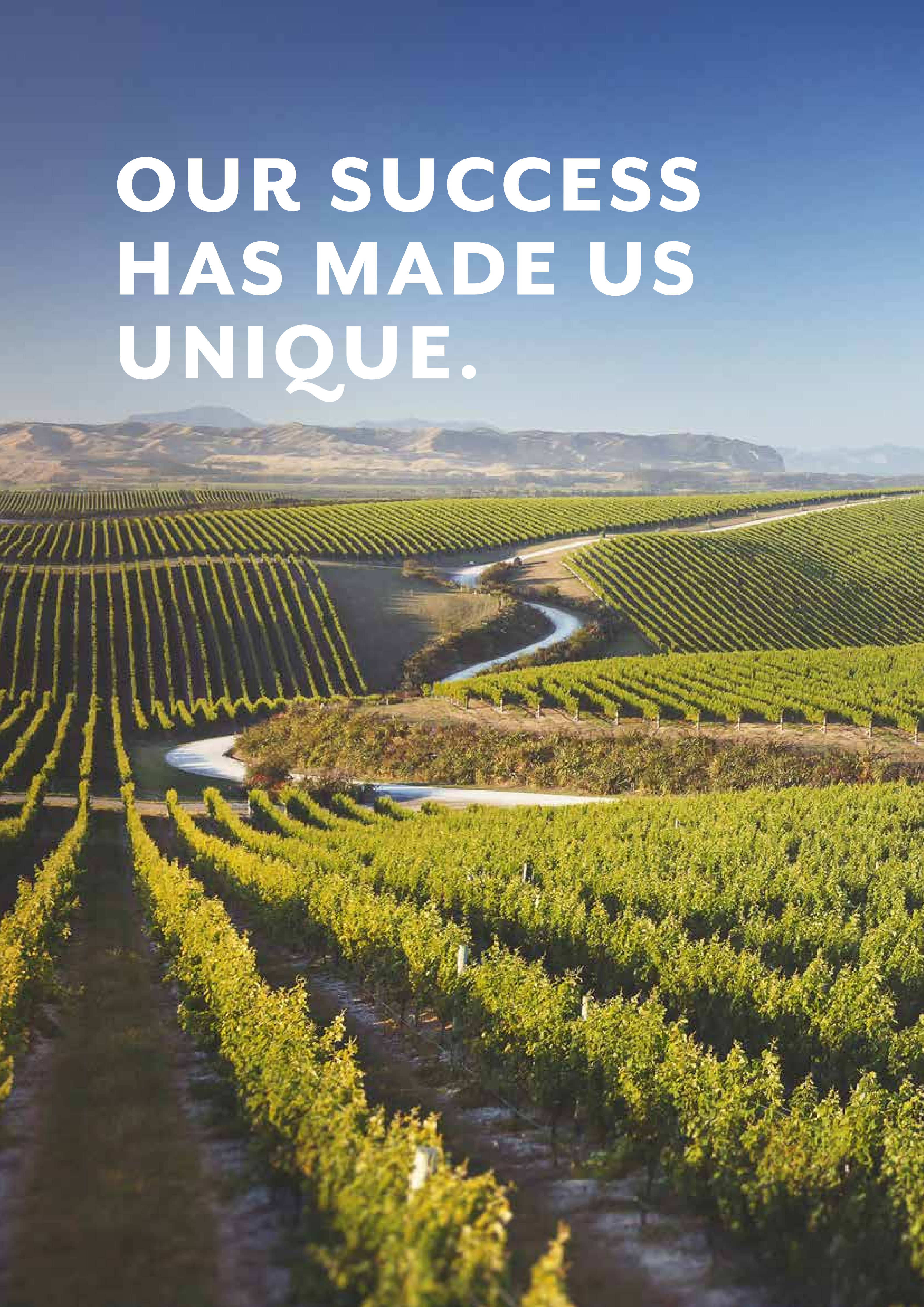

UNIQUELY
DIFFERENT
Marlborough
Lines
Annual Report
2018

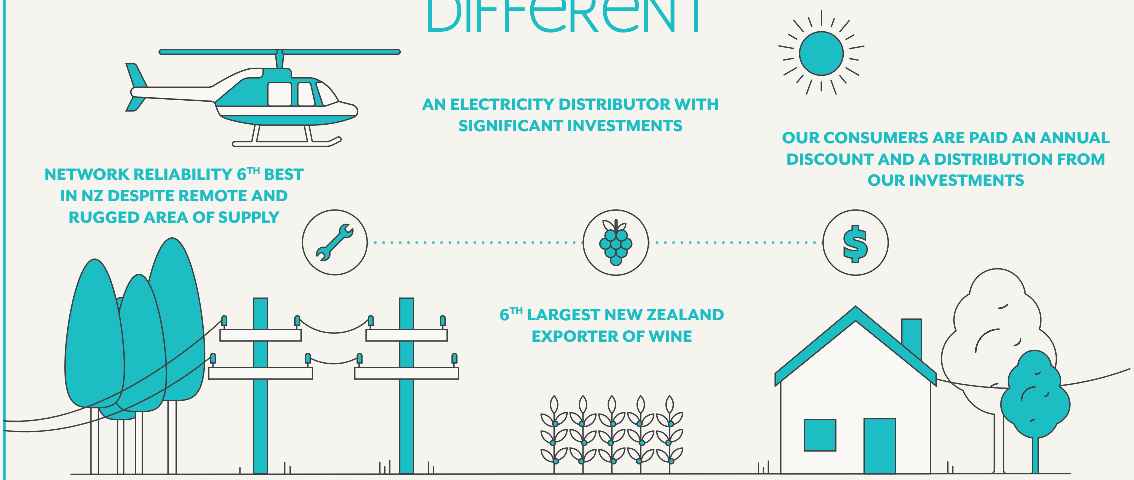
OUR SUCCESS HAS MADE US UNIQUE.



We are an electricity network company with successful investments in electricity distribution, viticulture and wine.

We are looking for further investment...

Uniquely Different



MARLBOROUGH LINES LTD

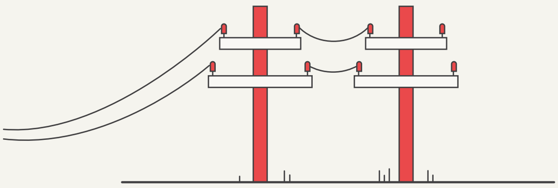
- We own; the Marlborough electricity network.
  - 50% of Nelson Electricity.
  - 100% of Yealands Wine Group (YWG).
- The Marlborough Lines Parent has no external debt.
- We pay our consumers in Marlborough an annual discount from our Network operations.
- The financial success of our investments is also distributed to our Marlborough consumers.
- Many parts of our network can only be reached by boat or helicopter.
- Despite the unusual challenges of our environment the reliability of our supply is among the very best (6th lowest average minutes supply lost 2017/2018) in NZ.
- Our vegetation management costs on a per customer or per km basis are the highest in NZ.
- Marlborough Lines is the first NZ company to achieve the new internationally recognised Occupational Health & Safety ISO 45001 certification.
- We have a quality network because prudent maintenance and capital expenditure have not been deferred.
- Our investment in YWG was undertaken at no cost to consumers and was funded from the proceeds of ML's previous investment success.

YEALANDS WINE GROUP LTD

- 100% owned by Marlborough Lines Ltd.
- YWG has been judged to have;
  - the world's best Sauvignon Blanc amongst numerous wine awards.
  - the world's most sustainable winery.
- 6th largest New Zealand exporter of wine with global distribution to 86 countries.
- 1,226 ha of planted vineyards.
- Certified carbon zero.
- Yealands is a model of environmental commitment incorporating viticulture management, monarch butterfly sanctuary, baby doll sheep, wetlands, wild flower corridors, alternative insect control, composting and alternative energy generation and fuel use.

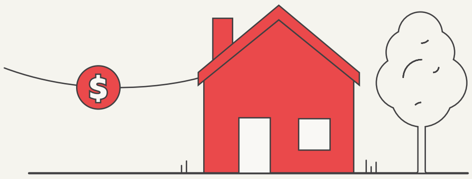
MARLBOROUGH LINES LIMITED

DELIVERING ELECTRICITY, INVESTMENTS FOR CONSUMER BENEFIT, PARTNERS IN OUR COMMUNITY.



ELECTRICITY SUPPLY RELIABILITY WAS A RECORD, SIGNIFICANTLY BETTER THAN NZ'S LARGEST CITY

SEE PAGE 47

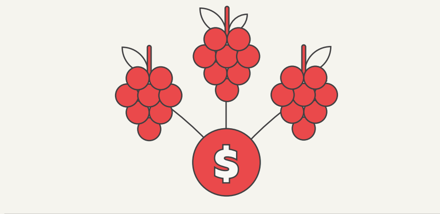


DISCOUNTS AND DISTRIBUTIONS TO ELECTRICITY CONSUMERS WERE A RECORD HIGH

SEE PAGE 42

CONSUMER SATISFACTION AT A HIGH LEVEL

SEE PAGE 42



OUR INVESTMENT STRATEGY CONTINUES TO BEAR FRUIT AND FINANCIAL SUCCESS

SEE PAGE 74

WE HAVE SUPPORTED A GREATER NUMBER OF COMMUNITY INITIATIVES AND GROUPS

SEE PAGE 54

ABOUT US

Our electricity consumers benefit through network discounts and the financial success of our investments.

We have a quality electricity network and a history of prudent maintenance and capital expenditure, and within our network business we have no debt.

Some 58% of our network supplies remote or rugged territory, this is an extremely high proportion for New Zealand.

We have a very high level of supply reliability at the forefront of the distribution industry despite the geographic nature of our region.

We have significant successful investment outside our core electricity distribution business.

UNIQUELY DIFFERENT

STRUCTURE AND LOCATION

MARLBOROUGH LINES INVESTMENT OWNERSHIP STRUCTURE AS AT 30 JUNE 2018

Marlborough Electric Power Trust

Marlborough Lines Limited

Seaview Capital Limited
(Investment vehicle)
100% share

Nelson Electricity Limited
5 Directors, 4 Staff
50% share

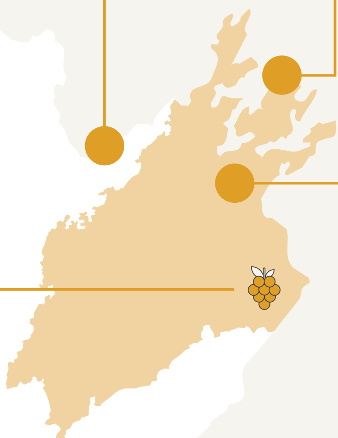
Yealands Wine Group Limited
5 Directors, 158 Staff
100% share

NELSON

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

MARLBOROUGH SOUNDS

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



BLENHEIM

Unlike many other regional networks, the Company has a single point of supply (in Blenheim) with an extensive sub-transmission system and 16 zone substations.

MARLBOROUGH

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

SEDDON

Yealands Wine Group is based at Seaview near the township of Seddon.

SOUTH ISLAND
NEW ZEALAND

OUR BACKGROUND

Our vision is to operate our electricity network as a successful business and to be a leader in all that we do to facilitate the safe, efficient and reliable distribution of electricity for the benefit of our customers, shareholder and community.

We also undertake investment which maximises benefit to our shareholder, the Marlborough Electric Power Trust, through the achievement of capital growth and dividend streams which will enable distributions to current and future beneficiaries.

WHO ARE WE?

Marlborough Lines is primarily an electricity distribution Company with responsibilities to distribute electricity within the Marlborough region of New Zealand.

The legislation under which Marlborough Lines operates requires us to operate as a successful business and we do.

We have in the past undertaken investment in other electricity networks external to Marlborough at no cost to the electricity consumers of Marlborough.

Whilst we continue to own 50% of Nelson Electricity, the distribution company which delivers electricity to the city of Nelson, we have realised the value of our network investments in Otago and the Eastern Bay of Plenty. These investments were sold at significant premiums over the initial cost, resulting in the Company accumulating some $135m for reinvestment.

Because of the paucity of sizeable investment opportunities within the electricity sector the Company has, with the support of its shareholder, the Marlborough Electric Power Trust, considered investments outside of its traditional domain with the objective of achieving commercial annual returns and capital gain.

Accordingly, the Company has invested in the Yealands Wine Group, which is Marlborough based and the sixth largest exporter of New Zealand wine.

Initially Marlborough Lines acquired 80% of Yealands Wine Group with effect from 1 July 2015, subsequently increasing this to 86% in 2016, and 100% on 29 June 2018.

As expected our investment in Yealands Wine Group has proven to be very successful. Dividend expectations have been met, and the capital value of the investment has significantly increased. This in turn has allowed an increased flow of dividends from Marlborough Lines to its Parent Trust and ultimately to the Trust's electricity consumer beneficiaries.

Marlborough Lines has further funds in reserve and will undertake further investment for the benefit of its shareholder in accord with its investment policy.

ACCOUNTING FOR DIVERSITY

Marlborough Lines as a publicly accountable entity is required to account for its operations under the New Zealand equivalents to the International Financial Reporting Standards (IFRS). The ownership of 100% of the Yealands Wine Group dictates full consolidation of the Company's financial statements with those of Marlborough Lines.

The initial acquisition of 80% of the Yealands Wine Group, necessitated a change to the Marlborough Lines balance date. Our traditional 31 March balance date fell mid-vintage for the wine industry which made the valuation of the

Mobile generation has become an important factor in minimising supply disruption arising from faults or during planned maintenance outages.

harvest crop and inventory very difficult. To satisfy the Group financial reporting requirements Marlborough Lines shifted its balance date to 30 June, resulting in an initial 15 month reporting period for the period to 30 June 2016.

In New Zealand, electricity network companies are subject to a further tier of financial and operational reporting to meet Commerce Commission requirements. The Commerce Commission has a supervisory jurisdiction over the electricity network industry. Marlborough Lines must therefore comply with the Commission's Information Disclosure Regulations and provide separate regulatory financial statements for its network operations as at 31 March each year.

Accordingly, in this report the financial data pertains to a 30 June balance date whilst much of the operational data such as network reliability statistics pertain to a 31 March year.

Significant points to note in any comparison between the 2018 and 2017 financial statements are the distortions in operational expenditure in both Marlborough Lines and the Yealands Wine Group for the 2017 financial year as a result of the November 2016 earthquake. Whilst much of the remedial expenditure for Yealands was covered by insurance, the claims were not settled until the following financial period.

This year's financial statements for the Yealands Wine Group include insurance payments for costs mostly incurred in the previous financial year ended 30 June 2017.

The 2017 financials were also impacted by a significant valuation uplift in the Yealands Wine Group which then flowed through to Marlborough Lines Group numbers. The 2017 current market valuation of the Yealands Wine Group properties provided an uplift of $70.1m.

MARLBOROUGH LINES GROUP

- Marlborough Lines Parent Company plus – 50% shareholding in Nelson Electricity Limited – 100% interest in Yealands Wine Group Limited.
- Total assets of $619.6m.
- Total revenue of $160.0m.
- 290 staff.

MARLBOROUGH LINES PARENT

> Marlborough Lines Limited shareholding comprises 28m $1.0 shares issued, fully paid and held by the Marlborough Electric Power Trust.

> Total revenue of $61.4m.

> Total assets of $407.8m.

> Over 25,000 network connections.

> An area for network supply covering 11,330km^2.

> Network of lines and cables in excess of 3,400km.

> 128 Blenheim based staff.

> An electricity network for the Marlborough region, which radiates out to a number of isolated rural areas including the outer reaches of the Marlborough Sounds, Molesworth Station at the head of the Awatere Valley and the South East Marlborough Coast.

> One of the most reliable electricity networks in New Zealand with statistically a more reliable supply than Auckland.

YEALANDS WINE GROUP

> One of New Zealand's major wine producers.

> Total revenue of $101.9m.

> Total assets at 30 June 2018 of $335.4m.

> An enviable reputation for embracing sustainable and innovative practices in the production of award winning wines.

> Exports to 86 countries.

> Received a significant number of awards for its quality wines and sustainability.

NELSON ELECTRICITY LIMITED

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

THE MARLBOROUGH REGION

Marlborough Lines is based in Blenheim, the largest town in the Marlborough region which is home to a population of approximately 46,000 people. Famous for its moderate climate the region experiences approximately 2,400 sunshine hours each year.

Marlborough is New Zealand's largest wine producing area and now produces over 75% of New Zealand's wine total which is predominantly the world famous Marlborough Sauvignon Blanc.

There are more than 25,000 hectares of land currently planted in grapes in the Marlborough region and further plantings are continuing.

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

ABOUT THIS REPORT

This 2018 report summarises Marlborough Lines' operations, activities and financial position for the 12 month period to 30 June 2018. Marlborough Lines Limited is the Parent Company of the Marlborough Lines Group of companies. In this report we provide relevant statistics for the Marlborough Lines Parent, and where appropriate the Group. Also we disclose information relating to the individual investments in the Yealands Wine Group Limited and Nelson Electricity Limited in accord with their respective status as a fully owned subsidiary and an associate company. In most cases information provided represents the 12 month period ending 30 June 2018. In some areas we disclose operational statistics which are generated for Commerce Commission compliance requirements. These numbers represent the 12 month period to 31 March 2018. All dollar values 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 available on 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 providing easy to read information on Marlborough Lines aspirations and performance for 2018. The electricity industry and the myriad of regulatory requirements are complex and not always well understood. For that reason we include for our customers on pages 40 to 45 a section on frequently asked questions and an outline of the industry supply chain. On pages 60 to 63 we also outline the regulatory environment and challenges applicable to our network business.

PERFORMANCE OVERVIEW

$160.0m

TOTAL OPERATING REVENUE

Electricity network revenues up, but wine sales down.

↓ GROUP

$20.2m

CAPITAL AND MAINTENANCE EXPENDITURE TO INCREASE CAPACITY AND IMPROVE RELIABILITY

Capital expenditure returned to normal levels this year.

↑ PARENT

$45.1m

EARNINGS BEFORE INTEREST, TAX AND DEPRECIATION (EBITDA)

EBITDA improvement largely a result of non-recurring insurance income in current year and earthquake costs in the prior year.

↑ GROUP

$9.6m

TOTAL DISCOUNTS, INCLUSIVE OF GST, PAID TO MARLBOROUGH CUSTOMERS

An average residential consumer received a credit on their electricity bill of $226.

↑ PARENT

$21.5m

SURPLUS AFTER TAXATION

Surplus after tax improved following the net loss recorded last year.

↓ GROUP

$5.0m

TOTAL DIVIDEND PAID TO THE MARLBOROUGH ELECTRIC POWER TRUST

Dividend paid to the Trust for distribution to consumers. Each network connection to receive $200 early in 2019.

↑ PARENT

$7.1m

TOTAL CASH FLOWS RECEIVED FROM FUNDS INVESTED AND INVESTMENTS IN NELSON ELECTRICITY AND YEALANDS WINE GROUP

Current year return represents a 4.4% post-tax return on investment.

↑ PARENT

25,553

TOTAL MARLBOROUGH NETWORK CONNECTIONS

Marlborough continues to have low steady growth in connections.

↑ PARENT

402GWh

VOLUME OF ENERGY TRADED

Network volume up on prior year.

↑ PARENT

24,500t

TOTAL GRAPES PROCESSED

Another successful harvest at Yealands despite challenging climatic conditions.

↑ YEALANDS

121

AVERAGE TOTAL MINUTES OF LOST SUPPLY

Record reliability result in 2018, following a result negatively impacted by the earthquake last year.

↓ PARENT

$101.8m

WINE SALES

Wine sales down this year, however margins have improved.

↓ YEALANDS


HYDRALIFT
KATO
VOLVO
TOYOTA

RESULTS IN BRIEF

GROUP		2019 Target 12 months	2018 Actual 12 months	2018 Target 12 months	2017 Actual 12 months	2016 Actual 15 months (i)	2015 Actual 12 months
EBITDA	(ii)	$28.8m	$45.1m	$41.0m	$5.6m	$24.4m	$20.0m
EBIT	(ii)	$18.4m	$35.8m	$24.2m	$(4.3)m	$12.0m	$11.2m
Total Revenue (Group)		$159.6m	$160.0m	$165.8m	$162.6m	$161.5m	$58.3m
Customer Discount (paid and accrued)		$8.3m	$8.3m	$8.2m	$8.2m	$11.5m	$8.1m
Pre-tax Pre-discount Surplus	(ii)	$22.4m	$37.4m	$29.0m	$3.7m	$50.7m	$21.0m
Surplus After Taxation	(iii)	$10.1m	$21.5m	$14.0m	$(1.5)m	$36.6m	$9.9m
Total Value of Group Assets		$638.5m	$619.6m	$647.6m	$632.5m	$549.9m	$387.8m
Share Capital		$29.0m	$29.0m	$29.0m	$29.0m	$29.0m	$29.0m
Shareholder's Equity		$431.8m	$427.3m	$443.7m	$434.1m	$385.8m	$333.2m
Net Asset Backing Per Share		$15.42	$15.26	$15.85	$15.50	$13.78	$11.90
Pre-discount Return on Shareholder's Funds	(iv)	5.20%	8.76%	6.53%	0.84%	13.13%	6.31%
Net Interest Bearing Debt		$115.3m	$102.2m	$110.2m	$102.1m	$84.3m	$0.0m
Interest Cover (xEBIT)		3.74	7.63	5.03	(0.99)	4.30	0.00

PARENT		2019 Target 12 months	2018 Actual 12 months	2018 Target 12 months	2017 Actual 12 months	2016 Actual 15 months	2015 Actual 12 months
EBITDA	(v)	$23.4m	$22.8m	$21.6m	$18.3m	$22.3m	$16.8m
EBIT	(v)	$13.0m	$13.8m	$11.6m	$8.9m	$10.5m	$8.0m
Customer Discount (paid and accrued)		$8.3m	$8.3m	$8.2m	$8.2m	$11.5m	$8.1m
Surplus After Taxation	(v)	$11.2m	$12.9m	$9.9m	$9.1m	$10.6m	$9.2m

(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.

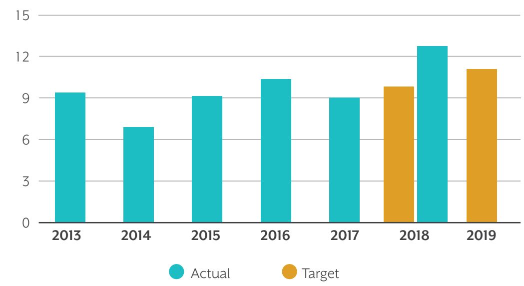
PARENT COMPANY PERFORMANCE OVERVIEW

Electricity network revenue for the year to 30 June 2018 was $44.4m, which is 2.1% up on the 2017 result of $43.5m. Modest growth in the number of customer connections and increased energy consumption volumes helped boost network revenue.

A strong Marlborough economy has helped increase our contracting revenues to $6.8m, up 51% on the prior year, and to also lift the level of vested assets to $1.6m for the year, up 15% on the prior year.

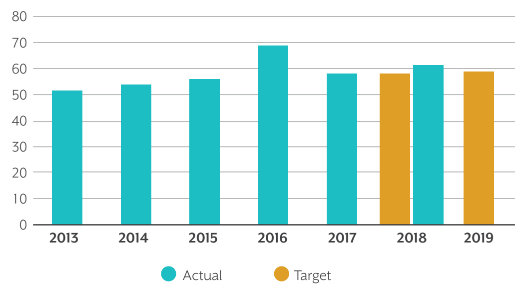
Net profit for the Parent Company of $12.9m for the year, is up on the prior year result of $9.1m. A number of items assist the current year result including the receipt of a higher dividend from Nelson Electricity and increased connection activity on our network resulting in higher capital contribution and vested asset income. Energy consumption was also materially above budget for the period.

Operating surplus after tax (Parent Company $m)



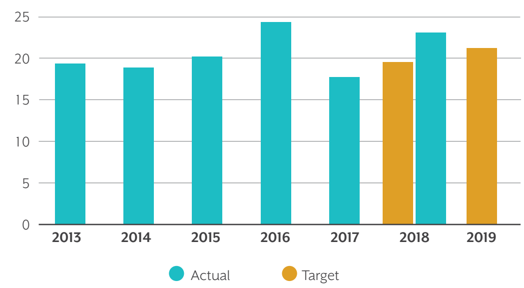
A good year for contracting work boosted the level of after tax surplus.

Total revenue (Parent Company $m)



Modest load growth combined with smaller price increases in recent years means that electricity revenue has remained steady.

Pre-discount, pre-tax profit (Parent Company $m)



On a corrected 12 month basis this is the best result for many years.

KEY TARGETS AND RESULTS

TARGET 2017/18	RESULT 2017/18	TARGET 2018/19
Company surplus before tax and network discounts $19.978m Budgets are set on a conservative basis given that electricity revenue can be very weather/climate dependent.	Achieved $23.236m	$21.292m
Company net surplus after tax $9.938m Budgets are set on a conservative basis given that electricity revenue can be very weather/climate dependent.	Achieved $12.862m	$11.237m
Network customer discounts $8.233m Our intention is to maintain a consistent level of discount each year. Discount values are part of Marlborough Lines' "posted" electricity prices.	Achieved $8.306m	$8.319m
Capital expenditure target level $12.224m Capital expenditure is driven by the provisions of our Asset Management Plan but can vary to satisfy consumer requirements.	Achieved $12.163m	$12.758m
Operating turnover target $57.910m Setting a conservative turnover target gives us a degree of certainty over funds available for maintenance and operation.	Achieved $61.394m	$59.188m
Target shareholder's equity $348.200m Our intention is always to grow this value in real terms.	Achieved $348.112m	$352.500m
Average number of minutes power supply lost from all causes not to exceed: 145 minutes The 121 minutes achieved was a record – the 6th best in New Zealand and reflects the benefits of our capital and maintenance programmes.	Achieved 121 minutes	110 minutes

SETTING GOALS AND MEASURING PROGRESS

In the operation of our electricity network as a successful business our vision is to be a leader in all that we do to facilitate the safe, efficient and reliable distribution of electricity for the benefit of our customers, shareholder and community.

