ANNUAL REPORT

2019

Marlborough Lines

STANDING TALL

MARLBOROUGH LINES HAS INVESTMENTS IN ELECTRICITY NETWORKS, VITICULTURE AND WINE.

WE RECOGNISE BEING CONSUMER OWNED IMPOSES ADDITIONAL CHALLENGES... WE WILL MEET THEM.

LINE MECHANIC – NIC WILLIAMS AND ARBORIST – KYLE MARFELL, POISED AND READY FOR ACTION.

MARLBOROUGH LINES

SEVENTH BEST

reliability in New Zealand of 29 networks and much better than New Zealand's largest city

Strong support and links with our community

304

remotely operated switches

QUALITY ASSETS

Internationally recognised management systems for quality, health and safety and the environment

HIGH LEVELS OF CUSTOMER SATISFACTION

85% of customers satisfied/very satisfied overall

No deferred prudent maintenance or capital expenditure

No debt in the Parent Company

$15.77

value per share increased from $1.51 in 1999 to $15.77

Measured our carbon footprint since 2008 and actively sought to reduce it

$125M

in electricity discounts paid to our consumers since 1999

$30M

in dividends paid to the Marlborough Electric Power Trust from our investments since 2010

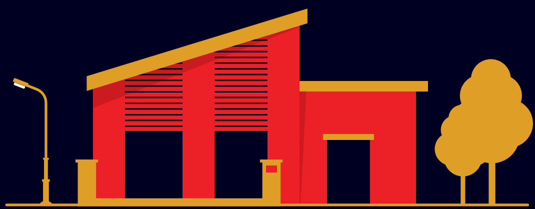
SUCCESSFUL INVESTMENTS

50%

ownership of Nelson Electricity

100%

ownership of Yealands Wine Group



All major 33/11kV substations housed indoors with zero noise emission and integrated within the environment

A NEW DAY DAWNS AT
YEALANDS SEAVIEW
VINEYARD AND WINERY
IN SEDDON.

YEALANDS WINE GROUP

Seaview Vineyard is the single

LARGEST VINEYARD IN NEW ZEALAND

Is New Zealand's only carboNZero accredited wine producer

Has further quality grape land for development

RECOGNISED FOR THE QUALITY OF ITS WINES

Awarded "Most Successful Winery of Competition" at the Sydney International Wine Competition for three of the last four years (2016, 2018 and 2019)

Voted New Zealand's Favourite Wine Brand in the Air New Zealand Wine Awards 2017 (People's Choice Award)

Is still growing with newly planted areas scheduled to produce within the

NEXT THREE YEARS

A LEADER IN SUSTAINABLE WINE PRODUCTION

SIXTH LARGEST

exporter of New Zealand wine

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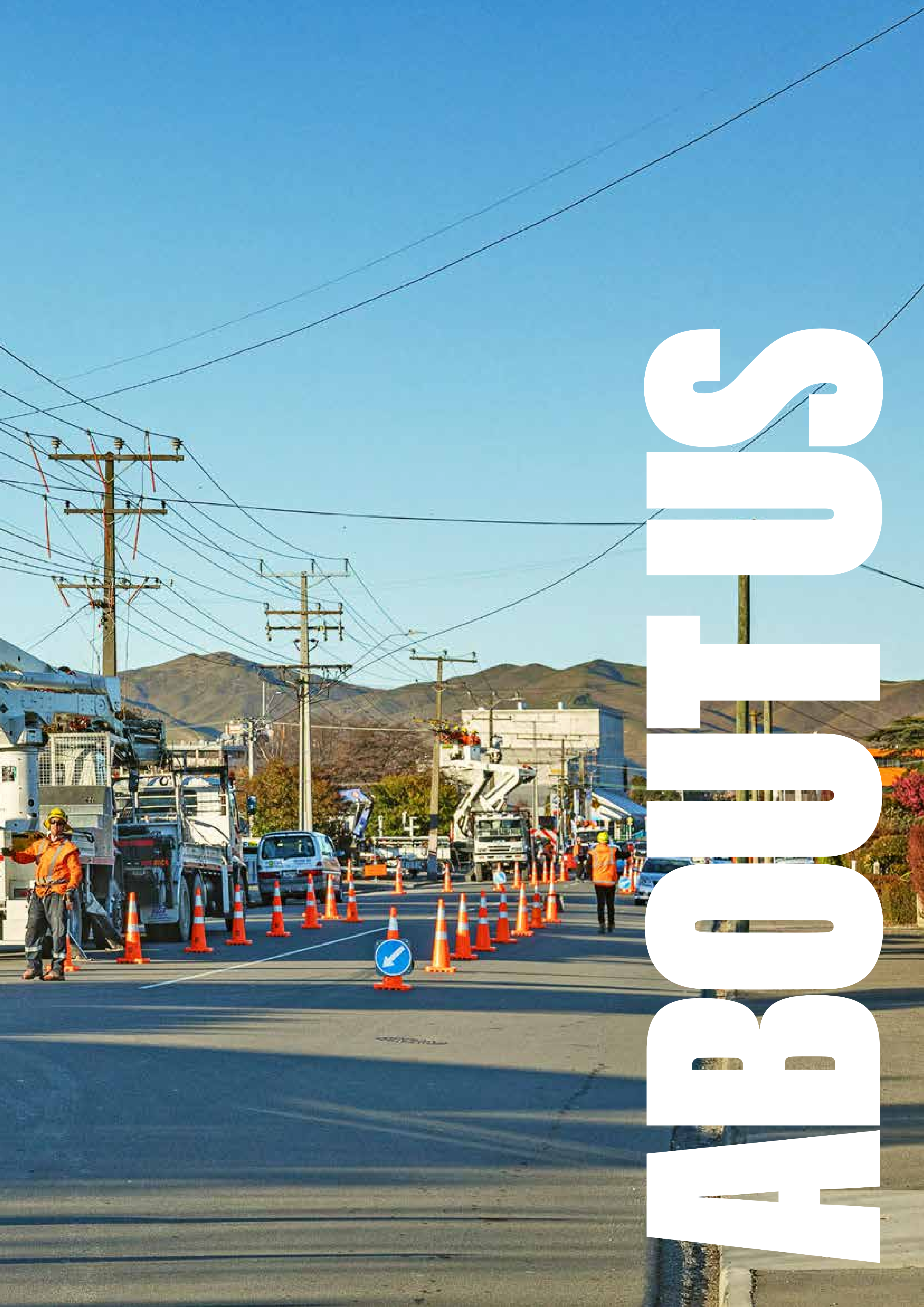
ABOUT US



