the advent of cheap mass produced battery storage enabling more cost effective off-grid solutions.

## We measure our carbon emissions

Every three years we undertake a formal assessment of our carbon emissions. Our total carbon emissions have been determined to be 4,207,730kgs $CO_2$ in March 2014.

Our forested land has been determined to absorb 1,021,894kgs $CO_2$ which offsets our total emissions and reduces our net emissions figure to 3,185,836kgs $CO_2$.

Approximately 84% of our net emissions are directly attributed to transmission and distribution line losses incurred in the delivery of electricity. However, because the electricity delivered over our network is typically sourced from renewable generation the total net emissions can arguably properly be reduced to 554 tonnes of $CO_2$. This is the total we are seeking to reduce through a range of measures, the most significant of which is our vehicle replacement programme.



Good environmental design is not just about visual aspects. As well as being easy on the eye, our substations have zero noise emission and minimal electro-magnetic fields at their boundaries.

## Marlborough Sounds Restoration Trust

*Helping others remove invasive tree species*

Wilding pines in the greater Marlborough Sounds area whilst taking over indigenous forests and cover, also pose an ever present danger to the electricity reticulation, whether by growing into the lines, or falling across the lines during storms. In this regard every wilding pine removed is one less potential menace to us and for this reason the Company is very pleased to provide financial support to the Trust.

As well as providing financial assistance, we also have a Memorandum of Understanding with the Trust to assist with manpower and machinery when trees are required to be removed from close proximity to power lines.

While much of the early emphasis was on clearing wilding pines in the more scenic areas such as Queen Charlotte Sound, the emphasis is now shifting to the outer Pelorus Sound, an area also with a significant and still advancing infiltration of invasive pines.

## New Zealand Dryland Forests Initiative (NZDFI)

*Helping others plant more trees*

Marlborough Lines is proud to be an original and continuing supporter of the NZDFI’s Eucalypt breeding programme. Our original interest in this programme was to look for an eventual New Zealand based source of power pole cross arm timber. The project is also looking to eventually provide a resource for replacement vineyard posts, and given Marlborough Lines’ recent investment in Yealands Wine Group we are more interested than ever in this project.

The NZDFI has morphed from a small Marlborough based breeding trial into a much larger programme with 31 trial sites spread from Canterbury in the south to the Bay of Plenty in the north.

Last year in recognition of the project’s potential, the Government made new funding available through the Ministry of Business Innovation and Employment’s Specialty Woods project and this will guarantee its advancement through to 2021. Future Forests Research Limited, which is the administrative arm of the Forest Owners Association, is partnering with the Government to manage the administration and funding side of the NZDFI.

## Quayle Stream Forest

*And planting new forests ourselves*

In providing support to the NZDFI Eucalypt breeding programme we recognised that this is a longer term breeding trial which will take many years to develop the best strains of Eucalypt hardwood.

In 2009 as part of our commitment to research and development we decided to initiate our own Eucalypt production trial using the most up-to-date information for species choice and growing site.

Marlborough Lines subsequently purchased a 60 hectare property, and in October 2011 we planted the property out in the preferred Eucalypt species (E Globoidea, E Quadrangulata, and E Bosistoana).

After four years we have commenced a pruning and thinning regime with growth of up to 12 metres evident in some parts of the forest.

Regulation

# An ongoing, complex process

Our Network business is subject to specific industry regulation by the Commerce Commission and the Electricity Authority. These industry regulations are complex and often changing.

This past year we've needed to focus on the Electricity Authority's ongoing review of the Transmission Pricing Methodology and the anticipated reform of distribution pricing structures. Meanwhile the Commerce Commission undertook its periodic review of the rules and requirements for regulating network companies.

## Commerce Commission

*I. Review of input methodologies*

In February 2015 the Commission commenced its review of the Input Methodologies (IMs). The IMs are the rules, requirements and processes applying to the regulation of goods or services under Part 4 of the Commerce Act 1986. As Marlborough Lines is trust owned it is exempt from price control, however the IMs influence the return from Marlborough Lines' investment in Nelson Electricity. The IMs also dictate the way information is disclosed for all network companies.

The focus of the review of the IMs includes:

- The regulatory treatment and likely impact of emerging technologies such as Photovoltaic (PV) and battery storage and their consequences on the IMs which deal with cost allocation; depreciation, and the indexation of asset values;
- The key parameters of the Commission's cost of capital model;
- Assessment of the form of price control; and
- Opportunities to reduce complexity and compliance costs.

A draft decision was published in June 2016. Changes have been proposed to the way costs can be allocated between regulated and unregulated businesses and to the calculation of the allowable rate of return (Weighted Average Cost of Capital WACC). The proposed change to WACC further reduces returns for distribution businesses, on top of reductions that were made to the WACC in October 2014.

The proposed change in the form of price control (moving from a price path to a revenue path) is generally supported by distributors and would reduce the compliance risk associated with any restructuring of distributors' charges.

## Electricity Authority Regulatory work streams

The key work streams for the Electricity Authority have been around transmission and distribution pricing.

*II. Review of Transmission Pricing Methodology (TPM)*

The Transmission Pricing Methodology sets out the way costs (one billion dollars per annum) of running the national grid are allocated between users.

Following a limited review undertaken by Transpower, changes were made to the Electricity Participation Code. For Marlborough Lines this meant the basis of a large portion of our transmission charges was different for the year from 1 September 2015. (Demand was measured during 100 peak periods rather than 12 peak periods.) Some peak periods occurred in summer, and as the load in Marlborough is often lower in the summer than in the winter months, this will lead to a slightly lower level of transmission charges from 1 April 2017 than under the previous charging basis.

Through the 15 months from April 2015 to June 2016 the Authority continued its work on a major review of TPM. The Authority considers that the current methodology has a number of problems, including being inefficient, not cost effective and not durable. In June 2015 the Authority released a consultation paper which looked at some very significant changes to the methodology. Although there were a range of options, all alternatives generally proposed moving costs away from large industrial users to distribution businesses.

For Marlborough Lines the June 2015 proposal indicated a 62% increase in transmission costs could have applied from 1 April 2019. The increase in transmission costs was equivalent to a 10% increase in lines charges. Along with many industry participants Marlborough Lines worked hard to illustrate through the submission process that the changes proposed had significant flaws and would result in unintended consequences.

A new proposal to change the methodology was then published in May 2016. This second proposal was less complex (had fewer charging elements) and had less dramatic effects on most industry participants. However costs for distributors in total would increase by around $70m per annum (compared to an increase of around $100m per annum in the 2015 proposal). The impact on some of the large industrial customers has been reported in the media. New Zealand Aluminium Smelters was a significant beneficiary, with a substantial decrease proposed while many other large industrial customers potentially faced higher charges.

The outcome for Marlborough Lines under this second proposal was a complete turnaround from the 2015 proposal: our transmission costs were expected to decrease 22%.

The ultimate outcome is still uncertain. With such large amounts of money at stake there are now legal challenges and significant lobbying of central government as affected parties try and protect their positions and obtain a fair outcome for their communities and stakeholders.

*III. Review of distributed generation pricing principles*

In May 2016 the Authority also published a consultation paper on pricing principles for distributed generation. The consultation paper identified that some payments made by network companies to distributed generators connected to their local networks were inefficient and should be phased out. Currently the industry rules require that networks only charge distributed generators the incremental costs of connecting to their local networks. The proposed change could possibly mean charges for distributed generators would be based on the same pricing principles that apply to all the other customers connected to distributors' networks. Ultimately such a change would provide greater flexibility for distributors to develop prices for the distributed generators connected to their networks.

*IV. Review of distribution pricing*

This past year the Authority began looking at how pricing for distribution services may need to be adapted to respond to evolving technologies. A consultation paper released in November 2015 suggested distribution charges needed to be reflective of the services provided and the costs of providing those services. There is mounting concern that the current method of charging is encouraging consumers to invest in solar panels when this is not efficient.

The Low Fixed Charge (LFC) regulations exacerbate the issue. When a consumer installs solar generation there is a reduction in a distributor's revenues and because network costs are largely independent of energy delivered, ultimately the shortfall is met by other network users.

Both retailers and distributors have expressed concerns that the LFC regulations are a poorly targeted mechanism to address the needs of consumers in today's market and may be a barrier both for distributors introducing cost reflective pricing and innovative pricing options by retailers.

The Authority also published guidelines on the LFC Regulations. The guidelines suggest the Regulations already permit more flexibility for distributors in their pricing structures e.g. capacity charges, which are already used for large commercial and industrial customers, could be utilised for smaller customers as well and better reflect network costs for many consumers. But widespread changes are yet to be implemented within the industry.

*V. Standardised distribution arrangements default distributor agreement*

During the year the Authority also proposed amending the provisions of the Electricity Participation Code that deals with the contractual arrangements between distributors and retailers. The proposal was quite prescriptive and proposed a default distributor agreement (DDA), previously referred to as a "Use of System Agreement". Existing agreements between distributors and retailers would not necessarily continue under the new regime forcing distributors to incur costs in developing and negotiating new arrangements.

Over the past few years the Authority has increased the level of regulatory intervention in the commercial arrangements between distributors and retailers. The proposal to introduce a default distributor agreement reflects the Authority's perceived concerns about the "monopoly power" of distributors, and suggests the proposal is justified by claims that it will reduce transaction costs and enhance retail competition.

Yealands Wine Group (YWG)

# Tasting Success Already




The primary reasons for our purchase of the shareholding in YWG were the proven earnings and the underlying capital value of the land and the assets, together with the opportunity for growth.

**The background to our acquisition**
In April 2015, Marlborough Lines entered into a competitive process to investigate the purchase of YWG.

Our preliminary investigations determined that the purchase was indeed worthy of pursuit and we consequently undertook extensive due diligence to ensure we were properly informed on all relevant issues before submitting a final bid.

Aside from the many internal hours put in, we also sought independent advice around viticulture, sales and marketing of wines, valuation, finance and legal considerations. Ultimately, that work culminated in Marlborough Lines acquiring 80% of YWG shares at a cost to us of $89.2m – with the balance of the shares being held by the founder of the Company, Peter Yealands (15%) and the Chief Executive of YWG, Jason Judkins (5%).

The contract to purchase YWG was signed in June 2015 and settlement made in mid-July 2015 – although as a condition of purchase, the financial benefits of ownership were agreed to apply from 1 July 2015.

Subsequent to 30 June we acquired the 5% shareholding of Jason Judkins.

**Rewards flow back to electricity consumers**
The primary reasons for our purchase of the shareholding in YWG were the proven earnings and the underlying capital value of the land and the assets, together with the opportunity for growth.

An added benefit of our investment was that it is located in Marlborough and, through our investment in YWG, the electricity consumers of Marlborough get to share in the financial success of Marlborough's wine industry, which is the primary driver for Marlborough's economy.

**Key Yealands facts and figures**
- Balance sheet asset value of more than $250m, including $160m in land, buildings and plant
  - Demonstrated operating leverage with attractive margins
- 1,428 hectares of freehold land, including 1,020 hectares of mature vineyard (by net canopy area) producing high quality grapes.
  - 969 hectares net canopy area in Marlborough
  - 51 hectares net canopy area in the Hawke's Bay
  - one of the largest single block vineyards in Australasia and the largest in New Zealand
- State of the art winery in Marlborough and a smaller winery in the Hawke's Bay
  - Marlborough winery currently undergoing expansion with further potential
- In excess of two million nine litre case equivalents sold for year ending 30 June 2016
- Sixth largest exporter in the NZ wine industry with global distribution to more than 80 countries.
  - International case volumes have grown at a cumulative annual rate of 46% since 2010
  - Established offshore business development managers in a number of countries including Australia, USA, UK and China
  - Extremely attractive customer set and high quality distribution partners.

**Exports – appeal with global customers**
In wine terms, YWG is a 'young' brand offering with authenticity, quality, differentiation and appeal to global consumers. Significant investment by YWG in building its brands, vineyard and winery since establishment provides a platform to continue to drive growth towards premium branded products.

**Sustainability – philosophy perfectly aligned**
YWG is internationally recognised as the most sustainable winery in the world.

Aside from the financial benefits in the acquisition, YWG's commitment to sustainability perfectly aligns with the philosophy and practices undertaken by Marlborough Lines.

**Distribution – own sales distribution in New Zealand**
The rapid increase in demand for YWG's range of branded products is testament to the growing support of customers to the YWG philosophy and approach to winemaking.

- Fastest growing Top 10 wine supplier to NZ grocery
- Strong and evolving customer relationships.

**World class winemakers winning – amassing awards**
YWG has won numerous trophies recognising the quality of its wines and underlying the efforts of the team in the vineyard and winery.

- 12 trophies and 850+ medals since 2008
- NZ Wine Producer of the Year, International Wine and Spirit Challenge – London 2014
- Producer of New Zealand's Best Red Wine, International Wine Challenge – London 2014
- Producer of the World's Best Sauvignon Blanc, International Wine Challenge – London 2012.

Jeff Fyfe, General Manager Winemaking and Tamra Kelly-Washington, Consultant Winemaker at Yealands Wine Group tasting the current pinot noir vintage.

# Yealands Wine Group 2016 Year Overview

The Yealands Wine Group had a highly successful year on all counts. Key market penetration increased, as did the international recognition of YWG's wine quality and sustainability ethos. The Company acquired new land and contract growers and continued to expand wine processing capacity.

## Vintage 2016

The 2015/16 growing season was characterised by very dry, warm conditions. The 2014/15 and 2015/16 seasons were the two driest on record, only January 2016 having average rainfall. This was fortuitous as it replenished the Awatere and Wairau rivers, preventing a mid-season irrigation ban from being imposed.

Marlborough was significantly warmer than the long term average (+11% Growing Degree Days) which was ideal for even fruit ripening. Yields were well balanced and the fruit was harvested at optimum maturity with concentrated flavours. The overall quality was highly regarded by the vineyard and winemaking team.

Volume increased by 26% of the previous year, but was a fraction smaller than the record 2014 vintage.

## Sales

Continued investment into brand building and in-market activity has seen strong growth in branded wine sales in key markets (USA, Europe and New Zealand in particular). The benefit of earlier brand investment is paying dividends with increasing market penetration, wider distribution and sell through off shelf.

YWG exports represent approximately 5% of the New Zealand Industry (sixth largest), and is growing at approximately twice the rate of the industry. The continued focus on quality and supporting brands in the market, (including the release of a global advertising campaign) will provide a solid basis for continued and sustained growth.

While foreign exchange rates continue to provide somewhat of a head wind for key markets, a strong hedging policy, improved product mix, emphasis on production efficiencies and economies of scale, provide a level of mitigation.



The Yealands Winery received international exposure as the first winery in the world to be awarded the DQS Green Company 'GC Mark' in recognition for its sustainability focus

Grape mark (vegetable matter produced as a by-product of wine making) is composted for fertiliser. It also has a potential use as stock feed.



## International recognition

YWG has won numerous trophies recognising the quality of its wines and underlying the efforts of the team in the vineyard and winery. Yealands was awarded "Most Successful Winery" at the Sydney International Wine Competition, also collecting the Winestate Magazine "Sauvignon Blanc of the Year" and "Best Sauvignon Blanc" at the Hong Kong International Wine Competition. Pinot Gris and Riesling were recognised with Trophies at the Air New Zealand Wine awards, as was Syrah (Rome Bragato) and Pinot Noir (Marlborough Wine awards).

The Yealands Winery also received international exposure as the first winery in the world to be awarded the DQS Green Company "GC Mark" in recognition for its sustainability focus. This was further supplemented with the "Environmental Commitment Trophy" at the LCBO Elsie Awards in Canada.

Peter Yealands was honoured with a 2016 Kea World Class New Zealand award, recognising his lifelong contribution to New Zealand Business.

## Vineyard and winery expansion

As part of the long term expansion plan, Yealands acquired two adjoining properties, the Dodson property of approximately 95 hectares purchased in September and the Marfells property (260 Hectares) purchased in July 2016.

Development of the Dodson property has begun with the construction of a series of large dams to ensure seasonal security of water for the Seaview Vineyard together with the vineyard development. The dam will be filled prior to the 2016 summer and planting of the Dodson property will occur in the first part of the current financial year.

In addition to extending its own vineyards, YWG has been very active securing quality contract growers throughout the region, ensuring sufficient supply to meet projected demand.

In line with the increased fruit supply, the capacity of the Seaview Winery will be increased to 27,000 tonnes prior to the 2017 vintage through the addition of further tanks and an upgrade of the water system.

This year also saw this expansion of the solar panel array, which now covers the entire Northern side of the winery, making it the largest installation in the country with the potential to generate up to 505,000kWh per annum and representing up to a third of the Company's power requirements.

## Prospects for 2017 financial year

The Yealands Management Team remain very optimistic for continued domestic and international sales growth. Activities focused on brand awareness, distribution and sell through have been agreed with global partners and sales indicators for the first half of the year show continued strong growth over previous years.

Vineyard, winery and dam construction provide the infrastructure for strong sustained growth and the performance of YWG wines at International Wine Shows, across the entire breadth of its portfolio, provide customers and consumers with the continued confidence to purchase.



Ken Forrest, Managing Director of Marlborough Lines and Peter Yealands, the founder of the Yealands Wine Group sharing a light moment in the vineyard.

Financial Performance

# Review of Financial Statements

# Significant changes prove beneficial

**Marlborough Lines Parent income**
2016 $(m)

**Contracting and Miscellaneous Income, 7.30** 11%
**Network charges – domestic, 23.80** 34%
**Network charges – non-domestic, 30.10** 43%
**Dividends and interest income, 8.10** 12%

Some 77% of Marlborough Lines' income is generated from line charges paid by the electricity retailing companies.

**Marlborough Lines Parent expenditure**
2016 $(m)

Interest Payments, 0.104 0%
**Taxation, 2.41** 3%
**Dividends to Marlborough Electric Power Trust 4.285** 6%
**Retained earnings, 5.43** 8%
**Transpower charges, 9.421** 14%
**Network and contracting costs, 27.97** 40%
**Customer discounts, 11.545** 17%
**Admin and sundry costs. 8.131** 12%

Network and Contracting costs are the largest expenditure component at a total cost of $27.97m.

## The past two years have seen some very significant changes

*We've diversified our investments into viticulture and wine*

The Marlborough Lines Group financial statements on pages 97 to 141 reflect the positive steps our Company has made over the past two years. In 2014, Marlborough Lines sold its investments in the OtagoNet Joint Venture for $148m. The Company also subsequently sold its stake in Horizon Energy for $15.3m. This financial year, a portion of the net proceeds from that sale were used to acquire 80% of Yealands Wine Group Limited (YWG). This acquisition has already proved beneficial, with a gain on acquisition (referred to in the Statement of Financial Performance as a discount on acquisition) of $30.4m – recorded in 2016.