For our investments we will undertake investment which maximises benefit to our shareholder, the Marlborough Electric Power Trust, through the achievement of capital growth and dividend streams which will enable distributions to current and future beneficiaries.

AS A COMPANY WE SET OUT TO:

GOALS	2017/18 RESULTS	2018/19 TARGETS
Develop and maintain the region's electricity network	This year the average total minutes lost from all causes was 121 minutes against a target of 145 minutes. This represents record reliability for Marlborough Lines.	> Average number of minutes power supply lost from all causes not to exceed 110 minutes per customer.
	We incurred Parent capital expenditure of $12.163m for the review period. This is slightly behind our target of $12.22m. See page 49.	> Capital expenditure target level of $12.758m, a small increase on the previous year's 12 month target.
	Maintenance expenditure for the Parent totalled $8.026m which was consistent with the estimated spend of $8.084m.	> Maintenance expenditure target level of $8.57m.
Meet both commercial and productivity targets	This year we delivered 402GWh to the Marlborough network compared to a target of 398GWh. The early 2017/18 summer was dry but the increase is generally a result of network growth.	> 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	Achieved a pre-tax, pre-discount operating profit of $23.236m for the 12 month period, better than the estimate of $19.98m. See commentary on page 72.	> Achieve Company surplus before tax and sales discounts of $21.29m.
	We paid a shareholder dividend of $5.0m to the Marlborough Electric Power Trust which will enable them to again increase their distribution to Trust beneficiaries.	> Pay a shareholder dividend of $5.5m.
	Achieved an increase in Parent shareholder value of $7.862m to $348.11m arising from the operating results for the year.	> Continue to Increase shareholder value to $352.5m.

GOALS	2017/18 RESULTS	2018/19 TARGETS
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 drive our compliance with the new legislation.	> Maintain all process and meeting requirements, and improve our staff health and safety culture in accord with the requirements of the new legislation.
	This year we recorded zero serious harm incidents.	> Achieve zero serious harm accidents.
	We maintained our health and safety certifications, BS OHSAS 18001:2007 Occupational Health and Safety and NZS 7901:2014 Public Safety, the ACC WSMP Tertiary status and ACC Fleet Saver.	> Maintain our Health and Safety and ACC certifications. > Achieve ISO 45001 Occupational Health and Safety certification (achieved September 2018).
Be a good employer	This year we maintained our training focus supporting 17 staff through trade and tertiary study. See page 52.	> Continue with training and support in all areas.
	We provided vacation work opportunities for nine tertiary students assisting them to meet practical experience requirements.	> Build on the "ACC fleet saver" vehicle programme which focuses on heavy vehicle driver safety.
	We have continued to roll out stand-up desks for office staff. These provide a variety of ergonomic options and can operate at standing and sitting positions as required.	> Introduce the "5 ways to wellbeing" programme. Maintain all other parts of our staff wellness programme.
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.	> To further improve our energy electricity consumption and transport fuels.
	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.	> To complete a new efficiency audit for electricity consumption within the Company's buildings.
Exceed customer expectation	An independent customer survey determined that our overall customer satisfaction increased from 88% to 93%, with individual responses for quality and reliability hitting 97%.	> Maintain a high level of customer satisfaction.
	This year we supported a wide a wide range of Community initiatives allocating over $346,000 to students and community events and organisations including a $180,000 ambulance for St John. See page 54.	> Maintain support for community and youth oriented initiatives.
	The Company's investment in the Yealands Wine Group continues to bear fruit and the Company was able to maintain the size of the dividend paid to the Marlborough Electric Power Trust. This will in turn be paid out to the electricity consumers (who are the Trust's beneficiaries) early in 2019.	> Demonstrate the worth of the Company's external investments through providing dividends at a similar or greater level to the Company's shareholder.

GOALS	2017/18 RESULTS	2018/19 TARGETS
Use legislative powers fairly	We pledge to use our legislative powers fairly. As a test of this we have maintained our record with Utility Disputes Ltd (previously 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 $12.16m against a budget of $12.22m. Capital expenditure is required for asset 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 $12.758m.
Fulfil market requirements in terms of quality and price	This year we maintained all of our external certifications for Quality, Occupational Health and Safety, Public Safety and Environmental management systems.	> We will maintain appropriate external certifications for our business.
	We met or exceeded all Electricity Authority and Commerce Commission Code of practice and Disclosure requirements.	> We will continue to meet all regulatory code and reporting requirements.
	Our customer survey indicated continued high level satisfaction with fault responses and reliability – our product is meeting the demand.	> 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 14001 Environmental certification. See page 56.	> We will maintain our ISO 14001 Environmental certification.
	We continue to support the Marlborough Sounds Restoration Trust programme which is eradicating wilding pines throughout the Marlborough Sounds. We also maintained support for the New Zealand Dryland Forests Initiative in their long term eucalypt breeding trial programme. See page 57.	> We will maintain support for our chosen environmental initiatives.
	This year we continued with our internal office recycling programme, increasing the range of materials we can recover. We have also moved to employ a single waste recovery contractor in order to streamline the collection and removal of both recycle material and landfill waste.	> We will continue to explore greater internal recycling initiatives with the aim of reducing our already small contribution to the region's landfill.
	We are proud to own the Yealands Wine Group, a company which is noted for its sustainable environmental practices and its commitment to using renewable energy. See pages 66 to 69.	

Quality assets maximise reliability.

CHAIRMAN'S REPORT

THROUGH OUR SUCCESS WE HAVE BECOME UNIQUE

By any standard Marlborough Lines has had a very good year. We have recorded financial results in line with our predictions, provided electricity to our customers at record levels of reliability better than some urban suppliers (and a record for us), and continued to grow our largest non-core investment in Yealands Wine Group Limited.

From its humble beginnings as the Marlborough Electric Power Board, the Group now has a net worth of $427m resulting in a net asset backing per share of $15.26 compared to $1.03 when the Company was established in 1993.

Our genesis was as the electricity network company distributing electricity solely to Marlborough. Previously, at no additional cost to our electricity consumers we expanded our interests to include investments in three other New Zealand networks.

We subsequently sold two of these investments resulting in excess funds of some $135m and a debt free position.

Because of a paucity of investment opportunities within the electricity sector we evaluated a number of potential investments and in 2015 with the support of our sole shareholder, the Marlborough Electric Power Trust (which has intergenerational beneficiaries), we acquired 80% of Yealands Wine Group (YWG), currently the sixth largest wine producer in New Zealand. Subsequently we increased our shareholding to 85% in 2016 with the acquisition of further shares and then to 85.6% with an injection of capital to enable the purchase of additional property for planting.

With the retirement of the founder of YWG (Peter Yealands) from the business in June of this year we have taken the opportunity to acquire his shareholding which takes Marlborough Lines' ownership through its investment vehicle Seaview Capital to 100% at 30 June 2018.

From the time of our acquisition we recognised the latent potential of YWG which has subsequently been proven with an internal rate of return of 26% over the three years since we acquired our initial shareholding.

As we intended, the profitability of our investment in YWG and the associated payment of dividends to Marlborough Lines has enabled an increased level of dividends to be passed on to our shareholder, the Marlborough Electric Power Trust, for distribution to the electricity consumers of Marlborough.

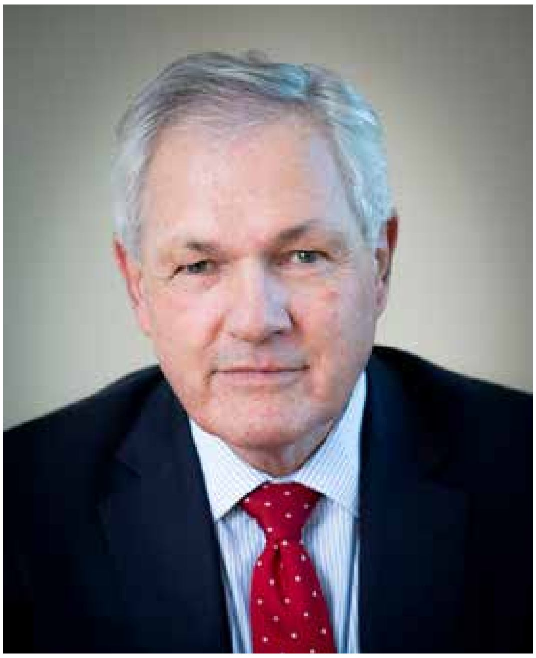
It is our intention that these dividends will further increase in the future and importantly we have plans in place for this to occur.

YWG have undertaken, and are continuing to undertake, additional planting of grapes and currently have consent to increase the capacity of our winery to some 27,000 tonnes. A record harvest of 24,500 tonnes was processed by YWG in the 2018 vintage.

Marlborough Lines also has further funds on deposit which we intend to invest when we identify other investments which satisfy our investment criteria and provide both annual returns and the opportunity for capital growth.

The ultimate beneficiaries of these further investments will continue to be the electricity consumers connected to the Marlborough Lines network.

The very positive feedback we receive is indicative that Marlborough's electricity consumers are appreciative of the uniqueness of our position and the benefits to them.



"The very positive feedback we receive is indicative that Marlborough's electricity consumers are appreciative of the uniqueness of our position and the benefits to them."

By virtue of receiving an electricity supply from Marlborough Lines they, in effect, receive an annual dividend from one of New Zealand's largest wine companies and certainly the largest Marlborough owned wine company. This is in addition to the annual network discount received from Marlborough Lines.

Marlborough Lines is indeed a proud owner of YWG and is pleased to be a participant in the sector which is the primary driver of Marlborough's economy – the production of quality wine.

So yes, Marlborough Lines is unique among the electricity distribution companies in owning a major wine company. We also own 50% of the Nelson Electricity network which supplies the city of Nelson.

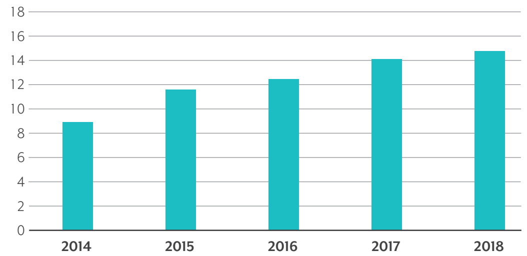
As the Managing Director has detailed in his separate report, there are a number of aspects in relation to the operation of our electricity network which are also for good reasons unique amongst the electricity distribution sector.

That Marlborough Lines is in such a strong position is a reflection of the endeavours of the Company's Directorate and the leadership within the Company of our Managing Director, Ken Forrest, and the commitment of our dedicated staff.

I'm also pleased to record my appreciation of our shareholder the Marlborough Electric Power Trust who have been positive in their support of the Company's strategy to add value and seek increased benefits to the electricity consumers of Marlborough.

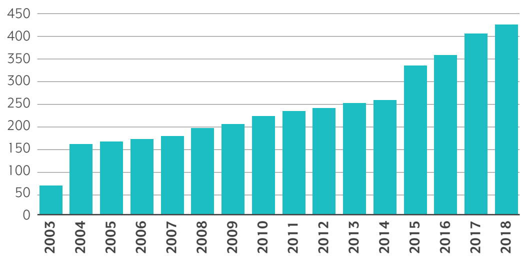
David Dew
Chairman

Net asset backing per share ($)



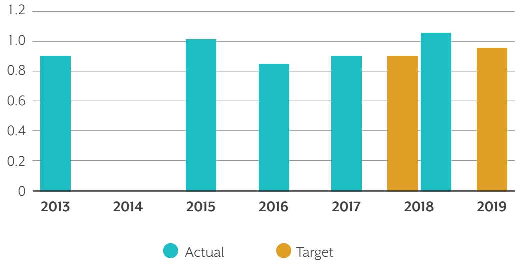
Net asset backing has increased from $2.22/share in 2002 to $15.26 in 2018. This is an increase of 587.4%.

Equity attributable to the Shareholder ($m)



Net shareholder wealth has increased from $62.2m in 2002 to $427.25m in 2018.

NEL dividends received ($m)



This year our Nelson Electricity dividend increased to $1.05m.

Marlborough Lines is a strong supporter of community groups, facilities and events. We have been the lead sponsor of Blenheim's Stadium 2000 since 2006.

PROFITABILITY SUMMARY

	2018 EBITDA $m	2018 EBIT $m	2018 Surplus $m	2018 Tax $m
Marlborough Lines	22.8	13.8	12.9	2.0
Consolidated Group	45.1	35.8	21.5	7.6

MANAGING DIRECTOR'S REPORT

DELIVERING ELECTRICITY AND INVESTMENT RETURNS

The commitment of Marlborough Lines is to provide our network customers with a safe and reliable supply of electricity of sufficient capacity to meet their requirements and manage all investments to maximise shareholder value.

The Energy Companies Act requires Marlborough Lines to operate first and foremost as a successful business. Our Group financial results this year bear testament to this requirement, and it is very pleasing to record a net profit after tax of $21.5m from revenue of $160m.

Although we have other investments, the delivery of electricity to Marlborough remains a serious commitment.

The electricity we deliver is not just a product but an essential and constant ingredient in the everyday lives of our customers.

It is not subject to the vagaries of hours of sunshine, the uncertainty of wind generation nor is it limited by the capacity of a battery. Our supply instantaneously matches our customers' demands. They have every expectation we will deliver a safe and reliable supply of electricity 24 hours a day, 365 days a year. And we see their expectation as an objective to be achieved.

It is for this reason we have long established prudent maintenance and capital expenditure programmes which take a proactive stance, to ensure that our network has the ability to deliver electricity safely and reliably to meet the capacity requirements of our customers.

Our all-time record reliability for the year is a result of which we are proud but it is now history.

We do not intend to rest on previous achievement.

We fully acknowledge it is what happens next that counts which is why we take a proactive view in the management of our network and the delivery of electricity.

Our ongoing surveillance of the network and the critique of its performance is integral to our investment strategy.

Indeed our entire operations are necessarily subject to continuous review but always in accord with our overarching objective of safely meeting the electricity requirements of our customers. We are confident that going forward the electricity users of Marlborough will continue to prefer the reliable and flexible capacity of our delivered electricity, rather than begin to consider off-grid alternatives with lesser levels of reliability and restricted capacity, typically at greater cost.

An important benefit of our electricity network is its diversity of connected load. This enables the capacity of the network to be shared and it also facilitates the interchange of electricity between consumers,

In the future it can be expected that the utilisation of electric vehicles will further increase customer demand and with intelligent load management, we will have the capacity to meet vehicle charging requirements.

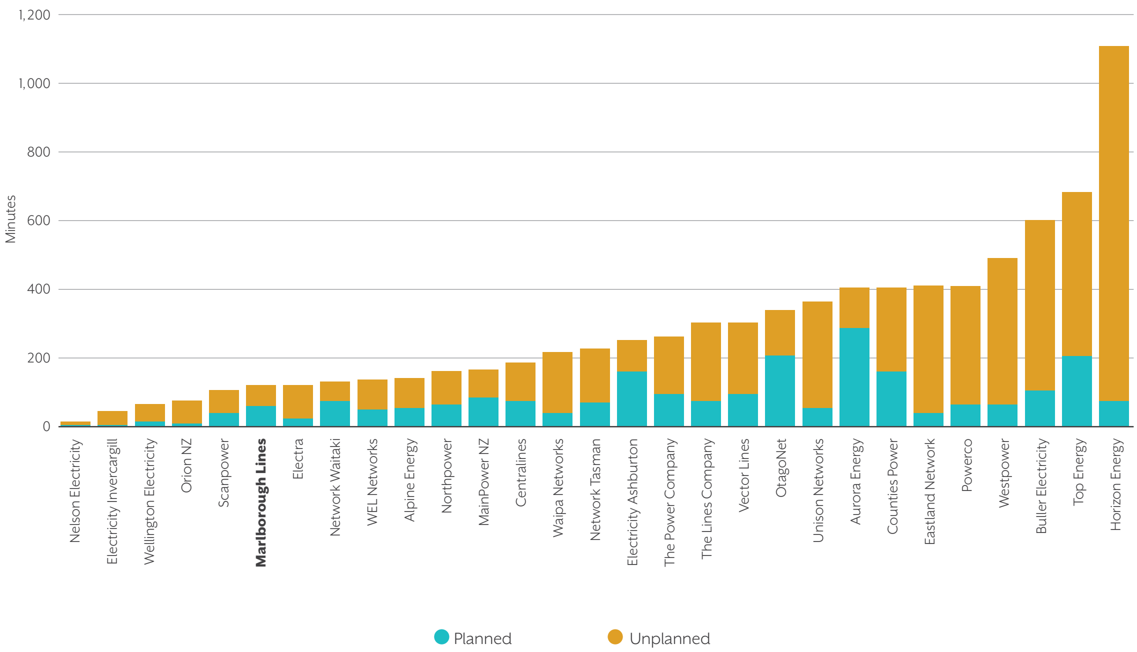
Of course, aside from the benefits associated with the delivery of a safe and reliable electricity supply Marlborough Lines' customers also receive an annual discount. This year's payment to a typical domestic customer amounted to $226[1] and the total value of discounts was $9.5m inclusive of GST.

"The electricity we deliver is not just a product but an essential and constant ingredient in the everyday lives of our customers."

1 Does not apply in remote areas.

2018 Total SAIDI non-normalised

(SAIDI is System Average Interruption Duration Index, or average minutes lost per customer per year)



Marlborough's electricity customers also receive the benefits of Marlborough Lines' investment external to its electricity network. Separate distributions to customers are made from the Company's shareholder the Marlborough Electric Power Trust. Last years' distribution was $180 and this is projected to increase to $200 for the current year. Looking forward it is our expectation that the value of these distributions will continue to increase.

Marlborough Lines is in good shape. It has quality network assets and unlike some other network companies in New Zealand is not faced with a mountain of deferred capital or maintenance expenditure.

Marlborough Lines' financial strength is such that the Parent Company has no external debt and continues to hold funds for further external investment.

From a customer perspective Marlborough Lines has delivered a record level of network reliability, far in excess of New Zealand's largest city notwithstanding the extreme remoteness of parts of our network.

Feedback from our most recent customer survey indicates the highest level of satisfaction that we have recorded for a range of criteria. Regardless we continue to be committed to an ongoing programme of continuous improvement in all aspects of our operations.

Looking forward, our customers and shareholder can expect to further benefit from our endeavours.

That Marlborough Lines is in such a strong position with balance sheet assets totalling $619m is a tribute to the vision of the Company's Directorate and to the hard work and dedication of the Company's staff over a period of years.

Marlborough Lines, its shareholder, the Marlborough Electric Power Trust, and the electricity consumers of Marlborough can look forward to the future with confidence.

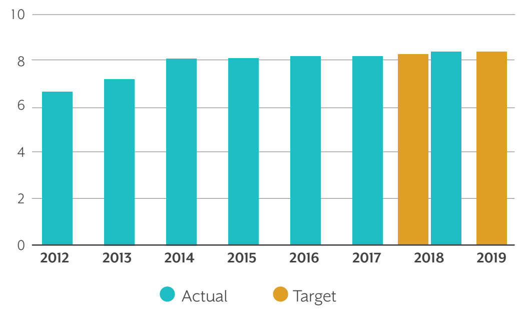
Ken Forrest
Managing Director

Our network in the Marlborough Sounds presents unique challenges.

Since 1999, electricity consumers in Marlborough have received discounts totalling $117.17m. An additional $30.37m has been paid to the MEPT as dividends.

For the year a typical domestic customer received a discount and distribution funded by Marlborough Lines totalling $406.

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



Total discounts paid at $8.31m exceeded target. Our estimates allowed for similar energy consumption to the previous year. In fact delivered energy increased by 1.5% and because the discount component is part of the posted price, the discount quantum naturally increased.

BOARD OF DIRECTORS

DAVID DEW

Chairman

LLB

David Dew is a commercial and personal lawyer and principal of Blenheim legal firm Dew and Company. He has been a member of the Board since December 2001. David is a director of Yealands Wine Group (YWG) Ltd and Nelson Electricity Ltd and a director of various other companies.

KEN FORREST

Managing Director

BSc Hons (Eng), MIPENZ

Ken Forrest has been the Managing Director of the Company since 1993, prior to which he was General Manager of the Marlborough Electric Power Board. Ken has a long history of service to the New Zealand electricity industry at a national level. His current directorships include: YWG, Nelson Electricity Ltd and Cuddon Ltd – along with other companies.

JONATHAN ROSS

Director

LLB Hons, BCL, BA

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

TIM SMIT

Director

BSc Eng (Civil) Hons, MIPENZ

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

IVAN SUTHERLAND

Director

VFM, ANZIV, MNZM

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

PETER FORREST

Director

BCom, ACA

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

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 has been involved in business interests that include several construction and development related companies. Phil is a Director of various other companies.

STEVEN GRANT

Director

BCom, LLB Hons

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

SENIOR MANAGEMENT

KEN FORREST

Managing Director

BSc Hons (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.

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).

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. Gareth 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.

WARNER NICHOL

Network Operations Manager

DipEng (Electrical)

Warner joined Marlborough Lines in December 2016 and is responsible for the day to day operations of the electricity network. Warner has substantial supply industry experience at WEL Networks, and more recently managing projects for various power companies through his own consultancy business.

BRIAN TAPP

Operations Manager

NZCE, REA

Brian is a registered engineering associate and managed 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. Brian retired in January 2018 after 51 years of service.

WAYNE STRONACH

Engineering Manager

BE (Electrical), MIPENZ (Electrical)

A graduate of Canterbury University, Wayne was 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. Wayne left the Company in August 2017.


ISUZU

DAY TO DAY OPERATIONS

Parts of our network have the lowest customer density in New Zealand.

We recorded our best ever supply reliability this year.

Our operations are underpinned by internationally certified standards for health and safety, quality and environmental management systems.

Some 247 of our network circuit breakers are remotely controlled.

We do the majority of our work with our own staff.

We try to ensure the wider community understand our business.

Every year we ask our customers what they think of us.

We support a large range of community, cultural and youth initiatives and events.

UNIQUELY DIFFERENT

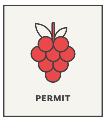
HEALTH AND SAFETY IS NOT AN ACCIDENT

ZERO

SERIOUS HARM INCIDENTS

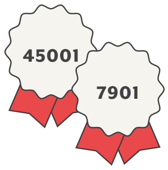
77%

OVERALL SCORE FOR STAFF HEALTH AND SAFETY CULTURE INDICATOR SURVEY, REPORTING THAT OVERALL HEALTH AND SAFETY CULTURE IS VERY GOOD



137

AS A RESULT OF OUR WINE INDUSTRY SAFETY ALERT AND EDUCATION CAMPAIGN, WE HAD APPLICATIONS FOR 137 CLOSE APPROACH PERMITS DURING THE 2018 VINTAGE IN COMPARISON TO NONE THE PREVIOUS YEAR

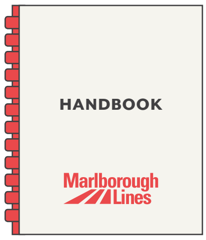


ISO 45001:2018 CERTIFIED

Following application in April 2018, we were the first New Zealand entity to achieve certification in the new ISO 45001 Occupational Health and Safety standard.

NZS 7901:2014 CERTIFIED

Our Public Safety management system certification was upgraded during the year from NZS 7901:2008 to the 2014 standard.



HEALTH & SAFETY HANDBOOK

An employee health and safety handbook was developed and issued to all operational staff, and has been shared with and adopted by others in the industry.

Health and safety is our first consideration in all that we do.

We are fully aware that the potential hazards of our industry are ever present and we readily accept our obligation and responsibilities to eliminate or mitigate the risks of these hazards.

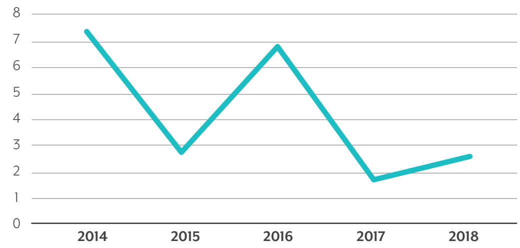
Our public and those connected to our electricity network properly have an expectation that they will not be exposed to any form of harm either from our network assets or our operations.

Equally the families of our staff have an entitlement to expect our employees will arrive home safely from their work.

TARGETS FOR 2019

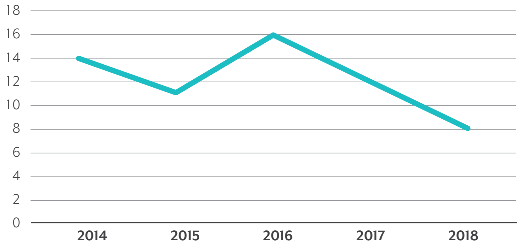
- Achieve zero serious harm incidents
- Improve the Company's health and safety culture
- Improve employee health and wellbeing
- Maintain ACC Safety Fleet Saver qualification
- Maintain certification in ISO 45001 Occupational Health and Safety and NZS 7901 Public Safety management systems and improve our performance in relation to these standards
- Undertake WorkSafe SafePlus independent onsite assessment to review the effectiveness of our health and safety systems and processes and identify improvement areas.

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



This graph shows the number of lost time incidents per 200,000 hours worked.

Total Recordable Injuries



This graph shows total recordable injuries which comprise medical treatment injuries, restricted work injuries and lost time injuries. While we are tracking in the right direction we must maintain vigilance relative to all aspects of our work.

ONE OF THE KEY ELEMENTS IN ENSURING HEALTH AND SAFETY WITHIN MARLBOROUGH LINES IS OUR CULTURE

Within our staff it is recognised that health and safety is the individual and collective responsibility of everyone. Every employee regardless of position is empowered to stop work at any time if they consider their work to be unsafe or detrimental to their health or others.