STRUCTURE AND LOCATION

MARLBOROUGH LINES INVESTMENT OWNERSHIP STRUCTURE AS AT 30 JUNE 2019

Marlborough Electric Power Trust

Marlborough Lines Limited

- **SEAVIEW CAPITAL LIMITED** (INVESTMENT VEHICLE) – 100% SHARE
  - **YEALANDS WINE GROUP LIMITED** 5 DIRECTORS, 163 STAFF – 100% SHARE
- **NELSON ELECTRICITY LIMITED** 5 DIRECTORS, 4 STAFF – 50% SHARE

MARLBOROUGH SOUNDS

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

NELSON

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

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.

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 consumers, shareholder and community.
- To 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 Limited's underlying business is to manage the electricity distribution network with responsibilities to distribute electricity within the Marlborough region of New Zealand.

The legislation under which Marlborough Lines operates requires it to operate as a successful business and it achieves this demonstrably in both financial and operational terms. The Company has a track record of very successful investments in other electricity networks outside the Marlborough region, initially using funds generated from the legislatively forced divestment of its previous generation and electricity retailing businesses.

Whilst we continue to own 50% of Nelson Electricity, the distribution company which delivers electricity to the city of Nelson, we have divested our other network investments resulting in substantial financial gain and have become a major investor in the wine industry which is the backbone of Marlborough's economy.

The Company owns 100% of Yealands Wine Group, which is Marlborough based and the sixth largest exporter of New Zealand wine.

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

Our investment in the Yealands Wine Group has proven to be very successful. Dividend expectations have been met, and the capital value of the investment has appreciated significantly. This in turn has allowed us to maintain the 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.

WHY OUR ACCOUNTS SEEM COMPLEX

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

Following on from the initial acquisition of 80% of Yealands Wine Group, it was necessary to change the Marlborough Lines balance date to 30 June, to achieve alignment with Yealands Wine Group. The traditional 31 March balance date falls mid-vintage (harvest) for the wine industry and this makes the valuation of the harvest crop and resulting inventory very difficult. NZ IFRS group financial reporting requirements dictated alignment, with the result that Marlborough Lines needed a 15 month reporting period for the period ended 30 June 2016.

To further complicate matters, each year the operational performance of electricity networks in New Zealand is measured by the Commerce Commission in a reporting year ending on 31 March.

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

The 2019 financials are also impacted by a valuation uplift in Yealands Wine Group which then flowed through to Marlborough Lines Group numbers. The 2019 current market valuation of the Yealands Wine Group properties provided an uplift of $13.8m.

VITAL STATISTICS – MARLBOROUGH LINES GROUP

Marlborough Lines Parent Company plus – 50% shareholding in Nelson Electricity Limited – 100% interest in Yealands Wine Group Limited.

Total assets of $648.0m ($619.6m last year).

Total revenue of $151.8m ($150.4 last year).

295 staff (290 last year).

VITAL STATISTICS – MARLBOROUGH LINES PARENT

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

Total revenue of $60.7m ($61.4m last year).

Total assets of $413.9m ($407.8m last year).

Some 26,000 network connections.

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

Network of lines and cables in excess of 3,443km.

128 Blenheim based staff.

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

Marlborough Lines currently has the 7th most reliable electricity network in New Zealand, which compares with 29th for New Zealand's largest city.

YEALANDS WINE GROUP

One of New Zealand's major wine producers.

Sales revenue of $104.7m (last year $101.8m).

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

Exports to over 70 countries.

During the year to June 2019 Yealands Wine Group received a significant number of awards for its quality wines including most recently, nine gold medals and "Most Successful Winery of Competition" at the Sydney International Wine Competition, November 2018.