*As a result we've had to change our balance date*

YWG is a significant part of our Group making up around 65% of the Group's revenue and 46% of the Group's assets. Our previous 31 March balance date wasn't practical for the consolidation of a large scale vineyard and winery operation. At 31 March, a wine producer is typically in the middle of harvest, which makes valuing inventory at that time very difficult – as some grapes are yet to be harvested. Accordingly, Marlborough Lines as the Parent company elected to change its balance date to 30 June.

*Comparing our financial results for this year against the prior year is difficult*

The large one-off transaction of the sale of OtagoNet and the acquisition of YWG, combined with the change in balance date, has made year-on-year comparisons difficult (this year 15 months, last year 12 months). Despite the difficulty with comparing year by year this has been another solid year of financial performance for the Company.

## Performance of Marlborough Lines Parent entity

*Revenues are stable*

Electricity network revenue for the 15 month period to 30 June 2016 was $53.9m, which is consistent with the 2015 result of $42.6m, once adjusted for the different length periods. Modest growth in the number of customer connections and stable energy consumption volumes helped in holding revenues steady. Marlborough Lines made no increase to its lines charges during the year.

*Discounts to consumers increased*

Customer discounts of $8.209m were paid during the year to our consumers, an increase of 1.6% on the 2015 discount and a further $3.336m of discount payments were charged against revenues in the current period as a result of the change in balance date.

*Net profit on an adjusted basis is slightly down on previous year due to some one-off costs*

Net profit for the Parent company of $10.6m for the 15 month period, is below the prior year result of $9.2m (when extraordinary gains from the OtagoNet sale of $85.6m are removed and adjustment made for the different length periods). Costs in 2016 were higher, mainly as a result of one-off fees incurred in relation to the YWG acquisition, higher customer discounts and higher amortisation expense – as a result of investment in software to support our business operations.

## Performance of Yealands Wine Group

*YWG reported profitability is affected by the accounting requirements ...*

YWG had a successful trading year, with sales of $95m. The Financial Reporting Standards require that the results of the acquired company be reported in a manner that has an impact on reported profitability. The largest impact on the reported results of YWG is the requirement to adjust the value of assets and liabilities on acquisition to fair value. This has resulted in the value of inventory on hand at the time of acquisition being increased from its inventory cost to its sale price. This has the flow on effect of increasing the cost of sales in the first few years following acquisition and reducing the reported gross margin. The gross margin that would normally be reported, is in effect incorporated as part of the discount on acquisition (shown lower down on the Income Statement).

*... however the numbers show the acquisition was a good one*

Caution should be applied when trying to interpret the reported trading results of YWG this year. The results of these acquisition accounting requirements will dissipate as the inventory on hand at 1 July 2015 is sold and the true operating results of YWG can be shown. Notwithstanding these accounting intricacies, the discount on acquisition of $30.4m shown in our Group accounts is reflective of the successful acquisition. The discount on acquisition represents the difference between the fair value of all YWG's net assets and liabilities that were purchased ($146.4m) – and the amount paid by all parties, for 100% of the shares in YWG of $116.0m. (See note 17 in the Financial Statements).

*The success of YWG will pass through to consumers*

A $4.4m dividend was paid from YWG to our 100% owned subsidiary company Seaview Capital Limited. This dividend in turn, was passed through to Marlborough Lines Limited and is a further indication of our investment providing early returns. This dividend from YWG funded the dividend paid through to the Marlborough Electric Power Trust, which will be distributed to the electricity consumers of Marlborough early in 2017 – with each consumer receiving $150.

## Performance of Nelson Electricity

*Our investment in Nelson Electricity reached a 20 year milestone*

The Nelson Electricity network (NEL), 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. The objective of our ownership in NEL is to deliver a reliable supply of electricity at a reasonable cost, while providing shareholders with a commercial rate of return.

*Earnings have increased*

NEL has continued to perform at a satisfactory level of profitability, despite being subject to price and quality regulation administered by the Commerce Commission. In the year to 31 March 2016, NEL recorded a surplus after taxation of $1.915m (2015: $1.767m). A dividend of $1.68m was paid during the year (2015: $2.0m).

*Average network outages were the lowest in New Zealand*

Customers connected to the NEL network had the lowest average outage time of anywhere in New Zealand – for the third year in a row. The average customer was without power for less than six minutes in Nelson, compared to the average of 144 minutes across New Zealand.

*Vital statistics*

- Has one of the most reliable networks in New Zealand
- Supplies some 9,200 consumers in the central Nelson area
- Has a network which is approximately 85% underground
- Has one of the highest consumer densities per kilometre of line ratio of any network in New Zealand – at 34.9 consumers per kilometre of line
- Has a single point of supply from Transpower at Stoke.

## Accounting for our investments

*YWG 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 80% ownership stake) and is fully consolidated into the Marlborough Lines financial statements. FRSs requires 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.

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.

*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.

## Diversification of our balance sheet

*Vineyard and winery assets are on our balance sheet*

As mentioned above, while Marlborough Lines owned only 80% of YWG as at 30 June 2016, the Financial Reporting Standards require us to consolidate 100% of the YWG assets and liabilities on our balance sheet. This has resulted in a much more diversified balance sheet with items such as Wine Inventory ($79.6m), Vineyard Land ($41.7m) Vineyard Improvements ($34.3m) and Winery Property, Plant and Equipment ($42.0m) now being included on our balance sheet in 2016.

*Our balance sheet has grown to more than $500m*

The full consolidation of the YWG's balance sheet has assisted in the Group's total assets increasing from $387.8m from the prior year, to $549.9m as at 30 June 2016 (a 41.7% increase).

*Our cornerstone asset had its value tested in 2016*

Marlborough Lines had its electricity reticulation network assessed for fair value as at 30 June 2016 by independent valuers. The current carrying value on the balance sheet was found to be within the valuation range.

*YWG will have its value re-assessed in 2017*

Following the requirements of the accounting standards, which require regular assessment of the fair value of our assets, the value of YWG will be reviewed when the 2017 accounts are prepared. We expect that this revaluation will result in an uplift in value.

*Nelson Electricity had its value re-assessed in 2015*

The carrying value of NEL's assets was independently assessed by PWC in the 2015 financial year. The value of those assets is shown in Note 18 of the Financial Statements.

*Debt levels remain low*

YWG had term borrowings secured against its assets of $84.2m as at 30 June 2016. This represents a debt ratio of 33.3% on YWG's total assets of $252.8m. 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 2016, had $33.5m of funds in the banking system awaiting further investment.

## Cash flow

*Operating cash flows remain strong*

Parent net cash flows from operating activities of $14.665m for 2016, were down on last year and included one-off dividends from the sale of OtagoNet and receipts from associates.

*The change in investment mix has impacted dividend receipts*

Dividend receipts in the Parent accounts totalled $1.118m (2015: $1.521m), representing dividends from NEL of $0.84m (2015: $1.0m), and half year dividends from Horizon Energy Distribution Limited of $0.278m. We sold our 13.8% stake in Horizon Energy during July 2015 (2015 full year dividend was $0.521m). Dividends from the YWG investment flow through the fully owned subsidiary Seaview Capital Limited, and are introduced into the accounts through the consolidation process.

*Group operating cash flow includes trading results from YWG*

For the 2016 year, Group operating cash flow of $26.633m includes cash generated by YWG and is not easily comparable to the prior year.

*Cash from the OtagoNet investment sale funded our investment in YWG*

Cash flow from investing activities is dominated by the net cash outflow for the purchase of the YWG investment. Cash was generated from the OtagoNet sale in the previous year. On the debit side, the proceeds from the sale of our Horizon Energy Distribution Limited shares of $15.312m is included in this year's result.

*Capex is stable on our electricity network, while development is continuing at YWG*

Expenditure on plant, property and equipment at a Group level of $32.260m is made up of an electricity network spend consistent with the target spend per our Asset Management Plan and also expenditure at YWG. The capital expenditure at YWG is to further develop and expand the vineyard and winery to provide the size and scale consistent with being a significant wine producer.

A breakdown of Parent capital expenditure is provided in note 5 of the Supplementary Information in the appendix at page 146, and also in commentary in the operations report. The most recent Asset Management Plan for the Marlborough Lines network was completed in March 2016 and adds to the detailed estimates of proposed capital expenditure going forward. The Asset Management Plan is available on our website.

*Cash distributions to the Trust have increased*

This year the Marlborough Electric Power Trust received a dividend of $4.285m (2015: $1.785m) to enable an increased independent distribution to electricity consumers in the Marlborough region.

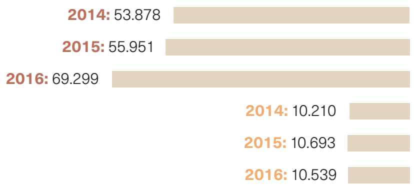
## The future – what happens next in Marlborough?

*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.

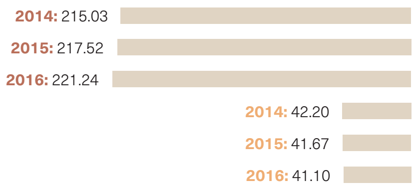
# Review of investments

**Individual company turnover**
$(m)



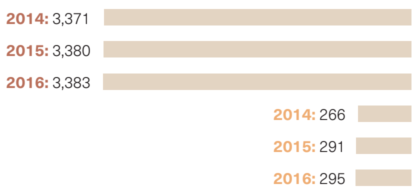

Marlborough Lines Parent
Nelson Electricity

**Network asset values (regulatory)**
$(m)




Marlborough Lines
Nelson Electricity

**Network system length**
Kilometres




Marlborough Lines
Nelson Electricity

These graphs provide comparative statistics for the Marlborough and Nelson networks.

## Individual investments

Investments in separate companies inevitably add complexity in ownership structures and accordingly, complicate accounting and taxation requirements. In this section we simplify the view and review the cash returns we have received from our investments.

## Investments income summary

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

Total cash flows generated from all investments – including management fees and interest received for the 15 month period (but excluding capital gains) – were $8.3m compared to $9.7m for the 2015 year. The 2015 result included an uplift to receipts of $2.3m upon wrap up of our investment in Otago Power Services Limited.

The Marlborough Lines Directors consider this to be a satisfactory result in a year in which our investment portfolio has changed significantly and available interest rates for funds on deposit have been at historic lows.

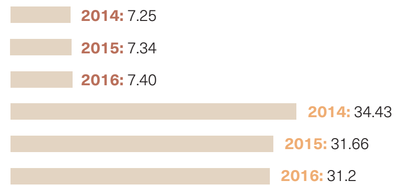


## A summary of cash flows generated from investments

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Cash Flows from Investments ($m) | 8.3 | 9.7 | 7.4 | 7.4 | 7.3 |
| **Holding Value ($m)** | | | | | |
| Nelson Electricity | 15.0 | 14.9 | 15.0 | 13.8 | 13.5 |
| OtagoNet JV | – | – | 76.4 | 74.5 | 72.9 |
| Otago Power Services | – | – | 3.6 | 3.3 | 3.1 |
| Horizon Energy Distribution | – | 15.3 | 14.5 | 14.5 | 14.5 |
| Yealands Wine Group | 89.2 | – | – | – | – |
| Term deposits | 28.0 | 108.0 | – | – | – |
| Total value of investments | 132.2 | 138.2 | 109.5 | 106.1 | 104.0 |
| Cash Flows Generated from Investments | 6.31% | 7.01% | 6.73% | 6.99% | 6.99% |

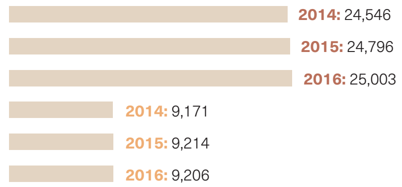
Note: 2016 was a 15 month period, but only includes 12 months of results from YWG and the annual dividend from NEL.

**Network customer density**
Customers per km of line



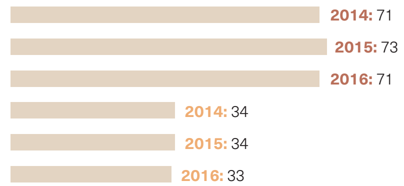

Marlborough Lines
Nelson Electricity

**Network customer numbers**
Installation Connection Points (ICPs)




Marlborough Lines
Nelson Electricity

**System maximum demand**
MW




Marlborough Lines
Nelson Electricity

# Governance, Disclosures and Financial Statements

# Contents

# Corporate governance

**Directors' and management commitment**

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

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

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

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

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

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

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

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

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

**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 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.

**Statement of corporate intent**

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

**Appointment and remuneration of Directors**

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

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

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

The Board sets the remuneration of the Managing Director.

**Responsibility of Directors**

In fulfilling its role the responsibilities of the Board include:

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

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

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

**Regulatory framework**

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

**Current Board membership**

The Marlborough Lines Constitution provides for a maximum of eight Directors. The Board presently comprises six non-executive Directors and a Managing Director. Mr Anthony Beverley and Mr James Hay resigned during the year. At the Annual General Meeting (AGM) in September 2015 Mr Peter Forrest, Mr Phil Robinson and Mr Ivan Sutherland were appointed to the Board.

The Managing Director remains a Director at the prerogative of the shareholders but is not subject to the retirement provisions.

This year at the AGM Mr David Dew and Mr Tim Smit will retire according to the rotation rule. Messrs Dew and Smit are available for re-election to 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 associate 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.

**Audit Committee**

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

The entire Board meets as an Audit Committee in respect of all audit matters. In particular the Board recognises that it has specific responsibility for:

- External reporting in relation to statutory financial statements
- General (statutory) disclosures and Companies Office returns
- Compliance with Commerce Commission Regulatory (Information Disclosure) requirements
- The application of correct accounting policies and principles and any changes to them
- Effecting changes to procedures as may be identified by the Auditors from time to time
- Compliance with related party disclosures
- Discussion of financial reports with the management and auditors as appropriate
- Implementation of procedures to ensure compliance with the current industry regulatory requirements as determined by the Commerce Commission and the Electricity Authority
- Implementation of risk management practices relative to legal compliance, treasury management, taxation, internal control and insurance.

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

In addition to undertaking the statutory audit function on behalf of the Controller and Auditor General, Deloitte also undertake audit of the Company's financial and performance disclosure information provided as a requirement of the Commerce Act. This function is also undertaken on behalf of the Controller and Auditor General.

**Audit Committee meetings**

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

- On 28 April 2015 with the Auditor, Mr Paul Bryden of Deloitte, to discuss the audit engagement letter and audit plan for the financial statements
- On 23 June 2015, with the Auditor, Mr Paul Bryden of Deloitte, to formally adopt the financial statements and general disclosures and to endorse signing of the financial statements for the year ended 31 March 2015.

**Board attendance**

During the 15 month period to 30 June 2016, 18 Board meetings were held and attended by Directors as follows:

| Directors | Meetings Held | Attended |
|---|---|---|
| A M Beverley | 7 | 5 |
| D W R Dew | 18 | 18 |
| K J Forrest | 18 | 18 |
| P J Forrest | 9 | 9 |
| J M G Hay | 7 | 5 |
| P I Robinson | 9 | 9 |
| C J Ross | 18 | 17 |
| T H Smit | 18 | 18 |
| I C Sutherland | 9 | 9 |



**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.

A range of risk management/legal compliance policies have been developed including:

- Treasury Risk
- Insurance Risk
- Trade Practices Compliance
- Environment and Resource Management
- Employment and Human Rights
- IT Risk (including e-mail/internet usage and disaster recovery).

Operational risks to the Company are assessed regularly including through:

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

**Quality management**

Marlborough Lines holds the following certifications for management systems:

- Quality Management Standard AS/NZS ISO 9001:2008
- Environmental Standard AS/NZS ISO 14001:2004
- Occupational Health and Safety Assessment Series OHSAS 18001:2007
- Safety Management Systems for Public Safety NZS 7901:2008.

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 monthly review meetings, internal audit of all procedures annually and twice yearly external audits. These external audits examine a random selection of procedures and review the operation of the system.

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

**Marlborough Lines Limited – Company Code of Conduct**

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

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

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

The Code includes detailed requirements in the following areas:

- The Company's commitment to ethical behaviour and conduct
- Responsibilities to shareholders and the Marlborough community
- Responsibilities to customers, clients, suppliers and competitors
- Responsibilities to employees
- Dealing with conflicts of interest
- Receipt of gifts and corporate opportunities
- Confidentiality
- Company behaviours
- Compliance with laws and policies
- Delegated authority
- Reporting concerns
- Review of the Code.

The Code is subject to annual review.



# General disclosures

**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 2015/2016 Marlborough Lines Limited has maintained its focus as a leading and innovative electricity network investor, owner and operator. The Company and Group has also invested in and operated related electrical contracting services. During the year the Company has also made a significant investment in Yealands Wine Group, a Marlborough based wine company.

The Marlborough Lines Parent company also holds an investment in the Nelson based electricity network company, Nelson Electricity Limited.

**2 Review of financial performance**

***2.1 Results for the 15 month period ended 30 June 2016***

| | Group 2016 $000 15 months | Group 2015 $000 12 months | Parent 2016 $000 15 months | Parent 2015 $000 12 months |
|---|---|---|---|---|
| Operating Profit | 10,599 | 12,906 | 9,164 | 93,649 |
| Net Profit Before Tax Expense | 39,129 | 84,399 | 12,963 | 97,918 |
| Income Tax Expense | 2,523 | 14,540 | 2,410 | 3,078 |
| Net Profit After Tax for the Year | 36,606 | 69,859 | 10,553 | 94,840 |
| Other Comprehensive Income Net of Tax | (906) | 7,284 | (838) | 838 |
| **Total Comprehensive Income** | **35,700** | **77,143** | **9,715** | **95,678** |

All results are stated in current accounting terms and are derived in accord with the New Zealand equivalents of the International Financial Reporting Standards first adopted by Marlborough Lines Limited in the reporting year ended 31 March 2008.

As a result of the activities undertaken during the period the Directors are of the view that the Company's affairs are in a very satisfactory state.