Our view is that regardless of the urgency of the task, unless the necessary time is allocated to properly consider mitigation of all health and safety hazards and risks, including 'what ifs', then the work cannot be undertaken.

Accordingly we have undertaken significant investment within Marlborough Lines to ensure our staff are empowered and fully informed to address matters of safety in all aspects of our operations. But education and training relative to health and safety must be an ongoing process.

During the year we undertook a staff health and safety culture survey to determine where we were at and to provide a basis for improvement going forward. This independent survey produced an overall score in terms of health and safety culture of 77%, which is a good result.

Irrespective, as a consequence of the survey we have identified opportunities for further improvement and have plans in place to enable our goals to be achieved.

We are well aware that in our industry the consequences of a momentary lapse in safety can be immediate with everlasting results, which is why health and safety must always be our first priority.

During the year we produced an operational health and safety booklet to supplement industry legislative requirements and codes of practice to reinforce our commitment to health and safety.

And we are pleased to say that this document has not only been utilised within Marlborough Lines but it has now been adopted by a number of other electricity network companies and contractors within New Zealand.

THERE ARE MANY FACETS TO HEALTH AND SAFETY

Health and safety has many facets and we are committed to ongoing improvements in all aspects of our operations to ensure our overarching goal of zero serious harm to our staff, contractors, consumers and members of the public is achieved.

We have long held the highest ACC WSMP qualification for safety, that of Tertiary, and this was renewed during the year. Going forward ACC has advised it will discontinue this process of certification.

Marlborough Lines has also long held the internationally recognised standard BS OHSAS 18001 for occupational health and safety and in March of this year this standard was replaced with the new ISO 45001 standard for occupational health and safety.

Following application in April 2018, we are pleased to advise that post balance date an independent audit of Marlborough Lines' systems relative to this new standard was undertaken and we have now been advised that we are the first entity in New Zealand to achieve this certification.

We also have certification for the NZ Standard for Public Safety Management Systems NZS 7901:2014.

Our attainment of these safety standards and our compliance with their required annual external audits are not objectives in themselves but are indicative of the integrated approach we take in relation to health and safety which is underpinned by the Health and Safety Charter adopted by the Company's Directorate.

But regardless of our certification, documentation of policies and procedures it's about what happens next that counts. Vigilance relative to health and safety has to be ongoing.

ENCOURAGING WELLNESS

It is fundamental to all health and safety aspects of our operations that our staff are physically and mentally fit to fulfil their particular role.

Accordingly we are committed to nurturing the health of our people, both mentally and physically. And we have a number of programmes and support systems in place to ensure that this is achieved. (See further information in the "Our people" section.)

OUR SAFETY SYSTEMS EMBRACE OUR CONTRACTORS

Subcontractors are frequently on our worksites and our own staff are on the worksites of other entities.

We have strict procedures in place to ensure that the safety standards in all our work environments are no less than those that prevail within Marlborough Lines.

WE CARE FOR OUR PUBLIC

Our operations and assets have the potential to impact on not only our customers and landowners but the general public.

Properly we have strict systems and procedures in place to ensure the safety of the public is achieved.

Part of our commitment to public safety includes the ongoing surveillance of all assets to ensure they are in a safe condition and no one is at risk from the potential dangers of electricity which in our sometimes very dry environment can include fire.

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

WINE INDUSTRY SAFETY

Following an incident in 2017 when a grape harvester made contact with an overhead power line, we decided to undertake an industry wide education campaign in relation to working near overhead power lines prior to vintage 2018.

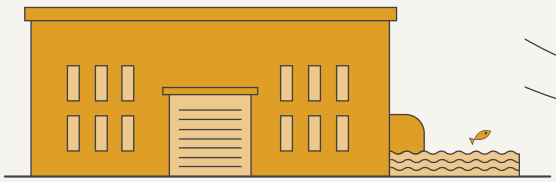
The close approach requirements are mandated by the Electrical Code of Practice 34 (ECP 34) and it was clear that these requirements were not widely understood in the wine industry. During vintage (grape harvest) a variety of different machinery is used and we wanted the operators of all mobile plant to be aware of the dangers overhead.

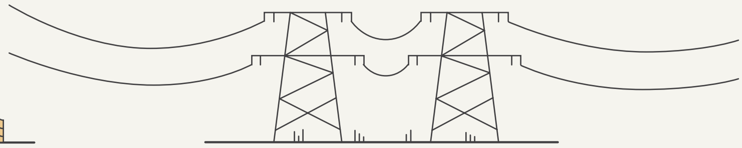
We created an education pack which included an introductory covering letter, extracts from the regulations and explanatory posters. As part of the campaign we visited 44 different wine companies, mailed the pack to a further 81 wine companies and then repeated the mail out to 508 different winegrowers/vineyard owners. We are very appreciative of the positive reception and assistance we received from all in the wine industry.

As a result of this campaign we had 137 applications for "close approach" permits to allow machinery to work closer to the lines and these were issued only after our staff were satisfied that appropriate health and safety plans were in place on each site, together with a level of close supervision. We had not previously had any requests for such permits in earlier years.

Our work with the wine industry in looking to identify and resolve danger areas where overhead lines presented unsafe situations around vineyards, was recognised by the Electricity Engineers' Association in 2017 with the presentation of a Public Safety award.

THE ELECTRICITY SYSTEM





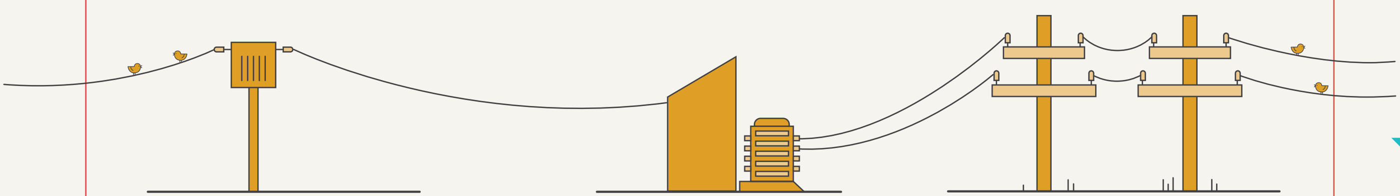
1. POWER STATIONS

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

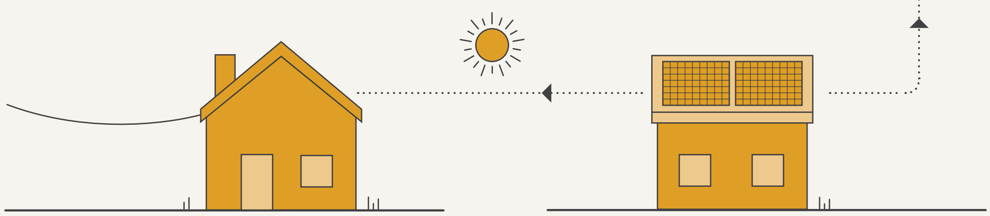
Marlborough Lines owns and operates the distribution network within Marlborough. We have a network of lines and cables in excess of 3,383km. We also operate a business unit for the construction and maintenance of lines.

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 at 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

UNIQUELY DIFFERENT – CUSTOMERS ARE INTEGRAL TO OUR OPERATIONS

In this section we provide answers to some of our customers most frequently asked questions.

WHO OWNS MARLBOROUGH LINES?

The Marlborough Lines shares are held by the Trustees to 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, from time to time.

WHAT ARE THE MAIN DUTIES OF THE MARLBOROUGH ELECTRIC POWER TRUST?

The MEPT acts like any normal company shareholder, appointing Directors, approving the annual Statement of Corporate Intent and receiving Marlborough Lines' dividends. The Trust manages its duties in accord with the requirements of the Companies Act, The Energy Companies Act and the Company's constitution. As shareholder, the Trust receives dividend income from Marlborough Lines and then makes its own distributions to electricity customers.

WHAT HAPPENS TO MARLBOROUGH LINES' COMPANY PROFITS?

All surpluses of the Company are either paid to the MEPT as dividends or reinvested within the Company to meet the Company's ongoing capital development programme.

WHAT PROPORTION OF MY ELECTRICITY BILL GOES TO MARLBOROUGH LINES?

After applying the Marlborough Lines network discount, the Marlborough Lines portion of the average customer electricity account is just 30.2 cents in every dollar. If the payment to customers from the MEPT ($180 paid in 2018) is also applied to this calculation, then an average customer pays just 24.81 cents in every electricity dollar towards the Marlborough Lines network.

WHY DOES MARLBOROUGH LINES HAVE SHARES IN THE YEALANDS WINE GROUP?

Following the sale of its investment in the Otago regional electricity network OtagoNet in 2014, Marlborough Lines achieved significant funds which enabled further investment. There are currently legislative restrictions on electricity network companies investing in electricity related investment options (selling or generating electricity). Because of the absence of opportunities in the electricity sector the Company then looked for alternative investments which would provide continuing future benefits through good annual shareholder returns and longer term capital appreciation. In 2015 the Company bought an 80% share in the Yealands Wine Group, with the objective of providing enhanced returns to its shareholder the MEPT. Marlborough Lines has since bought out the remaining shareholding to now hold 100% of the Yealands Wine Group share capital.

HOW DO CUSTOMERS BENEFIT FROM MARLBOROUGH LINES' INVESTMENTS?

Marlborough Lines' investments ultimately provide benefits to those connected to Marlborough Lines' network. During the past year each customer received a $180 tax-free capital distribution from the MEPT. Customers also receive the annual network discount – which for an average domestic customer amounted to $226.38 including GST.

Thus, an average domestic customer received $406.38 in total in the financial year just completed.

The Company expects that these levels of benefit will continue to increase going forward. This year a typical domestic customer will benefit by a total of $426.38.

HOW ARE THESE CUSTOMER BENEFITS CALCULATED – ARE THEY INCREASING OR DECREASING?

The total customer network discount paid in March 2018 for the period ending 30 June 2018 was $8.306m ($8.16m last year). The total, including GST, was $9.55m. The actual discount paid varies per customer as there is a fixed portion and a variable component related to the quantity of electricity used. (The discount components are part of the Company's posted distribution charges. This means that if total revenue and consumption rises then total discount increases. Conversely if revenue and consumption decrease then the total discount will also decrease.)

DOES THE COMMUNITY BENEFIT IN ANY OTHER WAY FROM THE COMPANY'S ACTIVITIES?

As one of the largest commercial entities in Marlborough, the Company believes that it should play a visible part in the wider community. Marlborough Lines provides support and sponsorship for a wide range of youth, sporting and community events, many of which are outlined in the community section on page 54. The financial cost of this support for the 2018 year amounted to $346,000.

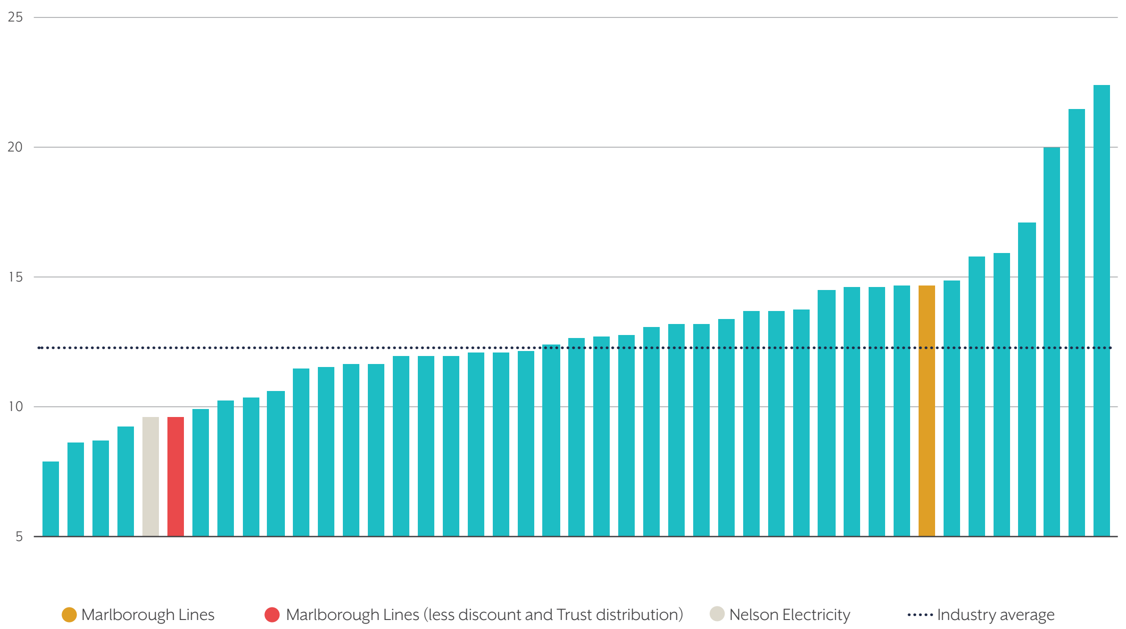
ARE CUSTOMERS IN MARLBOROUGH PAYING HIGHER LINE CHARGES THAN IN OTHER PARTS OF NEW ZEALAND?

In comparison to many electricity networks in New Zealand, Marlborough Lines has a very rural network with fewer than average customers per kilometre of electricity system. A predominantly overhead and far flung system can always be expected to be more expensive to maintain than a more densely populated underground power system. Having said that, our analysis shows that the Company's charges after discount compare favourably with charges for similar rural based networks in New Zealand (see graph next page). The latest system reliability statistics also show that for the operational year ended 31 March 2018, consumers in Marlborough experienced fewer minutes of lost supply than consumers on New Zealand's largest urban network.

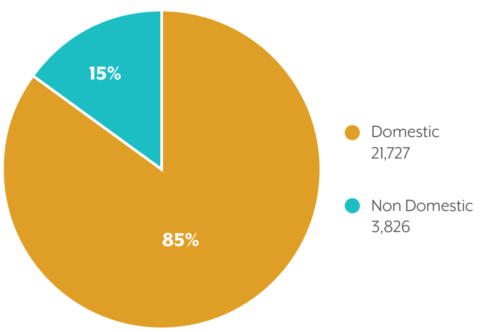
WHAT DO THE CUSTOMER SURVEYS UNDERTAKEN BY THE COMPANY TELL US?

Some 93% of customers responding to our latest independent customer survey said they were either satisfied or very satisfied with the Company's overall performance. For Marlborough Lines this is a record level of customer satisfaction. Our staff and operations were very visible during the earthquake aftermath, and our customers have clearly appreciated the Company's response. In almost every category of feedback, customer ratings for the Company have improved including faults service, reliability, discounts, information, sponsorship, management and Directors.

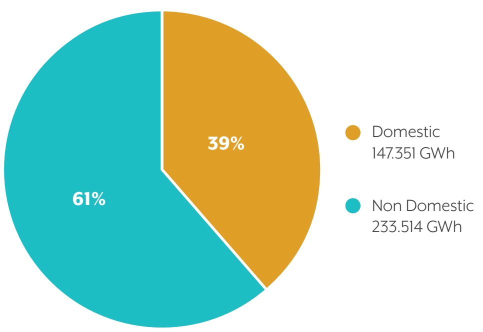
New Zealand network companies annual line cost to a typical domestic consumer as at May 2018 (line charges c/kWh)



Number of Network Connections (ICPs)



Electricity Consumption by End Use Category



Lucy Elvy leads our customer services team in Blenheim.

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 who will call out our faults staff when needed. Unlike many other service providers, we do not use recorded messages, other than when callers have been transferred to individual extensions. We encourage our customers and the public to call in with fault information as often this is invaluable in locating the fault source.

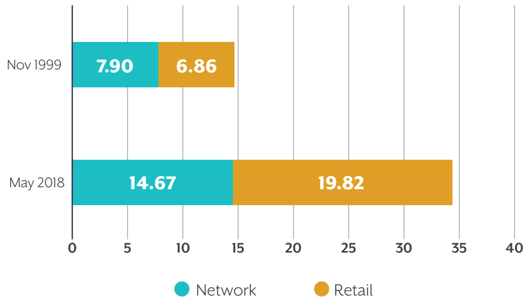
CAN CUSTOMERS GET ADVICE FROM MARLBOROUGH LINES ABOUT ENERGY EFFICIENCY AND CHANGING TECHNOLOGY?

Most certainly. We recognise that the electric world is changing rapidly and that customers sometimes require independent advice relative to the utilisation of electricity. We continue to provide a free energy efficiency and electrical advisory service and our customer service staff can assist with customer inquiries about electricity supply, retail electricity company contacts and complaint systems.

OUR WEBSITE CONTAINS A WEALTH OF INFORMATION OF INTEREST TO OUR CUSTOMERS.

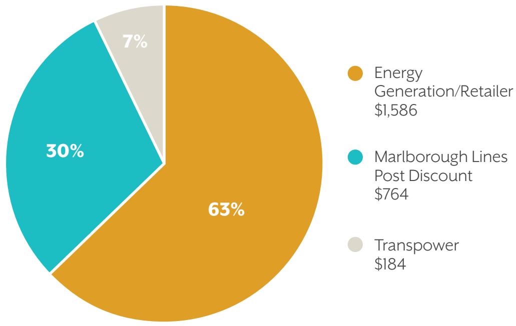
Customers can access information about the Company, its history, management and annual reports as well as electrical safety, energy efficiency, network pricing, fault information and network status on our website:
www.marlboroughlines.co.nz

Increase in components of average domestic electricity cost from 1999 to 2018 (c/kWh)



In the period from November 1999 to May 2018, Marlborough Lines' network charges have increased by 85.8%, whilst the average domestic charge for the retail/ generation portion of an average account has increased by 188.9% (source: Ministry of Business, Innovation and Employment).

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



Marlborough Lines' charges on a post-discount basis comprise only 30% of the total electricity account for the average domestic customer.

Network investment is ongoing.

OUR NETWORK

MODERN, RELIABLE, RESILIENT

UNIQUELY DIFFERENT – A RURAL ELECTRICITY SUPPLY WITH URBAN RELIABILITY

121

AVERAGE TOTAL MINUTES OF LOST SUPPLY WAS 17% BETTER THAN OUR TARGET OF 145 MINUTES

$12.16m

CAPITAL EXPENDITURE ON OUR NETWORK

6th

BEST NETWORK COMPANY RELIABILITY IN NEW ZEALAND FOR THE YEAR, DESPITE OUR UNIQUE AND CHALLENGING ENVIRONMENT

$8.03m

MAINTENANCE EXPENDITURE ON OUR NETWORK

At the flick of a switch, or in today's environment frequently via automation, consumers expect their electricity supply to be available 24/7 for 365 days of the year.

It's a goal we strive to achieve. And our record reliability of 121 SAIDI minutes[2] for the year ended 31 March is indicative we are on the right track.

Significantly according to Commerce Commission statistics our reliability for 2018 is the 6th best among New Zealand's 29 electricity networks.

The reliability provided to Marlborough's electricity consumers was only exceeded by those networks with largely urban reticulation, much of which is underground.

Notwithstanding the remoteness of parts of Marlborough Lines' network, and that parts of it can only be reached by boat or helicopter, our reliability was far better than that experienced by New Zealand's largest city, Auckland.

For Marlborough Lines to achieve such a result is the culmination of a number of factors with the first being a clear focus on a defined set of objectives in relation to the reliability of supply.

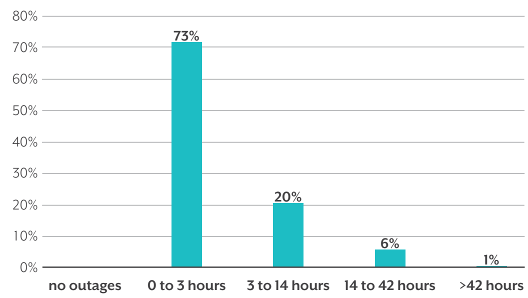
Engagement with our customers tells us reliability of supply is a priority. A reliable supply of electricity is not just a product but it is the lifeblood of business and an essential requirement for everyday living.

Accordingly we have a proactive approach to reliability. This starts with the quality design and construction of our network, regular field surveillance, recording and analysis of data, with an integrated programme of timely and prudent investment in both maintenance and capital expenditure. All of which is detailed in our comprehensive Asset Management Plan available from our website: **www.marlboroughlines.co.nz.**

Continuous improvement is inherent in all aspects of our operations together with ongoing assessment and ranking of the cost/benefit of affecting improvement. Our firm view is that prudent investment in maintenance and capital expenditure not only enhances reliability but over time minimises our operating costs. Because we have adhered to this philosophy for years, unlike a number of other networks in New Zealand, we are not faced with a mountain of deferred expenditure with attendant reliability and safety issues needing to be addressed. And from the perspective of both our customers and Marlborough Lines it is better to eliminate a potential fault before it occurs rather than have it disrupt supply when electricity is needed the most.

The Company sets targets for system reliability and these are audited by the Company's auditor (see page 130).

Reliability of supply (% of customers)



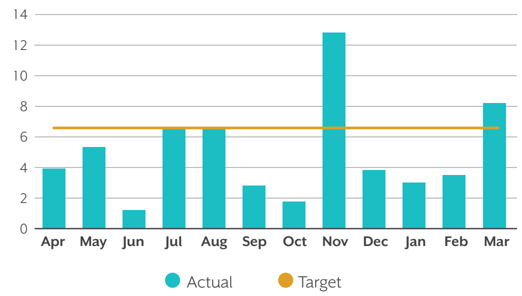
All consumers experienced an outage this year as a result of an issue with the Transpower network. Excluding this event outside of our control, our reliability of supply was a Company record

2 Reliability data is reported to 31 March in accord with Commerce Commission requirements.

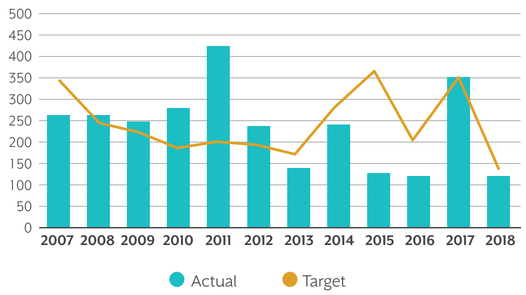
SAIDI total minutes lost

	2018 SAIDI	2017 SAIDI
Total Minutes Lost	121	354
Less Planned Outages	61	51
Total Minutes Lost by Faults	60	303
Less Minutes Lost by Extreme Events	–	176
Less Minutes Lost by Remote Lines	30	64
Total Minutes Lost by Urban and Rural Faults	30	63

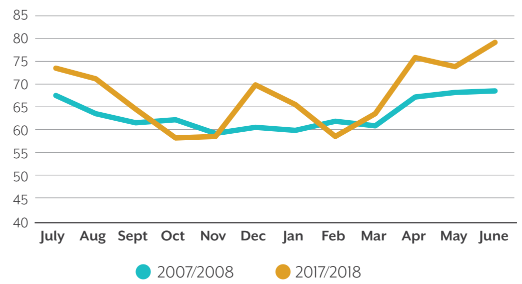
Unplanned outages (Minutes lost per month per customer)



Minutes of lost supply comparison (Total SAIDI minutes)



Total system monthly maximum demand (MW)



Increasingly air conditioning and irrigation loads can cause a modest peak mid summer.

OUR VEGETATION MANAGEMENT IS A CATALYST FOR RELIABILITY

Our philosophy in relation to network maintenance also applies to tree and vegetation management.

Simply put, the rural and remote forested parts of our network are such that we have no alternative but to maintain appropriate clearances between trees and lines at all times.

Consequently on both a per customer and a per kilometre basis our vegetation management costs are the most expensive of all New Zealand networks. However the reliability of our network demonstrates the effectiveness of what we do. The adoption of a vegetation management policy which maximises reliability of electricity supply, also helps to minimise the risk of fire. And the risk of fire in Marlborough can be high to the extent that during times of extreme risk, we work in consultation with the New Zealand Fire Service by adjusting the fault settings on our network on a real time basis.

INNOVATION WITHIN OUR NETWORK IS ONGOING

Expenditure relative to the impact of vegetation management is more than that incurred directly in cutting trees or vegetation.

The ground fault neutraliser installed at the Havelock Substation prevents the risk of arcing and we have plans underway for the installation of arc suppression equipment at all substations where we have a risk of fire. Such equipment has now become mandatory in parts of Australia.

Over the year the expansion of our SCADA system has continued and has facilitated an increase in the number of circuit breakers which we can now remotely operate. Overall our SCADA system which provides the opportunity for both remote control and surveillance of our network has made a huge contribution to improving the reliability of supply. Our work in this regard is ongoing and currently our assessments for new radio communications sites also consider suitability for enhancing the SCADA capability.

Similarly the permanent connection of remotely operated diesel powered generators in long radial feeders (the longest of which is 326 km) has also served to enhance reliability of supply.

For a number of years we have operated an advanced distribution management system which undertakes real-time surveillance of all network data, outage management and reporting together with customer communication and messaging. This system is also utilised in network load flow management and is integral to network analysis and design.

WE ARE COGNISANT OF EARTHQUAKE RISK

It has always been acknowledged that Marlborough is in an area of potentially high earthquake risk and this has been taken into account when considering the design and operation of all parts of our network. The unprecedented magnitude 7.8 earthquake of 14 November 2016 and subsequent earthquakes served as an actual test. Overall the network proved to have significant resilience largely because of its quality design and construction. Whilst a significant number of faults occurred they were relatively minor. Importantly because of the ready availability of our skilled and committed staff together with our contractors we were able to quickly respond because we had the necessary emergency resources in place including mobile generators and specialist plant for accessing and working on the network.

Subsequent to the November 2016 earthquake further information in relation to earthquake and geotechnical data has become available and has been assessed relative to the operation of the Marlborough electricity network. The commencement of the construction of a new 33/11kV substation at Renwick is an example of our response to available information.