NELSON ELECTRICITY LIMITED

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

OUR DINO TRACKED EWP ENABLES ACCESS TO OUR ASSETS THROUGH NARROW VINEYARD ROWS AND SITES WITH DIFFICULT TERRAIN.

THE MARLBOROUGH REGION

Marlborough Lines is based in Blenheim, the largest town in the Marlborough region which is home to a population of approximately 47,000 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 77% 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.

As well as wine, Marlborough is known for aquaculture, farming, forestry and tourism.

ABOUT THIS REPORT

This 2019 Annual Report summarises the operations, activities and financial position of the Marlborough Lines Group for the year ended 30 June 2019. The Group comprises the Parent Company (Marlborough Lines Limited) and subsidiary, Yealands Wine Group Limited. The Parent Company also owns 50% of Nelson Electricity Limited.

In this report we provide statistical information for the Parent and where appropriate for the Group and the individual investment companies.

Some of the statistics relating to the operation of Marlborough Lines' electricity network, relate to the 12 months ended 31 March as that is the comparative period used by the Commerce Commission for monitoring industry operational performance.

Marlborough Lines undertakes only a small print run of the Annual Report and we encourage interested parties to access the electronic version (PDF) on our website **www.marlboroughlines.co.nz**.

REPORT OBJECTIVES

This report meets the legislative requirements of the Companies Act 1993, the Financial Reporting Act 2013 and the Energy Companies Act 1992, as they apply to Marlborough Lines, whilst providing an easy to read summary of the Company's activities for the 2019 financial year.

The last substantial round of electricity industry restructuring in New Zealand took place in 1999 with the enforced separation of electricity generation, distribution and retailing. Despite this taking place twenty years ago the current structure of the industry and the myriad of regulatory requirements remain not well understood in the community. For this reason we include a section for our customers on pages 40 to 44, outlining frequently asked questions and providing a description of the electricity industry supply chain. On pages 66 to 68 we also outline the regulatory environment and the challenges applicable to our electricity network business.

PERFORMANCE OVERVIEW

GROUP FINANCIAL RESULTS

$152.4M

TOTAL OPERATING REVENUE

Revenue ahead of prior year and the target set for this year ▲ UP 0.5%

$25.9M

EARNINGS BEFORE INTEREST, TAX AND DEPRECIATION (EBITDA)

EBITDA down on prior year, as prior year included one-off insurance income ▼ DOWN 43%

$8.4M

NET PROFIT AFTER TAX (NPAT)

NPAT down $1.7m on target, impacted by negative movements on interest rate swaps ▼ DOWN 61%

KEY NETWORK METRICS

406 GWh

VOLUME OF ENERGY TRADED

Network volume up on prior year ▲ UP 1.0%

129 MINUTES

AVERAGE TOTAL MINUTES OF LOST SUPPLY

Outage minutes were 11% below the Commerce Commission's target, but 6.6% up on the prior year's record result ▼ DOWN 11%

25,783

TOTAL MARLBOROUGH NETWORK CONNECTIONS

Marlborough continues to have low steady growth in connections ▲ UP 0.9%

PARENT OUTCOMES

$24.9M

CAPITAL AND MAINTENANCE EXPENDITURE TO INCREASE CAPACITY AND IMPROVE RELIABILITY

Capital expenditure up as a result of major resiliency projects ▲ UP 23%

$9.7M

TOTAL DISCOUNTS, INCLUSIVE OF GST, PAID TO MARLBOROUGH CUSTOMERS

A typical domestic consumer received a credit on their electricity bill of $226 ▲ UP 0.9%

$6.0M

TOTAL DIVIDEND PAID TO THE MARLBOROUGH ELECTRIC POWER TRUST

Dividend paid to the Trust for distribution to consumers and to fund Trust running costs ▲ UP 20%

YEALANDS OUTCOMES

22,100T

TOTAL GRAPES PROCESSED

Harvest yields lower due to climatic conditions ▼ DOWN 9.8%

$104.7M

WINE SALES

Wine sales up this year with strong international demand ▲ UP 2.8%

$13.8M

PROPERTY REVALUATION GAIN

Property revalued to fair value with the gain recognised in other comprehensive income ▲ UP 3.8%

ELECTRICIANS JONO WILSON AND BRADLEY VILE WORKING IN THE SWITCH-ROOM OF OUR NEW RENWICK SUBSTATION.