**3 Dividends**

The Directors and shareholders authorised the following dividend payments for the 2015/2016 financial period.

| | | |
|---|---|---|
| **First and Final Dividend** | **30 June 2016** | **$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) | | $335.41 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 | $76,000 | $39,103 |
| Deloitte Wellington – For Yealands Wine Group Limited Group | $63,197 | $0 |

## 5 Information on Directors of Marlborough Lines Limited

| | | | Total Remuneration and Other Benefits | |
|---|---|---|---|---|
| **Director** | **Qualifications and Experience** | **Special Responsibilities** | **2016** | **2015** |
| D W R Dew | LLB<br>Principal Dew & Company, Solicitors, Blenheim<br>Director, Yealands Wine Group Limited<br>Director, Nelson Electricity Limited<br>Director of other companies | Chairman | $94,686* | $85,088 |
| K J Forrest | BSc Hons (Eng), MIPENZ, Registered Electrical Engineer<br>Director, Nelson Electricity Limited<br>Chairman, Cuddon Limited<br>Director of other companies | Managing Director | $480,394* | $559,200 |
| P J Forrest | BCom, ACA<br>Director, WK Advisors and Accountants<br>Director, Yealands Wine Group Limited<br>Director of other companies | Non-executive Director<br>Appointed<br>25 September 2015 | $30,658 | – |
| P I Robinson | NZCQS, MInstD<br>Managing Director, Robinson Construction Limited<br>Director of other companies | Non-executive Director<br>Appointed<br>25 September 2015 | $30,658 | – |
| C J Ross | LLB, BA, BCL<br>Director, Reserve Bank of New Zealand<br>Director of other companies | Non-executive Director<br>Appointed<br>19 September 2014 | $38,762* | $19,600 |
| T H Smit | BSc Eng (Civil) Hons, MIPENZ<br>Principle TMCo<br>Director of other companies | Non-executive Director<br>Appointed<br>19 September 2014 | $38,762* | $19,600 |
| I C Sutherland | VFM, ANZIV, MNZM<br>Director, Dog Point Vineyard Limited<br>Director of other companies | Non-executive Director<br>Appointed<br>25 September 2014 | $30,658 | – |
| A M Beverley | MCom (VPM) (Hons) First Class, FNZIV, FPINZ, FINSIA, FInstD<br>Director, Property for Industry Ltd<br>Director of other companies | Non-executive Director<br>Resigned<br>19 June 2015 | $9,200 | $35,834 |
| J M G Hay | LLB (Hons)<br>General Manager, Commercial Operations<br>Central Plains Water Limited | Non-executive Director<br>Resigned<br>19 June 2015 | $9,200 | $35,834 |

* 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 2016 |
|---|---|---|
| J B Shewan (Chairman) | | $105,000 |
| D W R Dew | | $46,909 |
| K J Forrest | | $47,919 |
| P J Forrest | Appointed 4 July 2016 | – |
| P J Radich | | $50,000 |
| M J Thomson | Appointed 4 July 2016 | – |
| P W M Yealands* | | – |
| J M Ashby | Retired 15 July 2015 | $3,125 |
| M J Radich | Retired 16 August 2016 | $50,000 |

* P W M Yealands 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

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

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

| Remuneration Range | Number of Employees Parent 2016 | Number of Employees Parent 2015 | Number of Employees Subsidiaries 2016 |
|---|---|---|---|
| $100,000 – $110,000 | 2 | 3 | 8 |
| $110,000 – $120,000 | 5 | 8 | 5 |
| $120,000 – $130,000 | 3 | 2 | 3 |
| $130,000 – $140,000 | 3 | – | 2 |
| $140,000 – $150,000 | – | 1 | 1 |
| $150,000 – $160,000 | 2 | – | 1 |
| $160,000 – $170,000 | 1 | – | 3 |
| $170,000 – $180,000 | – | – | 1 |
| $180,000 – $190,000 | – | – | 1 |
| $190,000 – $200,000 | – | – | 1 |
| $210,000 – $220,000 | – | 1 | – |
| $220,000 – $230,000 | 1 | – | – |
| $230,000 – $240,000 | 1 | 1 | 1 |
| $240,000 – $250,000 | – | 1 | – |
| $250,000 – $260,000 | 2 | – | – |
| $270,000 – $280,000 | – | 1 | – |
| $290,000 – $300,000 | 1 | – | – |
| $310,000 – $320,000 | – | 1 | – |
| $370,000 – $380,000 | – | – | 2 |

### 10 Donations

During the year the Company made tertiary education grants totalling $28,265.

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

**D W R Dew**
Chairman
29 September 2016

**K J Forrest**
Managing Director
29 September 2016



# Financial statements 2016

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 Marlborough Lines Limited and Group and the results of their operations and cash flows for the 15 month period ended 30 June 2016.

The Directors consider that the financial statements of the Company and Group have been prepared using accounting policies appropriate to the Company and Group circumstances, consistently applied, and supported by reasonable and prudent judgements and estimates and that all applicable New Zealand Equivalents to International Financial Reporting Standards have been followed.

The Directors have responsibility for ensuring that proper accounting records have been kept, which enable with reasonable accuracy, the determination of the financial position of the Company and Group and enable them to ensure that the financial statements comply with the Financial Reporting Act 2013.

The Directors have responsibility for the maintenance of a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. The Directors consider that adequate steps have been taken to safeguard the assets of the Company and Group and to prevent and detect fraud and other irregularities.

The Directors are pleased to present the financial statements of Marlborough Lines Limited and Group for the 15 month period ended 30 June 2016.

This report is dated 29 September 2016 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
29 September 2016

**K J Forrest**
Managing Director
29 September 2016

## Consolidated statement of comprehensive income

| | Notes | Group 15 Months to 30 June 2016 $000 | Group Year to 31 March 2015 $000 | Parent 15 Months to 30 June 2016 $000 | Parent Year to 31 March 2015 $000 |
|---|---|---|---|---|---|
| **Continuing Operations** | | | | | |
| Revenue | 2 | 158,873 | 55,439 | 66,695 | 136,182 |
| Operating Expenses | 3 | 124,354 | 25,681 | 34,195 | 25,681 |
| Depreciation and Amortisation | 15, 16 | 12,375 | 8,774 | 11,791 | 8,774 |
| Customer Discounts | | 11,545 | 8,078 | 11,545 | 8,078 |
| **Total** | | **148,274** | **42,533** | **57,531** | **42,533** |
| **Operating Profit** | | **10,599** | **12,906** | **9,164** | **93,649** |
| Finance Income | 4 | 4,348 | 2,831 | 2,604 | 5,380 |
| Finance Costs | 4 | 8,355 | 1,111 | 104 | 1,111 |
| Gains/(Losses) on financial instruments | 4 | 675 | – | – | – |
| Net Finance Income (Costs) | | (3,332) | 1,720 | 2,500 | 4,269 |
| Share of Equity Accounted Investments Net Surplus (Loss) | 18 | 118 | (1,679) | – | – |
| Gain Recognised on Disposal of Interest in Former Associates | 18 | – | 71,452 | – | – |
| Net Fair Value Gain on Investment Property | 19 | 461 | – | 461 | – |
| Gain recognised on disposal of Available-For-Sale Financial Asset | 20 | 838 | – | 838 | – |
| Discount arising on acquisition of subsidiary | 17 | 30,445 | – | – | – |
| **Profit Before Tax Expense** | | **39,129** | **84,399** | **12,963** | **97,918** |
| Income Tax Expense | 5 | 2,523 | 14,540 | 2,410 | 3,078 |
| **Net Profit for the Period** | | **36,606** | **69,859** | **10,553** | **94,840** |
| **Other Comprehensive Income** | | | | | |
| **Items that may be reclassified subsequently to profit or loss** | | | | | |
| Net Fair Value Gain on Available-For-Sale Financial Assets | 20 | (838) | 838 | (838) | 838 |
| Net change in foreign currency translation reserve | | (68) | – | – | – |
| Reversal of Deferred Tax on Disposal of Joint Venture | | – | 6,446 | – | – |
| **Other comprehensive income net of tax** | | **(906)** | **7,284** | **(838)** | **838** |
| **Total comprehensive income for the period** | | **35,700** | **77,143** | **9,715** | **95,678** |
| Net profit for the period attributable to: | | | | | |
| Owners of the Company | | 30,539 | 69,859 | 10,553 | 94,840 |
| Non-controlling interests | 8 | 6,067 | – | – | – |
| | | 36,606 | 69,859 | 10,553 | 94,840 |
| Total comprehensive income for the period attributable to: | | | | | |
| Owners of the Company | | 29,633 | 77,143 | 9,715 | 95,678 |
| Non-controlling interests | 8 | 6,067 | – | – | – |
| | | 35,700 | 77,143 | 9,715 | 95,678 |

The accompanying notes form an integral part of these Financial Statements.



## Consolidated statement of changes in equity

For the 15 month period ended 30 June 2016

| | Group Share Capital $000 | Group Revaluation Reserves $000 | Group FCTR $000 | Group Retained Earnings $000 | Attributable to Owners of the Parent $000 | Non-Controlling Interests $000 | Group Total Equity $000 |
|---|---|---|---|---|---|---|---|
| **Consolidated Group** | | | | | | | |
| **Balance as at 1 April 2014** | 29,026 | 56,329 | – | 172,515 | 257,870 | – | 257,870 |
| **Total Comprehensive Income for the Year** | | | | | | | |
| Net Profit for the Year | – | – | – | 69,859 | 69,859 | – | 69,859 |
| **Other Comprehensive Income Net of Tax** | | | | | | | |
| Disposal of OtagoNet Joint Venture Investment | – | (19,986) | – | 19,986 | – | – | – |
| Reversal of Deferred Tax on Disposal of Joint Venture | – | 6,446 | – | – | 6,446 | – | 6,446 |
| Revaluation of Held for Sale Investments | – | 838 | – | – | 838 | – | 838 |
| **Total Comprehensive Income for the Year** | **–** | **(12,702)** | **–** | **89,845** | **77,143** | **–** | **77,143** |
| **Transactions with Owners Recorded Directly in Equity** | | | | | | | |
| Dividends Paid to Equity Holders | – | – | – | (1,785) | (1,785) | – | (1,785) |
| **Balance as at 31 March 2015 (12 month period)** | **29,026** | **43,627** | **–** | **260,575** | **333,228** | **–** | **333,228** |
| **Balance as 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 | – | – | – | – | – | 22,300 | 22,300 |
| **Balance as at 30 June 2016 (15 month period)** | **29,026** | **42,789** | **(68)** | **286,829** | **358,576** | **27,267** | **385,843** |

The accompanying notes form an integral part of these Financial Statements.

## Parent Company statement of changes in equity

For the 15 month period ended 30 June 2016

| | Parent Share Capital $000 | Parent Revaluation Reserves $000 | Parent FCTR $000 | Parent Retained Earnings $000 | Attributable to Owners of the Parent $000 | Non-Controlling Interests $000 | Parent Total Equity $000 |
|---|---|---|---|---|---|---|---|
| **Parent** | | | | | | | |
| **Balance as at 1 April 2014** | 29,026 | 39,335 | – | 167,730 | 236,091 | – | 236,091 |
| **Total Comprehensive Income for the Year** | | | | | | | |
| Net Profit for the Year | – | – | – | 94,840 | 94,840 | – | 94,840 |
| **Other Comprehensive Income Net of Tax** | | | | | | | |
| Revaluation of Held for Sale Investments | – | 838 | – | – | 838 | – | 838 |
| **Total Comprehensive Income for the Year** | **–** | **838** | **–** | **94,840** | **95,678** | **–** | **95,678** |
| **Transactions with Owners Recorded Directly in Equity** | | | | | | | |
| Dividends Paid to Equity Holders | – | – | – | (1,785) | (1,785) | – | (1,785) |
| **Balance as at 31 March 2015 (12 month period)** | **29,026** | **40,173** | **–** | **260,785** | **329,984** | **–** | **329,984** |
| **Balance as at 1 April 2015** | 29,026 | 40,173 | – | 260,785 | 329,984 | – | 329,984 |
| **Total Comprehensive Income for the 15 month period** | | | | | | | |
| Net Profit for the 15 month period | – | – | – | 10,553 | 10,553 | – | 10,553 |
| **Other Comprehensive Income Net of Tax** | | | | | | | |
| Disposal of Held for Sale Investments | – | (838) | – | – | (838) | – | (838) |
| **Total Comprehensive Income for the 15 month period** | **–** | **(838)** | – | 10,553 | **9,715** | – | **9,715** |
| **Transactions with Owners Recorded Directly in Equity** | | | | | | | |
| Dividends Paid to Equity Holders | – | – | – | (4,285) | (4,285) | – | (4,285) |
| **Balance as at 30 June 2016 (15 month period)** | **29,026** | **39,335** | **–** | **267,053** | **335,414** | **–** | **335,414** |

The accompanying notes form an integral part of these Financial Statements.



## Statement of financial position

As at 30 June 2016

| | Notes | Group 30 June 2016 $000 | Group 31 March 2015 $000 | Parent 30 June 2016 $000 | Parent 31 March 2015 $000 |
|---|---|---|---|---|---|
| **Equity** | | | | | |
| Share Capital | 6 | 29,026 | 29,026 | 29,026 | 29,026 |
| Revaluation Reserves | 7 | 42,721 | 43,627 | 39,335 | 40,173 |
| Retained Earnings | 7 | 286,829 | 260,575 | 267,053 | 260,785 |
| Equity Attributable to Owners of the Company | | 358,576 | 333,228 | 335,414 | 329,984 |
| Non-Controlling Interests | 8 | 27,267 | – | – | – |
| **Total Equity** | | **385,843** | **333,228** | **335,414** | **329,984** |
| **Non-Current Liabilities** | | | | | |
| Finance Lease Payable | | 26 | – | – | – |
| Retirement Benefit Obligations | 14 | 568 | 706 | 568 | 706 |
| Deferred Tax Liability | 5 | 48,608 | 43,454 | 43,547 | 43,454 |
| Term Borrowings | 13 | 75,000 | – | – | – |
| **Total Non-Current Liabilities** | | **124,202** | **44,160** | **44,115** | **44,160** |
| **Current Liabilities** | | | | | |
| Trade and Other Payables | 11 | 23,225 | 4,209 | 8,052 | 8,478 |
| Finance Lease Payable | | 455 | – | – | – |
| Employee Entitlements | 12 | 2,633 | 960 | 942 | 960 |
| Current Income Tax Liabilities | | – | 5,230 | – | 961 |
| Other Current Liabilities | | – | – | 5,000 | 5,000 |
| Derivatives | 25 | 4,286 | – | – | – |
| Term Borrowings | 13 | 9,250 | – | – | – |
| **Total Current Liabilities** | | **39,849** | **10,399** | **13,994** | **15,399** |
| **Total Equity And Liabilities** | | **549,894** | **387,787** | **393,523** | **389,543** |
| **Non-Current Assets** | | | | | |
| Plant, Property and Equipment | 15 | 375,198 | 232,975 | 234,392 | 232,975 |
| Intangible Assets | 16 | 2,834 | 1,806 | 2,364 | 1,806 |
| Investments in Subsidiaries | 18 | – | – | 94,200 | 5,000 |
| Investments in Associates Accounted for Using the Equity Method | 18 | 15,032 | 14,914 | 11,670 | 11,670 |
| Investment Property | 19 | 3,111 | 2,210 | 3,111 | 2,210 |
| **Total Non-Current Assets** | | **396,175** | **251,905** | **345,737** | **253,661** |
| **Current Assets** | | | | | |
| Cash and Cash Equivalents | | 6,998 | 2,122 | 5,513 | 2,122 |
| Short Term Investments | | 28,000 | 108,000 | 28,000 | 108,000 |
| Income Tax Receivable | | 1,279 | – | 424 | – |
| Trade and Other Receivables | 9 | 28,399 | 5,896 | 9,940 | 5,896 |
| Inventories | 10 | 86,838 | 4,552 | 3,909 | 4,552 |
| Derivatives | 25 | 2,144 | – | – | – |
| Investment in Horizon Energy Distribution Limited | 20 | – | 15,312 | – | 15,312 |
| Property, Plant and Equipment Held-For-Sale | | 61 | – | – | – |
| **Total Current Assets** | | **153,719** | **135,882** | **47,786** | **135,882** |
| **Total Assets** | | **549,894** | **387,787** | **393,523** | **389,543** |

The accompanying notes form an integral part of these Financial Statements.

## Consolidated statement of cash flows

| | Group 15 Months to 30 June 2016 $000 | Group Year to 31 March 2015 $000 | Parent 15 Months to 30 June 2016 $000 | Parent Year to 31 March 2015 $000 |
|---|---|---|---|---|
| **Cash Flows From Operating Activities** | | | | |
| Receipts From Customers | 164,979 | 47,886 | 60,204 | 47,886 |
| Receipts From Associates | 223 | 2,903 | 223 | 2,903 |
| Interest Received | 2,676 | 2,824 | 2,604 | 2,824 |
| Dividends Received | 1,118 | 3,840 | 1,118 | 87,132 |
| Payments to Consumers, Suppliers and Employees | (132,880) | (32,533) | (45,678) | (32,549) |
| Interest Paid | (3,770) | (1,197) | (104) | (1,197) |
| Income Tax Paid | (5,713) | (12,260) | (3,702) | (3,960) |
| **Net Cash Generated From Operating Activities** | **26,633** | **11,463** | **14,665** | **103,039** |
| **Cash Flows From Investing Activities** | | | | |
| Proceeds from Sale of Plant, Property and Equipment | 447 | 107 | 394 | 107 |
| Acquisition of subsidiary | (115,987) | – | (89,200) | – |
| Cash acquired on acquisition | 7,024 | – | – | – |
| Sale of Investments | 15,312 | 147,497 | 15,312 | – |
| Purchase of Plant, Property and Equipment | (32,260) | (12,225) | (12,937) | (12,225) |
| Purchase of Intangible Assets | (558) | – | (558) | – |
| Amounts advanced to related parties | – | 2,497 | – | 58,418 |
| **Net Cash Generated (Used) In Investing Activities** | **(126,022)** | **137,876** | **(86,989)** | **46,300** |
| **Cash Flows From Financing Activities** | | | | |
| Proceeds from Borrowings | 109,622 | 21,000 | – | 21,000 |
| Repayment of Borrowings | (100,372) | (59,000) | – | (59,000) |
| Cash Received from Non-Controlling Interest | 22,300 | – | – | – |
| Dividends Paid | (7,285) | (1,785) | (4,285) | (1,785) |
| **Net Cash Flows used in Financing Activities** | **24,265** | **(39,785)** | **(4,285)** | **(39,785)** |
| **Net (Decrease)/Increase in Cash and Cash Equivalents** | **(75,124)** | **109,554** | **(76,609)** | **109,554** |
| Cash and Cash Equivalents at the beginning of the period | 110,122 | 568 | 110,122 | 568 |
| **Cash And Cash Equivalents at the End of the Period** | **34,998** | **110,122** | **33,513** | **110,122** |

The accompanying notes form an integral part of these Financial Statements.