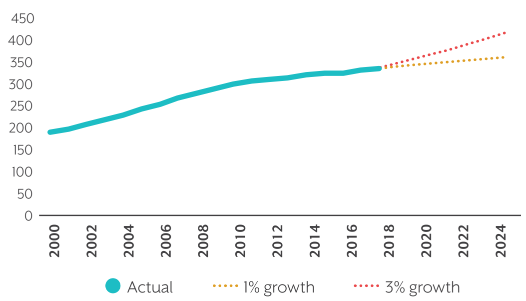
Overall it can be said that, unless there is severe liquefaction, a quality overhead network is reasonably resilient in the event of a major earthquake. Underground cables however pose a greater risk, particularly where the direction of the earthquake transfers to the direction of the cables or where there is severe liquefaction.

This situation could potentially apply to the CBD of Blenheim and in these circumstances following a major earthquake it may be necessary to consider the provision of alternate temporary supply.

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

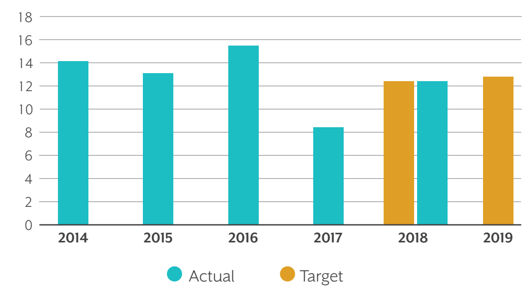
Marlborough Lines has an emergency preparedness plan and maintains an ongoing close liaison with Marlborough Civil Defence.

Distribution transformer capacity connected to network (MVA)



Growth in installed transformer capacity is mainly driven by subdivisions and vineyard development.

Annual capital expenditure ($m)



Some capital expenditure was deferred in the 2017 financial year as resources were applied to earthquake damage. We are now back on track.

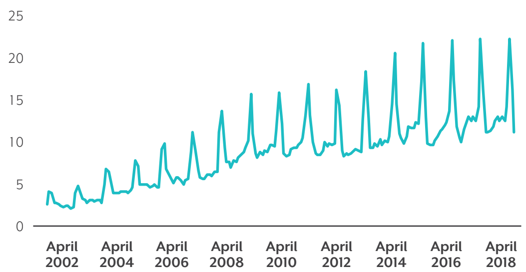
Capital expenditure comparative numbers

	2019 ($m)	2018 ($m)	2017 ($m)
Actual		12.163	8.354
Target	12.758	12.224	12.074

Maintenance expenditure comparative numbers

	2019 ($m)	2018 ($m)	2017 ($m)
Actual		8.026	9.06
Target	8.569	8.084	7.921

Winery maximum demand by month (Total all wineries MVA)



Peak energy consumption during vintage is levelling off as most available land is taken up.

OUR PEOPLE

QUALITY SERVICE NEEDS QUALITY PEOPLE

2018 HIGHLIGHTS

128

FULL TIME EQUIVALENT STAFF EMPLOYED BY MARLBOROUGH LINES IN BLENHEIM

162

STAFF EMPLOYED BY OUR SUBSIDIARIES AND ASSOCIATES

4,149

TOTAL HOURS SPENT TRAINING OUR STAFF

2019 FOCUS

ENHANCING OUR MENTAL HEALTH AND WELLBEING PROGRAMME

INCREASING UPTAKE OF HEALTH INITIATIVES (HEALTH CHECKS, SKIN CHECKS, FLU JABS ETC)

ASSESSING AND TRAINING STAFF TO WORK IN STRESSFUL SITUATIONS

IMPLEMENT PROGRAMME WITH LOCAL COLLEGES TO DEVELOP AWARENESS AMONGST YOUNG PEOPLE OF CAREER OPPORTUNITIES WITHIN OUR INDUSTRY

TALENTED AND COMMITTED PEOPLE MAKE ALL THE DIFFERENCE

Operating an electricity network and managing significant investments requires a wide range of skills and capabilities. Marlborough Lines has talented and committed people in all areas of its operations and works hard to create an environment that enables our people to flourish.

We provide quality working conditions where health and safety is our first priority, and our people are empowered to stop work if they believe it is unsafe to continue.

Our quality working conditions, along with Marlborough's great climate and range of recreational opportunities all help in maintaining the stability of our workforce. As at 30 June 2018 we employed 128 full-time equivalent staff spread across a range of vocations.

68% of our staff are "trades" qualified

HEALTH AND WELLBEING

We recognise that everyone at Marlborough Lines can contribute to improved mental health and wellbeing at work, and this is an area which is receiving increasing focus. There are multiple contributing factors to a person's health and wellbeing, many of which are external to the workplace. Accordingly we encourage recognition of a balanced lifestyle.

In the current year we will introduce a Mental Health and Wellbeing Policy to reinforce our commitment. We will also align our Wellbeing Programme with the 5 Ways to Wellbeing, which are 5 simple evidence-based actions to improve wellbeing, endorsed by the New Zealand Mental Health Foundation.

We believe that increasing the awareness of our people in relation to the 5 Ways will enable them to be embedded into everyday thinking and actions in the workplace to make a real difference.

Within our workforce our people can potentially be exposed to a range of issues which could contribute to poor health if not properly managed. These include exposure to the sun, noise and hazardous dust. For a number of years we have offered annual health checks to all staff to monitor their health so any changes in their health status as a result of exposure to possible health hazards can be identified and addressed. Because we want our staff to be resilient to winter ills, we also provide flu vaccinations and subsidised medical health insurance so that when it is needed, staff are able to access medical services on an efficient and timely basis.

We are also investing in the next generations of scientists and engineers by being the primary sponsor for the Marlborough Schools Science Fair for over 25 years. Electrical engineer Andrew McFarlane discusses a science exhibit with a student.

During the year in review we added free in-house complete skin checks, undertaken by a qualified doctor, to our health and wellbeing programme. Some 70 employees (54%) took up the offer. The checks found 10 suspicious lesions in nine staff members which required immediate follow-up. Another nine staff members required treatment to areas of sun damage. This was a resounding success given the possible consequences had the issues not been picked up. We will continue to offer the checks annually and our goal is to increase the uptake each year so potential issues are identified and treated.

INVESTING IN OUR PEOPLE

Maintaining a team of qualified, skilled and highly employable people, particularly in the electricity industry, can be challenging and requires an holistic approach to employment. We focus on ensuring our employees are satisfied, challenged and rewarded so their first choice is to remain as part of our valued team. Across New Zealand there is a serious shortage of skills in the electricity supply industry. This means that if we don't look after our staff they will be attracted elsewhere and there is a consequential cost to our business in terms of lost investment in training and development.

We are currently supporting 17 staff members through trade and tertiary qualifications. These range from hands on trade skills (cable jointing, electricians, faults and arborists), to administrative diplomas and MBA post-grad studies. For all staff we want to ensure their work environment provides opportunities to expand their skills and abilities, and maximise their potential.

In the coming year all front line employees will undertake a leadership programme to strengthen workforce engagement in health and safety.

DIVERSITY IN THE WORKPLACE

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

In our industry the growth of female employees in trade and technical roles has been slow. There are industry organisations working to change the under-representation of females in these roles by raising awareness and encouraging more women to look at career options within the various infrastructure industries. ML is supportive of this approach and going forward we intend working with local colleges to raise awareness amongst young people in relation to our industry and career opportunities with a goal of encouraging young people – female and male – to work with us.

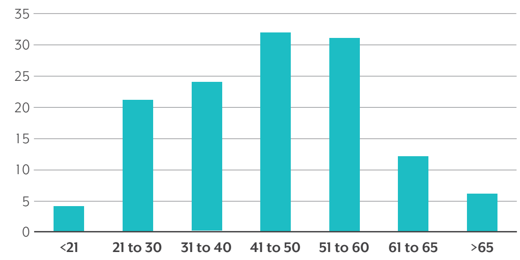
At ML we have a number of well qualified and capable female staff in positions of responsibility including management of pricing and retailer relationships, management of purchasing, management of vegetation control, system control operations of our electricity network systems management and design and estimating for our Contracting division.

As with all recruitment at ML our objective is to ensure we employ the right person for the job, and we embrace the guidelines of the Human Rights Commission in our employment practices.

RECOGNISING AN EMPLOYMENT MILESTONE

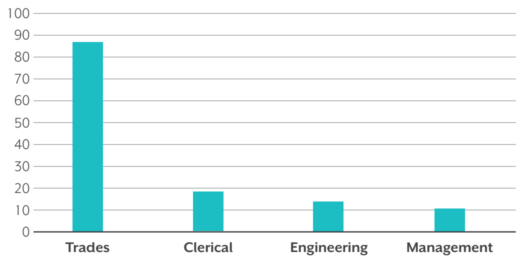
Last year we noted that our Network Operations Manager, Brian Tapp, had achieved 50 year's service with Marlborough Lines and its predecessor organisations. After completing 51 Years in January 2018, Brian elected to retire just prior to the end of the financial year. In acknowledgement of his outstanding contribution to the Company over such a long period, the new Renwick Substation will be named the "Tapp Substation" in his honour.

MLL employees by age bracket (no. of employees)



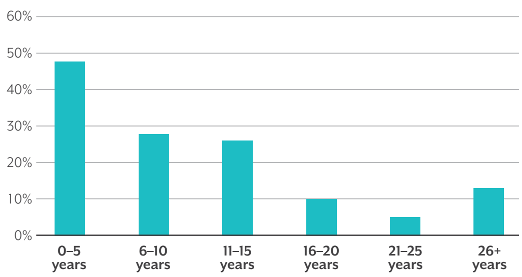
The average age of our team is 45 years.

MLL employees by occupation (no. of employees)



Building and maintaining electricity networks requires a "hands on" workforce, hence we have 87 trades qualified staff.

MLL employees by length of service



The average years of service across our workforce is 11 years.

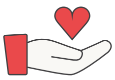
OUR COMMUNITY

IN PARTNERSHIP WITH OUR COMMUNITY

37

SIGNIFICANT ACTIVITIES AND GROUPS SUPPORTED INCLUDING:

- Marlborough Schools Science and Technology Fair
- Garden Marlborough
- Marlborough Business Excellence Awards
- Blenheim and Picton Christmas parades
- Funded a new ambulance for St John
- Picton Maritime Festival
- Sponsoring a horse at Riding for the Disabled



$346K

PROVIDED FOR EVENTS, INDIVIDUALS AND GROUPS BY WAY OF SPONSORSHIP AND DONATIONS

$46K

TERTIARY GRANTS AWARDED TO NINE STUDENTS

LEAD SPONSOR FOR THE MARLBOROUGH LINES STADIUM 2000 SINCE 2006

RECOGNISING WE ARE AN INTEGRAL PART OF OUR COMMUNITY

We deliver much more to our community than a safe and reliable supply of electricity.

As one of the larger corporates in the region we also believe we should play an active and much wider role in our community through supporting community projects and initiatives.

The Marlborough region has become known for some truly world class events including the annual Wine and Food Festival, the biannual International Sauvignon Blanc celebration, the biannual Classic Fighters Omaka Air Show and Garden Marlborough. Marlborough Lines is proud to be associated with these events which are a resounding success.

Our sponsorship is not limited to major events. The purchase of a new St John ambulance during the year is an example. We recognised that St John needed a new ambulance and that our assistance would benefit a large number of Marlborough residents both young and old. At a ceremony in Blenheim we presented St John with a new ambulance ready for service.

In other circumstances we assist with our technical expertise in the provision of electricity supplies of both temporary and permanent connections for worthy community facilities.

We continue to be the headline sponsor for the Marlborough Lines Stadium, Marlborough's biggest indoor sports facility.

The feedback we have received in relation to our sponsorship within the community is very positive.

For the year in review Marlborough Lines has supported 37 different organisations and events. This equated to over $346,000 in sponsorships and donations. In many cases we also provide in-kind and on-site support for festivals, galas etc, and this is usually given free of cost.

In addition the Company provided tertiary scholarships to nine students totalling $46,000.

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 (Māori interests), wherever practical, about any of our activities in which they may have an interest

> Sponsoring appropriate community organisations, including the current programme of providing tertiary education grants, assisting youth development initiatives and advancing education

> Continuing to provide technical support and advice on a range of regional events which benefit local people and the economy.

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

> Are associated with the education and advancement of youth

> Promote the region in either a commercial, educational, sporting, cultural or historical sense

> Benefit greater, rather than fewer, numbers of people

> Provide the Company with recognition of its community role and commercial presence in the local economy.

OUR ENVIRONMENT

THINKING AND ACTING ENVIRONMENTALLY

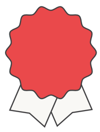
UNIQUELY DIFFERENT – WE ALSO LIKE GARDENS AND TREES

7

ENVIRONMENTALLY FRIENDLY URBAN ZONE SUBSTATIONS WHICH BLEND INTO THEIR URBAN SURROUNDS

46ha

EUCALYPT FOREST PLANTED FOR FUTURE SUSTAINABLE CROSS-ARM TIMBER SUPPLY



ISO

14001:2015 ENVIRONMENTAL MANAGEMENT SYSTEMS CERTIFICATION

THOUSANDS

OF WILDING PINES ELIMINATED BOTH DIRECTLY AND BY THE MARLBOROUGH SOUNDS RESTORATION TRUST

TREADING LIGHTLY AND MAKING A DIFFERENCE

In seeking to minimise our impact on the environment, the challenge is to have a culture which always questions if we can do things better to achieve minimal environmental impact. Yes this is challenging in that everyone typically wants an electricity supply at minimum cost, but we take every opportunity to apply our commitment to sound environmental management, benefitting the community wherever we can.

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

The recent investment in the Yealands Wine Group fits well with our environmental pledge. YWG has an enviable record as an industry leader in the development of innovative and sustainable land management and wine making practices.

As a further indication of our commitment, we continue to maintain the internationally recognised ISO 14001:2015 Environmental Management Systems certification.

OUR ENVIRONMENTAL POLICY OBJECTIVES

> To meet and where applicable exceed our environmental compliance obligations.

> To maintain the ISO 14001 Environmental Management Systems certification and ensure the provisions of this standard are reflected in all aspects of our operation.

> To regularly review our environmental practices, objectives and targets towards continual improvement.

> To ensure that environmental principles are used in planning network extensions or reconstructing existing networks.

> To encourage energy efficiency within Marlborough Lines and externally with our customers.

> To provide clear information, training, instruction communication and resources to facilitate a culture of protection, impact prevention and care of the environment.

MAKING A DIFFERENCE IN 2018 – FOR THE REVIEW YEAR WE:

> Continued sponsorship support for the Marlborough Sounds Restoration Trust's (MSRT) wilding pine eradication scheme. This project will scenically enhance hundreds of kilometres of the Marlborough Sounds coastline – a major tourist drawcard.

> Continued sponsorship support for the New Zealand Dryland Forests Initiative (NZDFI) Eucalypt breeding research programme. We expect this research project to eventually result in the replacement of millions of treated pine vineyard posts with hardwood alternatives.

> Completed first prune and thinning across the entire 46ha Quayle Stream Eucalypt forest. We are seven years into growing our own hardwood cross-arm timber to reduce reliance on imported indigenous timber species.

> Continued to enhance our recycling culture and focus in relation to metals, fluids, timber, office wastes and the centralisation of waste removal to a single contractor. We have introduced waste sorting in most offices.

> Maintained our programme of property beautification around prominent substations and buildings. Typically our major substations are not distinguishable as such.

> Maintained a watching brief on new developments in photovoltaics, batteries and electric vehicles, and providing the opportunity to test drive our electric car.

SOME OF OUR SIGNIFICANT ENVIRONMENTAL INITIATIVES

Good neighbours are hard to find

Where it becomes necessary to build significant new infrastructure in urban areas we are committed to sympathetic environmental design and to landscaping the surrounds even to the extent that our major 33/11kV zone substation buildings and grounds cannot be outwardly identified as substations.

This results in our substations being ideal neighbours – i.e. attractive buildings on landscaped properties, well maintained and with no noise.

Keeping up with technology

We recognise that the electrical world is changing rapidly. In recent years the development of photovoltaic technology has enabled even the smaller domestic electricity consumers to consider the possibility of having distributed generation on their own roof, thereby reducing the volume of energy drawn from the grid.

As the network provider we recognise the need for consumer support to assist consumers in their assessment of smaller generation on both a technical and economic basis. We need to also ensure that the ramifications of consumers feeding surplus energy back into our network are well understood.

Accordingly we have undertaken significant modelling of our network, to ascertain the consequences of widespread photovoltaic installation and to be prepared.

Currently as acknowledged by EECA and the Consumers Institute, photovoltaics have a payback period in excess of 20 years for a typical domestic consumer.

Our technical advisory service provides a high level of assistance for these consumers.

The rapidly improving performance of electric cars and their improved availability will result in their increased utilisation. Marlborough Lines has made its own electric car available to the public to test drive and some have consequently purchased their own vehicle.

Public electric charging stations have been provided by other parties in Marlborough and the Marlborough Lines network is well placed to provide any additional charging capacity for electric cars required going forward.

Carbon emissions – more or less hot air?

As far as we know we are the only electricity network company in New Zealand to measure its own carbon emissions. Every three years we undertake a formal greenhouse gas assessment. The most recent formal assessment was completed for the year ended 30 June 2017 and indicated total emissions of 5,178,500 kg of CO_2.

If the emissions in relation to transmission and distribution of electricity are subtracted (we have virtually no control over these and they will be at a low level due to the predominance of hydro generation), then the remaining emissions are fully offset by the carbon sequestration arising in forests which Marlborough Lines owns. See table below.

Also of note in this regard is that our investment in the Yealands Wine group complements our carbon emission philosophy perfectly in that YWG has been certified as being "Carbon Zero". YWG has in fact won numerous awards for the development of sustainable and environmentally friendly grape growing and wine making practices.

Scope 1 Emissions	2016/2017 kg CO_2
Fuel usage	783,760
Fugitive emissions	10,790
Total	**794,550**
Scope 2 Emissions	
Electricity – end use	90,410
Total	**90,410**
Scope 3 Emissions	
Electricity – T&D losses	3,858,970
Taxis	930
Rental cars	690
Air travel	32,850
Waste to Landfill	46,200
Contracted boat travel	8,310
Contracted helicopters	26,790
Contractors fuel use	318,800
Total	**4,293,540**
Total Emissions	**5,178,500**
Offsets	
Forested land	1,632,590
Total Offsets	**1,918,590**
Nett Carbon Emissions	**3,545,910**

Pleasing results are being achieved at our Quayle Stream eucalypt forest.

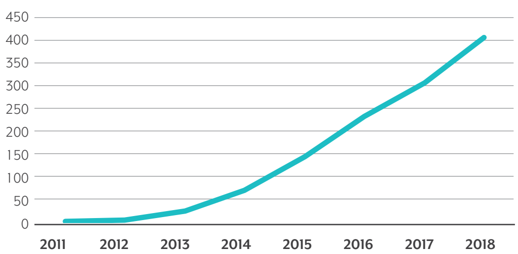
Timber alternatives – we absorb carbon

Historically Marlborough Lines has sourced its power pole cross-arm timber from Australia and South East Asia. This timber is hardwood, typically indigenous and increasingly in short supply.

In 2008 Marlborough Lines commenced supporting a Marlborough based timber growing research project (New Zealand Dryland Forests initiative – NZDFI) aimed at breeding and growing eucalypt hardwoods suitable for use as vineyard posts for the wine industry. We very quickly realised a common interest through the potential to also produce cross-arm timber.

Whilst we have continued to support the NZDFI we decided in 2011 to plant a eucalypt forest ourselves using the knowledge already gained from the research project. We currently have 46ha of seven year old eucalypts, form pruned and thinned and showing good growth. It is too early to make conclusions as to the eventual timber quality, but we are very pleased with the results to date.

Applications to connect distributed generation



We are experiencing steady growth in distributed generation – mostly domestic rooftop photovoltaic panels.

WE SUPPORT OTHER PEOPLES' ENVIRONMENTAL INITIATIVES

- This year we continued our financial support of the Marlborough Sounds Restoration Trust's Wilding Pine Eradication Programme, whose goal is to restore and protect the natural environment of the Marlborough Sounds. The programme is achieving significant results with the poisoned wilding pines rotting to insignificance and being replaced by native species.
- We also continued our support of the New Zealand Dryland Forests Initiative (NZDFI) Eucalypt breeding programme. The vision of the NZDFI is for New Zealand to be a world-leader in breeding ground-durable eucalypts, and to be home to a valuable sustainable hardwood industry based on eucalypt forests, by 2050.

MINIMISING WASTE

After introducing various recycling programmes throughout our Company we have now moved to a system with a single waste removal contractor who will as part of the process record and monitor the various waste and recycling volumes taken off-site each month. This will enable us to set targets and analyse where the volumes of materials being accumulated might better be reduced.

ELECTRICITY DISTRIBUTION REGULATION

UNIQUELY DIFFERENT – THE REGULATION OF OUR INDUSTRY AND PARTICULARLY THE REPORTING REQUIREMENTS ARE UNIQUE COMPARED TO OTHER BUSINESSES

COMMERCE COMMISSION

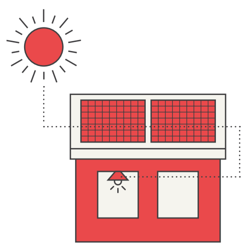
A government agency which manages in this case the monopoly part of the electricity industry – that is the provider of the transmission and distribution functions. Marlborough Lines provides a complex set of accounts and statistical information to the Commission each year.

ELECTRICITY AUTHORITY

An independent Crown Entity which controls the relationships between generators, transmission owners, distributors, retailers and consumers and manages competition. The Electricity Authority closely monitors how distribution companies set their prices.

MINISTRY OF BUSINESS, INNOVATION AND EMPLOYMENT

A government department which manages the technical and safety administration aspects of the electricity industry and which also gives effect to government policy directives and required social outcomes e.g. the low fixed charge pricing options.



OTHER INDUSTRY PARTICIPANTS

Energy Efficiency and Conservation Authority – Promotes and encourages energy efficiency and conservation.

Utilities Disputes – A company providing disputes resolution services which electricity distribution companies must subscribe to.

Regulation is a key and ongoing challenge in our industry. The regulations which our business is subject to are often technical in nature and frequently changing. It is therefore important we understand and carefully manage the current and potential impact of all relevant regulations. As our network has some unique characteristics it is also important we participate effectively in the consultation processes offered to ensure our views and particular circumstances are fully considered.

ELECTRICITY AUTHORITY REGULATORY WORK STREAMS

Review of distribution pricing

The Electricity Authority continues to support an industry-led approach to the reform of network charges for distribution services, however it has expressed concern that the progress is too slow and that not all distributors are providing specific plans and updates on these plans.

It is the view of the Electricity Authority that as technology such as solar and battery storage provide opportunities for consumers to manage their energy requirements in different ways, it's important that pricing adapts to provide the right incentives and investment decisions.

Alternatively, Marlborough Lines considers that there remains significant regulatory impediments to effective pricing reform (including the Government requirement for low fixed charges and the retention of supply to uneconomic areas) and that consistent regulation and government policy is needed in this area.

It is Marlborough Lines view that any pricing regime needs to be fair and equitable to the majority of customers.

Review of Transmission Pricing Methodology (TPM)

The reform of the Transmission Pricing Methodology was one of the Electricity Authority's key projects. This project examines how the cost of operating the national electricity transmission grid can be efficiently allocated between users. Although on hold for most of the year, the Authority recently reaffirmed its commitment to progress this project and will be reassessing the economic rationale for the changes proposed.

Our larger zone substations are attractively landscaped and with zero noise emissions they make great neighbours.

COMMERCE COMMISSION

The Commission has recently completed its review of the Input Methodologies (IMs) with some changes to the rules around transactions between related parties, in particular between regulated and non-regulated areas of business. The IMs are the rules, requirements and processes applying to the regulation of Network companies under Part 4 of the Commerce Act 1986.

Although Marlborough Lines is exempt from price control, the IMs influence the return received from the Company's investment in Nelson Electricity and also determine the way information is disclosed. The process for a reset of allowable revenue to apply from 1 April 2020 is now underway.

During the past year the Commission indicated that the asset management practices of electricity distribution companies will be a key area of focus. Marlborough Lines considers that its network is in a good state of repair despite the challenges of remote areas and high cost of vegetation management.

Marlborough Lines is relaxed in relation to any rule tightening between regulated and unregulated businesses.

Additionally Marlborough Lines has not entered into the business of operating motor vehicle charging for which the Commission has indicated some concerns. Involvement in vehicle charging is not seen as being part of a network's monopoly function and the Commission is needing to be certain that no cross subsidy from the monopoly business exists.

GOVERNMENT ELECTRICITY PRICE REVIEW

Upon formation the new government announced it would undertake a review of electricity pricing. The scope of the review is broad and includes most elements of providing electricity services to New Zealanders.

A key area of focus for the review will be understanding the increases in electricity costs that have occurred for residential customers. These increases in costs mean many households now struggle to pay their power bills, or spend a large part of their income on electricity.

A significant challenge for the government will be to find a way to balance their desired social, fairness and equitable outcomes with the need for pricing to reflect cost of supply and appropriate incentives for efficient investment in emerging technologies.

The review will consider the wave of technological change that is coming in the years ahead, and whether our electricity market is going to be able to respond to the challenges these changes will bring.

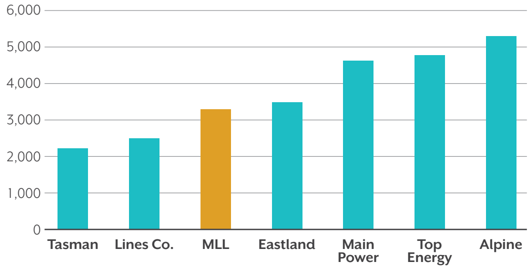
Marlborough Lines is looking forward to engaging constructively with the review panel and will set out our key concerns and suggestion for improvements which could benefit our customers and stakeholders.