RESULTS IN BRIEF

GROUP	2020 Target 12 months	2019 Actual 12 months	2019 Target 12 months	2018 Actual 12 months	2017 Actual 12 months	2016 Actual 15 months (i)
EBITDA	$29.6m	$25.9m	$28.8m	$45.1m	$5.6m	$24.4m
EBIT	$19.7m	$16.3m	$18.4m	$35.8m	$(4.3)m	$12.0m
Total Revenue (Group)	$156.3m	$152.4m	$151.3m	$151.6m	$154.4m	$150.0m
Customer Discount (paid and accrued)	$8.5m	$8.4m	$8.3m	$8.3m	$8.2m	$11.5m
Pre-tax Pre-discount Surplus	$22.6m	$19.4m	$22.4m	$37.4m	$3.7m	$50.7m
Surplus after Taxation	$10.4m	$8.4m	$10.1m	$21.5m	$(1.5)m	$36.6m
Total Value of Group Assets	$677.6m	$648.0m	$638.5m	$619.6m	$632.5m	$549.9m
Share Capital	$29.0m	$29.0m	$29.0m	$29.0m	$29.0m	$29.0m
Shareholder's Equity	$446.4m	$441.5m	$431.8m	$427.3m	$434.1m	$385.8m
Net Asset Backing Per Share	$15.94	$15.77	$15.42	$15.260	$15.50	$13.78
Pre-discount Return on Shareholder's Funds	5.07%	4.40%	5.20%	8.76%	0.84%	13.13%
Net Interest Bearing Debt	$136.7m	$112.3m	$115.3m	$102.2m	$102.1m	$84.3m
Interest Cover (EBIT/Interest)	3.21	3.38	3.74	7.63	(0.99)	4.30

PARENT	2020 Target 12 months	2019 Actual 12 months	2019 Target 12 months	2018 Actual 12 months	2017 Actual 12 months	2016 Actual 15 months
EBITDA	$24.4m	$23.4m	$23.4m	$22.8m	$18.3m	$22.3m
EBIT	$14.5m	$14.3m	$13.0m	$13.8m	$8.9m	$10.5m
Customer Discount (paid and accrued)	$8.5m	$8.4m	$8.3m	$8.3m	$8.2m	$11.5m
Surplus After Taxation	$12.3m	$12.9m	$11.2m	$12.9m	$9.1m	$10.6m

(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.

PARENT COMPANY PERFORMANCE OVERVIEW

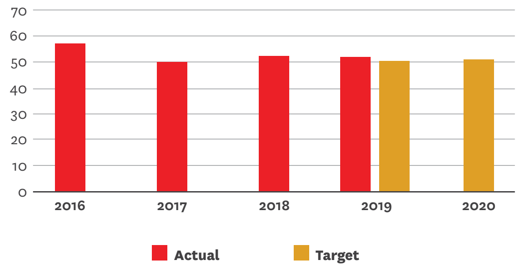
Electricity network revenue for the year to 30 June 2019 was $46.0m, which is 3.6% up on the 2018 result of $44.4m. Modest growth in the number of customer connections and an increase in energy consumption volumes helped increase network revenue.

Capital expenditure was above target this year due to the timing of projects, particularly with the significant investment made in building a new zone substation in Renwick to replace the ageing existing zone substation with a high level of earthquake damage risk.

Network reliability was better than target with an average of 129 minutes of outage per customer compared to our target of 145 minutes. This places the Marlborough Lines network as the 7th most reliable network out of the 29 networks in New Zealand, despite its largely remote or rugged geographic nature.

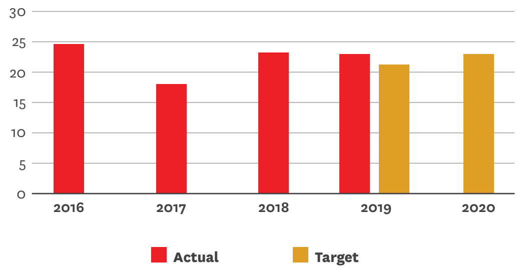
Net profit after tax for the year was $12.9m, consistent with the prior year result, also $12.9m, and above target of $11.2m. Consistent performance has resulted in the Company achieving its rate of return target and seen the values of the Company's equity continue to increase.

Total revenue (Parent Company $m)



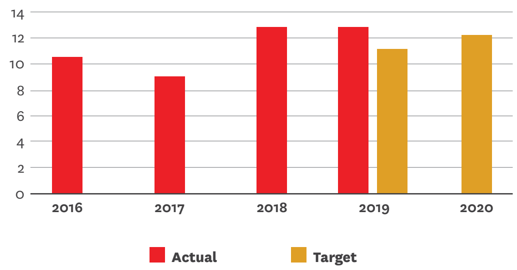
Total revenue net of discounts was 2.7% above target.

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



Pre-discount, pre-tax profit was 9.3% above target.

Surplus after tax (Parent Company $m)



Surplus after tax was 14.7% above target.

KEY TARGETS AND RESULTS – PARENT COMPANY

Target 2018/19	Result 2018/19	Target 2019/20
Operating turnover target (net of discounts) $50.87m Operating turnover includes dividend and interest income.	**ACHIEVED** $52.24m	$51.04m
Company surplus before tax and network discounts $21.29m This metric shows our revenue less our operating expenses.	**ACHIEVED** $23.27m	$22.99m
Company net surplus after tax $11.24m Our bottom line performance.	**ACHIEVED** $12.90m	$12.32m
Network customer discounts $8.319m Our intention is to maintain a consistent level of discount each year. Discount values are published as part of our "posted" line charges.	**ACHIEVED** $8.41m	$8.47m
Capital expenditure target level $12.76m Capital expenditure is driven by the provisions of our Asset Management Plan but can vary to satisfy customer requirements.	**ACHIEVED** $15.80m	$12.73m
Target shareholder's equity $352.50m Our intention is always to grow this in real terms.	**ACHIEVED** $355.00m	$360.50m
Average number of minutes power supply lost from all causes not to exceed: 145 minutes This is a mixture of planned (notified) outages and unplanned fault events.	**ACHIEVED** 129 minutes	145 minutes