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

| | Group 15 Months to 30 June 2016 $000 | Group Year to 31 March 2015 $000 | Parent 15 Months to 30 June 2016 $000 | Parent Year to 31 March 2015 $000 |
|---|---|---|---|---|
| **Profit for the Year from Continuing Operations** | **36,606** | **69,859** | **10,553** | **94,840** |
| **Add/(Less) Non Cash Items** | | | | |
| Depreciation and Amortisation | 16,876 | 8,774 | 11,791 | 8,774 |
| Income From Vested Assets and Capital Contributions | (1,106) | (1,231) | (1,106) | (1,231) |
| Net Fair Value Gain on Investment Property | (461) | – | (461) | – |
| Gain on Disposal of Available-For-Sale Financial Asset | (838) | – | (838) | – |
| Discount arising on Acquisition of Subsidiary | (30,445) | – | – | – |
| Other non cash items | (1,141) | – | (351) | – |
| **Non Cash Items in Relation to Investing/Financing Activities** | | | | |
| Share of Associate Net Profit | (118) | 1,679 | – | – |
| Loss on Sale of Fixed Assets | 299 | 575 | 214 | 575 |
| Current Charge to Deferred Taxation | (1,025) | (1,378) | 93 | (71) |
| Net Gain Recognised on Disposal of Interest in Former Associates | – | (71,452) | – | – |
| **Changes in Working Capital Items** | | | | |
| **(Increase)/Decrease in Assets** | | | | |
| (Increase)/Decrease in Accounts Receivable | 777 | 212 | (4,044) | 212 |
| (Increase)/Decrease in Inventories | 3,737 | 74 | 643 | 74 |
| (Increase)/Decrease in Assets held for sale | (61) | – | – | – |
| **Increase/(Decrease) in Liabilities** | | | | |
| Increase/(Decrease) in Accounts Payable and Other Payables | 5,985 | 425 | (426) | 4,698 |
| (Decrease) in Subsidiary Current Account | – | – | – | (4,269) |
| (Decrease)/Increase in Tax Payable Balance | (2,169) | 3,706 | (1,385) | (783) |
| (Decrease)/Increase in Employee Entitlements | (18) | 220 | (18) | 220 |
| (Decrease)/Increase in Finance Lease Payable liabilities | (265) | – | – | – |
| **Net Cash Flows from Operating Activities** | **26,633** | **11,463** | **14,665** | **103,039** |

The accompanying notes form an integral part of these Financial Statements.

# Notes to the financial statements

For the 15 month period ended 30 June 2016

## 1 Summary of significant accounting policies

### *1.1 Statement of compliance*

Marlborough Lines Limited (the Company) is a profit-oriented company incorporated in New Zealand. The Company operates primarily in the field of electricity distribution and also undertakes ancillary contracting services in relation to the Marlborough regional electricity network. The 'Group' for financial reporting purposes comprises the Marlborough Lines Limited Parent Company and its 80% owned subsidiary Yealands Wine Group Limited and fully owned subsidiaries Southern Lines Limited and Seaview Capital Limited. The Group also includes investment in the associate company Nelson Electricity Limited. The Group's primary activities relate to electricity distribution in New Zealand and the production of wine which is sold both nationally and internationally.

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

### *1.2 Basis of preparation*

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

The functional currency for the Parent Company and Group is the New Zealand dollar rounded to the nearest 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.

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

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

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

The other principal accounting policies are also detailed as follows.

### *1.3 Significant accounting policies*

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements.

### *1.4 Critical accounting estimates and judgements*

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are based on historical experience and are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The key assumptions concerning the future and other key sources of estimation uncertainty at 30 June 2016, that have the potential to cause a material adjustment to the carrying amounts of assets and liabilities are disclosed below.



**Notes to the financial statements (continued)**

For the 15 month period ended 30 June 2016

The valuation of plant, property and equipment particularly in relation to the electricity distribution network has a material impact on the financial statements due to the sensitivities of the valuation methodology. Refer to Note 15. Determining the useful lives for depreciation purposes requires judgement.

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

During the period Marlborough Lines Limited acquired a controlling stake in Yealands Wine Group Limited. As detailed in the Business Combination accounting policy below this requires all assets and liabilities of the acquiree to be fair-valued at the date of acquisition. This was calculated in accordance with NZ IFRS 13: Fair Value Measurement, but requires critical accounting estimates and judgements to be made, particularly determining the fair value of inventory. Further details are provided in Note 17.

### *1.5 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 deficiency is credited to profit or loss in the period of acquisition.

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.

### *1.6 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.

(i) Subsidiaries

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

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

(ii) Associates

Associate entities are those entities in which the Group has significant influence but not control. This is generally indicated through the holding of between 20% and 50% of the voting rights.

Investments in associates are accounted for at cost less impairment in the Parent's financial statements and using the equity method in the Group financial statements.

The Group's share of the associates' post acquisition profits or losses is recognised in the Statement of Comprehensive Income and its share of post acquisition movements in reserves is recognised in reserves.

Dividends received from associates are initially recognised in the Parent Company financial statements. Such dividends received typically reduce the equity adjustment for the share of associates' post acquisition profits.

### *1.7 Goods and Services Tax (GST)*

The Statement of Comprehensive Income and Statement of Cash Flows have been prepared so that all components are stated exclusive of GST. All items in the Balance Sheet are stated net of GST except for receivables and payables which include GST.

### *1.8 Revenue recognition*

Revenue comprises the fair value for the sale of goods and services, excluding GST, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

(i) Electricity Network Revenue
Electricity Network Revenue is recognised when an entity in the Group has delivered to the buyer the significant risks and rewards of ownership of the service.

(ii) Wine sales
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.

(iii) Electricity contracting revenue
Contracting revenue is recognised by reference to the stage of completion at balance date measured by progress invoices calculated on the basis of the percentage of the contract completed compared to the total estimated cost.

(iv) Contract wine processing revenue
Revenue from the provision of contract wine processing services is recognised in the Statement of Comprehensive Income on a percentage of completion basis.

(v) Dividend revenue
Dividend revenue is recognised when the shareholder's right to receive payment is established.

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

(vii) Capital contributions
Capital contributions received from customers towards the cost of new lines or in relation to uneconomic supply are recognised in the Statement of Comprehensive Income.

(viii) Rental income
Rental income is recognised on an accruals basis in accord with the underlying rental agreement.

(ix) Vesting income
Certain network extensions are gifted to companies in the Group in return for the Company concerned assuming maintenance responsibility. In such cases the Company will capitalise the value of the asset at its fair value, being its current replacement cost and treat the difference between the actual cost to the Company and the fair value as income.

### *1.9 Taxation*

(i) Current tax
Current tax is based on the net profit for the period adjusted for non deductible expenditure and non assessable income. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for the current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(ii) Deferred tax
Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences between the carrying values of the assets and liabilities in the consolidated financial statements and the corresponding tax bases of those items.

In principle deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

A deferred tax liability is not recognised in relation to any taxable temporary differences arising from goodwill or in relation to temporary differences arising from the initial recognition of assets or liabilities which affect neither taxable income or accounting profit. Similarly deferred tax liabilities are not recognised where temporary differences arise on acquisition of subsidiaries, associates and joint ventures where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets or liabilities giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects at the reporting date to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company or Group intends to settle its current tax assets and liabilities on a net basis.

No other assets and liabilities have been offset unless this is specifically permitted by accounting standards.

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



## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

### *1.10 Inventories and work in progress*

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 Groups 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 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: Agriculture and are accounted for under NZ IAS 2: Inventories, as inventories.

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.

### *1.11 Plant, property and equipment and depreciation*

Land, buildings and vineyard developments are measured at fair value. Fair value is determined on the basis of a periodic independent valuation prepared by external valuers, and based on the comparable sales method.

The electricity distribution network is measured at fair value. Fair value is determined on the basis of a periodic independent valuation prepared by external valuers based on the discounted cash flow methodology. The fair values are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings and electricity distribution network are not materially different from their fair values.

Bearer plants are measured at cost less accumulated depreciation and impairment losses. Grapes are transferred to inventory at fair value at the date of harvest.

Any revaluation increase arising on the revaluation of property, plant and equipment is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit and loss, in which case the increase is credited to the Statement of Comprehensive Income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of 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.

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

Depreciation is calculated on a straight line basis for buildings and electricity distribution assets so as to write off the cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Plant and equipment items are depreciated on a diminishing value basis so as to expense the cost of the assets over their useful lives.

The following estimated useful lives are used in the calculation of depreciation rates:

| Category | | |
|---|---|---|
| Buildings | Straight line over | 40 to 70 years |
| Electricity 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.

### *1.12 Investment property*

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

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn

## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

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

### *1.13 Impairment of assets*

The Group reviews the carrying value of its tangible assets (primarily the electricity distribution network and investments) at balance date to determine whether there is any indication that the assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

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

Goodwill and other intangible assets are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment to goodwill is not subsequently reversed.

The recoverable amount is the higher of fair value less the costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, then the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in profit and loss immediately unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease. A reversal of an impairment loss is recognised in profit and loss, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

### *1.14 Intangible assets*

(i) Goodwill
Goodwill representing the excess of the cost of acquisition over the fair value of identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in profit or loss and not subsequently reversed.

(ii) Software
Computer software is capitalised as an intangible asset on the basis of the costs incurred to acquire and bring the software into service and it is amortised over its expected useful economic life. Costs associated with developing and maintaining computer software programmes are recognised as expenses as incurred. Software has a finite life and is amortised over the period of its life (five to eight years).

(iii) Easements
Easements obtained in relation to access, construction and maintenance of electricity distribution system assets are capitalised as intangible assets to the extent of survey, legal and registration costs and any lump sum payments made to landowners in exchange for certain rights. Such easements capitalised represent a right in perpetuity, are considered to have an indefinite life and are not depreciated.

(iv) Trademarks
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 ten years.

### *1.15 Employee benefits*

Provision is made for employee entitlements accruing in relation to wages and salaries, annual leave, long service leave, retiring gratuities and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Employee benefits expected to be settled within the next 12 months are measured at the amounts expected to be paid when the obligations are settled. Provisions made in relation to employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees to the Group up to reporting date. In relation to retirement gratuities the present value calculations also provide for the probability of the employees completing employment to the point of entitlement (retirement).

Contributions to defined contribution superannuation schemes are expensed when incurred.

### *1.16 Financial instruments issued by the Group*

Debt and equity instruments are classified as either liabilities or equity in accordance with the substance of the contractual arrangement.

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

Financial instruments are not offset unless there is a legally enforceable right to offset.



## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

### *1.17 Financial assets*

(i) Investments
Investments in subsidiaries and associates are recognised at cost less impairment in the Parent Company accounts. Investments in associates are accounted for in the Group financial statements using the equity method.

(ii) Financial assets at Fair Value Through the Profit and Loss (FVTPL)
The Group has certain derivatives which are classified as current assets or current liabilities and recorded at fair value. Any resulting gain or loss is recognised in the Statement of Comprehensive Income.

(iii) Loans and receivables
Accounts receivable are valued at amortised cost less impairment. All known bad debts have been written off during the period under review. Intergroup balances due from associates and subsidiaries are stated at amortised cost less impairment.

(iv) Available for sale
These are non derivative financial assets that are designated as available for sale or not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. Such financial instruments are recognised initially at cost, including related acquisition costs and are revalued to their fair value at reporting date. Any revaluation movements are recognised in other comprehensive income.

### *1.18 Financial liabilities*

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

(ii) Borrowings
Borrowings are recorded initially at fair value plus any transaction costs. Borrowings are subsequently recognised at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method. Borrowings are classified as non-current liabilities where the Group holds an agreement with the lender which includes the right to settle the liability in an accounting period at least 12 months after the balance date.

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

### *1.19 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.

### *1.20 Foreign currency transactions*

For the purposes of presenting consolidated financial statements, assets and liabilities held in foreign currencies 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 Foreign Currency Translation Reserve (FCTR).

### *1.21 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.

### *1.22 Finance leases*

Leases are classified as finance leases whenever the terms of the lease transfers substantially all the risks and rewards

**Notes to the financial statements (continued)**

For the 15 month period ended 30 June 2016

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.

### *1.23 Provisions*

A provision 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 liability.

### *1.24 Contingent liabilities*

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.

### *1.25 Cash flows and definitions*

Cash and cash equivalents comprise of cash on hand and demand deposits and other short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Operating activities are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the Group.

### *1.26 Comparative figures*

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

The comparative 12 month period does not include any results of Yealands Wine Group Limited.

### *1.27 Adjustment to prior year presentation*

The Statement of Comprehensive Income in the prior year has been amended for the omission of an equity adjustment of $6.4 million associated with the sale of the OtagoNet joint venture, affecting Other Comprehensive Income. This was correctly accounted for and disclosed in the Statement of Changes in Equity and Statement of Financial Position. The omission is presentation only and has no effect on reported profit after tax or any balance sheet amount.

### *1.28 Changes in accounting policies*

There are no changes to significant accounting policies.

### *1.29 Application of new and revised International Financial Reporting Standards (IFRSS)*

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

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

The following standards and interpretations which are considered relevant to the Group but not yet effective for the period ended 30 June 2016 have not been applied in preparing the financial statements:

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

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

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

NZ IFRS 15, Revenue from Contracts with Customers
This standard was issued in May 2014, and will replace all existing guidance for revenue recognition, including IAS 11, Construction Contracts and IAS 18, Revenue. The effective date is annual periods beginning on or after 1 January 2017. The Company has not yet fully evaluated the impact this standard will have on the Group's financial statements and intends to adopt NZ IFRS 15 no later than 1 July 2017.



**Notes to the financial statements (continued)**

For the 15 month period ended 30 June 2016

NZ IFRS 16 Leases
NZ IFRS 16 creates a single lease accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Previously, lessees in operating lease arrangements did not have to recognise assets and liabilities arising from operating leases. NZ IFRS 16, when applied, will supersede the following reporting standards:

- NZ IAS 17 Leases
- NZ IFRIC 4 Determining whether an arrangement contains a lease
- NZ SIC-15 Operating leases – Incentives
- NZ SIC-27 Evaluating the substance of transactions involving the legal form of a lease.

The effective date is annual periods beginning on or after 1 January 2019. The Company is yet to assess NZ IFRS 16's full impact and intends to adopt NZ IFRS 16 no later than 1 July 2019.

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.

## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

### 2 Revenue

| | Group 15 Months to 30 June 2016 $000 | Group Year to 31 March 2015 $000 | Parent 15 Months to 30 June 2016 $000 | Parent Year to 31 March 2015 $000 |
|---|---|---|---|---|
| Electricity Network Revenue | 53,864 | 42,636 | 53,864 | 42,636 |
| Wine Sales | 95,245 | – | – | – |
| External Contracting Revenue | 4,532 | 3,709 | 4,532 | 3,709 |
| Vested Assets | 1,035 | 1,086 | 1,035 | 1,086 |
| Transmission Loss Rental Rebates | 518 | 274 | 518 | 274 |
| Property Rentals: | | | | |
| Investment Properties | 68 | 53 | 68 | 53 |
| Other Properties | 48 | 45 | 48 | 45 |
| Capital Contributions | 71 | 145 | 71 | 145 |
| Miscellaneous Income | 2,374 | 1,102 | 1,041 | 1,102 |
| Operating Revenue – Related Parties | – | 2,549 | – | – |
| Dividends: | | | | |
| Subsidiaries | – | – | 4,400 | 85,611 |
| Equity Accounted Associates | 840 | 3,319 | 840 | 1,000 |
| Others | 278 | 521 | 278 | 521 |
| Operating Revenue | 158,873 | 55,439 | 66,695 | 136,182 |



## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

### 3 Expenditure

Profit before taxation has been arrived at after charging:

| | Group 15 Months to 30 June 2016 $000 | Group Year to 31 March 2015 $000 | Parent 15 Months to 30 June 2016 $000 | Parent Year to 31 March 2015 $000 |
|---|---|---|---|---|
| Remuneration of Auditors: | | | | |
| Audit of the Financial Statements | 139 | 75 | 76 | 75 |
| Other Audit and Assurance Related Services Provided by the Principal Auditor relating to the audit of the Commerce Commission Information Disclosure | 39 | 35 | 39 | 35 |
| Directors' Fees | 581 | 229 | 326 | 229 |
| Bad Debts Written Off (Recovered) | 61 | (6) | 61 | (6) |
| Employee Benefits: | | | | |
| Retirement Gratuities | 115 | 104 | 58 | 104 |
| Employer Superannuation Contributions (Defined Contribution Schemes) | 767 | 229 | 326 | 229 |
| Donations (Educational Grants) | 28 | 26 | 28 | 26 |
| Loss on Disposal of Plant, Property and Equipment | 299 | 575 | 214 | 575 |
| Rental and Operating Lease Expenses | 887 | 60 | 33 | 60 |
| Wine Cost of Sales | 66,960 | – | – | – |
| Wine Distribution and Selling Expenses | 16,586 | – | – | – |
| Other Operating and Administrative Expenses | 37,892 | 24,354 | 33,034 | 24,354 |
| | 124,354 | 25,681 | 34,195 | 25,681 |

Wine Cost of Sales in the current year is affected by acquisition accounting requirements, with Inventory written up to fair value at the time of acquisition.

## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

### 4 Net financing income

| | Group 15 Months to 30 June 2016 $000 | Group Year to 31 March 2015 $000 | Parent 15 Months to 30 June 2016 $000 | Parent Year to 31 March 2015 $000 |
|---|---|---|---|---|
| **Financial Income** | | | | |
| Interest Income: | | | | |
| Bank Deposits | 2,676 | 2,831 | 2,604 | 2,831 |
| Related Parties | – | – | – | 2,549 |
| Unrealised foreign exchange gain | 1,672 | – | – | – |
| Total Finance Income | 4,348 | 2,831 | 2,604 | 5,380 |
| **Financial expenses** | | | | |
| Interest Cost: | | | | |
| Term borrowings | 3,965 | 994 | – | 994 |
| Other | 104 | 117 | 104 | 117 |
| Unrealised interest rate swap loss | 4,286 | – | – | – |
| Total Finance Expenses | 8,355 | 1,111 | 104 | 1,111 |
| **Gains/(Losses) on financial instruments** | | | | |
| Realised foreign exchange gain | 675 | – | – | – |
| Total gains/(losses) on financial instruments | 675 | – | – | – |

### 5 Taxation

#### *5.1 Income taxes relating to continuing operations*

| | Group 15 Months to 30 June 2016 $000 | Group Year to 31 March 2015 $000 | Parent 15 Months to 30 June 2016 $000 | Parent Year to 31 March 2015 $000 |
|---|---|---|---|---|
| Tax Expense comprises: | | | | |
| Current Tax Expense/(Income) | 3,548 | 15,957 | 2,317 | 3,149 |
| Deferred Tax Expense Relating to the Origination and Reversal of Temporary Differences | (1,025) | (1,417) | 93 | (71) |
| **Total Tax Expense** | 2,523 | 14,540 | 2,410 | 3,078 |

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 | 39,129 | 84,399 | 12,963 | 97,918 |
| Prima Facie Income Tax Calculated at 28% | 10,956 | 23,632 | 3,630 | 27,417 |
| Plus/(Less) Taxation Adjustments: | | | | |
| Exempt Dividends | – | – | (1,232) | (23,971) |
| Non Deductible Expenses and Deferred Revenue | (7,730) | 158 | 682 | 58 |
| Net Benefit of Imputation Credits | (435) | (1,075) | (435) | (426) |
| Equity Accounted Earnings of Associates | (33) | (7) | – | – |
| Net Investment Realisation | (235) | (8,168) | (235) | – |
| Income Tax Expense Recognised in the Statement of Comprehensive Income | 2,523 | 14,540 | 2,410 | 3,078 |



## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

#### *5.2 Deferred taxation*

| Consolidated Group for the 15 Months ended 30 June 2016 | Opening Balance $000 | Charged to Income $000 | Charged to Equity $000 | Acquired on Acquisition $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 |

| Consolidated Group for the year ended 31 March 2015 | | | | | |
|---|---|---|---|---|---|
| **Deferred Tax Liabilities** | | | | | |
| Plant, Property and Equipment | 51,669 | (1,335) | (6,446) | – | 43,888 |
| **Deferred Tax Assets** | | | | | |
| Provisions for Employee Entitlements, Retirement Obligations and Doubtful Debts | (377) | (44) | – | – | (421) |
| Doubtful Debts and Impairment Losses | (14) | 1 | – | – | (13) |
| | (391) | (43) | – | – | (434) |
| Net Deferred Tax Liability | 51,278 | (1,378) | (6,446) | – | 43,454 |

| Parent Company for the 15 Months ended 30 June 2016 | Opening Balance $000 | Charged to Income $000 | Charged to Equity $000 | Other $000 | Closing Balance $000 |
|---|---|---|---|---|---|
| **Deferred Tax Liabilities** | | | | | |
| Plant, Property and Equipment | 43,888 | 106 | – | – | 43,994 |
| **Deferred Tax Assets** | | | | | |
| Provisions | (421) | (1) | – | – | (422) |
| Doubtful Debts and Impairment Losses | (13) | (12) | – | – | (25) |
| | (434) | (13) | – | – | (447) |
| Net Deferred Tax Liability | 43,454 | 93 | – | – | 43,547 |

| Parent Company for the year ended 31 March 2015 | | | | | |
|---|---|---|---|---|---|
| **Deferred Tax Liabilities** | | | | | |
| Plant, Property and Equipment | 43,916 | (28) | – | – | 43,888 |
| **Deferred Tax Assets** | | | | | |
| Provisions | (377) | (44) | – | – | (421) |
| Doubtful Debts and Impairment Losses | (14) | 1 | – | – | (13) |
| | (391) | (43) | – | – | (434) |
| Net Deferred Tax Liability | 43,525 | (71) | – | – | 43,454 |

## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

### *5.3 Imputation credit memorandum account*

| | Group 15 Months to 30 June 2016 $000 | Group Year to 31 March 2015 $000 | Parent 15 Months to 30 June 2016 $000 | Parent Year to 31 March 2015 $000 |
|---|---|---|---|---|
| Balance at Beginning of Period | 53,931 | 37,216 | 51,399 | 35,586 |
| Attached to Dividends Paid in the Period | (1,666) | (694) | (1,666) | (694) |
| Attached to Dividends Received | 2,146 | 1,493 | 2,145 | 591 |
| Tax Refund/Transfer | 1 | (8) | 1 | (8) |
| Income Tax Payments During the Period | 3,270 | 15,924 | 3,270 | 15,924 |
| Balance at End of Period | 57,682 | 53,931 | 55,149 | 51,399 |

## 6 Share capital

### *6.1 Shareholding*

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.

### *6.2 Share capital*

| | Group 30 June 2016 $000 | Group 31 March 2015 $000 | Parent 30 June 2016 $000 | Parent 31 March 2015 $000 |
|---|---|---|---|---|
| 28 million Ordinary Shares | 29,026 | 29,026 | 29,026 | 29,026 |

## 7 Retained earnings/revaluation reserves

### *7.1 Retained earnings*

| | Group 15 Months to 30 June 2016 $000 | Group Year to 31 March 2015 $000 | Parent 15 Months to 30 June 2016 $000 | Parent Year to 31 March 2015 $000 |
|---|---|---|---|---|
| Retained Earnings Balance at Beginning of Period | 260,575 | 172,515 | 260,785 | 167,730 |
| Net Profit for the Period | 30,539 | 69,859 | 10,553 | 94,840 |
| Transfer from Properties Revaluation Reserve | – | 19,986 | – | – |
| Dividends | (4,285) | (1,785) | (4,285) | (1,785) |
| Retained Earnings Balance at End of Period | 286,829 | 260,575 | 267,053 | 260,785 |



## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

### *7.2 Revaluation reserves (net of income tax)*

| | Group 15 Months to 30 June 2016 $000 | Group Year to 31 March 2015 $000 | Parent 15 Months to 30 June 2016 $000 | Parent Year to 31 March 2015 $000 |
|---|---|---|---|---|
| Properties Revaluation | 42,789 | 42,789 | 39,335 | 39,335 |
| Investments Revaluation | – | 838 | – | 838 |
| Reserves Balance at End of Period | 42,789 | 43,627 | 39,335 | 40,173 |
| **Properties Revaluation Reserve** | | | | |
| Balance at the Beginning of the Period | 42,789 | 56,329 | 39,335 | 39,335 |
| Decrease Due to the Disposal of Associate | – | (19,986) | – | – |
| Reversal of Deferred Tax on Disposal of Associate | – | 6,446 | – | – |
| Balance at End of Period | 42,789 | 42,789 | 39,335 | 39,335 |

The properties revaluation reserve arises on revaluation of land and buildings and reticulation system assets to fair value.

When these assets are sold, the portion of the properties revaluation reserve that relates to that asset is transferred directly to retained earnings.

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

| | | | | |
|---|---|---|---|---|
| Land and Buildings | 3,696 | 3,696 | 3,696 | 3,696 |
| Reticulation System Assets | 35,858 | 35,858 | 35,639 | 35,639 |
| Associate Entities | 3,235 | 3,235 | – | – |
| Total | 42,789 | 42,789 | 39,335 | 39,335 |

| | | | | |
|---|---|---|---|---|
| **Investments Revaluation Reserve** | | | | |
| Balance at the Beginning of the Period | 838 | – | 838 | – |
| Net Gain Arising on Revaluation of Available-For-Sale Financial Assets | – | 838 | – | 838 |
| Reclassified to profit and loss on disposal | (838) | – | (838) | – |
| Balance at end of Period | – | 838 | – | 838 |

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

### *7.3 Foreign currency translation reserve*

| | | | | |
|---|---|---|---|---|
| Balance at the Beginning of the Period | – | – | – | – |
| Movement for the period | (68) | – | – | – |
| Balance at end of Period | (68) | – | – | – |

## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

### 8 Non-controlling interests

| | Group 2016 $000 | Group 2015 $000 |
|---|---|---|
| Balance at the beginning of the Period | – | – |
| Non-controlling interest arising on acquisition of Yealands Wine Group Limited | 22,300 | – |
| Share of profit for the period | 6,067 | – |
| Share of other comprehensive income | – | – |
| Less share of dividends received | (1,100) | – |
| Balance at the end of the period | 27,267 | – |

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 17). The non-controlling interest has been attributed with 20% of the discount on acquisition. Yealands Wine Group Limited declared a dividend of $5.5 million on 30 June 2016, of which 80% was received by Seaview Capital Limited on 1 July 2016.

### 9 Trade and other receivables

| | Note | Group 30 June 2016 $000 | Group 31 March 2015 $000 | Parent 30 June 2016 $000 | Parent 31 March 2015 $000 |
|---|---|---|---|---|---|
| The balance of Accounts Receivable comprises: | | | | | |
| Trade Debtors | | 24,176 | 4,491 | 5,235 | 4,491 |
| GST Receivable | | 549 | 1,071 | – | 1,071 |
| Dividend Receivable | | – | – | 4,400 | – |
| Retailer Prudential Security held in Trust | | 392 | 379 | 392 | 379 |
| Accrued Income | | 633 | – | – | – |
| Prepayments | | 2,724 | – | – | – |
| Related party advances | 21 | 12 | – | – | – |
| Allowance for Impairment of Accounts Receivable | | (87) | (45) | (87) | (45) |
| Total | | 28,399 | 5,896 | 9,940 | 5,896 |

Included in the Company's trade receivables balance are debtors with a carrying value of $145,031 (2015: $63,439) which are past due at reporting date. The Company has provided for $86,942 (2015: $45,052) of this balance through the allowance for impairment in the table above. The remaining amount has not been provided for as there has been no significant change in the credit quality and the amounts are considered recoverable.



## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

### 10 Inventories and work in progress

| | Group 30 June 2016 $000 | Group 31 March 2015 $000 | Parent 30 June 2016 $000 | Parent 31 March 2015 $000 |
|---|---|---|---|---|
| Electricity Reticulation Stock | 3,909 | 4,552 | 3,909 | 4,552 |
| Bulk Wine | 69,247 | – | – | – |
| Bottled Wine | 10,330 | – | – | – |
| Packaging and Labels | 485 | – | – | – |
| Work in Progress (Next vintage) | 2,867 | – | – | – |
| Total | 86,838 | 4,552 | 3,909 | 4,552 |

As at 30 June 2016 some assets of Yealands Wine Group Limited are subject to a registered general security agreement to secure bank loans (see Note 13).

Prior to harvest, the cost of agricultural activities are included in inventory. Upon harvest, the Group is required to value agricultural produce at fair value in line with NZ IAS 41: Agriculture.

### 11 Trade and other payables

| | Group 30 June 2016 $000 | Group 31 March 2015 $000 | Parent 30 June 2016 $000 | Parent 31 March 2015 $000 |
|---|---|---|---|---|
| In current liabilities the balance of Trade and Other Payables comprises: | | | | |
| Trade Creditors | 17,718 | 3,658 | 3,915 | 7,927 |
| Dividend Payable | 1,100 | – | – | – |
| Provision for Discount | 3,335 | – | 3,335 | – |
| GST Payable | 410 | – | 410 | – |
| Retailer Prudential Security Held in Trust | 392 | 379 | 392 | 379 |
| Customer Work in Progress | – | 172 | – | 172 |
| Deferred Revenue | 270 | – | – | – |
| Total | 23,225 | 4,209 | 8,052 | 8,478 |

### 12 Employee entitlements

| | Group 30 June 2016 $000 | Group 31 March 2015 $000 | Parent 30 June 2016 $000 | Parent 31 March 2015 $000 |
|---|---|---|---|---|
| Employee Entitlements | 2,633 | 960 | 942 | 960 |
| Total | 2,633 | 960 | 942 | 960 |

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

## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

### 13 Term borrowings

| | Group 30 June 2016 $000 | Group 31 March 2015 $000 | Parent 30 June 2016 $000 | Parent 31 March 2015 $000 |
|---|---|---|---|---|
| Current | 9,250 | – | – | – |
| Non-current | 75,000 | – | – | – |
| **Total** | 84,250 | – | – | – |

Terms and repayments schedule
The terms and conditions of outstanding facilities were as follows:

| Lender | Nominal Interest Rate | Year of Maturity | Currency | Face Value $000 | Carrying Amount $000 |
|---|---|---|---|---|---|
| ASB Bank Limited | 3.16% | 2017 | NZD | 9,250 | 9,250 |
| ASB Bank Limited | 3.49% | 2018 | NZD | 10,000 | 10,000 |
| ASB Bank Limited | 3.69% | 2020 | NZD | 20,000 | 20,000 |
| ASB Bank Limited | 3.84% | 2022 | NZD | 45,000 | 45,000 |
| **Total interest-bearing liabilities** | | | | 84,250 | 84,250 |

The $9.25 million relates to a Working Capital Facility. The remaining ASB Bank Limited term facilities range in remaining terms from 2 years through to 6 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 the Parent in relation to these term facilities.

### 14 Other non-current liabilities – Retirement benefit obligations

The Company makes provision for the payment of retirement gratuities to staff who were employed by Marlborough Lines Limited prior to 1992. Calculation of the present value of the provision at the end of each year is undertaken on an actuarial basis.

The discount rate used in the valuation is the 10 year NZ Government bond rate.

| | Group 2016 $000 | Group 2015 $000 | Parent 2016 $000 | Parent 2015 $000 |
|---|---|---|---|---|
| Retirement Benefit Obligations | 568 | 706 | 568 | 706 |



## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

### 15 Plant, property and equipment

#### *15.1 Plant, property and equipment – Consolidated group*

| Group | Vineyard Improvements at Fair Value $000 | Bearer Plants at Cost $000 | Capital Work in Progress at Cost $000 | Land at Fair Value $000 | Buildings at Fair Value $000 | Electricity Reticulation Network at Fair Value $000 | Motor Vehicles, Plant and Equipment at Cost $000 | Total $000 |
|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | | |
| Balance 1 April 2014 | – | – | 1,985 | 8,639 | 20,008 | 362,465 | 15,164 | 408,261 |
| Additions | – | – | 2,294 | – | 212 | 9,641 | 2,840 | 14,987 |
| Disposals | – | – | (1,985) | – | 112 | (2,390) | (497) | (4,760) |
| Balance 31 March 2015 | – | – | 2,294 | 8,639 | 20,332 | 369,716 | 17,507 | 418,488 |
| Acquisition through business combination | 34,141 | 5,401 | – | 35,475 | 13,686 | – | 37,519 | 126,222 |
| Additions | 1,182 | – | 5,225 | 6,194 | 1,631 | 11,589 | 9,473 | 35,294 |
| Disposals | – | – | (2,294) | (231) | (234) | (2,354) | (1,285) | (6,398) |
| Balance 30 June 2016 | 35,324 | 5,401 | 5,225 | 50,076 | 35,415 | 378,951 | 63,214 | 573,606 |
| **Accumulated Depreciation and Impairment** | | | | | | | | |
| Balance 1 April 2014 | – | – | – | – | 7,500 | 161,032 | 10,509 | 179,041 |
| Disposals/Adjustments | – | – | – | – | 5 | (1,695) | (318) | (2,008) |
| Depreciation Expense | – | – | – | – | 310 | 6,791 | 1,379 | 8,480 |
| Balance 31 March 2015 | – | – | – | – | 7,815 | 166,128 | 11,570 | 185,513 |
| Disposals/Adjustments | – | – | – | – | (31) | (1,990) | (1,017) | (3,038) |
| Depreciation Expense | 1,063 | 162 | – | – | 589 | 8,694 | 5,425 | 15,933 |
| Balance 30 June 2016 | 1,063 | 162 | – | – | 8,373 | 172,832 | 15,978 | 198,408 |
| Net Book Value as at 31 March 2015 | – | – | 2,294 | 8,639 | 12,517 | 203,588 | 5,937 | 232,975 |
| Net Book Value as at 30 June 2016 | 34,261 | 5,239 | 5,225 | 50,076 | 27,042 | 206,119 | 47,236 | 375,198 |

Depreciation relating to Yealands Wine Group Limited of $4.3 million has been allocated to the cost of producing the following year's vintage and is included in the cost of bulk wine, bottled wine or work in progress. As at 30 June 2016 some assets of the Consolidated Group were subject to a registered general security agreement to secure bank loans (see Note 13).

## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

### 15.2 Plant, property and equipment – Parent Company

| Parent | Capital Work in Progress at Cost $000 | Land at Fair Value $000 | Buildings at Fair Value $000 | Electricity Reticulation Network at Fair Value $000 | Motor Vehicles, Plant and Equipment at Cost $000 | Total $000 |
|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | |
| Balance 1 April 2014 | 1,985 | 8,639 | 20,008 | 362,032 | 15,164 | 407,828 |
| Additions | 2,294 | – | 212 | 9,641 | 2,840 | 14,987 |
| Disposals/Adjustments | (1,985) | – | 112 | (1,957) | (497) | (4,327) |
| Balance 31 March 2015 | 2,294 | 8,639 | 20,332 | 369,716 | 17,507 | 418,488 |
| Additions | 1,413 | – | 1,302 | 11,589 | 1,481 | 15,785 |
| Disposals/Adjustments | (2,294) | (231) | (234) | (2,354) | (1,005) | (6,118) |
| Balance 30 June 2016 | 1,413 | 8,408 | 21,400 | 378,951 | 17,983 | 428,155 |
| **Accumulated Depreciation and Impairment** | | | | | | |
| Balance 1 April 2014 | – | – | 7,500 | 160,683 | 10,509 | 178,692 |
| Disposals/Adjustments | – | – | 5 | (1,346) | (318) | (1,659) |
| Depreciation Expense | – | – | 310 | 6,791 | 1,379 | 8,480 |
| Balance 31 March 2015 | – | – | 7,815 | 166,128 | 11,570 | 185,513 |
| Disposals/Adjustments | – | – | (31) | (1,990) | (876) | (2,897) |
| Depreciation Expense | – | – | 404 | 8,694 | 2,049 | 11,147 |
| Balance 30 June 2016 | – | – | 8,188 | 172,832 | 12,743 | 193,763 |
| Net Book Value as at 31 March 2015 | 2,294 | 8,639 | 12,517 | 203,588 | 5,937 | 232,975 |
| Net Book Value as at 30 June 2016 | 1,413 | 8,408 | 13,212 | 206,119 | 5,240 | 234,392 |

### 15.3 Plant, property and equipment – Cost model

Carrying amounts of plant, property and equipment (that are fair valued) had they been recognised under the cost model.

| | Group 30 June 2016 $000 | Group 31 March 2015 $000 | Parent 30 June 2016 $000 | Parent 31 March 2015 $000 |
|---|---|---|---|---|
| Vineyard Improvements | 35,324 | – | – | – |
| Land | 45,617 | 3,873 | 3,949 | 3,873 |
| Buildings | 23,010 | 7,989 | 9,180 | 7,989 |
| Electricity Reticulation Network | 62,381 | 59,914 | 62,381 | 59,914 |
| Total | 166,332 | 71,776 | 75,510 | 71,776 |



## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

### 15.4 Electricity Reticulation Network explanatory notes

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 and certified by independent valuers Lynne Taylor and Craig Rice of 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 new regulatory input methodologies. The model forecasts cash flows for a ten year period, and derives a terminal value for the cash flows beyond the ten year forecast. The resulting valuation has been expressed as a range based on the discount rate, and sensitivity analysis was conducted on the key input assumptions to test their impact on value.

| Key assumptions made are: | Sensitivity |
|---|---|
| • Capital expenditure that is necessary to maintain existing network capability<br>• Operating expenditure consistent with the current AMP, subject to some small efficiencies in vegetation management<br>• Real price growth of 0% per annum post 1 April 2017<br>• Cash flows are pre-discount<br>• Average growth in the number of consumers of 0.3% per annum<br>• Average volume per ICP growth of 0.0%<br>• 6.0% and 6.5% discount rates which derive the range of our valuations<br>• RAB multiple range to determine the terminal value of 1.0 to 1.05 | • Valuation is sensitive to changes in the discount rate. A change in the discount rate of 0.5% will have a 4.1% change in the value of the network assets<br>• The valuation is also sensitive to distribution revenue assumptions with a 5% change resulting in a 6.8% change to value<br>• The valuation is moderately sensitive to operating cost assumptions with a: 5% movement in operating costs resulting in a 1.8% change to value<br>• The valuation is sensitive to the RAB multiple assumption with a RAB multiple increase of 0.05 resulting in a 3.7% change to value |

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

Regulatory valuation – Modified optimised deprival valuation

The regulatory values of assets used to supply electricity lines services for the Parent Company is $221.2 million as at disclosure year end 31 March 2016. The latest equivalent value for the Nelson Electricity Limited Network System assets (50% owned by the Marlborough Lines Group) is $41.1 million as at 31 March 2016.