GAUGING OUR RELATIVE PERFORMANCE

The statistical and accounting surveillance undertaken by the Commerce Commission does enable very useful Comparison of metrics between network companies. The graphs on the next page compare Marlborough Lines with six similar urban/rural networks.

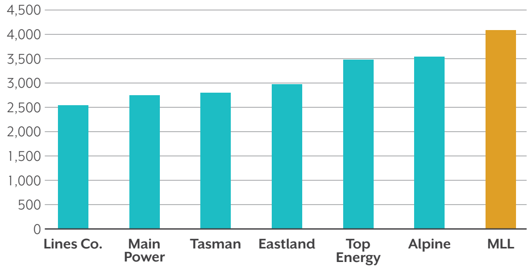
SOME REGULATORY COMPARISONS WITH OUR PEERS

Capital expenditure (average 2014 to 2018) per km



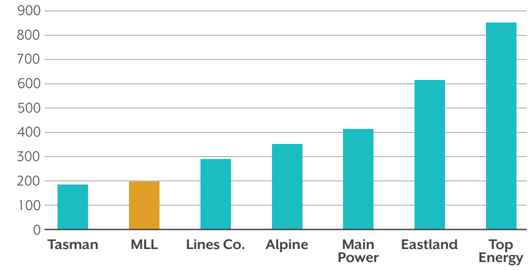
Marlborough Lines has maintained a consistent level of capital expenditure over the last 20 years. Each company must file an Asset Management Plan which sets out capital projections for the following 10 years. Capital expenditure can vary with customer requirements.

Operating expenditure (average 2014 to 2018) per km



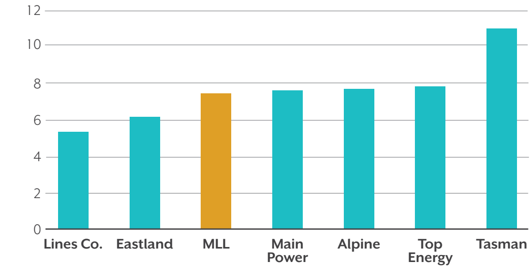
Operating expenditure is driven in part by terrain characteristics and vegetation control requirements. The Marlborough network is comparatively expensive to operate and maintain due to the remoteness of large parts of its network.

Outage minutes (average 2014 to 2018)



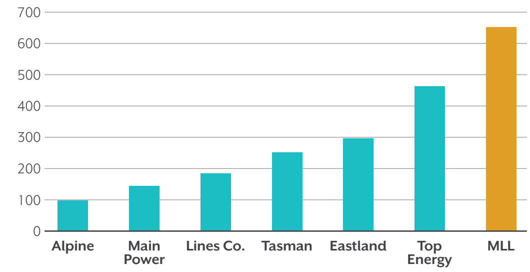
The numbers for MLL and Mainpower are significantly affected by the 2016 earthquake. Irrespectively Marlborough Lines has had very good reliability over the last five years. With supply to an average consumer out for 195 minutes per year, this is better than the majority of networks and Vector in Auckland with 267 outage minutes per consumer.

Consumer density (ICP/km)



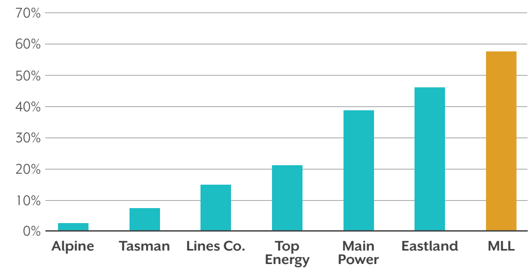
Marlborough Lines with an average of 7.5 consumers per kilometre of line is towards the lower end of the scale. City networks such as Auckland, Wellington and Nelson have 30 consumers or more per kilometre of line.

Vegetation management expenditure (average 2014 to 2018) per km



The extension of electricity reticulation into heavily forested areas such as the Marlborough Sounds adds a disproportionate cost in terms of vegetation management.

Remote and/or rugged terrain (%)



Marlborough Lines is second only (out of all 29 EDBs) to OtagoNet in the percentage of remote/rugged terrain, through which electricity lines are more expensive to build and maintain.


Yealands
ESTATE

YEALANDS WINE GROUP

- 6th largest New Zealand exporter of wine by volume.
- Largest Marlborough owned wine company.
- The world's most sustainable winery and certified "carbon zero".
- Based on the wild and untamed coast of Marlborough and the unique terrain of Seaview.
- A culture built on passion.
- Thinking boldly and treading lightly.
- Mowing our grass with Baby Doll sheep.
- Public access is encouraged through our Seaview vineyard.
- Established monarch butterfly sanctuary.
- Extensive use of compost.

UNIQUELY DIFFERENT

QUALITY IN VITICULTURE REFLECTED IN AWARD WINNING WINES

Despite some challenging weather in the lead up to harvest, the Yealand's team performed exceptionally well and the quality of the 2018 wines across the board is looking very strong. The company's ability to harvest and process grapes from specific blocks on demand, through good management and the ownership of its own harvesting equipment and winery, ensured there was complete control over the process – a distinct industry advantage.

Yealand's wines continued to perform well on the global stage, the company being awarded with "Most Successful Winery" at the Sydney International Wine Competition in addition to "Best Wine Of Show" at the Decanter Asia Wine Awards, four trophies at the International Wine Competition (UK) and a multitude of Gold medals. The company also collected the Air New Zealand "People's Choice" award in the domestic market.

COMPETING GLOBALLY

The global market remains extremely competitive, particularly in the more established markets, with increasing pricing pressure as producers compete for limited shelf and promotional space. In order to protect long term brand health in the domestic market, the company instigated a price increase across its core brand, at a time when some of the larger producers were decreasing their retail prices in pursuit of volume/share gains. This naturally had an impact on sales volumes and revenue, but will ultimately have long term benefits.

Elsewhere, Yealands has made strong gains in distribution particularly throughout Asia, Europe and the Americas. The benefit of this work should show in the coming year's sales data. The company continues to invest behind its brands in the market, having launched a global marketing campaign under the "Every Bit Extraordinary" banner. The campaign has been featured in publications, billboards, bus backs and online and with accompanying instore activity, the intention is to build consumer awareness in key markets.

Increased production and transportation costs have the potential to squeeze margins, however increased efficiencies gained across the entire supply chain have assisted the financial performance this year.

158

PERMANENT EMPLOYEES

$101m

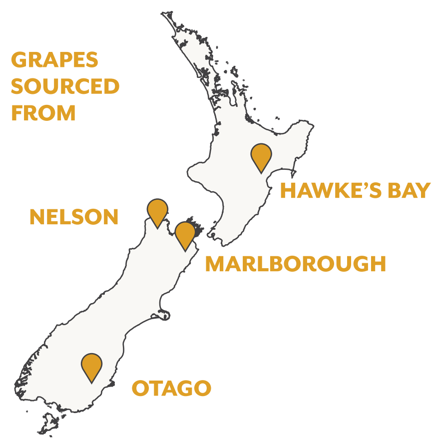
GROUP TURNOVER 2018

$335.4m

TOTAL GROUP ASSETS 30 JUNE 2018

24,500

TONNES OF GRAPES CRUSHED



86

COUNTRIES WERE EXPORTED TO

JUDGED "MOST SUCCESSFUL WINERY OF COMPETITION" SYDNEY INTERNATIONAL WINE COMPETITION 2018

Yealands Seaview vineyard and wetlands.

REBUILDING CAPACITY

Remedial work on the Yealands winery has continued following the 2016 Kaikoura earthquake. It is anticipated insurance negotiations will conclude in the near future which will allow the planned increase in capacity to support the scheduled increase in yields. In addition to the winery development programme, the company is also investing in the construction of a grape marc facility to enable the processing of its own by-product from the 2019 vintage onwards. The resulting grape mulch will have significant benefits for soil health, irrigation efficiency and vine productivity.

PLANTING OUR REMAINING SPACES

Development of the new Dodson's and Marfell's Vineyard properties at Seaview will see over 100 hectares of new vineyard planted this year, primarily in varietals such as Sauvignon Blanc, Pinot Noir and Pinot Gris, where there is existing supply constraint. There will also be some plantings of exciting new varietals such as Albarinio.

RETIREMENT OF A TALISMAN

Peter Yealands' planned departure in June this year resulted in his responsibilities being picked up by the existing management team. The company's commitment to environmental sustainability and the continual adoption of new ideas are perhaps the greatest legacies to Peter's extraordinary vision and perseverance, as well as the establishment of a truly outstanding vineyard and a magnificent winery. Whilst not involved in a day to day operational role, we are fortunate to be able to call on his wisdom and experience in a Brand Ambassadorial role when required.

LOOKING AHEAD

Whilst the global market outlook remains challenging, the company is confident that the quality of wine in winery and bottle, plus the focussed efforts of the commercial team, will continue to see strong distribution and sales growth in premium segments of the market. Securing the long term fruit supply through the development of company owned vineyards, supported by contracted growers gives the company greater certainty both in quality and cost control, thereby enabling us to invest behind our brands in key markets.

Monarch butterfly.

YEALANDS ACCOLADES 2017/18

July 2017
Yealands awarded Pinot Gris Wine of the Year, Melbourne International Wine Competition

September 2017
Yealands wins Sauvignon Blanc Gold at the 2017 Romeo Bragato Wine Awards

September 2017
Yealands Babydoll 2017 best Sauvignon Blanc at the 2017 Decanter Asia Wine awards

October 2017
Yealands Sauvignon Blanc Champions 2017 Marlborough Wine Show

November 2017
Yealands awarded Most Successful Winery at the 2017 Sydney International Wine Challenge with 3 trophies and 4 blue/gold medals

December 2017
Yealands most successful New Zealand wine producer at the International Wine Challenge (Tranche One) London

February 2018
Yealands Babydoll Sparkling Pinot Gris Blush wins double gold at the Sakura Japan Womens Wine Awards

March 2018
Yealands voted "Favourite New Zealand Wine Brand – Peoples Choice" at the Air New Zealand Wine Awards 2017

May 2018
Yealands wins four trophies at the 2018 International Wine Challenge

FINANCIAL PERFORMANCE

The Marlborough Lines Parent Company is debt free.

Our customers receive the benefit of our investments.

Marlborough Lines has funds available for further investment.

Diverse and profitable investments in Nelson Electricity and Yealands Wine Group.

Internal rate of return for Yealands Wine Group over three year period = 25.6%.

UNIQUELY DIFFERENT

REVIEW OF FINANCIAL STATEMENTS

PERFORMANCE OF THE GROUP

Net profit after tax for the year is $21.5 million

The reported net profit after tax of the Group is $21.5m. This follows the reported loss last year of $1.5m.

The loss last year was a result of recognising the one-off costs related to the earthquake of $9.8m and one-off IFRS adjustment related to inventory on hand at acquisition of $8.4m.

This year, following the submission of the final insurance claim, the Group has recognised non-recurring insurance proceeds income related to the earthquake of $12.1m[3].

Removing the one-off insurance proceeds income results in an adjusted net profit of $13.1m, above last years adjusted result of $11.6m. The improvement in this adjusted result is due to an improvement in the operating results of both Yealands and Marlborough Lines.

PERFORMANCE OF MARLBOROUGH LINES PARENT ENTITY

Revenues are up

Electricity network revenue for the year to 30 June 2018 was $44.4m, which is 1.9% up on the 2017 result of $43.5m. Modest growth in the number of customer connections and increased energy consumption volumes helped boost network revenue. An average 2% increase was made to prices during the year due to inflationary pressures on costs.

A strong Marlborough economy has helped to increase our contracting revenues to $6.8m, up 51% on the prior year, and also to lift the level of vested assets to $1.6 million for the year, up 15% on the prior year.

Operating expenditure is down

Operating expenditure for the year to 30 June 2018 was $29.8m, down 1.9% on the prior year.

Net profit is up on previous year

Net profit for the parent company of $12.9m for the year, is up on the prior year result of $9.1m. A number of items are assisting with the current year result including the receipt of a higher dividend from Nelson Electricity and increased connection activity on our network resulting in higher capital contribution and vested asset income.

OUR BALANCE SHEET IS STRONG

Our balance sheet assets total more than $600m

Total assets on the Group balance sheet are $619.6m down from $632.5m as at 30 June 2017. This reduction is mainly a result of the use of funds required to purchase the remaining shares in Yealands Wine Group not already held by Marlborough Lines. Following the acquisition of these shares as at 29 June 2018 there is no longer a non-controlling interest at the Yealands Wine Group level recognised in equity at balance date. This means that the shareholder of Marlborough Lines now owns all of the Yealands Wine Group assets shown on the balance sheet, rather than 85.6% as it did at 30 June 2017.

Debt levels remain low

Yealands had term borrowings secured against its assets of $102.2m as at 30 June 2018. This represents a debt ratio of 31% on YWG's total assets of $334.2m. 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 2018, had $17.8m of funds in the banking system awaiting further investment.

3 Note some of the costs related to the earthquake were capitalised to the balance sheet in the prior year rather than being expensed through the income statement.

Equity has increased

Equity attributable to the Marlborough Electric Power Trust, as 100% owners of the parent entity has increased from $406.7m to $427.3m during the year (increase of 5.1%). This means the net asset backing per share has increased to $15.26 per share, also up 5.1% from the prior year.

CASH FLOW

Operating cash flows remain strong

Group net cash flows from operating activities of $34.6m for 2018, were up on last year's result of $30.2m.

Capital expenditure has increased

The Group has spent $23.9m on the purchase of Plant, Property and Equipment this year, a decrease from $42.3m the year before. Last year's capex included the acquisition of further land at Seaview to optimise production efficiency and investment at the winery to increase capacity and also replace damaged tanks after the earthquake. Capital expenditure within the parent company was up on the prior year.

Cash distributions to the Trust were $5 million

This year Marlborough Lines paid dividends to the Marlborough Electric Power Trust of $5.0m (2017: $4.285m) to enable a $200 distribution to electricity consumers in the Marlborough region, to be paid in early 2019.

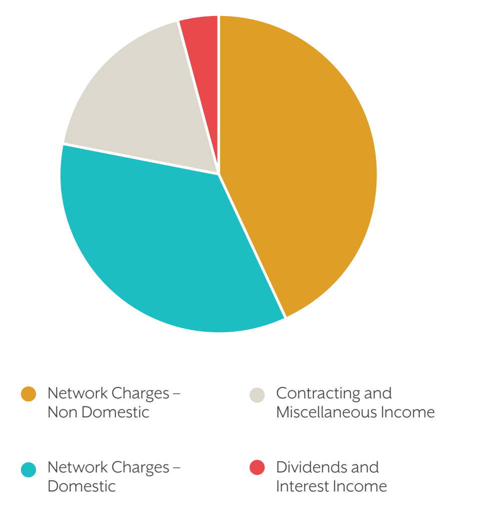
The remaining amount included within dividends paid of $5.8m is the amount that Yealands Wine Group paid to the non-controlling interest in that company on 28 June 2018 prior to the share transfer transaction.

THE FUTURE – WHAT HAPPENS NEXT IN MARLBOROUGH?

Marlborough Lines will adapt with the changes in the electricity industry

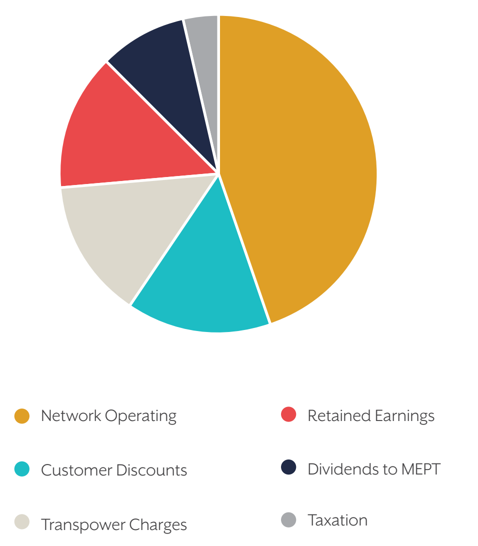
Marlborough Lines continues to be in a strong financial position and has an Asset Management Plan that provides for the region's electricity needs in the foreseeable future. The strength of our balance sheet ensures the Company is well positioned both to weather volatility and to grow the business. We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

Marlborough Lines Parent Income



Some 78.3% of income is generated from line charges paid by the electricity retail companies.

Marlborough Lines Parent Expenditure



Network operating costs account for $25.48m of the $56.6m total costs.

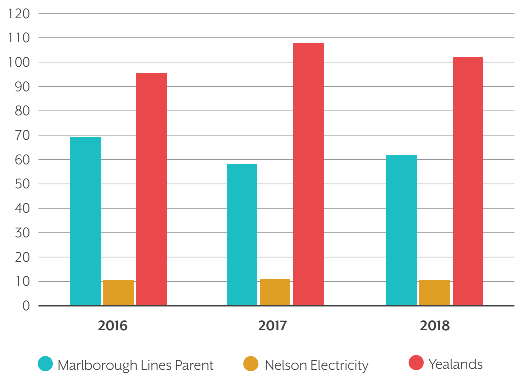
OUR INVESTMENTS

The portfolio of investments that Marlborough Lines holds is unique. The company has historically held investments in the electricity distribution industry outside of the Marlborough region.

However in 2015, following the sale of its investment in the Otago based electricity distribution and contracting businesses, a decision was made to diversify its investments away from the electricity industry, with the purchase of a controlling stake in Yealands Wine Group. This decision was made with the ultimate beneficiaries of the Company, the consumers of Marlborough Lines, in mind.

Marlborough Lines now holds an investment portfolio that includes 100% of Yealands Wine Group, 50% in Nelson Electricity Limited and has cash on hand for future investment. Uniquely different indeed!

Individual company turnover
($m)



YEALANDS WINE GROUP

Yealands Wine Group is a company based in Seaview, Marlborough with 1,876 hectares of freehold land including 1,226 hectares of planted vineyard and a winery with consented processing capacity of 27,000 tonnes. It is the sixth largest exporter in the New Zealand wine industry with global distribution to more than 86 countries.

100% ownership of Yealands Wine Group achieved

Marlborough Lines initially acquired 80% of Yealands Wine Group on 1 July 2015. Two further share transactions in 2016 and 2017 brought Marlborough Lines shareholding to 85.56%. On 29 June 2018 Marlborough Lines acquired the remaining shares to achieve complete 100% ownership.

Yealands recorded a net profit of $13.3 million

Last year Yealands' reported results were negatively impacted by substantial costs related to the November 2016 earthquake and this year have positively benefitted from the recognition of insurance proceeds relating to those costs. Putting this timing issue aside the Yealands operating results have been strong. Revenue for the year was $101.9m (down 5% on prior year), however profitability improved with EBITDA of $26.9m compared to a loss of $8.2m in the prior year.

Net profit for the year was $13.3m which includes the insurance proceeds received, which are treated as income, of $12.1m.

In the prior year Yealands recognised other comprehensive income of $60.4m related to the revaluation gain on property. The carrying value of Yealands property was assessed to be at fair value as at 30 June 2018 and no revaluation was undertaken.

Overall a significant return on investment

The total cost of Marlborough Lines' 100% holding of Yealands Wine Group is $122m. The total carrying value of equity as at 30 June 2018 is $197m.

In addition to the capital appreciation of the investment, Marlborough Lines received a further $4.7m of dividends in the current year. Since acquisition on 1 July 2015, Marlborough Lines has received $13.8m of fully imputed dividends from Yealands Wine Group.

The total internal rate of return, including dividends and the appreciation in the value of equity, in the three years of Marlborough Lines ownership equates to 25.61%.

NELSON ELECTRICITY LIMITED

Nelson Electricity delivers electricity to the city of Nelson and has been owned and operated jointly by Marlborough Lines and Network Tasman since 1996. Each company owns 50% of the issued shares and appoints two directors to the Board, with an independent Chairman.

Nelson Electricity recorded a net profit of $2.2 million

NEL has continued its strong performance with net profit after tax for the year ended 31 March 2018 of $2.160m, down 6% on last year's $2.302m.

NEL recognised an additional $0.464m of Other Comprehensive Income this year related to a revaluation gain on its plant, property and equipment ($0 in the previous year).

And paid a dividend of $2.1 million

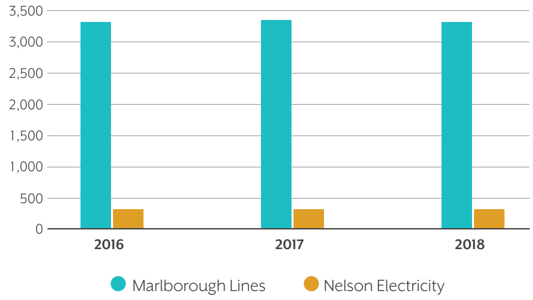
NEL generated $3.489m of operating cash and as a result was able to repay $0.5m of debt and also fund a $2.1m dividend to its shareholders, in addition to its capital expenditure requirements.

Upcoming prospects

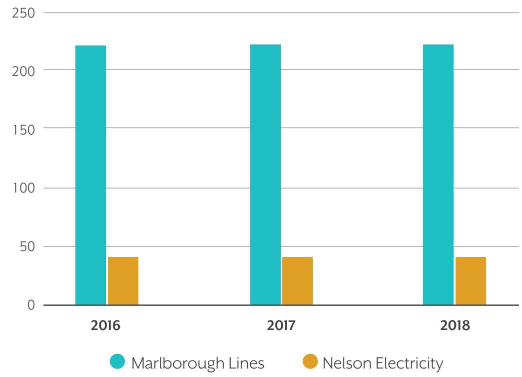
NEL's Regulated Asset Base upon which it earns a regulated rate of return as at 31 March 2018 is $41.1m. The rate of return will be reset to come into effect on 1 April 2020 with the rate largely dependent on the five year government bond rate prevailing during the three months between July and September 2019.

NEL having constructed a new 33/11 kV zone substation with four dedicated 33kV supplies is in a good position going forward with only routine expenditure projected. NEL will continue to operate as an efficient lines business with industry leading reliability.

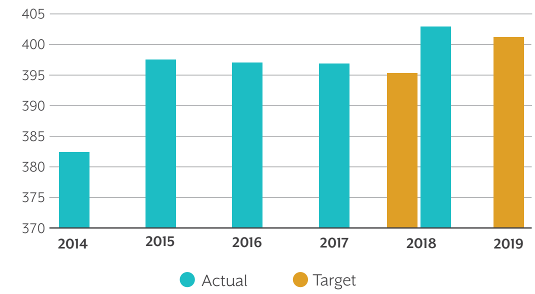
Network System Lengths
Kilometres of Line



Regulatory Asset Base
($m)



Energy delivered to the Marlborough network
(GWh)



Overall consumption across the Marlborough Lines network increased 1.5% from 396GWh last year to 402GWh.

CASH HOLDINGS

As at 30 June 2018 Marlborough Lines also held $17.8m of funds in cash at bank or on term deposit with two major New Zealand trading banks. Interest rates have been low over the year with a return on our funds at bank averaging 3.2%. Marlborough Lines has actively considered a number of investment opportunities over the year to allow these funds to yield a higher return and ultimately decided that obtaining 100% control of Yealands Wine Group was the best use of funds.

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 year (but excluding capital gains) – were $7.1m compared to $6.8m for the prior year.

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

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

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

VALUE ADDED	2018	2017	2016	2015	2014
Cash Flows from Investments ($m)	7.1	6.8	8.3	9.7	7.4
Holding Value ($m)					
Nelson Electricity	15.5	15.3	15.0	14.9	15.0
OtagoNet JV	–	–	–	–	76.4
Otago Power Services	–	–	–	–	3.6
Horizon Energy Distribution	–	–	–	15.3	14.5
Yealands Wine Group	121.9	99.1	89.2	–	–
Cash and Term deposits	17.8	29.4	28.0	108.0	–
Total Value of Investments	**155.3**	**143.8**	**132.2**	**138.2**	**109.5**
Cash Flows Generated from Investments	4.60%	4.74%	6.31%	7.01%	6.73%

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

ACCOUNTING FOR OUR INVESTMENTS

Yealands is a fully consolidated subsidiary

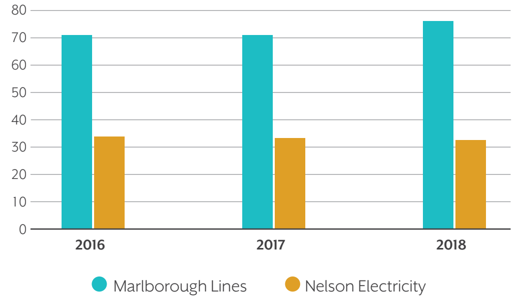
Under the Financial Reporting Standards (FRSs), YWG is defined as a subsidiary of Marlborough Lines' (because Marlborough Lines can exert control over the company, due to its 100% ownership stake) and is fully consolidated into the Marlborough Lines financial statements. The FRSs require that the YWG profit be included in the Marlborough Lines Consolidated Income Statement and the assets and liabilities of YWG be shown on the Marlborough Lines Consolidated Balance Sheet. The share of YWG not owned by Marlborough Lines, prior to the 29 June 2018 acquisition, is accounted for through the Non-Controlling Interest value shown on the Income Statement, Statement of Equity and Balance Sheet.

Nelson Electricity is an associate company

Nelson Electricity is defined under the FRSs as an associate company – that is a company in which an interest in the equity is held and significant influence is exercised, but control is not established. In such cases, equity accounting is applied in accord with NZ IAS 28. Thus, Marlborough Lines is required to carry the investment at cost – less any impairment in the Parent accounts – and to equity account its share of NEL's undistributed surplus or deficit in the Group accounts. This means that if Nelson has undistributed current year earnings, then Marlborough Lines' share of these earnings is picked up in the consolidation process.