SETTING GOALS AND MEASURING PROGRESS

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

AS A COMPANY WE SET OUT TO

Goals	2018/19 Results	2019/20 Targets
Develop and maintain the region's electricity network	This year the average total minutes lost from all causes was 129.1 minutes against a target of 145 minutes. This is slightly more than last year but very good for what is essentially a rural network. We incurred Parent capital expenditure of $15.80m for the review period. This compares to our target of $12.76m. See page 48. The increase reflects timing of work completed on the new Tapp Zone Substation. Maintenance expenditure for the Parent totalled $9.08m which was above our estimated spend of $8.569m.	» Average number of minutes power supply lost from all causes not to exceed 145 minutes per customer. » Capital expenditure target level of $12.73m, a small increase on the previous year's 12 month target. » Maintenance expenditure target level of $9.22m.
Meet both commercial and productivity targets	This year we delivered 406GWh to the Marlborough network compared to a target of 398GWh. Volumes were up 1% on the prior year.	» Deliver 413GWh of energy to the Marlborough network (this takes account of a potentially dry year and increasing wine industry energy consumption).
Operate a successful business	Achieved a pre-tax, pre-discount operating profit of $23.27m for the 12 month period, better than the estimate of $21.29m. See commentary on page 28. We paid a shareholder dividend of $6.01m to the Marlborough Electric Power Trust which will enable them pay a distribution to Trust beneficiaries. Achieved an increase in parent shareholder value of $6.89m to $355.00m arising from the operating results for the year.	» Achieve Company surplus before tax and sales discounts of $22.99m. » Pay a shareholder dividend of $5.8m. » Continue to Increase shareholder value.

Goals	2018/19 Results	2019/20 Targets
Be a good employer	This year we maintained our training focus supporting 19 employees through formal trade training, and three employees undertaking tertiary study. See page 55. We provided vacation work opportunities for 4 tertiary students assisting them to meet practical experience requirements. We have a "wrap around" approach to staff welfare and support with over twenty different initiatives – see pages 56-57. Where appropriate we arrange for new employees to have an ergonomics check to ensure that their immediate working environment is fit for purpose. This includes the roll out of stand-up desks for office staff. These provide a variety of ergonomic options and can operate at standing and sitting positions as required.	» Continue with training and study support in all areas. » Continue to improve on the "ACC Fleet Saver" vehicle programme which focuses on heavy vehicle driver safety. » Embed 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. 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 further reduce our energy electricity consumption and transport fuels. » To complete a new efficiency audit for electricity consumption within the Company's buildings.
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. This year we recorded zero serious harm incidents. We achieved the new ISO 45001 Occupational Health and Safety certification. We maintained our Public Safety NZS 7901:2014 and 2008 certifications, and the ACC Tertiary status for the final year of that ACC management system.	» Continue to review and refine the health and safety surveillance and meeting process to improve our staff health and safety culture in accord with the requirements of the new legislation. » Achieve zero serious harm accidents. » Maintain our Health and Safety certifications.

Goals	2018/19 Results	2019/20 Targets
Exceed customer expectation	This year in our annual customer satisfaction survey we continued to receive strong support for our services and product reliability, however overall satisfaction levels have fallen from 93% to 85%, mostly we believe as a result of a number of public attacks on the Company's directors and management over investment policy. This year we supported a wide range of Community initiatives allocating $514k to students and community events and organisations. See pages 58-61. Marlborough Lines' investment in the Yealands Wine Group again generated a significant dividend which was in turn passed through to the Marlborough Electric Power Trust. This will result in a distribution to all electricity consumers (the Trust's beneficiaries) early in 2020.	» Work to restore the Company's previous high level of customer support and satisfaction. » Maintain support for community and youth oriented initiatives. » Maintain a similar dividend stream to the Company's shareholders.
Use legislative powers fairly	We pledge to use our legislative powers fairly. This is evidenced by the fact that we have maintained our record with Utility Disputes Ltd (previously Electricity and Gas Complaints Commission) 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 achieved total Parent capital expenditure of $15.80m against a budget of $12.76m. Capital expenditure is required to meet asset replacement requirements and customer demand for new reticulation. This is for the Company's share of line extensions for subdivisions or rural uses such as viticulture. This year we have also constructed a new 33/11kV zone substation at Renwick which when complete is estimated to have cost in excess of $7m.	» Target level of capital expenditure of $12.73m.
Fulfil market requirements in terms of quality and price	This year we maintained all of our external certifications for Quality, Environmental and Public Safety Management Systems and we achieved certification in ISO 45001 for Occupational Health and Safety. We met or exceeded all Electricity Authority and Commerce Commission Code of Practice and Disclosure requirements. Our customer survey indicated continued high levels of satisfaction with fault responses and reliability – our service is meeting the demand.	» We will maintain appropriate external certifications for our business. » We will continue to meet all regulatory code and reporting requirements. » We will continue to annually survey customer satisfaction levels to ascertain those areas where customers indicate we can do better.