### 15.5 Land and buildings explanatory notes

Land and buildings (not including reticulation system assets) 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.

### 15.6 Plant, property and equipment explanatory notes

The Group's plant and equipment assets are recorded at cost less depreciation. The Company's Directors are of the view that there is no significant impairment in value existing in relation to the carrying values both at the recognition date for NZ IFRS purposes (1 April 2006) and at subsequent balance dates following the addition of new purchases at cost, annual depreciation charges and disposals in the usual course of business.

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

### 15.7 Fair value measurement of the Group's land, buildings, network assets and vineyard improvements

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

Details of the Group's freehold land, buildings and network assets and information about the fair value hierarchy as at 31 March 2015 and 2016 are as follows:

## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

| | Fair value category | Fair value as at 2016 | Fair value as at 2015 |
|---|---|---|---|
| Vineyard Improvements | Level 3 | 34,261 | – |
| Land | Level 3 | 50,076 | 8,639 |
| Buildings | Level 3 | 27,042 | 12,517 |
| Electricity Reticulation Network | Level 3 | 206,119 | 203,588 |

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.

Unobservable inputs are those for which market data is not readily available. Instead, they are developed using the best available assumptions that would be used for the purposes of pricing the asset or liability and are described in Note 15. 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. Changes from March 2015 to June 2016 are solely related to additions/acquisition.

### 16 Intangible assets

#### *16.1 Intangible assets – Consolidated Group*

| | Trademarks $000 | Software $000 | Easements $000 | Total $000 |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 1 April 2014 | – | 3,031 | 1,237 | 4,268 |
| Additions | – | 351 | 103 | 454 |
| Disposals/Adjustments | – | (2) | – | (2) |
| Balance at 31 March 2015 | – | 3,380 | 1,340 | 4,720 |
| Acquisition through business combination | 421 | 31 | – | 452 |
| Additions | 94 | 1,137 | 75 | 1,306 |
| Disposals | – | – | – | – |
| Balance at 30 June 2016 | 515 | 4,548 | 1,415 | 6,478 |
| **Accumulated Amortisation and Impairment** | | | | |
| Balance at 1 April 2014 | – | 2,623 | – | 2,623 |
| Amortisation Expense | – | 294 | – | 294 |
| Disposals | – | (3) | – | (3) |
| Balance at 31 March 2015 | – | 2,914 | – | 2,914 |
| Acquisition through business combination | – | – | – | – |
| Amortisation Expense | 68 | 662 | – | 730 |
| Disposals/Adjustments | – | – | – | – |
| Balance at 30 June 2016 | 68 | 3,576 | – | 3,644 |
| Net Book Value as at 31 March 2015 | – | 466 | 1,340 | 1,806 |
| Net Book Value as at 30 June 2016 | 447 | 972 | 1,415 | 2,834 |

As at 30 June 2016 some assets of the Consolidated Group are subject to a registered debenture to secure bank loans (see Note 13).



## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

#### *16.2 Intangible assets – Parent Company*

| | Software $000 | Easements $000 | Total $000 |
|---|---|---|---|
| **Cost** | | | |
| Balance at 1 April 2014 | 3,031 | 1,237 | 4,268 |
| Additions | 351 | 103 | 454 |
| Disposals/Adjustments | (2) | – | (2) |
| Balance at 31 March 2015 | 3,380 | 1,340 | 4,720 |
| Additions | 1,127 | 75 | 1,202 |
| Disposals | – | – | – |
| Balance at 30 June 2016 | 4,507 | 1,415 | 5,922 |
| **Accumulated Amortisation and Impairment** | | | |
| Balance at 1 April 2014 | 2,623 | – | 2,623 |
| Amortisation Expense | 294 | – | 294 |
| Disposals | (3) | – | (3) |
| Balance at 31 March 2015 | 2,914 | – | 2,914 |
| Amortisation Expense | 644 | – | 644 |
| Disposals/Adjustments | – | – | – |
| Balance at 30 June 2016 | 3,558 | – | 3,558 |
| Net Book Value as at 31 March 2015 | 466 | 1,340 | 1,806 |
| Net Book Value as at 30 June 2016 | 949 | 1,415 | 2,364 |

### 17 Business combinations

#### *17.1 Subsidiaries 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.

## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

### *17.2 Purchase price apportionment*

Acquisition related costs of $1,785,000 have been excluded from the consideration transferred and have been recognised as an expense in the Statement of Comprehensive Income in the current year, within the 'operating expenses' line item.

| | Group 2016 $000 |
|---|---|
| **Assets and liabilities recognised at the date of acquisition** | |
| **Assets acquired:** | |
| Cash and cash equivalents | 7,024 |
| Trade and other receivables | 27,400 |
| Inventory | 85,298 |
| Other assets | 340 |
| Intangible assets | 452 |
| Property, plant and equipment | 126,222 |
| **Liabilities acquired:** | |
| Deferred Tax Liability | (6,179) |
| Trade and other payables | (17,430) |
| Derivatives | (1,695) |
| Bank loans | (75,000) |
| 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 |

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 Combinations, 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.

The consolidated statement of comprehensive income includes $95.2 million of revenue and $1.0 million of profit in the current period related to Yealands Wine Group Limited, excluding the discount on acquisition. This result was impacted by the fair-valuing of wine inventory on acquisition.

### *17.3 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.



## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

### 18 Investments in subsidiaries and associates

### *18.1 Group Entities*

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

| | Note | Effective Ownership 30 June 2016 | Effective Ownership 31 March 2015 | Year End |
|---|---|---|---|---|
| **Investment held by Marlborough Lines Limited** | | | | |
| Nelson Electricity Limited (Associate) | | 50% | 50% | 31 March |
| Seaview Capital Limited | | 100% | 0% | 30 June |
| Southern Lines Limited | | 100% | 100% | 30 June |
| Valhalla Properties Limited | Dormant | 100% | 100% | 31 March |
| Verne 35 Limited | Dormant | 100% | 100% | 31 March |
| **Investment held by subsidiary of Marlborough Lines Limited** | | | | |
| Yealands Wine Group Limited | | 80% | 0% | 30 June |
| Yealands Estate Limited | | 80% | 0% | 30 June |
| Yealands Estate Wines Limited | | 80% | 0% | 30 June |
| Yealands Estate Wines (Australia) Limited | | 80% | 0% | 30 June |
| Yealands Estate Wines (USA) Limited | | 80% | 0% | 30 June |
| Yealands Estate Wines (USA) LLC | | 80% | 0% | 30 June |
| Yealands Estate Wines (UK) Limited | | 80% | 0% | 30 June |

All shares in the Parent Company entity Marlborough Lines Limited are held by the Trustees of the Marlborough Electric Power Trust.

On 1 June 2016 Yealands Wine Group Limited was amalgamated with Yealands Wine Group Holdings Limited (formerly Falcon Group Holdings Limited). Yealands Wine Group Holdings Limited was the surviving entity and was subsequently renamed to Yealands Wine Group Limited on 2 June 2016. Yealands Wine Group Limited is the Parent entity of the six companies listed below it.

### *18.2 Marlborough Lines investments*

In subsidiaries

| | Parent 2016 $000 | Parent 2015 $000 |
|---|---|---|
| Investment in Seaview Capital Limited | 89,200 | – |
| Investment in Southern Lines Limited | 5,000 | 5,000 |
| Total Investments in Subsidiaries | 94,200 | 5,000 |

In associate entities

| | | 30 June 2016 % Interest Held | 31 March 2015 % Interest Held |
|---|---|---|---|
| Name of Entity | Nelson Electricity Limited | 50 | 50 |
| Principal Activity | Electricity Network Operator | | |
| Balance Date | 31 March | | |
| Acquisition Date | 19 June 1996 | | |

## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

### *18.3 Results of the Group's associate entities*

A summary of Nelson Electricity Limited's results is as follows:

| | Group 31 March 2016 $000 | Group 31 March 2015 $000 (Restated) |
|---|---|---|
| Assets as at 31 March | 44,278 | 45,575 |
| Liabilities as at 31 March | 16,670 | 18,202 |
| Revenue for Year Ended 31 March | 10,360 | 10,693 |
| Net Profit After Tax | 1,915 | 1,767 |
| **The Group share of the results of its associate entities is as follows:** | | |
| Share of Surpluses Before Tax | 1,360 | 4,705 |
| Less Taxation | (402) | (541) |
| Less Dividends/Distributions Received | (840) | (5,843) |
| (Loss)/Gain Attributable to Associate Entities | 118 | (1,679) |

The Balance Sheet of Nelson Electricity Limited was restated upon transition to NZ IFRS Reduced Disclosure Regime (RDR). The transition to NZ IFRS RDR was accounted for in accordance with NZ IFRS 1 First Time Adoption to New Zealand Equivalents to International Financial Reporting Standards, with 1 April 2014 as the date of transition.

### *18.4 Interest in associate entities (Nelson Electricity Limited)*

| | Group 2016 $000 | Group 2015 $000 | Parent 2016 $000 | Parent 2015 $000 |
|---|---|---|---|---|
| Investment in Shares | 12,950 | 12,950 | 12,950 | 12,950 |
| Less Share Repurchase (2001) | (2,500) | (2,500) | (2,500) | (2,500) |
| Plus Share of Associate Revaluation | 3,674 | 3,673 | – | – |
| Less Share of Post Acquisition Results | (312) | (429) | – | – |
| Interest in Associate Entity (Excluding Goodwill) | 13,812 | 13,694 | 10,450 | 10,450 |
| Current Balance Associate Goodwill | 1,220 | 1,220 | 1,220 | 1,220 |
| Total Interest in Associate Entities (Including Goodwill) | 15,032 | 14,914 | 11,670 | 11,670 |

### *18.5 Change in the Group's ownership interest in an associate*

The Group held a 51% interest in the OtagoNet Joint Venture and Otago Power Services Limited and accounted for the investments as an associate. In September 2014, the Group disposed of this interest to a third party for proceeds of $148 million (received in September 2014).

This transaction has resulted in the recognition of a gain in the profit or loss in the prior year, calculated as follows.

| | Group 30 June 2016 $000 | Group 2015 $000 |
|---|---|---|
| Proceeds of disposal | – | 148,000 |
| Less carrying amount of Investment on the date of disposal | – | (76,045) |
| Less costs of disposal | – | (503) |
| Gain recognised | – | 71,452 |



## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

The gain recognised in the prior year comprises a realised profit of $71.955 million (being the proceeds of $148 million less $76.045 million carrying amount of the interest disposed of). A current tax expense of $12.148 million arose on the gain realised in the prior year.

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

| | 2016 $000 | 2015 $000 |
|---|---|---|
| Revenue for Year Ended 31 March | – | 18,222 |
| Net Profit Before Tax | – | 5,466 |
| Share of Profit (51%) | – | 2,788 |

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

| | | |
|---|---|---|
| Revenue for Year Ended 31 March | – | 7,662 |
| Net Profit After Tax | – | 966 |
| Share of Profit (51%) | – | 493 |

## 19 Investment property

| | Group 2016 $000 | Group 2015 $000 | Parent 2016 $000 | Parent 2015 $000 |
|---|---|---|---|---|
| Opening Balance | 2,210 | 2,210 | 2,210 | 2,210 |
| Additions | 440 | – | 440 | – |
| Revaluation Gains/(Losses) | 461 | – | 461 | – |
| Closing Balance | 3,111 | 2,210 | 3,111 | 2,210 |

The Parent Company has two investment properties which are carried at fair value as at 30 June 2016. 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. An increase to the carrying value of $460,527 has been made for 2016. One of these properties is subject to a five year lease at balance date and is expected to generate $52,800 in lease revenue in the 2017 financial year. This is considered to be Level 2 in the fair value hierarchy.

## 20 Investments

Assets classified as held for sale

| **Investment in Horizon Energy Distribution Limited (HEDL)** | Group 2016 $000 | Group 2015 $000 | Parent 2016 $000 | Parent 2015 $000 |
|---|---|---|---|---|
| Opening Balance | 15,312 | 14,474 | 15,312 | 14,474 |
| Disposals | (15,312) | – | (15,312) | – |
| Revaluation Gains/(Losses) | – | 838 | – | 838 |
| Closing Balance | **–** | **15,312** | **–** | **15,312** |

In the prior year Marlborough Lines held 13.89% of the shares in Horizon Energy Distribution Limited which were classified per NZ IFRS 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 prior year. This transaction was settled on 3 July 2015 and the disposal recognised in the period ended 30 June 2016.

## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

### 21 Current provisions

| Provision | Group 2016 $000 | Group 2015 $000 | Parent 2016 $000 | Parent 2015 $000 |
|---|---|---|---|---|
| Allowance for Impairment of Receivables | | | | |
| Opening Balance | 45 | 50 | 45 | 50 |
| Debts Written Off Against Provision | (15) | (2) | (15) | (2) |
| Debts Recovered | (2) | (22) | (2) | (22) |
| Additions to Provision | 59 | 19 | 59 | 19 |
| Closing Balance | 87 | 45 | 87 | 45 |

### 22 Dividends

| | Group 2016 $000 | Group 2015 $000 | Parent 2016 $000 | Parent 2015 $000 |
|---|---|---|---|---|
| Amounts recognised as distributions to equity holders in the period: | | | | |
| Total Dividends ($000) | 4,285 | 1,785 | 4,285 | 1,785 |
| Cents per Share | 15.304 | 6.375 | 15.304 | 6.375 |

### 23 Commitments

#### *23.1 Capital commitments*

| | Group 2016 $000 | Group 2015 $000 | Parent 2016 $000 | Parent 2015 $000 |
|---|---|---|---|---|
| Capital expenditure committed to at Balance Date but not recognised in the financial statements | 5,551 | 695 | 922 | 695 |

#### *23.2 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 3.

Yealands Wine Group Limited has operating lease commitments includes office leases and medium to long term vineyard and land leases, which allow the Group to access prime viticultural land in the Marlborough and Hawke's Bay areas. 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 25 year terms.

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

| | Group 2016 $000 | Group 2015 $000 | Parent 2016 $000 | Parent 2015 $000 |
|---|---|---|---|---|
| No Later than One Year | 765 | 41 | 46 | 41 |
| Later than One Year and no Later than Five Years | 2,161 | 162 | 171 | 162 |
| Later than Five Years | 1,001 | 332 | 316 | 332 |
| | 3,927 | 535 | 533 | 535 |



## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

#### *23.3 Other*

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.

### 24 Contingent assets and liabilities

There were no contingent assets or liabilities at balance date.

### 25 Financial instruments

#### *25.1 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 $25.75 million.

#### *25.2 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.

#### *25.3 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 21.

#### *25.4 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 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.

## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

### 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.

Impact on net surplus:

| Change in interest rate % | Group 2016 $000 | Group 2015 $000 |
|---|---|---|
| 2.0% increase | 534 | – |
| 2.0% decrease | (560) | – |

The Group's sensitivity to interest rates has increased during the year due to an increase in the cash holding and 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.

| | Group 2016 $000 | Group 2015 $000 |
|---|---|---|
| Notional principal of outstanding contracts: | 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.

### *25.5 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.



Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

Foreign currency denominated assets and liabilities at balance date are:

| | Group 2016 $000 | Group 2015 $000 |
|---|---|---|
| Cash and cash equivalents | 185 | – |
| Trade and other receivables | 5,244 | – |
| Trade and other payables | (319) | – |
| | 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.

Impact on net surplus:

| Change in New Zealand dollar against foreign currency | Group 2016 $000 AUD | Group 2016 $000 EUR | Group 2016 $000 USD | Group 2016 $000 Other |
|---|---|---|---|---|
| 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 | Group 2016 $000 | Group 2015 $000 |
|---|---|---|
| EUR | 14,947 | – |
| USD | 6,759 | – |
| AUD | 3,299 | – |
| Notional principal of outstanding contracts: | 25,005 | – |

### *25.6 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.

## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

| | Group 2016 Less than 1 year $000 | Group 2016 1-2 years $000 | Group 2016 2-5 years $000 | Group 2016 Over 5 years $000 |
|---|---|---|---|---|
| Trade and other payables | 23,225 | – | – | – |
| Interest cost on term debt | 2,105 | 2,807 | 6,642 | 1,723 |
| Finance lease | 462 | 26 | – | – |

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.

| | Group 2016 Less than 6 months $000 | Group 2016 6-12 months $000 | Group 2016 1-2 years $000 | Group 2016 Over 2 years $000 |
|---|---|---|---|---|
| Interest rate swaps – net settled cash outflows | 242 | 484 | 968 | 3,586 |
| Forward exchange contracts – cash outflows | 9,610 | 10,072 | 5,323 | – |

### *25.7 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 2016 $000 | Group 2015 $000 |
|---|---|---|---|
| Derivative financial assets – Current | Level 2 | 2,144 | – |
| Total financial assets | | 2,144 | – |
| Derivative financial liabilities – Current | Level 2 | 4,286 | – |
| Total financial liabilities | | 4,286 | – |



## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

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.

| Change in fair value of financial assets/liabilities | Group 2016 $000 | Group 2015 $000 |
|---|---|---|
| Foreign currency forward contracts | 2,144 | – |
| Interest rate swaps | (4,286) | – |
| | (2,143) | – |

### *25.8 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 6), reserves and retained earnings (Note 7). 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 13. 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.