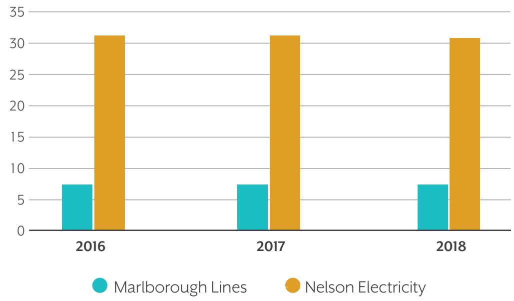
Network System Demand

Megawatts (MW)

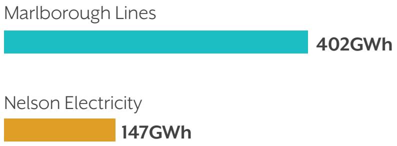


Network Customer Density

Customers per kilometre of line



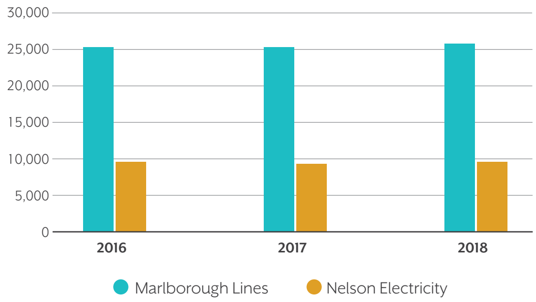
Energy delivered to all our networks



Over the last eight years Nelson's total consumption has been relatively stable within a band of 145-151GWh. The Nelson area is tightly constrained with little room for development.

Network Customer Numbers

Installation Connection Points (ICPs)



GOVERNANCE, DISCLOSURES AND FINANCIAL STATEMENTS

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.

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

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

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

In order to formalise their commitment to good governance, the Directors maintain a framework of corporate governance policies including a Code of Conduct. The Board seeks at all times to ensure that the Company is properly governed within the broader framework of corporate social responsibility and regulatory oversight.

ROLE OF DIRECTORS

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

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

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

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

APPOINTMENT AND REMUNERATION OF DIRECTORS

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

The Marlborough Lines Constitution provides for a maximum of eight Directors. The Board presently comprises seven non-executive Directors and a Managing Director. Each year the Company's Constitution requires one-third of the Directors, excluding the Managing Director to retire by rotation. This effectively means that two Directors retire each year. The shareholders may reappoint retiring Directors or make new appointments following advertising for applications for appointment.

At the Annual General Meeting (AGM) in November 2017 Mr Jonathan Ross and Mr Ivan Sutherland were reappointed to the Board.

This year at the AGM Mr Peter Forrest and Mr Phil Robinson will retire according to the rotation rule. Messrs Forrest and Robinson are available for reappointment to the Board.

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

The Board sets the remuneration of the Managing Director.

BOARD RESPONSIBILITIES

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

> Approving network pricing requirements

> Approving financial and non-financial targets and regularly monitoring and reviewing financial performance against those targets

> Monitoring compliance with regulatory and legislative requirements

> Providing leadership and policy that sets the direction for health and safety management

> Establishing and maintaining appropriate risk management strategies

> Evaluating the performance of the Managing Director

> Reporting financial results to the shareholder

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

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

BOARD OPERATION

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

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

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

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

BOARD MEETINGS

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

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

Executive staff are regularly involved in Board meetings and Directors have other opportunities to gain information relative to the Company through regular visits and meetings in relation to Company operations and the activities of investment companies in the wider Group.

The Company ensures that all of its current Directors are appointed to its 100% owned subsidiaries Southern Lines Limited and Seaview Capital Limited. It nominates individual directors from time to time to boards of its subsidiary Yealands Wine Group Limited and associated investment company Nelson Electricity Limited.

BOARD COMMITTEES

During 2017 the Directorate agreed to establish an Audit and Risk Committee, which took effect from January 2018. The objective of the Audit and Risk Committee is to assist the Board in fulfilling its oversight responsibilities for the system of internal control, the financial and regulatory reporting process, the audit process, risk management and the company's process for monitoring compliance with laws and regulations. The Committee is made up of Mr Peter Forrest (Chair), Mr Steven Grant and Mr Jonathan Ross.

The Board continues to meet to consider all matters and recognises that it has overall responsibility to safeguard the integrity of the Company's financial and regulatory reporting.

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

The Board also meets with the Auditor at least once annually and there is an open invitation from the Board to the Auditor to discuss any issue at any time.

In addition to undertaking the statutory audit function on behalf of the Controller and Auditor-General, Deloitte Limited 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.

When appropriate, further standing board committees will be established for the life of a specific project.

CONFLICTS OF INTEREST

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

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

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

SHAREHOLDERS

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

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

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

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

RISK MANAGEMENT

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

The Company has a Risk Management Policy and framework incorporating the ISO 31000:2018 risk management processes.

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

HEALTH AND SAFETY MANAGEMENT

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

Monthly reports to the Board provide information on incidents, accidents and near misses to ensure the Board is informed of the Company's health and safety performance.

Marlborough Lines holds the following certifications for management systems:

> Occupational Health and Safety ISO 45001:2018

> Safety Management Systems for Public Safety NZS 7901:2014.

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

QUALITY AND ENVIRONMENTAL MANAGEMENT

Marlborough Lines holds the following certifications for management systems:

> Quality Management AS/NZS ISO 9001:2015

> Environmental Management AS/NZS ISO 14001:2015

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

BOARD ATTENDANCE

During the year to 30 June 2018 ten Board meetings and two Audit and Risk Committee meetings were held and attended by Directors as follows:

DIRECTORS	BOARD		AUDIT & RISK COMMITTEE	
	Meetings held	Attended	Meetings held	Attended
D W R Dew	10	10		
K J Forrest	10	10		
P J Forrest	10	10	2	2
S J Grant	10	9	2	2
P I Robinson	10	10		
C J Ross	10	9	2	2
T H Smit	10	8		
I C Sutherland	10	9		

GENERAL DISCLOSURES

FOR THE YEAR ENDED 30 JUNE 2018

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 2017/2018 Marlborough Lines Limited has maintained its focus as a leading and innovative electricity network investor, owner and operator. The Company has also invested in and operated related electrical contracting services. The Company holds a significant investment in the Yealands Wine Group, a Marlborough vineyard and winery and holds an investment in the Nelson based electricity network company, Nelson Electricity Limited.

2. Review of financial performance

2.1 Results for the year ended 30 June 2018

Operating Profit	Group 2018 $000	Group 2017 $000
Net Profit/(Loss) After Tax for the Year	21,479	(1,530)
Other Comprehensive Income Net of Tax	360	60,406
Net Surplus Attributable to the Shareholders	**21,839**	**58,876**

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

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

3. Dividends

The Directors and shareholders authorised the following dividend payments for the 2017/2018 financial year.

Interim Dividend	27 September 2017	$275,000
Final Dividend	25 June 2018	$4,725,000
Full imputation credits were attached to all dividend payments.		
Ordinary Shares Issued		28 million
Value of Share Capital (Parent Net Assets at Current Valuation)		$348.111 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 Michael Wilkes of Deloitte Limited.

Fees paid to Auditors (for group)	Audit fees	Other fees
Deloitte Christchurch – For Marlborough Lines Limited Group	$76,000	$53,000
Deloitte Wellington – For Yealands Wine Group Limited Group	$77,000	$0

5. Information on Directors of Marlborough Lines Limited

			Total remuneration and other benefits	
Director	**Qualifications and experience**	**Special responsibilities**	**2018**	**2017**
D W R Dew	» LLB » Principal Dew & Company, Solicitors, Blenheim » Director Yealands Wine Group Limited » Director Nelson Electricity Limited » Director of other companies	Chairman	$92,000	$89,750
K J Forrest	» BSc Hons (Eng), MIPENZ, Registered Electrical Engineer » Director Yealands Wine Group Limited » Director Nelson Electricity Limited » Chairman Cuddon Limited » Director of other companies	Managing Director	$585,975*	$459,200
P J Forrest	» BCom, ACA » Director WK Advisors and Accountants » Director Yealands Wine Group Limited » Director of other companies	Non-executive Director Chair of Audit and Risk Committee	$49,500	$43,375
S J Grant	» BCom, LLB (Hons) » Director New Zealand Automobile Association » Director of other companies » Appointed 13 February 2017	Non-executive Director Member of Audit and Risk Committee	$47,750	$17,506
P I Robinson	» NZCQS, MInstD » Managing Director of Robinson Construction Limited » Director of other companies	Non-executive Director	$46,000	$43,375
C J Ross	» LLB, BA, BCL » Director Reserve Bank of New Zealand » Director of other companies	Non-executive Director Member of Audit and Risk Committee	$47,750	$43,375
T H Smit	» BSc Eng (Civil) Hons, MIPENZ » Principal Marlborough Management Services Limited » Director of other companies	Non-executive Director	$46,000	$43,375
I C Sutherland	» VFM, ANZIV, MNZM » Director Dog Point Vineyard Limited » Director of other companies	Non-executive Director	$46,000	$43,375

* In addition to annual salary, Mr K Forrest was also paid $331,932 for back pay to cover the period from 1 April 2011 to 30 June 2017.

Directors' fees totalling $72,000 earned by Mr K Forrest through membership of the boards of Yealands Wine Group Limited and Nelson Electricity 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 2018	Directors' fees 2017
P J Radich (Chairman)		$105,000	$79,539
D W R Dew		$50,000	$50,000
K J Forrest		$50,000	$50,000
P J Forrest	Appointed 4 July 2016	$50,000	49,597
M J Thompson	Appointed 4 July 2016	$50,000	49,597
P W M Yealands*	Resigned 29 June 2018	–	–
M J Radich	Resigned 16 August 2016	–	$6,317
J B Shewan	Resigned 7 December 2016	–	$45,764

* P 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

Details of remuneration paid to employees of the Marlborough Lines Group which are required to be disclosed are below.

Remuneration range	Number of employees parent 2018	Number of employees parent 2017	Number of employees subsidiaries 2018	Number of employees subsidiaries 2017
$100,000 – $110,000	6	7	7	6
$110,000 – $120,000	5	5	4	2
$120,000 – $130,000	3	3	4	7
$130,000 – $140,000	3	2	2	2
$140,000 – $150,000	1	1	4	2
$150,000 – $160,000	1	1	3	1
$160,000 – $170,000	1	–	–	4
$170,000 – $180,000	–	1	–	1
$200,000 – $210,000	–	–	–	2
$210,000 – $220,000	–	–	–	2
$220,000 – $230,000	1	–	1	–
$230,000 – $240,000	1	1	1	–
$240,000 – $250,000	1	3	–	–
$250,000 – $260,000	–	–	–	3
$270,000 – $280,000	1	–	1	–
$280,000 – $290,000	–	–	1	–
$340,000 – $350,000	1*	–	–	–
$370,000 – $380,000	–	–	1	–
$510,000 – $520,000	–	–	1	–
$540,000 – $550,000	–	–	–	1
$560,000 – $570,000	–	–	–	1

* Includes benefits paid upon retirement

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

10. Donations

During the year the Company made tertiary education grants totalling $42,000. This is in addition to the support the Group provides to many organisations throughout the year by way of sponsorships.

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

D W R Dew
Chairman
28 September 2018

K J Forrest
Managing Director
28 September 2018

FINANCIAL STATEMENTS 2018

The Directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which materially reflect the financial position of the Marlborough Lines Limited Group and the results of its operations and cash flows for the year ended 30 June 2018.

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

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

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

The Directors are pleased to present the financial statements of the Marlborough Lines Limited Group for the year ended 30 June 2018.

This report is dated 28 September 2018 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
28 September 2018

K J Forrest
Managing Director
28 September 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Notes	Group 2018 $000	Group 2017 $000
Continuing operations			
Revenue	3	158,756	161,524
Operating expenses	4	(118,134)	(138,130)
Customer discounts		(8,345)	(8,186)
Operating surplus before non-recurring expenses		**32,277**	**15,208**
Non-recurring income – earthquake insurance proceeds	5	12,057	–
Non-recurring expenses – earthquake related asset impairment	5	–	(3,428)
Non-recurring expenses – earthquake related stock loss and costs	5	(414)	(6,384)
Operating surplus		**43,920**	**5,396**
Share of equity accounted investments net surplus	9	30	251
Gain recognised on disposal of available-for-sale assets	6, 10	1,168	–
EBITDA		**45,118**	**5,647**
Depreciation and amortisation	6, 7	(9,347)	(9,947)
Financial income	16	1,225	1,044
Financial expenses	16	(6,527)	(2,207)
Realised / unrealised foreign exchange (losses) / gains	16	(1,381)	942
Profit (loss) before tax expense		**29,088**	**(4,521)**
Tax (expense) / benefit	23	(7,609)	2,991
Net profit (loss) for the year		**21,479**	**(1,530)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net change in foreign currency translation reserve		7	(28)
Asset revaluation	6	–	70,142
Tax effect of asset revaluation		121	(9,740)
Other	9	232	32
Other comprehensive income net of tax		**360**	**60,406**
Total comprehensive income for the year		**21,839**	**58,876**
Net profit (loss) for the period attributable to:			
Owners of the Company		19,560	(636)
Non-controlling interests	19	1,919	(894)
		21,479	**(1,530)**
Total comprehensive income for the period attributable to:			
Owners of the Company		19,902	51,036
Non-controlling interests	19	1,937	7,840
		21,839	**58,876**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

	Notes	Group Share Capital $000	Group Revaluation Reserves $000	Group FCTR $000	Group Retained Earnings $000	Attributable to Owners of the Parent $000	Non Controlling Interest $000	Group Total Equity $000
Balance at 1 July 2016		29,026	42,789	(68)	286,829	358,576	27,267	385,843
Total comprehensive income								
Net loss		–	–	–	(636)	(636)	(894)	(1,530)
Other comprehensive income net of tax								
Net change in foreign currency translation reserve		–	–	(10)	–	(10)	(18)	(28)
Net change in asset revaluation reserve		–	51,682	–	–	51,682	8,720	60,402
Other		–	–	–	–	–	32	32
Total comprehensive income		**–**	**51,682**	**(10)**	**(636)**	**51,036**	**7,840**	**58,876**
Transactions with owners recorded directly in equity								
Dividends paid to equity holders		–	–	–	(4,285)	(4,285)	(794)	(5,079)
Movement in non-controlling interest	19	–	–	–	1,377	1,377	(6,952)	(5,575)
Balance at 30 June 2017		**29,026**	**94,471**	**(78)**	**283,285**	**406,704**	**27,361**	**434,065**
Balance at 1 July 2017		**29,026**	**94,471**	**(78)**	**283,285**	**406,704**	**27,361**	**434,065**
Total comprehensive income								
Net profit		–	–	–	19,560	19,560	1,919	21,479
Other comprehensive income net of tax								
Net change in foreign currency translation reserve		–	–	7	–	7	–	7
Net change in asset revaluation reserve		–	(2,052)	–	2,155	103	18	121
Other		–	232	–	–	232	–	232
Total comprehensive income		**–**	**(1,820)**	**7**	**21,715**	**19,902**	**1,937**	**21,839**
Transactions with owners recorded directly in equity								
Dividends paid to equity holders		–	–	–	(5,000)	(5,000)	(794)	(5,794)
Movement in non-controlling interest	19	–	8,738	(18)	(3,074)	5,646	(28,472)	(22,826)
Balance at 30 June 2018		**29,026**	**101,389**	**(89)**	**296,926**	**427,252**	**32**	**427,284**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	Group 30 June 2018 $000	Group 30 June 2017 $000
Non-current assets			
Plant, property and equipment	6	469,100	460,855
Intangible assets	7	2,589	2,538
Investments in associates accounted for using the equity method	9	15,545	15,283
Total non-current assets		**487,234**	**478,676**
Current assets			
Cash and cash equivalents		6,924	10,678
Short-term investments		15,212	22,375
Income tax receivable		–	1,755
Trade and other receivables	11	31,562	34,372
Inventories	12	78,549	78,232
Derivatives	21	101	1,099
Investment property held-for-sale	10	–	3,111
Property, plant and equipment held-for-sale	6	–	2,228
Total current assets		**132,348**	**153,850**
Total assets		**619,582**	**632,526**
Non-current liabilities			
Finance lease payable		128	–
Retirement benefit obligations		499	575
Derivatives	21	3,848	–
Deferred tax liability	23	52,790	53,470
Term borrowings	15	65,000	75,000
Total non-current liabilities		**122,265**	**129,045**
Current liabilities			
Trade and other payables	13	25,374	37,074
Income tax payable		2,738	–
Finance lease payable		509	192
Employee entitlements	14	3,091	2,971
Derivatives	21	1,121	2,079
Term borrowings	15	37,200	27,100
Total current liabilities		**70,033**	**69,416**
Equity			
Share capital	17	29,026	29,026
Revaluation reserves and foreign currency translation reserve	18	101,300	94,393
Retained earnings		296,926	283,285
Equity attributable to owners of the Company		427,252	406,704
Non-controlling interests	19	32	27,361
Total equity		**427,284**	**434,065**
Total equity and liabilities		**619,582**	**632,526**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

	Notes	Group 2018 $000	Group 2017 $000
Cash flows from operating activities			
Receipts from customers		163,366	154,387
Receipts from associates		189	190
Interest received		1,252	1,044
Dividends received		1,050	900
Insurance proceeds received		2,558	5,499
Payments to consumers, suppliers and employees		(125,395)	(125,023)
Interest paid		(4,757)	(4,415)
Income tax paid		(3,702)	(2,362)
Net cash generated from operating activities	26	**34,561**	**30,220**
Cash flows from investing activities			
Proceeds from sale of plant, property and equipment		3,255	4,329
Proceeds from sale of investment property		3,937	–
Purchase of plant, property and equipment		(23,887)	(42,319)
Purchase of intangible assets		(263)	(271)
Net cash used in investing activities		**(16,958)**	**(38,261)**
Cash flows from financing activities			
Proceeds from borrowings		83,200	151,250
Repayment of borrowings		(83,100)	(133,400)
Cash paid to non-controlling interest		(22,826)	(5,575)
Dividends paid		(5,794)	(6,179)
Net cash (used in) / generated from financing activities		**(28,520)**	**6,096**
Net decrease in cash and cash equivalents		(10,917)	(1,945)
Cash and cash equivalents at the beginning of the period		33,053	34,998
Cash and cash equivalents at the end of the period		**22,136**	**33,053**

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

STATEMENT OF ACCOUNTING POLICIES

For the year ended 30 June 2018

REPORTING ENTITY

Marlborough Lines Limited (the Company) is a profit-oriented company incorporated in New Zealand. The Company operates primarily in the field of electricity distribution and also undertakes ancillary contracting services in relation to the Marlborough regional electricity network.

The 'Group' for financial reporting purposes comprises:

> Marlborough Lines Limited (Parent Company)

> Yealands Wine Group Limited (100% owned subsidiary) and its subsidiaries

> Nelson Electricity Limited (50% owned associate company)

> Seaview Capital Limited (100% owned holding company)

> Southern Lines Limited (100% owned holding company)

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

STATEMENT OF COMPLIANCE

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

BASIS OF PREPARATION

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

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

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

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

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

> Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

> Level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and

> Level 3 inputs are unobservable inputs for the asset or liability.

BASIS OF CONSOLIDATION

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

CHANGES IN ACCOUNTING POLICIES

There are no changes to significant accounting policies.

NOTES TO THE FINANCIAL STATEMENTS

KEY JUDGEMENTS AND ESTIMATES

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

1. Key Judgements and Estimates

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

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

The key assumptions concerning the future and other key sources of estimation uncertainty at 30 June 2018, that have the potential to cause a material adjustment to the carrying amounts of assets and liabilities are disclosed below. In summary they are:

Fair value of electricity reticulation network	Note 6	Plant, Property and Equipment
Fair value of land, buildings, vineyard improvements and bearer plants	Note 6	Plant, Property and Equipment

1.1 Critical Accounting Estimate – Fair Value of Electricity Reticulation Network

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

Electricity Reticulation Network assets belonging to the Parent Company were revalued as at 30 June 2016 to fair value using discounted cash flow methodology as assessed by independent valuer PricewaterhouseCoopers. The valuation carried out is consistent with NZ IFRS 13: Fair Value Measurement, and in the absence of specific market evidence of relevance to Marlborough Lines Limited's network assets, the valuation was undertaken by way of discounted cash flow in order to establish fair value.

In order to derive the valuation a forecasting model was developed which incorporates the regulatory input methodologies. The model forecasts cash flows for a ten year period, and derives a terminal value for the cash flows beyond the ten year forecast. The resulting valuation has been expressed as a range based on the discount rate, and sensitivity analysis was conducted on the key input assumptions to test their impact on value.

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

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

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

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

Land and Buildings (not including reticulation system assets), Vineyard Improvements and Bearer Plants are revalued to fair value periodically by independent property valuers. Subsequent additions are recorded at cost. The assessments of value are all based on market conditions and market evidence available at the date of valuation and are carried out in accordance with NZ IFRS 13: Fair Value Measurement.

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

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

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

In the current year management reviewed the key assumptions used in the 30 June 2017 valuation and found no reason to change the assessment of fair value.

1.3 Critical Accounting Estimate – Impairment

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

Performance

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

2. Parent Company Information

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Notes	Parent 2018 $000	Parent 2017 $000
Continuing operations			
Revenue		60,191	56,888
Operating expenses		(29,831)	(30,417)
Customer discounts		(8,345)	(8,186)
Operating surplus		**22,015**	**18,285**
Gain recognised on disposal of available-for-sale assets	6, 10	826	–
EBITDA		**22,841**	**18,285**
Depreciation and amortisation		(9,085)	(9,422)
Finance income		1,203	1,014
Finance costs		(68)	(68)
Profit before tax expense		**14,891**	**9,809**
Income tax expense		(2,029)	(690)
Net profit for the period		**12,862**	**9,119**
Total comprehensive income for the period		**12,862**	**9,119**

PARENT COMPANY STATEMENT OF FINANCIAL POSITION INFORMATION

As at 30 June 2018

	Parent 2018 $000	Parent 2017 $000
Total assets	407,844	397,743
Total liabilities	59,732	57,494
Net assets	**348,112**	**340,249**

3. Revenue

	Group 2018 $000	Group 2017 $000
Electricity network revenue	44,367	43,518
Wine sales	101,838	107,459
External contracting revenue	6,751	4,515
Vested assets	1,616	1,409
Dividends from equity accounted associates	1,050	900
Other income	3,134	3,723
Operating revenue	**158,756**	**161,524**

Accounting Policy – Revenue Recognition

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

Revenue is recognised as follows:

> Electricity Network Revenue is recognised when an entity in the Group has delivered the service to the buyer.

> Wine Sales are recognised when an entity in the Group has delivered to the buyer the significant risks and rewards of ownership of the goods. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer or at the Free on Board (FOB) port / delivery point or as otherwise contractually determined. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, or where there is continuing management involvement with the goods.

> External Contracting Revenue is recognised by reference to the stage of completion at balance date measured by progress invoices calculated on the basis of the percentage of the contract completed compared to the total estimated cost.

> Certain network extensions are gifted to the Company in return for the Company assuming maintenance responsibility, and are classified as Vested Assets. In such cases the Company will capitalise the value of the asset at its fair value, being its current replacement cost and treat the difference between the actual cost to the Company and the fair value as income.

> Dividend revenue is recognised when the shareholder's right to receive payment is established.

> Revenue from the provision of contract wine processing services, included in Other Income, is recognised in the Statement of Comprehensive Income on a percentage of completion basis.

4. Expenditure

	Group 2018 $000	Group 2017 $000
Profit before taxation has been arrived at after charging:		
Remuneration of Auditors – audit of the financial statements	153	148
Remuneration of Auditors – 2016 financial period overruns	–	26
Remuneration of Auditors – other assurance services	23	21
Remuneration of Auditors – other services	32	32
Directors' fees	639	605
Bad debts written off (recovered)	8	37
Employee benefits – retirement gratuities	94	39
Employee benefits – employer superannuation contributions	664	664
Educational grants	42	31
Loss on disposal of plant, property and equipment	584	129
Rental and operating lease expenses	620	875
External contracting expenses	5,563	3,932
Wine cost of sales	63,806	77,772
Wine distribution and selling expenses	17,266	23,994
Other operating and administrative expenses	28,640	29,825
	118,134	**138,130**

Explanatory Note – Impact of Acquisition Accounting on Wine Cost of Sales

Wine Cost of Sales have been increased by $1.0 million (2017: $8.4 million) due to acquisition accounting requirements, with Inventory written up to fair value at the time of acquisition.

5. Non-recurring income and expenses

	Notes	Group 2018 $000	Group 2017 $000
Insurance proceeds received and accrued		12,057	–
Earthquake related income		**12,057**	**–**
Asset impairment – damaged tanks	6	–	3,428
Expenses incurred and stock loss		414	6,384
Earthquake related expenses		**414**	**9,812**

Explanatory Note – Impact of earthquake

As a result of the November 2016 Kaikoura Earthquake, Yealands Wine Group incurred costs in maintaining services and reinstating damaged facilities. As at 30 June 2018, $8.23 million had been received as an advance. It is expected a further $3.83 million will be received as settlement of this claim.