Goals	2018/19 Results	2019/20 Targets
Minimise or mitigate our environmental impact	We maintained our Environmental Management Systems certification, ISO 14001. See pages 62-65. This year we again provided financial support to the Marlborough Sounds Restoration Trust programme for the removal of wilding pines throughout the Marlborough Sounds. We are also continuing to support the New Zealand Dryland Forests Initiative in their long term eucalypt breeding trial programme. See page 64. We have continued with our internal office recycling programme, increasing the range of materials recovered. By employing a single waste recovery contractor we are now able to accurately monitor the various recyclable waste quantities being generated in our business and the level of waste forwarded to the landfill as not suitable for any form of recycling. Marlborough Lines now owns 100% of the Yealands Wine Group, a company which is noted for its sustainable environmental practices and its commitment to using renewable energy. During 2019 Yealands has also achieved re-certification of its "Carbon Neutral" accreditation. See pages 74-79.	» We will maintain ISO 14001 Environmental certification. » We will maintain support for our chosen environmental initiatives. » We will continue to explore greater internal recycling initiatives with the aim of reducing our already small contribution to the region's landfill. » In the new year we will undertake a further cyclical assessment of Marlborough Lines' carbon emissions.

OUR CONTRACTING TEAM LEAVE OUR DEPOT EACH DAY GEARED UP AND READY TO GO. CABLE JOINTER/LINE MECHANIC – BEN DAVIES PICTURED.

CHAIRMAN'S REPORT

Marlborough Lines has had a solid year, meeting its network operating objectives and managing the continuing development and improvement of its major investment – the Yealands Wine Group.

Marlborough Lines is very unusual for an electricity network business in New Zealand by virtue of its dual nature, comprising on the one hand its ownership of the regional electricity network, which is a natural monopoly, and on the other hand its investment arm with investments in the Yealands Wine Group (YWG) and Nelson Electricity.

The legal requirements for electricity network businesses in New Zealand provide that the network part of Marlborough Lines' business is effectively ring-fenced and separate from the Investment side of the business. Oversight provided by the Commerce Commission and the Electricity Authority, ensures that the monopoly position is properly monitored.

In 2015 with the support of our shareholder, the Marlborough Electric Power Trust (MEPT), Marlborough Lines acquired 80% of the Marlborough based Yealands Wine Group (YWG). The remaining shareholdings were progressively acquired such that by 30 June 2018, Marlborough Lines held 100% of YWG. Funds to make these investments came from investment profits as has been well reported.

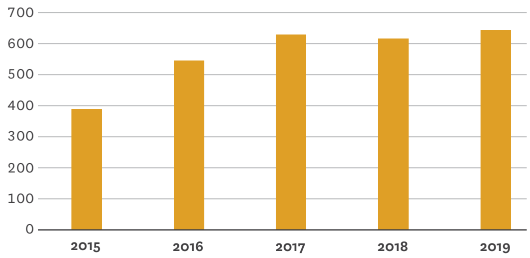
Our investment in YWG has not been without its critics. But the financial success of this investment is inarguable. The few who have expressed negative views have typically done so anonymously and without any factual basis.

From its humble beginnings as the regional Power Board (founded in 1923), the consolidated Marlborough Lines Group now has a net worth of $441m resulting in a net asset backing per share of $15.77 compared to $1.03 (net assets $28.8m) when the Parent Company was established in 1993. It is worth noting that the current value of $1.03 on an inflation adjusted basis is $1.51. Leaving aside core asset and investment revaluations ($113m), this is a very substantial gain in shareholder value.

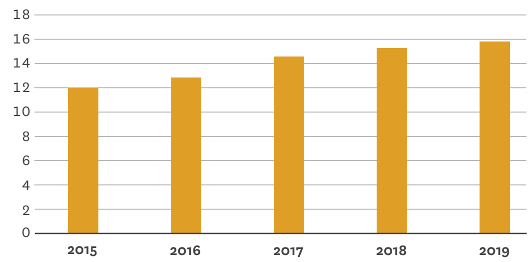
Again this year Marlborough Lines has been able to distribute dividends totalling $6.01m to the shareholder (MEPT) – last year $5.0m. This has been made possible in part by the $5.5m dividend from YWG. Marlborough Lines has also distributed discounts to electricity consumers totalling $9.67m (including GST) – last year $9.59m.

The value of Marlborough Lines' investment in YWG has increased from a cash investment value of $121.95m to a net assets value of $204.5m. Inherent in this number are revaluations totalling $72.5m. Revaluations were undertaken in 2017 and 2019 and are independently

Marlborough Lines Group total assets ($m)



Net asset backing per share ($)



assessed before being recognised in the financial statements. The current value of the investment realises, we believe, the investment vision of the Directors in making the initial investment.