### *25.9 Classification of financial instruments*

| Consolidated Group as at 30 June 2016 | Available for Sale Financial Assets $000 | Loans and Receivables $000 | Held for Trading (FVTPL) $000 | Other Amortised Cost $000 | Total Carrying Amount $000 |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| **Current Assets** | | | | | |
| Cash and Cash Equivalents | – | 6,998 | – | – | 6,998 |
| Short Term Deposits | – | 28,000 | – | – | 28,000 |
| Trade and Other Receivables | – | 25,126 | – | – | 25,126 |
| Derivatives | – | – | 2,144 | – | 2,144 |
| **Non-Current Assets** | | | | | |
| Investments Accounted for Using the Equity Method | – | – | – | 15,032 | 15,032 |
| Total Financial Assets | – | 60,124 | 2,144 | 15,032 | 77,299 |

## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

| | Held for Trading (FVTPL) $000 | Other Financial Liabilities $000 | Total Carrying Amount $000 |
|---|---|---|---|
| **Financial Liabilities** | | | |
| **Current Liabilities** | | | |
| Trade and Other Payables | – | 22,815 | 22,815 |
| Finance Lease Payable | – | 454 | 454 |
| Derivatives | 4,286 | – | 4,286 |
| Term Borrowings | – | 9,250 | 9,250 |
| **Non-Current Liabilities** | | | |
| Finance Lease Payable | – | 26 | 26 |
| Retirement Benefit Obligations | – | 568 | 568 |
| Term Borrowings | – | 75,000 | 75,000 |
| Total Financial Liabilities | 4,286 | 108,113 | 112,399 |

| Consolidated Group as at 31 March 2015 | Available for Sale Financial Assets $000 | Loans and Receivables $000 | Other $000 | Other Amortised Cost $000 | Total Carrying Amount $000 |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| **Current Assets** | | | | | |
| Cash and Cash Equivalents | – | 2,122 | – | – | 2,122 |
| Short Term Deposits | – | 108,000 | – | – | 108,000 |
| Trade and Other Receivables | – | 4,825 | – | – | 4,825 |
| Investment in Horizon Energy Distribution Limited | 15,312 | – | – | – | 15,312 |
| **Non-Current Assets** | | | | | |
| Investments Accounted for Using the Equity Method | – | – | – | 14,914 | 14,914 |
| Total Financial Assets | 15,312 | 114,947 | – | 14,914 | 145,173 |

| | Held for Trading (FVTPL) $000 | Other Financial Liabilities $000 | Total Carrying Amount $000 |
|---|---|---|---|
| **Financial Liabilities** | | | |
| **Current Liabilities** | | | |
| Trade and Other Payables | – | 4,209 | 4,209 |
| **Non-Current Liabilities** | | | |
| Retirement Benefit Obligations | – | 706 | 706 |
| Total Financial Liabilities | – | 4,915 | 4,915 |

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



## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

| Parent Company as at 30 June 2016 | Available for Sale Financial Assets $000 | Loans and Receivables $000 | Held for Trading (FVTPL) $000 | Other Amortised Cost $000 | Total Carrying Amount $000 |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| **Current Assets** | | | | | |
| Cash and Cash Equivalents | – | 5,513 | – | – | 5,513 |
| Short Term Deposits | – | 28,000 | – | – | 28,000 |
| Trade and Other Receivables | – | 9,940 | – | – | 9,940 |
| Non-Current Assets | | | | | |
| Investment in Subsidiaries | – | – | 94,200 | – | 94,200 |
| Investments Accounted for Using the Equity Method | – | – | 11,670 | – | 11,670 |
| Total Financial Assets | – | 43,453 | 105,870 | – | 149,323 |

| | Held for Trading (FVTPL) $000 | Other Financial Liabilities $000 | Total Carrying Amount $000 |
|---|---|---|---|
| **Financial Liabilities** | | | |
| **Current Liabilities** | | | |
| Trade and Other Payables | – | 7,642 | 7,642 |
| Other Current Financial Liabilities | – | 5,000 | 5,000 |
| **Non-Current Liabilities** | | | |
| Retirement Benefit Obligations | – | 568 | 568 |
| Total Financial Liabilities | – | 13,210 | 13,210 |

| Parent Company as at 31 March 2015 | Available for Sale Financial Assets $000 | Loans and Receivables $000 | Other $000 | Other Amortised Cost $000 | Total Carrying Amount $000 |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| **Current Assets** | | | | | |
| Cash and Cash Equivalents | – | 2,122 | – | – | 2,122 |
| Short Term Deposits | – | 108,000 | – | – | 108,000 |
| Trade and Other Receivables | – | 4,825 | – | – | 4,825 |
| Investment in Horizon Energy Distribution Limited | 15,312 | – | – | – | 15,312 |
| **Non-Current Assets** | | | | | |
| Investment in Subsidiaries | – | – | 5,000 | – | 5,000 |
| Investments Accounted for Using the Equity Method | – | – | 11,670 | – | 11,670 |
| Total Financial Assets | 15,312 | 114,947 | 16,670 | – | 146,929 |

## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

| | Held for Trading (FVTPL) $000 | Other Financial Liabilities $000 | Total Carrying Amount $000 |
|---|---|---|---|
| **Financial Liabilities** | | | |
| Current Liabilities | | | |
| Trade and Other Payables | – | 8,478 | 8,478 |
| Other Current Financial Liabilities | – | 5,000 | 5,000 |
| Non-Current Liabilities | | | |
| Retirement Benefit Obligations | – | 706 | 706 |
| Total Financial Liabilities | – | 14,184 | 14,184 |

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

### 26 Key management personnel

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

| | Group 15 Months to 30 June 2016 $000 | Group Year to 31 March 2015 $000 | Parent 15 Months to 30 June 2016 $000 | Parent Year to 31 March 2015 $000 |
|---|---|---|---|---|
| Directors' Fees | 581 | 229 | 326 | 229 |
| Salaries and Short Term Employee Benefits | 3,552 | 1,838 | 2,169 | 1,838 |
| Termination Benefits Paid | 56 | – | – | – |
| Compensation during the period | 4,189 | 2,067 | 2,495 | 2,067 |

| | Group 30 June 2016 $000 | Group 31 March 2015 $000 | Parent 30 June 2016 $000 | Parent 31 March 2015 $000 |
|---|---|---|---|---|
| Termination Benefits accrued as at balance date | 185 | 188 | 185 | 188 |

### 27 Related parties

#### *27.1 Marlborough Electrical Power Trust*

The Company pays dividends to the Marlborough Electric Power Trust.

The Company contracts to provide information to the Trust to enable trustee elections to be undertaken every two years.

The Company may also make short term advances to the Trust.

| | 2016 15 Months $000 | 2015 12 Months $000 |
|---|---|---|
| Dividends Paid to the Trust | 4,285 | 1,785 |



## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

#### *27.2 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 – 2016** | | | | | |
| Cuddon Limited | Director | 59 | 63 | – | 1 |
| Robinson Construction Limited | Director | – | 416 | – | – |
| Precast Systems Limited | Director | – | 79 | – | 1 |
| Construction Coatings Limited | Director | – | 26 | – | – |
| Scaffold Marlborough Limited | Director | – | 1 | – | – |
| Outer Limits Limited | Director | 133 | – | 11 | – |
| Redwood Developments Limited | Director | 77 | – | – | – |
| Dog Point Vineyard Limited | Director | – | 2 | – | – |
| **Yealands Wine Group Limited Director relationships – 2016** | | | | | |
| Radich Law | Partner | 2 | 592 | – | 46 |
| PJ Radich Family Trust | | – | 585 | – | 293 |
| P.Y.G. Limited | Director | 81 | 1,342 | 12 | 173 |
| Medway Vineyard Limited | Director | – | 4,000 | – | – |
| **Marlborough Lines Limited Director relationships – 2015** | | | | | |
| Cuddon Limited | Director | 2 | 34 | – | 7 |

Directors fees paid to Directors are disclosed in Note 26.

The Directors associated with those related parties listed above (with the exception of Cuddon), were not Directors of the Group in 2015. The amounts included in the disclosure above are inclusive of GST paid (if any).

Robinson Construction Limited (an entity associated with Phil Robinson) provides construction services to Marlborough Lines Limited. 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 $108,935 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. 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 Parent Company and Group did not undertake any other transactions with parties associated with Directors of the Marlborough Lines Limited Group.

#### *27.3 Subsidiary companies – Yealands Wine Group Limited*

| | 2016 15 Months $000 | 2015 12 Months $000 |
|---|---|---|
| Director's Fees Paid to Marlborough Lines Limited for Mr K Forrest | 48 | – |
| Purchases from Yealands Wine Group Limited | 11 | – |
| Electricity assets paid for by Yealands Wine Group Limited | 156 | – |
| Amounts receivable from Yealands Wine Group Limited | 5 | – |

## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

### *27.4 Subsidiary companies – Seaview Capital Limited*

| | 2016 15 Months $000 | 2015 12 Months $000 |
|---|---|---|
| Dividend receivable from Seaview Capital Limited | 4,400 | – |

### *27.5 Subsidiary Companies – Southern Lines Limited*

| | 2016 15 Months $000 | 2015 12 Months $000 |
|---|---|---|
| Term Debt owed by Marlborough Lines Limited | 5,000 | 5,000 |
| Shareholder Loans owed by Marlborough Lines Limited | – | 4,269 |

### *27.6 Associate entities – Nelson Electricity Limited*

Nelson Electricity Limited is considered an associate company for accounting purposes by virtue of Marlborough Lines Limited owning 50% of that company's shares. Effective control is shared with one other shareholder. During the 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.

| | 2016 15 Months $000 | 2015 12 Months $000 |
|---|---|---|
| Director's Fees Paid to Marlborough Lines Limited for Mr K Forrest | 29 | 18 |
| Management Fees Charged to Nelson Electricity Limited by the Company | 147 | 102 |
| Amounts Owed by Nelson Electricity Limited | 63 | 9 |

### *27.7 Associate entities – Otago Power Services Limited*

Otago Power Services Limited was considered an associate company for accounting purposes by virtue of Southern Lines Limited owning 51% of that company's shares. Effective control was shared with two other shareholders. Southern Lines Limited also received dividends from Otago Power Services Limited. Marlborough Lines Contracting provides management services and both companies contract with and invoice each other for a variety of contracting work undertaken at commercial rates. In September 2014, the Group disposed of this interest to a third party per Note 18.

| | 2016 15 Months $000 | 2015 12 Months $000 |
|---|---|---|
| Dividend Paid by Otago Power Services Limited to Southern Lines Limited | – | 2,319 |
| Director's Fees Paid to Marlborough Lines Limited for Mr K Forrest | – | 15 |
| Interest Received by Southern Lines Limited for Short Term Advances | – | 25 |
| Management Fees Paid by Otago Power Services Limited to Marlborough Lines Limited | – | 115 |

### *27.8 Joint venture investment*

Marlborough Lines Limited subsidiary Southern Lines Limited owned 51% of the OtagoNet Joint Venture. In September 2014, the Group disposed of this interest to a third party per Note 18.

| | 2016 15 Months $000 | 2015 12 Months $000 |
|---|---|---|
| Revenue Received from the OtagoNet Joint Venture | – | 2,525 |
| Management Fees Paid to Marlborough Lines Limited | – | 212 |
| Management Fees Paid to Marlborough Lines Limited for Mr K Forrest | – | 12 |



## Notes to the financial statements (continued)

For the 15 month period ended 30 June 2016

### 28 Events subsequent to balance date

#### Investment in Yealands Wine Group

On 1 July 2016 Marlborough Lines Limited, via its subsidiary Seaview Capital Limited, invested $4.35 million in Yealands Wine Group Limited. This amount will be converted into Share Capital within the next twelve months.

On 31 August 2016 Marlborough Lines Limited, via its subsidiary Seaview Capital Limited, acquired a further 5,575,000 shares in Yealands Wine Group Limited. The purchase price of $1 per share was determined after receiving independent valuation advice from PwC.

#### Yealands Wine Group Board and Management changes

On 4 July 2016 Peter Forrest and Matthew Thomson were appointed directors of Yealands Wine Group Limited.

On 16 August 2016 Miriam Radich retired from the Board of Yealands Wine Group Limited.

Subsequent to 30 June 2016 Jason Judkins resigned as CEO of Yealands Wine Group Limited. Jason will continue to work with the Company until a replacement is found.

#### Crossroads Winery

On 5 July 2016 a decision was made on the possible centralisation of Crossroad winemaking to the Yealands Estate Winery in Marlborough.

The Crossroads brand or business is not being sold but the Crossroads winery (land, buildings, plant and machinery only) and some of the Hawke's Bay vineyards are subject to a tender with a closing date of 29 September 2016. The book value of the Hawke's Bay assets which are subject to the tender are $5.2 million.

#### Other

The Directors are not aware of any matter or circumstance since the end of the financial year not otherwise dealt with in these financial statements, that has or may significantly affect the operations of the Marlborough Lines Limited Parent Company or Group operations.

# Statement of service performance

For the year ended 31 March 2016 (Statistics for Parent company)

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

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

**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 Discounted Cash Flow methodology to establish the value of net assets/shareholders funds.

**Result:** Achieved 3.38% on average shareholder's funds of $332.6 million for the year. This result is after including Marlborough Lines Limited network assets at valuation using Discounted Cash Flow methodologies, and adding back customer discounts adjusted for tax. This result includes the one-off costs associated with acquiring 80% of Yealands and does not include the $4.4 million of dividends received from Yealands in June 2016.

**2.**

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

**Result:** Achieved a return on equity of 6.97%. Profit for the year from Nelson Electricity Limited was $1.915 million (2015: $1.767 million).

**3.**

**Target** To achieve a percentage of shareholders funds to total assets which is prudent but able to accommodate business expansion. (31 March 2015 Actual 84.7%)

**Result** The ratio has increased to 86.4%, which provides an opportunity for expansion.

**4.**

**Target:** Customer minutes lost by scheduled shutdowns of the Company's network to not exceed 70 minutes compared with an average of 66 minutes lost per customer for the years 2012/2013/2014.

**Result:** The outcome was an average of 63 minutes lost per customer with no major incidents being recorded[1]. 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 115 minutes compared with an average of 142 for the years 2012/2013/2014.

**Result:** The outcome was an average of 61 minutes (2015: 78 minutes) lost per customer. The decrease from last year was due to settled weather along with a focused maintenance and replacement programme and a number of network and technology related improvements enabling faster response to outages[2].

1, 2. Marlborough Lines has implemented a new outage management system during the year. The system is currently limited in its ability to meet the requirement of providing a complete audit trail of outage data for every single consumer. As a consequence, there is insufficient information to support the completeness and accuracy of recorded outages for the year. Marlborough Lines has a number of controls in place, including monthly management review and the linking of outage data to fault calls and fault response time sheets, to ensure that the reported outages are materially correct. We will be working with our software provider to implement system changes so that the auditability of the data is improved.



**6.**

Fault Restoration Targets

| Area | Target Times | Repaired Out of Target | Repaired Within Target | Total Number of Faults | % in Target | % Out of Target |
|---|---|---|---|---|---|---|
| Urban | 1.00 | 2 | 3 | 5 | 60% | 40% |
| Urban Other | 1.50 | 4 | 15 | 19 | 79% | 21% |
| Rural | 4.00 | 14 | 129 | 143 | 90% | 10% |
| Rural Remote | 8.00 | 10 | 102 | 112 | 91% | 9% |
| **Total 2016** | | **30** | **249** | **279** | | |
| **Total 2015** | | **106** | **197** | **303** | | |

**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. 85% of the sample was Satisfied/Very Satisfied with the Company's Overall Performance (2015: 89%). Commercial consumer's satisfaction with Marlborough Lines' overall performance has increased to be more than Domestic consumers. The Residential consumer weighted average score is 81% (2015: 86%). The weighted average score for Commercial consumers is 83% (2015: 77%).

**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:** Four Connections newsletter 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 regions electricity consumers.

**Result:** In accord with the posted price/discount requirements $8.209 million (excl GST) was paid to Electricity Retailers in March 2016 (2015: $8.078 million).

**11.**

**Target:** The anticipated total dividend for the year to 31 March 2016 was $1,785,000.

**Result:** As a result of the change in balance date the Company did not pay a dividend during the year to 31 March 2016, however the Company has paid a fully imputed dividend to the Marlborough Electric Power Trust of $4,285,000 in June 2016 (2015: $1,785,000).

# Independent Auditor's report

Deloitte.

**To the readers of Marlborough Lines Limited and Group's Financial statements for the 15 month period ended 30 June 2016 and Performance Information for the year ended 31 March 2016**

The Auditor-General is the auditor of Marlborough Lines Limited (the 'Company') and its subsidiaries. The Auditor-General has appointed me, Paul Bryden, using the staff and resources of Deloitte Limited, to carry out the audit of the financial statements and the performance information of the Company and Group consisting of Marlborough Lines Limited and its subsidiaries (collectively referred to as 'the Group'), on her behalf.

***Opinion on the financial statements and the performance information***

We have audited:

- the financial statements of the Company and Group on pages 98 to 141, that comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the 15 month period 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 Company and Group for the year ended 31 March 2016 on page 146 to 148.

In our opinion:

- the financial statements of the Company and Group:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2016; and
    - its financial performance and cash flows for the 15 month period 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 Company and Group presents fairly, in all material respects, the Company's and Group's achievements measured against the performance targets adopted for the year ended 31 March 2016.

Our audit was completed on 29 September 2016. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

***Basis of opinion***

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.



An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and in the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Company's and Group's financial statements and performance information in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's and Group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the appropriateness of the performance information within the Group's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and in the performance information; and
- the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

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

***Responsibilities of the Board of Directors***

The Board of Directors is responsible for the preparation and fair presentation of financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and generally accepted accounting practice, and for the preparation and fair presentation of performance information for the Group.

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

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and the performance information, whether in printed or electronic form.

***Responsibilities of the Auditor***

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

***Independence***

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit we have carried out assignments in the areas of Other Audit and Assurance Related Service relating to the audit of the Commerce Commission Information Disclosure, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Company and Group.

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

# Supplementary information in relation to the Parent company

## 1 Network pricing

Marlborough Lines has elected to keep its network charges at the same level since 1 April 2014, when the last increase occurred.

Economic activity in the Marlborough region has improved, but remains modest with fewer new connections than other areas being established and with demand from larger electricity users steady. Some pressure for funding of network system upgrades still exists and in taking a longer term view, Marlborough Lines has elected to continue improving the electricity network supply system to meet anticipated long term growth.

In reviewing electricity pricing in Marlborough since 1 April 1999, domestic network charges for an average consumer, at 8000 kWh per year, have increased by 79% over the 17 years to May 2016. While the Retail portion of the account for the same consumer group has increased by up to 181% over the same period. All figures have been sourced from the Ministry of Business, Innovation and Employment (MBIE).

Marlborough Lines network charges for a typical domestic consumer (defined by the MED as using 8,000 kWh per year) were as follows at 31 March:

- Marlborough Lines (before discount) 2016 14.10 cents/kWh
- Marlborough Lines (before discount) 1999 7.90 cents/kWh

Marlborough Lines has continued to provide discounts to customers. In the year to 31 March 2016 discounts totalling $8.209 million excluding GST ($8.078 million in 2015) were paid to the electricity retailers for distribution to electricity customers. The discount to a typical domestic consumer as defined by the Ministry of Economic Development was $226.38. The Company anticipates providing total approximate discounts of $8.255 million excluding GST in the pricing year ending 31 March 2017.