Long Term Assets

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

6. Plant, Property and Equipment

Consolidated Group	Electricity Reticulation Network at Fair Value $000	Land at Fair Value $000	Buildings at Fair Value $000	Vineyard Improve-ments at Fair Value $000	Bearer Plants at Fair Value $000	Vehicles Plant and Equip-ment at Cost $000	Capital Work in Progress at Cost $000	Total $000
Cost or Valuation								
Balance at 1 July 2016	378,951	50,076	35,415	35,324	5,401	63,214	5,225	573,606
Additions	6,743	4,352	2,720	5,893	633	13,790	11,958	46,088
Revaluation	–	35,790	4,319	19,642	6,827	–	164	66,742
Disposals/adjustments	(4,646)	(4,002)	(953)	1,328	1,386	(4,680)	(5,225)	(16,791)
Balance at 30 June 2017	**381,048**	**86,216**	**41,501**	**62,187**	**14,247**	**72,324**	**12,122**	**669,645**
Additions	9,130	206	2,280	234	–	17,103	9,023	37,976
Disposals/adjustments	(2,596)	(1,791)	(168)	(114)	(168)	453	(12,122)	(16,506)
Impairment released	–	–	–	–	–	(1,614)	–	(1,614)
Balance at 30 June 2018	**387,582**	**84,631**	**43,613**	**62,307**	**14,079**	**88,266**	**9,023**	**689,501**
Accumulated Depreciation and Impairment								
Balance at 1 July 2016	172,832	–	8,373	1,063	162	15,978	–	198,408
Depreciation Expense	7,084	–	536	1,377	168	5,726	–	14,891
Disposals/Adjustments	(3,997)	–	(121)	392	(2)	(2,224)	–	(5,952)
Impairment	–	–	–	–	–	3,428	–	3,428
Impairment released	–	–	–	–	–	(813)	–	(813)
Revaluation – write back	–	–	(252)	(2,828)	(319)	–	–	(3,400)
Balance at 30 June 2017	**175,919**	**–**	**8,536**	**4**	**9**	**22,095**	**–**	**206,563**
Depreciation Expense	7,172	–	581	2,199	427	5,848	–	16,227
Disposals/Adjustments	(2,007)	–	(31)	(7)	(15)	1,285	–	(775)
Impairment released	–	–	–	–	–	(1,614)	–	(1,614)
Balance at 30 June 2018	**181,084**	**–**	**9,086**	**2,196**	**421**	**27,614**	**–**	**220,401**
Net Book Value								
Balance per above	205,129	86,216	32,965	62,183	14,238	50,229	12,122	463,083
Less Assets Held-For-Sale	–	(1,782)	(153)	(109)	(158)	(26)	–	(2,228)
Balance at 30 June 2017	**205,129**	**84,434**	**32,812**	**62,074**	**14,080**	**50,203**	**12,122**	**460,855**
Balance at 30 June 2018	**206,498**	**84,631**	**34,527**	**60,111**	**13,658**	**60,652**	**9,023**	**469,100**

Depreciation relating to Yealands Wine Group Limited of $7.4 million (2017: $5.6 million) has been allocated to the cost of producing the following year's vintage and is included in the cost of inventory.

As at 30 June 2018 some assets of the Consolidated Group were subject to a registered general security agreement to secure bank loans (see Note 15).

Accounting Policy – Basis of Measurement

The electricity reticulation network is measured at fair value. Fair value is determined on the basis of a periodic independent valuation prepared by external valuers based on the discounted cash flow methodology.

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

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

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

Accounting Policy – Changes to Valuation

Any revaluation increase arising on the revaluation of property, plant and equipment is credited to the asset revaluation reserve (through Other Comprehensive Income), except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit and loss, in which case the increase is credited to the Statement of Comprehensive Income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of property, plant and equipment is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings.

Accounting Policy – Depreciation

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

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

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

Category	Method	Useful Life
Buildings	Straight line over	40 to 70 years
Electricity reticulation network	Straight line over	15 to 70 years
Plant, equipment and motor vehicles	Diminishing value basis	2 to 20 years
Vineyard improvements	Straight line over	30 to 35 years
Bearer plants	Straight line over	30 to 35 years

The cost of assets constructed by the Group includes all materials used in construction, direct labour, any capitalised interest and an allowance for overheads.

Accounting Policy – Impairment

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

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

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

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

Explanatory Note – Impact of Fair Value Measurement on Asset Values

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

	Fair Value Category	Fair Value as at 30 June 2018 $000	Fair Value as at 30 June 2017 $000	Historic Cost Value as at 30 June 2018 $000	Historic Cost Value as at 30 June 2017 $000
Electricity Reticulation Network	Level 3	206,498	205,129	63,084	61,442
Land	Level 3	84,631	86,216	43,808	45,352
Buildings	Level 3	34,527	32,965	25,466	25,259
Vineyard Improvements	Level 2	60,111	62,183	42,665	42,545
Bearer Plants	Level 2	13,658	14,238	7,059	7,252
Total		**399,425**	**400,731**	**182,082**	**181,850**

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

The carrying value of the assets recognised in the financial statements approximate their fair values. The fair values included in Level 3 categories above have been determined in accordance with generally accepted pricing models and there has been no change in the valuation technique used. There have not been any transfers into or out of Level 3 of the fair value hierarchy.

There have been no adjustments to the Fair Value as at 30 June 2018, further discussed in the Critical Accounting Estimate Note 1.2.

7. Intangible Assets

	Easements $000	Software $000	Trademarks $000	Total $000
Cost				
Balance at 1 July 2016	1,415	4,548	515	6,478
Additions	165	126	65	356
Disposals/Transfers	–	(1,139)	–	(1,139)
Balance at 30 June 2017	**1,580**	**3,535**	**580**	**5,695**
Additions	132	135	142	409
Disposals/Transfers	–	(594)	–	(594)
Balance at 30 June 2018	**1,712**	**3,076**	**722**	**5,510**
Accumulated Amortisation and Impairment				
Balance at 1 July 2016	–	3,576	68	3,644
Amortisation Expense	–	549	76	625
Disposals	–	(1,112)	–	(1,112)
Balance at 30 June 2017	**–**	**3,013**	**144**	**3,157**
Amortisation Expense	–	301	89	390
Disposals/Transfers	–	(626)	–	(626)
Balance at 30 June 2018	**–**	**2,688**	**233**	**2,921**
Net Book Value				
Balance at 30 June 2017	1,580	522	435	2,538
Balance at 30 June 2018	**1,712**	**388**	**489**	**2,589**

As at 30 June 2018 some assets of the Consolidated Group were subject to a registered general security agreement to secure bank loans (see Note 15).

Accounting Policy – Recognition and Amortisation

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

Computer software is capitalised as an intangible asset on the basis of the costs incurred to acquire and bring the software into service and it is amortised over its expected useful economic life. Costs associated with developing and maintaining computer software programmes are recognised as expenses as incurred. Software has a finite life and is amortised over the period of its life (5–8 years).

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

Accounting Policy – Impairment

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

Easement assets with indefinite useful lives are assessed annually for impairment as part of the Electricity Reticulation Network cash generating unit. The Group reviews the carrying values of its other intangible assets at balance to determine whether there is any indication that the assets may have suffered an impairment loss.

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.
A reversal of an impairment loss is recognised in profit and loss.

Investments

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

8. Business Combinations

8.1 Subsidiaries Acquired

No subsidiaries have been acquired in the current year. In the 2016 financial year an 80% controlling interest in Yealands Wine Group was acquired, and through a series of transactions Marlborough Lines Limited obtained 100% ownership of Yealands Wine Group on 29 June 2018.

Transaction	Date of Transaction	Proportion of Voting Equity Held	Consideration Transferred $000
Initial acquisition	1 July 2015	80.00%	89,200
Existing shares acquired	20 August 2016	85.00%	5,575
New shares issued	29 March 2017	85.56%	4,350
Existing shares acquired	29 June 2018	100.00%	22,826
Total		**100.00%**	**121,951**

Accounting Policy – Business Combinations

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

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

8.2 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. Following the acquisition of 100% of the shares in Yealands Wine Group, the non-controlling interest relating to that entity is removed. The remaining non-controlling interest as at 30 June 2018 relates to outside interest in Seaview Water Group Limited.

Accounting Policy – Recognition and Measurement

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

9. Investments in Subsidiaries and Associates

9.1 Group Entities

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

	Year End	Effective Ownership 30 June 2018	Effective Ownership 30 June 2017
Investment held by Marlborough Lines Limited			
Nelson Electricity Limited (Associate)	31 March	50%	50%
Seaview Capital Limited	30 June	100%	100%
Southern Lines Limited	30 June	100%	100%
Investment held by subsidiary of Marlborough Lines Limited			
Seaview Water Group Limited	30 June	52%	44%
Yealands Wine Group Limited	30 June	100%	86%
Yealands Estate Limited	30 June	100%	86%
Yealands Estate Wines Limited	30 June	100%	86%
Yealands Estate Wines (Australia) Limited	30 June	100%	86%
Yealands Estate Wines (USA) Limited	30 June	100%	86%
Yealands Estate Wines (USA) LLC	30 June	100%	86%
Yealands Estate Wines (UK) Limited	30 June	100%	86%

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

9.2 Marlborough Lines Investments in Subsidiaries

	Parent 30 June 2018 $000	Parent 30 June 2017 $000
Investment in Seaview Capital Limited	121,951	99,125
Investment in Southern Lines Limited	5,000	5,000
Total Investments in Subsidiaries	**126,951**	**104,125**

Accounting Policy – Investments in Subsidiaries

Subsidiaries are all those entities over which the Group has control. The Group financial statements incorporate the financial statements of the entities that comprise the consolidated Group, being the Parent Company, Marlborough Lines Limited and its subsidiaries, Yealands Wine Group Limited and Southern Lines Limited. Consistent accounting policies are used in the preparation and presentation of the consolidated financial statements. In preparing the consolidated financial statements all inter-company balances and transactions and unrealised gains arising within the Group are eliminated.

9.3 Marlborough Lines Investments in Associates

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

	Parent 30 June 2018 $000	Parent 30 June 2017 $000
Investment in Nelson Electricity Limited shares	12,950	12,950
Less share repurchase (2001)	(2,500)	(2,500)
Plus share of associate revaluation	3,906	3,674
Less share of post acquisition results	(31)	(61)
Interest in associate entity (excluding goodwill)	**14,325**	**14,063**
Current balance associate goodwill	1,220	1,220
Total interest in associate entities (including goodwill)	**15,545**	**15,283**

Accounting Policy – Investments in Associates

Associate entities are those entities in which the Group has significant influence but not control. This is generally indicated through the holding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method in the Group financial statements. The Group's share of the associates' post acquisition profits or losses is recognised in the Statement of Comprehensive Income and its share of post acquisition movements in reserves is recognised in reserves.

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

9.4 Results of the Group's Associate Entities

	31 March 2018 $000	31 March 2017 $000
A summary of Nelson Electricity Limited's results is as follows:		
Assets as at 31 March	43,319	43,472
Liabilities as at 31 March	14,686	15,362
Revenue for year ended 31 March	10,516	10,791
Net profit after tax	2,160	2,302
The Group share of the results of its associate entities is as follows:		
Share of surpluses before tax	1,543	1,590
Less taxation	(463)	(439)
Less dividends / distributions received	(1,050)	(900)
Share of equity accounted net surplus	**30**	**251**
Plus other comprehensive income	232	–
Gain attributable to associate entities	**262**	**251**

10. Investment Property

	Group 2018 $000	Group 2017 $000
Opening balance	–	3,111
Closing balance	**–**	**3,111**
Less investment property classified as held-for-sale	–	(3,111)
Closing balance	**–**	**–**

Accounting Policy – Basis of Measurement

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

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

Explanatory Note – Investment Property

The Parent Company had two investment properties which were carried at fair value as at 30 June 2017. A decision had been made to sell both properties by 30 June 2017 and therefore Investment Property was classified as current assets Held-For-Sale at 30 June 2017. Both properties were sold during the 2018 financial year with a combined net gain on sale of $773,000.

Working Capital

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

11. Trade and Other Receivables

	Group 30 June 2018 $000	Group 30 June 2017 $000
The balance of accounts receivable comprises:		
Trade debtors	25,730	30,644
GST receivable	304	1,423
Retailer prudential security held in Trust	405	399
Accrued income	4,140	1,136
Prepayments	1,087	862
Related party advances	12	18
Provision for impairment of accounts receivable	(116)	(110)
Total	**31,562**	**34,372**

Accounting Policy – Recognition and Impairment

Accounts receivable, including intergroup receivables are valued at amortised cost less impairment. Collectability of trade receivables is reviewed on an ongoing basis and an impairment of trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due from its customers. Objective evidence of impairment includes financial difficulties of the customer, the probability that the customer will enter bankruptcy or financial reorganisation and default or delinquency in payments. When a trade receivable is considered uncollectable, it is written off against the provision. The amount of the loss is recognised in the income statement within 'Operating expenses'. Subsequent recoveries of amounts previously written off are credited against 'Operating expenses' in the income statement.

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

Explanatory Note – Carrying Value of Debtors

Included in the Company's trade receivables balance are debtors with a carrying value of $2,256,534 (2017: $167,665) which are past due at reporting date. The Company has provided for $116,061 (2017: $110,183) of this balance through the allowance for impairment in the table above. The remaining amount has not been provided for as there has been no significant change in the credit quality and the amounts are considered recoverable.

12. Inventories and Work In Progress

	Group 30 June 2018 $000	Group 30 June 2017 $000
Electricity reticulation stock	5,254	5,049
Bulk wine	61,294	62,383
Bottled wine	7,072	5,677
Packaging and labels	817	606
Work in progress (next vintage)	4,112	4,517
Total	**78,549**	**78,232**

As at 30 June 2018 some assets of the Consolidated Group were subject to a registered general security agreement to secure bank loans (see note 15).

Accounting Policy – Valuation

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

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

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

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

Reticulation stock comprises of network system spares and materials and are valued on the basis of the lower of cost and net realisable value. Cost is determined on the basis of weighted average of purchase costs. Due allowance is made for damaged and obsolete inventory.

Work in progress comprises the cost of direct materials and labour together with direct overheads.

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

13. Trade and Other Payables

	Group 30 June 2018 $000	Group 30 June 2017 $000
In current liabilities the balance of Trade and Other Payables comprises:		
Trade creditors	21,042	27,584
Provision for discount	3,395	3,356
GST payable	532	236
Retailer prudential security held in Trust	405	399
Deferred revenue	–	5,499
Total	**25,374**	**37,074**

Accounting Policy – Recognition

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

Explanatory Note – Deferred Revenue

As at 30 June 2017 Yealands Wine Group had received an advance from their insurers of $5.5 million pending the finalisation and lodgement of their claim for damage incurred as a result of the November 2016 earthquake. These funds were recognised as revenue in 2018 following the acceptance of the claim.

14. Employee Entitlements

	Group 30 June 2018 $000	Group 30 June 2017 $000
Employee entitlements	3,091	2,971
Total	**3,091**	**2,971**

The provision for employee entitlements represents annual leave and a provision for bonuses.

Accounting Policy – Recognition

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

Accounting Policy – Measurement

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

Contributions to defined contribution superannuation schemes are expensed when incurred.

Debt and Equity

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

15. Term Borrowings

	Group 30 June 2018 $000	Group 30 June 2017 $000
Current	37,200	27,100
Non-current	65,000	75,000
Total	**102,200**	**102,100**

Terms and repayments schedule

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

As at 30 June 2018

Lender	Nominal Interest Rate	Year of Maturity	Currency	Face Value $000	Carrying Amount $000
ASB Bank Limited	3.45%	2020	NZD	20,000	20,000
ASB Bank Limited	3.60%	2022	NZD	45,000	45,000
Total interest-bearing liabilities				**65,000**	**65,000**

As at 30 June 2017

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

Accounting Policy – Recognition and Classification

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

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

Explanatory Note

Yealands Wine Group Limited is the borrower for the term borrowing of the Group. The Parent has no external borrowings.

Of the $37.2 million current amount, $18.5 million relates to a Working Capital Facility. The remaining ASB Bank Limited term facilities range in remaining terms from 2 months through to 4 years, with a final expiry date on 15 July 2022. Refer to note 30 for refinancing of the current facilities that occurred post balance date.

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

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

16. Net Financing Income

	Group 2018 $000	Group 2017 $000
Financial income		
Interest income on bank deposits	1,225	1,044
Total finance income	**1,225**	**1,044**
Financial expenses		
Interest cost – term borrowings	(4,689)	(4,347)
Interest cost – other	(69)	(68)
Unrealised interest rate swap (loss)/gain	(1,769)	2,208
Total finance expenses	**(6,527)**	**(2,207)**
Realised/unrealised foreign exchange gains/(losses)		
Realised foreign exchange (loss)/gain	(80)	2,243
Unrealised foreign exchange loss	(1,301)	(1,301)
Total (losses)/gains on financial instruments	**(1,381)**	**942**

Accounting Policy – Revenue Recognition

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

17. Share Capital

	Group 30 June 2018 $000	Group 30 June 2017 $000
28 million Ordinary Shares	29,026	29,026
Total	**29,026**	**29,026**

Explanatory Note – Share Capital

Marlborough Lines Limited's shares are held by the Trustees to the Marlborough Electric Power Trust.

The Company issued 28 million $1 shares at incorporation in 1993. A small residual value in a share premium reserve was previously absorbed into the share capital value to arrive at the present value. The authorised capital is 28 million shares and all shares are fully paid up.

All shares carry equal rights to distributions.

18. Revaluation Reserves and Foreign Currency Translation Reserve

18.1 Revaluation Reserves

	Group 2018 $000	Group 2017 $000
Properties Revaluation Reserve		
Balance at the beginning of the year	103,191	42,789
Increase in fair value of land, buildings, vineyard improvements and bearer plants, net of tax	121	60,402
Increase in fair value of buildings held by associate	232	60,402
Disposal of held-for-sale assets	(2,155)	–
Balance at end of the year	**101,389**	**103,191**
Attributable to non-controlling interest	–	8,720
Attributable to owners of the Parent	101,389	94,471
Balance at end of the year	**101,389**	**103,191**

Explanatory Note – Revaluation Reserve

The properties revaluation reserve arises on revaluation of Land, Buildings, Vineyard Improvements, Bearer Plants and Reticulation System Assets to fair value. When these assets are sold, the portion of the properties revaluation reserve that relates to that asset is transferred directly to retained earnings.

	Group 30 June 2018 $000	Group 30 June 2017 $000
The Group Properties Revaluation Reserve comprises revaluations in the following categories:		
Land, buildings, vineyard improvements and bearer plants	62,064	64,098
Reticulation system assets	35,639	35,858
Associate entities	3,686	3,235
Total	**101,389**	**103,191**

18.2 Foreign Currency Translation Reserve (FCTR)

	Group 2018 $000	Group 2017 $000
Balance at the beginning of the year	(96)	(68)
Movement for the year	7	(28)
Balance at end of the year	**(89)**	**(96)**
Attributable to non-controlling interest	–	(18)
Attributable to owners of the Parent	(89)	(78)
Balance at end of the year	**(89)**	**(96)**

Accounting Policy – Foreign Currency Transactions

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

19. Non-Controlling Interests

	Group 2018 $000	Group 2017 $000
Balance at the beginning of the year	27,361	27,267
Share of profit (loss) for the year	1,919	(894)
Share of other comprehensive income	18	8,734
Less share of dividends received	(794)	(794)
Reduction to non-controlling interest following share transfer	(28,472)	(6,952)
Balance at end of year	**32**	**27,361**

Accounting Policy – Non-Controlling Interest

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

The Non-Controlling Interest recognised upon acquisition of Yealands Wine Group Limited was measured by reference to the fair value of its share of the assets and liabilities acquired. Subsequent transactions that altered the non-controlling interests share in the Group were recognised at the proportionate share of net assets at the time of the transaction.

Explanatory Note – Non-Controlling Interest

In the current year the 14.44% Non-Controlling Interest in Yealands Wine Group Limited was acquired on 29 June 2018. The Non-Controlling Interest has been attributed its share of the earnings during the year and it received its share of the dividend paid on 28 June 2018. As at 30 June 2018 there was no Non-Controlling Interest remaining in Yealands Wine Group. The Non-Controlling Interest relates to an external shareholding in Seaview Water Group Limited.

20. Dividends

	Group 2018 $000	Group 2017 $000
Amounts recognised as distributions to equity holders in the period:		
Total Dividends ($000)	5,000	4,285
Cents per Share	17.857	15.304

Financial Risk Management

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

21. Financial Risk Management

21.1 Financial Risk Management

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

The agricultural activity of the Group's subsidiary Yealands Wine Group Limited consists of the management of vineyards to produce grapes for use in the production of wine. The primary financial risk associated with this activity occurs due to the length of time between expending cash on the purchase or planting and maintenance of grape vines and on harvesting grapes, and ultimately receiving cash from the sale of wine to third parties. Yealands strategy to manage this financial risk is to actively review and manage its working capital requirements. In addition, the Group maintains credit facilities at a level sufficient to fund Yealands working capital during the period between cash expenditure and cash inflow. At balance date, Yealands had unused credit facilities in the form of undrawn bank loan facilities of $16.0 million (2017: $15.84 million).

21.2 Market Risk Management

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

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

> Forward foreign currency exchange contracts to hedge the exchange rate risk arising on the export of wine principally to the United States, United Kingdom, Europe and Australia; and

> Interest rate swaps to mitigate the risk of rising interest rates.

21.3 Foreign Currency Risk Management

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

Foreign currency denominated assets and liabilities	Group 30 June 2018 $000	Group 30 June 2017 $000
Cash and cash equivalents	995	1,036
Trade and other receivables	8,833	9,181
Trade and other payables	(1,755)	(232)
	8,073	**9,985**

Sensitivity analysis

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

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

Change in New Zealand dollar against foreign currency	$000 AUD	$000 EUR	$000 USD	$000 Other
Impact on Group 2018 net surplus:				
10% increase	(188)	(282)	(192)	(72)
10% decrease	230	345	235	88
Impact on Group 2017 net surplus				
10% increase	(148)	(502)	(184)	(73)
10% decrease	181	614	225	90

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.

Notional principal of outstanding currency exchange contracts	Group 30 June 2018 $000	Group 30 June 2017 $000
EUR	54,126	23,218
USD	10,933	5,968
AUD	3,657	3,807
Other	7,055	350
	75,771	**33,343**

21.4 Interest Rate Risk Management

Interest rate risk is the risk that interest rates will change, increasing or decreasing the cost of borrowing or investing.

The Group's short term deposits are at fixed interest rates and mature within one year.

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

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

Interest Rate Sensitivity

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

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

Change in interest rate %	Group 2018 $000	Group 2017 $000
Impact on Group net surplus:		
2.0% increase	(72)	117
2.0% decrease	72	(117)

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

Interest Rate Swap Contracts

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

	Group 30 June 2018 $000	Group 30 June 2017 $000
Notional principal of outstanding contracts	95,000	85,000

The interest rates applicable to the interest rate swap contracts during the year were 2.560% to 3.700% per annum (2017: 2.250% to 3.695%).

Interest rate swap contracts exchanging fixed rate interest amounts for floating 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 Consolidated Statement of Comprehensive Income. The interest rate swaps and the interest payments on the loan occur simultaneously on a quarterly basis. The floating rate on the interest rate swaps is the three month BKBM rate. The Group settles the difference between the fixed and floating interest rate on a net basis.

21.5 Credit Risk Management

Credit risk is the risk that an outside party will not be able to meet its obligations to the Group resulting in financial loss to the Group.

Financial instruments which potentially subject the Group to concentrations of credit risk consist principally of cash deposits, short term deposits and trade receivables. The maximum credit risk is the book value of these financial instruments, however, the Group considers the risk of non-recovery of these amounts to be minimal. The Group places its cash deposits with high credit quality financial institutions.

Credit risk exists in respect of accounts receivable. In respect of its electricity business the Group is able to impose bond requirements on retailers trading across its network in accord with the Use of System Agreements held with the retailers. In respect to wine sales the Group has adopted a policy of only trading with customers for whom trade credit insurance has been granted by the Group's trade credit insurance provider or on cash terms.

Credit exposure is monitored on an ongoing basis and within counterparty limits that have been approved by the Group's trade credit insurance provider. The amounts presented in the Balance Sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their views in relation to the current trading environment. See also Note 11.

21.6 Liquidity Risk Management

Liquidity risk is the risk that the Group may not have the financial ability to meet payment commitments as they fall due.

The Group assesses its liquidity requirements on a regular basis and has funding arrangements in place to cover short term variations and shortfalls where capital expenditure requirements cannot be met from operating cash flows.

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

	Less than 1 year $000	1–2 years $000	2–5 years $000	Over 5 years $000
2018 Contractual Maturity				
Trade and other payables	25,374	–	–	–
Interest cost on term debt	2,458	2,304	3,807	–
Term borrowings	37,200	–	65,000	–
2017 Contractual Maturity				
Trade and other payables	37,074	–	–	–
Interest cost on term debt	2,272	2,359	5,666	–
Term borrowings	27,100	10,000	20,000	45,000

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

	Less than 6 Months $000	6–12 Months $000	1–2 Years $000	Over 2 Years $000
2018 Liquidity Analysis				
Interest rate swaps – net settled cash outflows	651	651	1,301	4,810
Forward exchange contracts – cash outflows	19,429	16,357	19,668	20,317
2017 Liquidity Analysis				
Interest rate swaps – net settled cash outflows	281	563	1,082	3,089
Forward exchange contracts – cash outflows	11,046	10,062	11,381	855

21.7 Fair Values

The carrying amount of cash and cash equivalents, trade receivables, trade payables and non-current borrowings and other financial assets and liabilities reflect their fair values. The fair values of financial assets and liabilities are determined as follows:

> the fair value of financial assets and liabilities with standard terms and conditions and traded on active markets are determined with reference to the quoted market prices; and

> the fair value of derivative instruments are calculated based on discounted cash flows using market inputs.