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

In relation to our investment in the wine industry, as recent capital developments within YWG mature, we anticipate an improved level of profitability, and over time a consequential increase in the level of dividends to be passed on to our shareholder, the Marlborough Electric Power Trust. YWG is continuing to undertake additional planting of grapes with the intention to reach optimisation of the YWG Seaview winery processing capacity, which is 27,000 tonnes.

We remain a proud owner of YWG and we are very pleased to be a partner in the Marlborough wine industry which is such a predominant part of the Marlborough economy.

Marlborough Lines is in a strong financial position, looking forward to further investment and improvements in its network services. The network is maintained to a very high standard and capital improvements are made as required.

I wish to acknowledge the endeavours of the Company's Directorate, the leadership of our Managing Director, Ken Forrest, and the commitment and dedication of our staff.

I'm also very pleased to record my support 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.

Marlborough Lines' Managing Director, Ken Forrest, has notified the Board of his intention to retire in December 2019. Ken has been Chief Executive/Managing Director since July 1980 having joined the Marlborough Electric Power Board in 1977 as a senior engineer. Ken has made an outstanding contribution to Marlborough Lines and its predecessor body over this period as well as being deeply involved in the electricity industry at a national level. The Directors record their appreciation for Ken's service to the Company, wish Ken a long and happy retirement and all the best in his future endeavours.

DAVID DEW

Chairman

MANAGING DIRECTOR'S REPORT

Marlborough Lines is in a strong position. It has quality assets, prudent network investment has not been postponed and the network is well placed to meet future customer requirements. Equally the Company has sound financial investments with its 100% ownership of Yealands Wine Group and its 50% shareholding in Nelson Electricity.

Overall the Marlborough Lines Group achieved an EBITDA of $25.9m from revenue of $151.8m compared with a revenue of $150.4m and an EBITDA of $43.9m for the previous year when the accounts were distorted by the inclusion of proceeds from earthquake insurance.

Marlborough Lines as the Parent achieved an EBITDA of $23.4m from post-discount revenue of $51.6m from the electricity network in Marlborough, which in terms of earnings is a slight increase on the EBITDA of $22.8m for the previous year when the earnings were $51.8m.

At first glance the difference of $2.5m between the Group and Parent results seems low relative to the corresponding revenues but is principally a consequence of the accounting treatment which distorts the results and eliminates the intercompany dividend of $5.5m from YWG to the Parent together with the requirement to include depreciation costs of $8.2m as an operating expense. Details are provided on page 27.

Overall these results can be considered satisfactory. The Group's overall net asset backing per share continues to increase and was $15.77 at 30 June being an increase of 3.3% on the previous year.

Yealands Wine Group, which is totally owned by Marlborough Lines, is a developing investment and its profitability can confidently be expected to increase going forward given that the last year has been one of consolidation for Yealands Wine Group and the company is now well founded to further improve its performance.

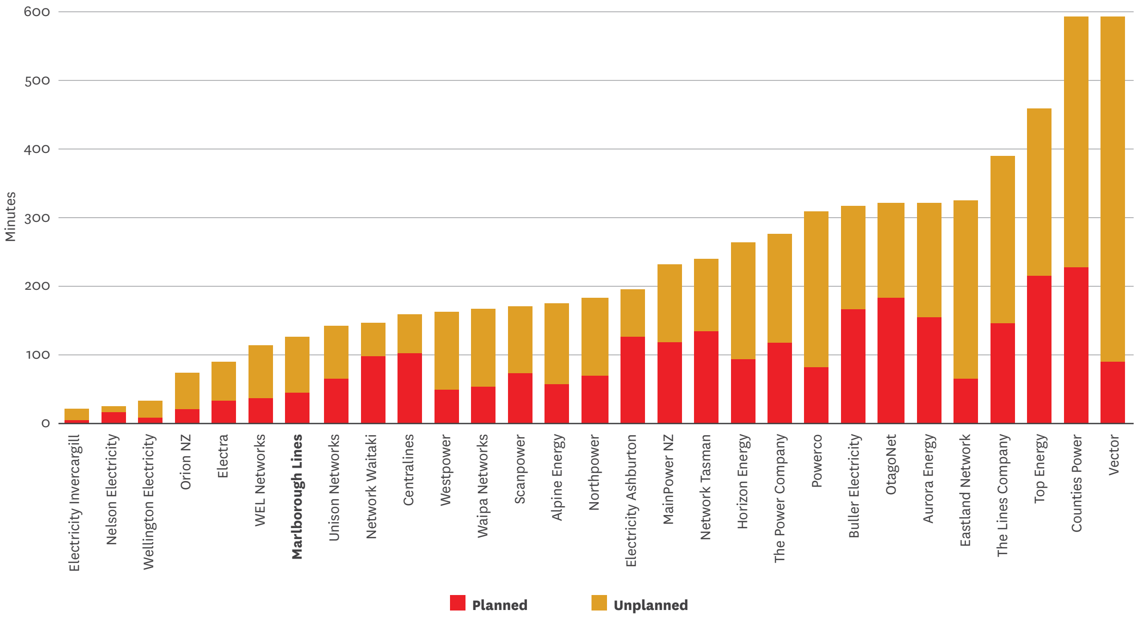
Of course Yealands Wine Group is underpinned by a quality winery and extensive landholdings which overall has seen a significant increase in value from when Marlborough Lines acquired its initial 80% stake in the business effective from 1 July 2015.