## 2 Network efficiency measures

Network reliability in New Zealand is monitored by the Commerce Commission who require the publication of a number of reliability statistics each year. A summary of such information which compares all network companies is published annually by the Commerce Commission. The following statistics are sourced from the latest Commerce Commission summary published for the 31 March 2015 year end.

**SAIDI** Average total duration of interruptions that a customer experiences in the period

**SAIFI** Average number of interruptions that a customer experiences in the period

**CAIDI** Average duration of an interruption that a customer experiences in the period

| | SAIDI Minutes | SAIFI | CAIDI Minutes | Total Number of Interruptions | Faults per 100 kms Line |
|---|---|---|---|---|---|
| Marlborough Lines 2006 | 260 | 2.9 | 89.8 | 561 | 11.6 |
| Marlborough Lines 2007 | 353 | 4.2 | 84.7 | 646 | 14.0 |
| Marlborough Lines 2008 | 265 | 2.9 | 91.8 | 651 | 13.8 |
| Marlborough Lines 2009 | 250 | 2.0 | 126.0 | 622 | 12.9 |
| Marlborough Lines 2010 | 284 | 2.8 | 100.0 | 650 | 14.5 |
| Marlborough Lines 2011 | 423 | 2.8 | 149.2 | 565 | 12.2 |
| Marlborough Lines 2012 | 241 | 2.1 | 117.6 | 615 | 14.1 |
| Marlborough Lines 2013 | 139 | 1.4 | 102.1 | 524 | 13.6 |
| Marlborough Lines 2014 | 246 | 1.7 | 149.2 | 764 | 21.1 |
| Marlborough Lines 2015 | 130 | 1.4 | 92.2 | 534 | 11.7 |
| **NZ Average 2015** | **367** | **2.5** | **148.2** | **768** | **15.2** |
| Marlborough Lines 2016 | 125 | 1.07 | 116.4 | 541 | 9.7 |



## 3 Network statistics – Marlborough Lines Ltd

| | 31 March 2012 | 31 March 2013 | 31 March 2014 | 31 March 2015 | 30 June 2016 |
|---|---|---|---|---|---|
| Total System Length Kms | 3,368 | 3,374 | 3,371 | 3,380 | 3,383 |
| Transformer Capacity kVA | 318,088 | 321,485 | 328,759 | 332,697 | 332,696 |
| Maximum Demand kW | 72,068 | 72,871 | 71,344 | 72,609 | 71,106 |
| Energy into Network GWh | 385 | 390 | 382 | 397 | 396 |
| Total Consumers | 24,359 | 24,520 | 24,546 | 24,796 | 25,056 |

## 4 Regulatory asset base value

The original regulatory valuation (at Optimised Deprival Value – ODV) was completed in 2004. The notional regulatory value (now modified ODV) has increased to the values provided in the table below. These numbers are audited annually by the Commerce Commission.

Closing ODV as at 31 March 2004: $100.396 million

| Regulatory Asset Base For Year Ending: | 2012 $m | 2013 $m | 2014 $m | 2015 $m | 2016 $m |
|---|---|---|---|---|---|
| Opening Value: | 196.334 | 202.181 | 207.971 | 215.025 | 217.515 |
| Regulatory: | | | | | |
| Additions | 11.639 | 12.607 | 13.161 | 11.814 | 12.329 |
| Revaluations | 3.038 | 1.709 | 3.188 | 0.180 | 1.276 |
| Depreciation | (8.829) | (8.526) | (9.295) | (9.504) | (9.876) |
| Closing Value: | 202.181 | 207.971 | 215.025 | 217.515 | 221.244 |

The notional regulatory value at 31 March 2016 had increased to $221.244 million as a result of indexing of all values, based on Commerce Commission specified indexation rates and after adding yearly assets movements as provided in the above table.

## 5 Capital expenditure

Marlborough Lines value of capital expenditure commissioned in the following categories during the following years:

| Category | Actual 2014 12 months $m | Actual 2015 12 months $m | Target 2016 12 months $m | Actual 2016 15 months $m | Target 2017 12 months $m |
|---|---|---|---|---|---|
| Transmission and Distribution | 6.181 | 6.031 | 5.819 | 8.494 | 7.490 |
| Main Substations | 1.424 | 2.531 | 3.623 | 1.429 | 1.795 |
| Underground Reticulation | 2.575 | 0.481 | 0.611 | 1.718 | 0.868 |
| Radio Equipment | 0.278 | 0.196 | 0.135 | 0.207 | 0.400 |
| Plant and Tools | 0.844 | 0.361 | 0.142 | 0.213 | 0.237 |
| Transport | 0.865 | 1.517 | 0.240 | 0.662 | 0.726 |
| Land and Buildings | 1.466 | 0.537 | 0.415 | 1.377 | 0.190 |
| Office Equipment | 0.568 | 1.494 | 0.863 | 1.474 | 0.368 |
| Total | 14.201 | 13.147 | 11.848 | 15.574 | 12.074 |

Inclusion in the projected budget is not a guarantee that works will proceed and estimates are reviewed and updated on a regular basis. Completion of capital expenditure projects can also be significantly impacted by any of the following, securing property access and legal rights, timely receipt of project goods and materials in an acceptable condition, allocation of staff and construction equipment and acceptable weather conditions.

### 6 Asset management plans

In accordance with regulation 25 of the Electricity (Information Disclosure) Regulations, Marlborough Lines discloses an “Asset Management Plan”. The plan is updated annually and covers the management of all of Marlborough Lines’ network assets. Copies of the 2016 plan are available on request from Marlborough Lines or from the Company’s internet site at: www.marlboroughlines.co.nz.

### 7 Major contractual relationships

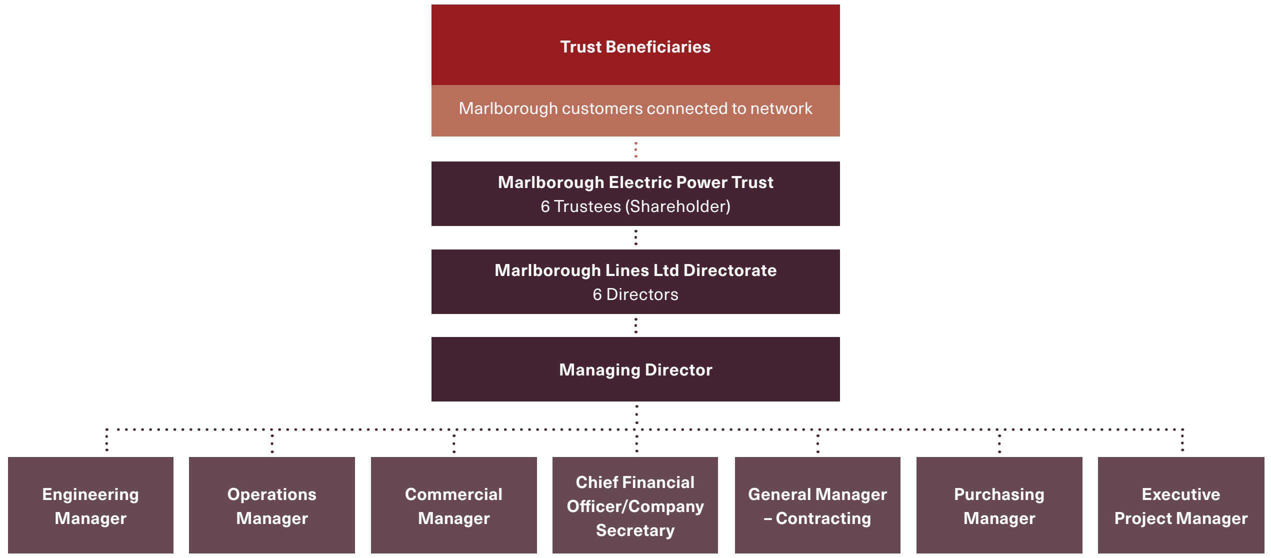
Marlborough Lines contracts with Transpower Ltd for the provision of national grid services. The Company currently supplies distribution network services to 14 different retailers being: Contact Energy, Ecotricity, Energy Online, Genesis Energy, Globug, Mercury Energy, Meridian Energy, Nova Energy, Opunake Hydro, Powershop, Pulse Energy, Simply Energy, Tiny Mighty Power and Trustpower, who retail electricity to customers in the Marlborough region.

### 8 Summary of financial results

| Parent company only | Actual 2014 12 months | Actual 2015 12 months | Target 2016 12 months | Actual 2016 15 months | Target 2017 12 months |
|---|---|---|---|---|---|
| Operating Turnover | $53.878m | $55.951m | $53.569m | $69.299m | $55.413m |
| Discounts Paid (Excl GST) | $7.976m | $8.078m | $8.003m | $8.209m | $8.255m |
| Total Shareholders Equity | $279.616m | 329.984m | $334.147m | $335.414m | $340.589m |
| Net Asset Backing ($/share) | $9.99 | $11.79 | $11.93 | $11.98 | $12.16 |
| EBIT/Ave Net Funds Employed | 5.18% | 4.74% | 3.49% | 3.93% | 3.39% |
| Return on Average Equity | 3.01% | 3.26% | 2.58% | 3.17% | 2.80% |



## Company structure




## Further information

### Email contact

*General enquiries*
info@linesmarl.co.nz

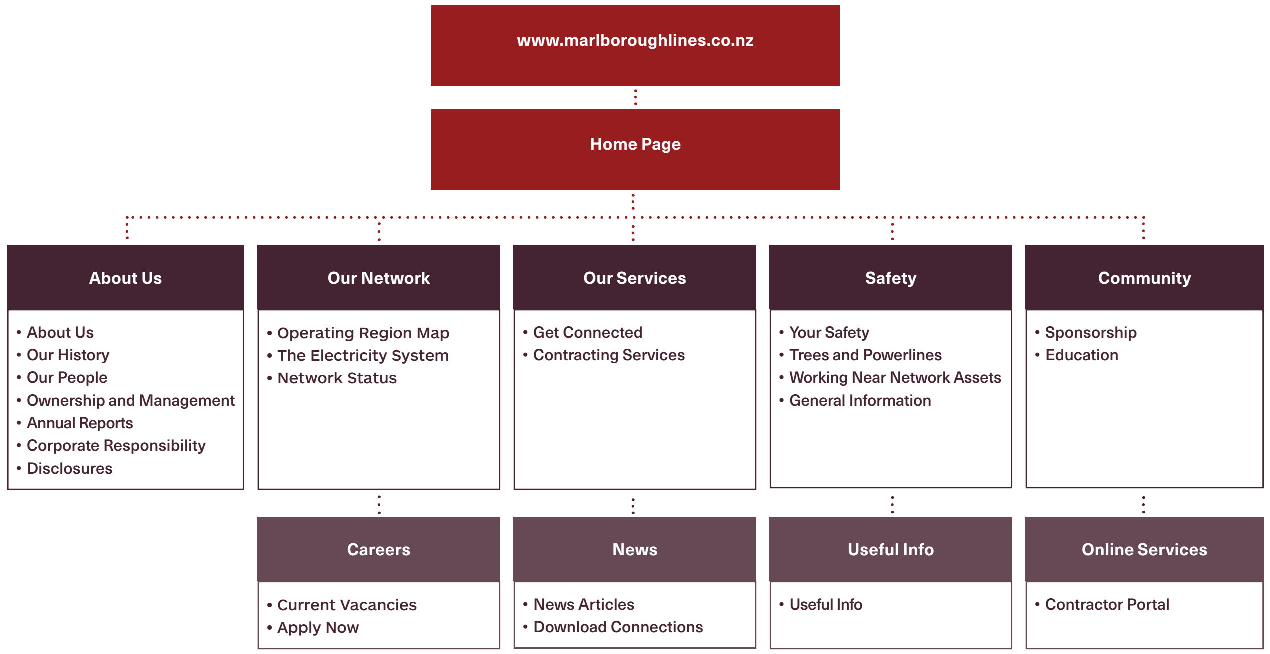
*Network*
network@linesmarl.co.nz

*Contracting*
contracting@linesmarl.co.nz

*Store and purchasing*
store@linesmarl.co.nz

### Website

Marlborough Lines provides a substantial amount of additional information on the Company’s website www.marlboroughlines.co.nz



# Notice of Annual General Meeting

Notice is hereby given that the twenty-third Annual General Meeting of the shareholder of Marlborough Lines Limited will be held at the Company's offices in Alfred Street, Blenheim on 9 December 2016 at 4.00pm.

**Ordinary business**

1. To receive and consider the annual reports of the Chairman and Directors, the Statement of Accounts and Auditor's Report for the year ended 30 June 2016.
2. During the 2015/16 financial year the shareholder authorised payment of dividends totalling $4.285m. There is no recommendation for a final dividend for the year ended 30 June 2016.
3. To elect Directors.
   The Directors advise that Mr David Dew and Mr Tim Smit retire at the meeting by rotation as provided by clause 21.7 of the Company's constitution. Messrs Dew and Smit are available for re-appointment.
4. To determine remuneration of Directors.
5. Pursuant to Section 45 of the Energy Companies Act 1992, the Audit Office is responsible for appointing the Company's Auditors. The shareholder must resolve to authorise the Directors to determine the Auditors remuneration.
6. General Business.

**Proxies**

The Company's constitution does not presently provide for the exercising of proxy votes. The Company's shares are held by individual trustees on behalf of the Marlborough Electric Power Trust. The Trust Deed provides that resolutions exercising shareholder rights require a resolution of the Trust. Any such Trust resolution will be subject to the Trust's requirements for quorums and resolutions.

**Financial calendar**

***Annual General Meeting***
9 December 2016 at 4.00pm
Venue: Marlborough Lines registered office
1-3 Alfred Street, Blenheim

***Financial results announced***
Half year: February
Final year: December

By order of the Board of Directors

**G D Jones**
*Company Secretary*
3 November 2016

# Directory

**Management**

***K J Forrest***
BSc Hons (Electrical Eng), MIPENZ
Managing Director

***G D Jones***
BCom, CA
Chief Financial Officer/
Company Secretary

***K L Hume-Pike***
BCom, LLB, INFINZ (Cert)
Commercial Manager

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

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

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

**Address**

*Registered Office of Company*
1–3 Alfred Street
Blenheim 7240

*Postal Address*
PO Box 144
Blenheim 7240

**Auditors**

Deloitte on behalf of the Controller and Auditor General

**Bankers**

Westpac Banking Corporation,
New Zealand

ASB Bank,
New Zealand

**Solicitors**

Radich Law, Blenheim
Simpson Grierson, Auckland

**Financial and Tax Advisors**

PricewaterhouseCoopers,
Wellington/Auckland



# Glossary

| Term | Description |
|---|---|
| ACC | Accident Compensation Corporation. |
| AS/NZS ISO | Australian/New Zealand Standard/International Organisation for Standardisation. |
| Average Domestic Customer | Defined by the Ministry of Business, Innovation and Employment as consuming 8,000 kWh per annum comprising 3,200 units for water heating at off-peak rates and the balance at 24-hour availability rate. |
| CAIDI | Customer Average Interruption Duration Index – the average duration of an interruption that a customer experiences during the period. |
| DCF | Discounted Cash Flow. |
| EBIT | Earnings Before Interest and Taxation. |
| EBITDA | Earnings Before Interest Taxation Depreciation and Amortisation. |
| GWh | Gigawatt hour – 106 kWh, measurement of energy. |
| GXP | Grid exit point. |
| Iwi | Māori word for a set of people bound together by descent from a common ancestor or ancestors. |
| km | Kilometre. |
| kV | Kilovolt – 1,000 volts, measurement of electrical potential. |
| kVA | Kilovolt Ampere – measurement of apparent power. |
| kWh | Kilowatt hours – electrical energy equivalent to a power consumption of 1,000 watts for one hour, typically referred to as one unit. |
| MBIE | Ministry of Business, Innovation and Employment. |
| MW | Megawatt – 1,000 kilowatt rate at which power is used. |
| MVA | 1,000 kVA. |
| N-1 | This status allows for capacity to be maintained if one unit of production (typically a line or transformer) is removed from service. |
| NPAT | Net Profit After Tax. |
| NZ IFRS | New Zealand International Financial Reporting Standards. |
| ODV | Optimised Deprival Value – the lesser of the optimised depreciated replacement cost or the economic value of the Company's network system fixed assets. |
| SAIDI | System Average Interruption Duration Index – the average time supply unavailable to all customers. |
| SAIFI | System Average Interruption Frequency Index – the average length of each interruption to supply. |
| SCADA | Supervisory Control and Data Acquisition. |
| $SF_6$ Gas | Sulphahexafluoride Gas. |
| Tangata Whenua | Māori term for indigenous inhabitants, literal translation means 'people of the land'. |
| WACC | Weighted Average Cost of Capital. |

# Index





# A brief history of Marlborough Lines

## 1923

The original founding entity, the Marlborough Electric Power Board, was constituted under gazette on 25 October 1923. This followed local petition to the Government for the creation of a power board following the Government's refusal to provide a state supply of electricity to Marlborough.

## 1923

The first Board was elected in November 1923 and set about providing supply to an area embracing the Borough of Blenheim and the Marlborough and Awatere Counties, as then defined.

## 1927

The Power Board commissioned its first hydro generation plant in the remote Waihopai River at a site about 25 miles from Blenheim. This hydro scheme was commissioned in 1927 and subsequent diesel generation was added on the outskirts of Blenheim as demand increased. Additional hydro generation was established some 56 years later, in 1983, at the Branch River, west of Blenheim.

## 1993

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

## 1993

Ownership of shares in the Company was vested in the Trustees to the Marlborough Electric Power Trust, a body specifically created to hold the Company's shares on behalf of electricity consumers and to appoint commercial directors in place of the originally elected board members.

## 1996

Marlborough Electric acquires a 50% share in Nelson Electricity Limited which reticulates electricity to the Nelson City area.

## 1998

Following a further period of industry reorganisation arising from the 'Bradford' bill, Marlborough Electric was forced to divest its generation assets and electricity trading business unit to become an electricity network owner and operator.

## 1999

In March 1999, Marlborough Electric became Marlborough Lines Limited – the name change reflecting the new focus. Since this restructuring period the Company has concentrated on the ownership and operation of electricity reticulation systems.

## 2002

Marlborough Lines acquires a 51% share of the Otago regional electricity network operator OtagoNet and also a 51% share of related contracting company Otago Power Services Limited.

## 2010

Marlborough Lines acquires a 13.89% shareholding in the Whakatane based electricity network, Horizon Energy Distribution Limited.

## 2014

Marlborough Lines sells its 51% share of the Otago investments.

## 2015

Marlborough Lines sells its Horizon Energy Distribution Limited shareholding.

## 2015

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

## Annual report awards

Each year, for the past twelve 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 – 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

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