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

Fair value measurements recognised in the Statement of Financial Position

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

> Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

> Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

> Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

	Fair Value Category	Group 30 June 2018 $000	Group 30 June 2017 $000
Derivative financial assets – current	Level 2	101	1,099
Total financial assets		**101**	**1,099**
Derivative financial liabilities – current	Level 2	(1,121)	(2,079)
Derivative financial liabilities – non-current	Level 2	(3,848)	–
Total financial liabilities		**(4,969)**	**(2,079)**
Net financial liability		**(4,868)**	**(980)**

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

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

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

Fair Value of derivative financial instruments	Group 2018 $000	Group 2017 $000
Foreign currency forward contracts	(1,020)	1,099
Interest rate swaps	(3,848)	(2,079)
Net financial liability	**(4,868)**	**(980)**

21.8 Capital Risk Management

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern. The capital structure comprises share capital (Note 17), reserves and retained earnings (Note 18). The Group reviews the capital structure as part of its annual budgeting process and at intervals throughout the year when budgets are subject to review and reset.

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

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

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

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

22. Financial Instruments

22.1 Classification of Financial Instruments

Consolidated Group as at 30 June 2018

Financial Assets	Available for Sale Financial Assets $000	Loans and Receivables $000	Held for Trading (FVTPL) $000	Other Amortised Cost $000	Total Carrying Amount $000
Current Assets					
Cash and cash equivalents	–	6,924	–	–	6,924
Short-term deposits	–	15,212	–	–	15,212
Trade and other receivables	–	30,171	–	–	30,171
Derivatives	–	–	101	–	101
Total Financial Assets	**–**	**52,307**	**101**	**–**	**52,408**

Financial Liabilities	Held for Trading (FVTPL) $000	Other Financial Liabilities $000	Total Carrying Amount $000
Current Liabilities			
Trade and other payables	–	24,842	24,842
Derivatives	1,121	–	1,121
Term borrowings	–	37,200	37,200
Non-Current Liabilities			
Trade and other payables	3,848	–	3,848
Term borrowings	–	65,000	65,000
Total Financial Liabilities	**4,969**	**127,042**	**132,011**

Consolidated Group as at 30 June 2017

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

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

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

Accounting Policy – Financial Instruments

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

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

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

Accounting Policy – Derivative Financial Instruments

From time to time the Group enters into interest rate swap agreements and forward foreign currency contracts to manage its exposure to interest rate and foreign exchange rate risk. Interest rate swaps and forward foreign exchange contracts are considered to be a 'Level 2' fair value measurement financial instrument. Such financial instruments are those derived from inputs that are observable for the instrument either directly or indirectly.

The Group has not designated any derivatives as hedges. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting date. The resulting gain or loss is recognised in the Statement of Comprehensive Income immediately. This is known as Fair Value Through the Profit and Loss (FVTPL).

The fair values of these financial derivatives are determined by reference to the market rates for interest and currency and the resulting gain or loss that would accrue if the derivative was terminated at balance date.

Other

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

23. Taxation

23.1 Income Taxes Relating to Continuing Operations

	Group 2018 $000	Group 2017 $000
Tax expense comprises:		
Current tax expense	8,168	1,887
Deferred tax expense relating to the origination and reversal of temporary differences	(559)	(4,724)
Deferred tax expense prior period adjustment	–	(154)
Tax expense/(benefit)	**7,609**	**(2,991)**
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	**29,088**	**(4,521)**
Prima facie income tax calculated at 28%	8,145	(1,266)
Plus/(less) taxation adjustments:		
Non-deductible expenses and deferred revenue	392	1,072
Net benefit of imputation credits	(920)	(2,573)
Prior period adjustment	–	(154)
Equity accounted earnings of associates	(8)	(70)
Tax expense/(benefit) recognised in the Statement of Comprehensive Income	**7,609**	**(2,991)**

Accounting Policy – Recognition and Measurement

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

23.2 Deferred Taxation

Consolidated Group for the year ended 30 June 2018

	Opening Balance $000	Charged to Income $000	Charged to Equity $000	Closing Balance $000
Deferred Tax Liabilities				
Plant, property and equipment	50,320	287	(121)	50,486
Inventory	4,229	(929)	–	3,300
	54,549	**(642)**	**(121)**	**53,786**
Deferred Tax Assets				
Provisions for employee entitlements, retirement obligations and doubtful debts	(1,047)	85	–	(962)
Doubtful debts and impairment losses	(32)	(2)	–	(34)
	(1,079)	**83**	**–**	**(996)**
Net Deferred Tax Liability	**53,470**	**(559)**	**(121)**	**52,790**

Consolidated Group for the year ended 30 June 2017

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

Accounting Policy – Recognition and Measurement

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences between the carrying values of the assets and liabilities in the consolidated financial statements and the corresponding tax bases of those items. In principle deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

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

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company or Group intends to settle its current tax assets and liabilities on a net basis. No other assets and liabilities have been offset unless specifically permitted by accounting standards.

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

23.3 Imputation Credit Memorandum Account

	Group 2018 $000	Group 2017 $000
Balance at beginning of period	58,796	57,682
Attached to dividends paid in the period	(1,944)	(1,666)
Attached to dividends received	2,238	2,180
Tax refund/transfer	174	(1,000)
Income tax payments during the period	886	1,600
Balance at end of period	**60,150**	**58,796**

24. Related Parties

24.1 Marlborough Electric Power Trust

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

24.2 Parties Associated with Group Directors

Related party	Relationship	Product Sold or Services Rendered $000	Product Purchased or Services Received $000	Balance Receivable $000	Balance Payable $000
Marlborough Lines Limited Director relationships – 2018					
Ashmore Vineyards Limited	Director	8	–	–	–
Construction Coatings Limited	Director	–	4	–	–
Cuddon Limited	Director	2	48	–	1
Fraser River Limited	Director	1	–	–	–
Precast Systems Limited	Director	–	23	–	–
Robinson Construction Limited	Director	–	133	–	
Scaffold Marlborough Limited	Director	–	1	–	–
Yealands Wine Group Limited Director relationships – 2018					
Dew & Company Limited	Director	–	6	–	–
Growco Limited	Director	–	81	–	–
PJ Radich Family Trust	Associated to a director	–	565	–	291
P.Y.G. Limited	Director	177	1,140	12	17
Radich Law	Partner	–	692	–	11
Marlborough Lines Limited Director relationships – 2017					
Construction Coatings Limited	Director	–	2	–	–
Cuddon Limited	Director	5	40	–	1
Outer Limits Limited	Director	37	–	–	–
Precast Systems Limited	Director	–	34	–	10
Redwood Developments Limited	Director	9	–	–	–
Yealands Wine Group Limited Director relationships – 2017					
PJ Radich Family Trust	Associated to a director	3	477	3	225
P.Y.G. Limited	Director	179	2,321	16	157
Radich Law	Partner	2	632	–	21

Directors fees paid to Directors are disclosed in Note 25.

Explanatory Note – Related Party Transactions

The amounts included in the disclosure above are inclusive of GST paid (if any).

Radich Law (an entity associated with Peter and Miriam Radich) provides legal advice to Marlborough Lines Limited and Yealands Wine Group Limited. Amounts paid to Radich Law include disbursements paid via Radich Law to third parties that total $93,285 (2017: $165,509). PJ Radich Family Trust (an entity associated with Peter and Miriam Radich) supplies grapes to Yealands Wine Group Limited. P.Y.G Limited (an entity associated with Peter Yealands) hires earth moving machinery to Yealands Wine Group Limited. Robinson Construction Limited (an entity associated with Phil Robinson) provides construction services to Marlborough Lines Limited.

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

24.3 Subsidiary Companies

	2018 $000	2017 $000
Yealands Wine Group Limited		
Director's fees paid to Marlborough Lines Limited for Mr K Forrest	50	50
Purchases from Yealands Wine Group Limited	12	32
Electricity assets paid for by Yealands Wine Group Limited	64	–
Amounts receivable from Yealands Wine Group Limited	36	5
Southern Lines Limited		
Term debt owed by Marlborough Lines Limited	5,000	5,000

24.4 Associate Entities

	2018 $000	2017 $000
Nelson Electricity Limited		
Director's fees paid to Marlborough Lines Limited for Mr K Forrest	22	23
Management fees charged to Nelson Electricity Limited by the Company	117	117
Amounts owed by Nelson Electricity Limited	59	59

Explanatory Note – Associate Entities

Nelson Electricity Limited is considered an associate company for accounting purposes by virtue of Marlborough Lines Limited owning 50% of that company's shares. Effective control is shared with one other shareholder. During the period the Company provided management and accounting services to Nelson Electricity Limited and these services were charged for at commercial rates. Marlborough Lines Limited also received dividends from Nelson Electricity Limited.

25. Key Management Personnel

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

	Group 2018 $000	Group 2017 $000
Directors' Fees	630	605
Salaries and Short Term Employee Benefits	4,206	3,835
Retirement Benefits Paid	117	–
Compensation during the period	**4,953**	**4,440**

	Group 30 June 2018 $000	Group 30 June 2017 $000
Retirement Benefits accrued as at balance date	149	185

26. Reconciliation of Profit to Net Cash Generated from Operating Activities

	Group 2018 $000	Group 2017 $000
Profit (loss) for the Year from Continuing Operations	**21,479**	**(1,530)**
Add/(Less) Non Cash Items		
Depreciation and Amortisation	16,668	15,258
Asset Impairment	–	3,026
Fair value adjustment to Inventory	3,318	12,924
Income from Vested Assets and Capital Contributions	(1,711)	(1,747)
Other non cash items	2,544	(1,221)
Non Cash Items in Relation to Investing/Financing Activities		
Share of Associate Net Profit	(30)	(251)
(Gain)/loss on Sale of Fixed Assets	(584)	129
Current Charge to Deferred Taxation	(559)	(4,878)
Changes in Working Capital Items		
(Increase)/Decrease in Assets		
(Increase)/Decrease in Accounts Receivable	3,046	(1,283)
(Increase)/Decrease in Inventories	(3,601)	(4,318)
Increase/(Decrease) in Liabilities		
Increase/(Decrease) in Trade and Other Payables	(11,066)	14,850
(Decrease)/Increase in Tax Payable Balance	4,493	(476)
Increase/(Decrease) in Employee Entitlements	120	24
(Decrease)/Increase in Finance Lease Payable liabilities	444	(287)
Net Cash Generated from Operating Activities	**34,561**	**30,220**

27. Commitments

27.1 Capital Commitments

	Group 30 June 2018 $000	Group 30 June 2017 $000
Capital expenditure committed to at Balance Date but not recognised in the financial statements	2,366	5,795

27.2 Operating Leases

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

The Parent Company also leases various plant and machinery under cancellable operating lease agreements. The lease expenditure charged to the income statement during the year is disclosed in Note 4.

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

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

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

	Group 30 June 2018 $000	Group 30 June 2017 $000
No Later than One Year	598	626
Later than One Year and no Later than Five Years	1,476	1,791
Later than Five Years	840	924
	2,914	**3,341**

Accounting Policy – Operating Leases

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

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

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

Accounting Policy – Finance Leases

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

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

27.3 Grape Purchase Commitments

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

28. Contingent Assets and Liabilities

28.1 Contingent Assets

Marlborough Lines Limited has undertaken arbitration proceedings against a number of parties related to a settlement dispute. The amount and timing of any proceeds is uncertain.

28.2 Contingent Liabilities

In the ordinary course of business the Group is, from time to time, subject to legal actions. The Group has sufficient means to address any such actions including legal fees.

Accounting Policy – Financial Guarantee Contracts

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

29. New and Revised Accounting Standards and Interpretations

NZ IFRS standards and interpretations that have been recently issued or amended but are not yet effective and have not been adopted by the Company for the year ended 30 June 2018 are outlined below:

NZ IFRS 9 Financial Instruments (effective for accounting periods beginning on or after January 2018)

There are two key changes on application of this standard:

> Hedge accounting, of which the Group expects no change in current accounting treatment, however there will be enhanced disclosures.

> Expected credit losses to be based on forward looking estimates. The Group has a trade receivable/loan provision, which will be immaterially effected by this standard.

The Group will adopt the standard for the year ending 30 June 2019. The Group intends to apply the new rules retrospectively and will not restate the 2018 comparatives.

NZ IFRS 15 Revenue from contracts with customers (effective for accounting periods beginning on or after January 2018)

This standard addresses recognition of revenue from contracts with customers and replaces the current revenue recognition guidance in IAS 18 Revenue.

The vast majority of the Group's revenue is recognised on fulfilment of the performance obligation and therefore no material impact is expected from this standard.

This standard contains specific provisions for the recognition of discounts. Currently the Group recognises customer discounts paid to consumers for electricity consumption as a separate expense item on the face of the income statement. On adoption of the new standard the presentation of these discount amounts are required to be netted off against revenue rather than shown as a separate expense line. This will have no impact on the overall profitability of the Group.

The Group will adopt the standard for the year ending 30 June 2019.

NZ IFRS 16 Leases (effective for accounting periods beginning on or after January 2019)

NZ IFRS 16 Leases, replace the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Currently NZ IAS 17, a lessee is required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments as a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases of low-value assets; however, this exemption can only be applied by the lessees. Lessor accounting however remains substantially unchanged.

The Group intends to adopt NZ IFRS 16 on its effective date and has yet to assess its full impact.

30. Events Subsequent to Balance Date

Renewal of bank debt facilities

On 3 August 2018 Yealands Wine Group renewed its current debt facilities that had matured. These are noted below:

Lender	Original Maturity	Renewed Maturity	Currency	Facility Limit Limit $000	Drawn at 30 June 2018 $000
ASB Bank Limited	Jul-18	Jul-21	NZD	10,000	10,000
ASB Bank Limited	Jul-18	Jul-23	NZD	10,000	5,700
ASB Bank Limited	Jul-18	Jul-23	NZD	10,000	3,000
Total renewed bank debt facilities				**30,000**	**18,700**

STATEMENT OF SERVICE PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2018 (STATISTICS FOR PARENT COMPANY)

EXPLANATORY NOTE: REQUIREMENTS OF SECTIONS 39 AND 44 OF THE ENERGY COMPANIES ACT 1992

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

Financial Performance Targets

1.	**Target:**	To achieve an overall post-tax rate of return on shareholders' funds of 5.0%, measured by taking net operating surplus after interest and tax, and adding back discounts paid to consumers.
	Result:	Achieved 5.48% return on average shareholder's funds of $344 million for the year. This result is after including Marlborough Lines Limited network assets at valuation and adding back customer discounts adjusted for tax.
2.	**Target:**	Cash flow return from investments greater than 6.0% post-tax.
	Result:	Cash received from investments, including dividends, interest and management fees totalled $7.1 million, equating to a post-tax return of 4.35% on the amount invested. This rate of return does not include any capital gains on Marlborough Lines' investments.
3.	**Target**	Pay a dividend to MEPT of $4.285 million.
	Result	MEPT was paid total dividends of $5.0 million (2017: $4.285 million). This was made up of an interim dividend paid during September 2017 of $0.275 million and a final dividend during June 2018 of $4.725 million.
4.	**Target**	Pay discounts to consumers of $8.2m (excluding GST).
	Result	In accord with the posted price/discount requirements total discounts of $8.3 million (2017: $8.164 million) was paid to Electricity Retailers in March 2018.

Network Reliability Performance Targets

5.	**Target:**	Planned SAIDI (average duration of customer outages) not to exceed 65 minutes.
	Result:	An average of 60.7 minutes lost per customer for the year to 31 March 2018. This number is fairly steady and is reflective of the quantity and type of work performed on our network.
6.	**Target:**	Unplanned SAIDI (average duration of customer outages) not to exceed 80 minutes.
	Result:	An average of 60.3 minutes lost per customer for the year to 31 March 2018. This is the lowest result for unplanned outages on our network on record, surpassing our previous low of 61.1 minutes recorded in 2016.

Health and Safety Performance Targets

7.	**Target:**	Achieve zero serious harm incidents.
	Result:	No serious harm incidents have occurred to our employees or contractors during the year.
8.	**Target:**	Achieve certification in ISO 45001: Occupational Health and Safety and NZS 7901:2014 Safety Management Systems for Public Safety.
	Result:	The Company's Health and Safety Management System was not able to be assessed against ISO 45001 due to delays in publication of the Standard. Instead the Company's compliance was assessed against OHSAS 18001:2007 and certification was achieved in April 2018.[4] The Company's compliance with NZS 7901:2014 was also assessed in April 2018 and certification was achieved.

Customer Performance Targets

9.	**Target:**	Maintain overall consumer satisfaction at above 85%.
	Result:	Consumer satisfaction with Marlborough Lines' performance remains very high. 93% of the sample rated their satisfaction with the Company's overall performance as either Satisfied or Very Satisfied (2017: 88%). Consumer satisfaction has increased on the prior year across all performance measures.
10.	**Target**	Provide at least four newsletters to consumers providing financial, energy efficiency and health and safety information.
	Result:	Two Connections newsletters have been published during the year.

Environment Performance Target

11.	Target	Achieve certification in ISO 14001:2004 Environmental Management System.
	Result:	The Company's compliance with ISO 14001:2015 was assessed in November 2017 and certification was achieved.

4 Certification in ISO 45001 was achieved post balance date.

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF MARLBOROUGH LINES LIMITED'S GROUP FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2018

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

Opinion on the financial statements and the performance information

We have audited:

> the financial statements of the Group on pages 89 to 129, that comprise the statement of financial position as at 30 June 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and

> the performance information of the Group for the year ended 30 June 2018 on pages 130 to 131.

In our opinion:

> the financial statements of the Group:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2018; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand and in accordance with the New Zealand equivalents to International Financial Reporting Standards.

> the performance information of the Group presents fairly, in all material respects, the Group's achievements measured against the performance targets adopted for the year ended 30 June 2018.

Our audit was completed on 28 September 2018. This is the date at which our opinion is expressed.

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

Basis for our opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

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

> We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

> We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

> We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance;

> We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

> We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

> We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

> We obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the consolidated financial statements and performance information. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Directors is responsible for the other information. The other information does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report the fact. We have not received the other information at the date of signing this opinion.

Independence

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

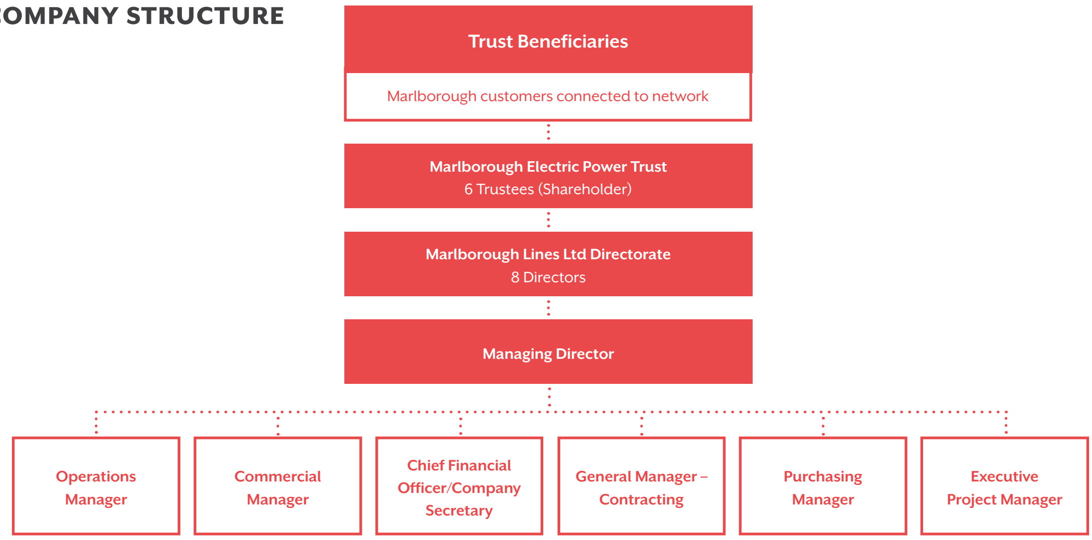
In addition to the audit we have carried out engagements in the areas of Information disclosure, and fraud awareness which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the Group.

Michael Wilkes

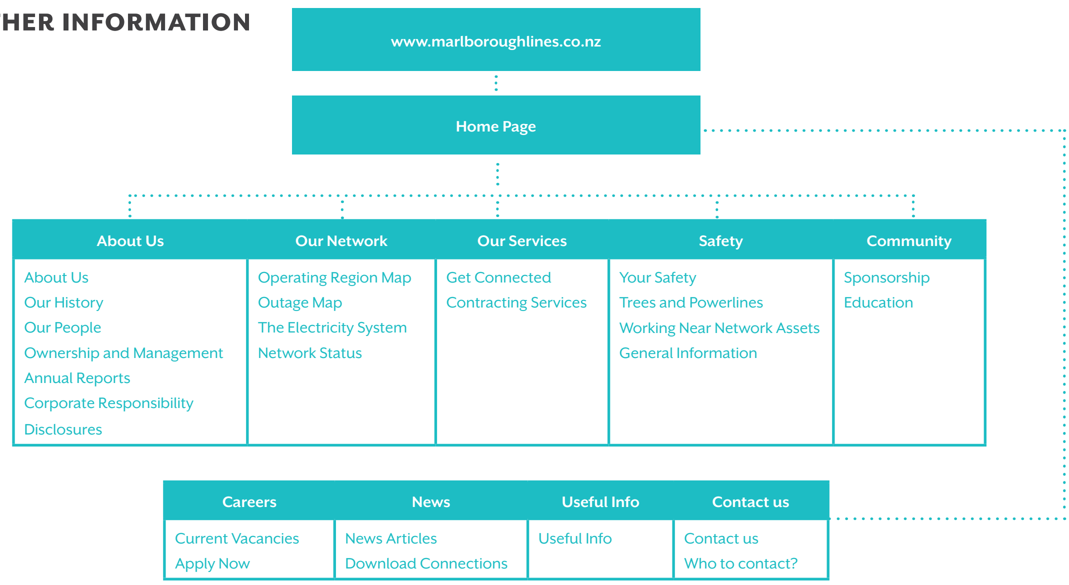
for Deloitte Limited
On behalf of the Auditor-General
Christchurch, New Zealand

COMPANY INFORMATION

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

ANNUAL MEETING AND DIRECTORY

Notice is hereby given that the twenty-fifth Annual General Meeting of the shareholder of Marlborough Lines Limited will be held at the Company's offices in Alfred Street, Blenheim on 19 November 2018 at 3.00pm.

ORDINARY BUSINESS

1. To receive and consider the annual reports of the Chairman and Directors, the Financial Statements and Statement of Service Performance and Auditor's Report for the year ended 30 June 2018.
2. During the 2017/18 financial year the shareholder authorised payment of dividends totalling $5.0m. There is no recommendation for a final dividend for the year ended 30 June 2018.
3. To elect Directors. The Directors advise that Mr P Forrest and Mr P Robinson retire at the meeting by rotation as provided by clause 21.7 of the Company's constitution. Messrs Forrest and Robinson 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

19 November 2018 at 3.00pm
Venue: Marlborough Lines registered office
1-3 Alfred Street, Blenheim

Financial results announced

Half year: February
Final year: November
By order of the Board of Directors

G D Jones
Company Secretary
30 October 2018

DIRECTORY

Management

K J Forrest, BSc Hons (Electrical Eng), MIPENZ
Managing Director

G D Jones, BCom, CA
Chief Financial Officer

K L Hume-Pike, BCom, LLB, INFINZ (Cert)
Commercial Manager

S J McLauchlan, MNZIM
General Manager Contracting

W G Nichol, DipEng (Electrical)
Operations Manager

Address

Registered Office of Company
1-3 Alfred Street, Blenheim 7201

Postal Address

PO Box 144, Blenheim 7240

Auditors

Deloitte on behalf of the Controller and Auditor-General

Bankers

Westpac Banking Corporation, New Zealand

Solicitors

Radich Law, Blenheim and Simpson Grierson, Auckland

Financial and Tax Advisors

PricewaterhouseCoopers, Wellington/Auckland

GLOSSARY

AS/NZS ISO
Australian/New Zealand Standard/ International Organisation for Standardisation.

CAIDI
Customer Average Interruption Duration Index – the average duration of an interruption that a customer experiences during the period.

EBIT
Earnings Before Interest and Taxation.

EBITDA
Earnings Before Interest, Taxation, Depreciation and Amortisation.

GWh
Gigawatt hour – 10^6 kWh, measurement of energy.

km
Kilometre.

kV
kilovolt – 1,000 volts, measurement of electrical potential.

kVA
kilovolt Ampere – measurement of apparent power.

kWh
kilowatt hours – electrical energy equivalent to a power consumption of 1,000 watts for one hour, typically referred to as one unit.

NZ IFRS
New Zealand International Financial Reporting Standards.

SAIDI
System Average Interruption Duration Index – the average time supply unavailable to all consumers.

SCADA
Supervisory Control and Data Acquisition.

SF_6 Gas
Sulphahexafluoride Gas.

WACC
Weighted Average Cost of Capital.

ANNUAL REPORT AWARDS

Each year, for the past fourteen years, Marlborough Lines has submitted its most recent 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 – 2018, 2017, 2016, 2015, 2014, 2013, 2012, 2011
Silver Award – 2010, 2009, 2008, 2007, 2006, 2005

CHARTERED ACCOUNTANTS AUSTRALIA NEW ZEALAND

Best report by a small to medium corporate – 2008

A BRIEF HISTORY

1923

The original founding entity, the Marlborough Electric Power Board, was constituted under gazette on 25 October 1923.

This followed local petition to the Government for the creation of a power board following the Government's refusal to provide a state supply of electricity to Marlborough.

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.

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.

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

2016

Marlborough Lines increases its investment in Yealands to 86%.

2018

Marlborough Lines acquires the remaining shares in Yealands Wine group Limited to now hold 100% of the issued capital.

This document is printed on an environmentally responsible paper, produced using Elemental Chlorine Free (ECF), FSC® certified, mixed source pulp from responsible sources, and manufactured under the strict ISO14001 Environmental Management System.

Marlborough Lines

1-3 Alfred Street
PO Box 144
Blenheim 7240
New Zealand

T +64 3 577 7007
F +64 3 579 3806

www.marlboroughlines.co.nz