Over the same year period significant levels of capital expenditure have been undertaken to enhance the investment through the establishment of seasonal water storage, expansion of winery capacity, and increasing the planted canopy. An unseen expense was the need to undertake repairs to the winery following the 7.8 magnitude earthquake which occurred in November 2016.

Over the four year period in which Marlborough Lines has owned the Yealands investment the internal rate of return has been 20.1% and a dividend of $5.5m has been paid annually.

2019 total SAIDI non-normalised (minutes)

SAIDI is System Average Interruption Duration Index, or average minutes lost per customer per year. In this graph the red shading represents minutes lost where planned shutdowns were required to undertake repairs and maintenance. The yellow shading represents minutes lost where a fault occurred – this could be from stormy weather, car accidents or other incidents.



The cash investment of Marlborough Lines in Yealands is $121.95m and its worth has now increased to a value of $204.5m which includes revaluations in 2017 and 2019 which totalled $72.5m.

Overall the principal purpose of this investment is to benefit the electricity consumers of Marlborough as is the case with the Company's 50% ownership of Nelson Electricity, the network which supplies the city of Nelson.

The Marlborough Lines network has continued to perform well not only in financial terms but in terms of network reliability and for the 12 month period to 31 March earlier this year Marlborough Lines was the seventh most reliable electricity network in New Zealand despite the remoteness of some of our lines and the rugged nature of the terrain over which they cross.

Importantly within Marlborough Lines our strong health and safety culture coupled with our systems ensured that our staff, our customers connected to our network, and the public were kept free of harm from our operations.

Marlborough Lines has a quality network which is the result of undertaking prudent maintenance and capital expenditure over a period of years in a timely manner.

Unlike other electricity network companies there is no debt within the Marlborough Lines network. So yes Marlborough Lines is different to other network companies and is proud to be so. The electricity consumers of Marlborough are the beneficiaries.

Not only do they receive an annual discount from Marlborough Lines related to the financial success of the electricity network, which averaged $362 per consumer (across all our consumer groups), each consumer also received a distribution via the Marlborough Electric Power Trust of $185 which was sourced from Marlborough Lines' investments.

Marlborough Lines can look forward to the future with confidence both in terms of its electricity network and its investments in Yealands Wine Group and Nelson Electricity.

Undoubtedly there will be challenges ahead but the Company is well placed to meet them and serve the best interests of its shareholder the Marlborough Electric Power Trust and electricity consumers connected to the network.

That the Company is in such a position is a tribute to the dedication and commitment of staff both within Marlborough Lines and the companies within the Marlborough Lines Group and I am pleased to report my sincere appreciation.

I also thank the Directors of Marlborough Lines and those in the Marlborough Lines Group of companies for their contribution.

Ken Forrest

KEN FORREST

Managing Director

CHIEF FINANCIAL OFFICER'S REPORT

The past four financial years have been an interesting financial journey for the Marlborough Lines Group with the sale of the Company's investment in the OtagoNet Joint Venture (FY15); the step acquisition of the shares of Yealands Wine Group (FY16, FY17 and FY18); the change in balance date from 31 March to 30 June (FY16) resulting in a 15 month financial year; the costs associated with the November 2016 Kaikoura earthquake (FY17); and the receipt of insurance proceeds related to the earthquake repairs (FY18).

These events have all created one-off adjustments within our financial statements and have made the performance of the Group more difficult to assess.

It is now a pleasure to present a reasonably ordinary year.

PERFORMANCE OF THE GROUP

Net profit after tax for the year is $8.4m

The reported net profit after tax of the Group is $8.4m. This follows the reported profit last year of $21.5m.

The profit last year was bolstered by recognising income from non-recurring insurance proceeds related to the earthquake of $12.1m, following the earthquake related costs that were incurred during the 2017 financial year. Removing the one-off insurance proceeds income and expenditure from the 2018 profit results in an adjusted net profit after tax of $13.1m.

Comparison to target

The Group's bottom line target for the year was a net profit after tax of $10.1m, with the actual result of $8.4m falling $1.7m (16.3%) short.

The reduction in adjusted net profit after tax is largely due to an increase in the cost of sales at Yealands. The increased cost of sales reflects the fair valuing of Yealands' grape harvest as required by the New Zealand equivalents of International Financial Reporting Standards (NZ IFRS). Yealands experienced a lower harvest volume this year compared to the prior year, as did most Marlborough wine companies, and this had a negative impact on the result.

Wine sales, electricity network revenue and operating expenses were all materially in line with target.

Net profit after tax was also negatively impacted by the falling interest rates, resulting in losses recognised on the Yealands Wine Group interest rate swaps.

Plus a revaluation gain of $11.9m

In addition to the net profit after tax, the Group also recognised a revaluation gain of $13.8m, this being the increase in the value of the vineyard property and winery at Yealands ($11.9m once adjusted for the deferred tax impact). The property at Yealands was last revalued to fair value two years ago and this further uplift in value reflects ongoing strong vineyard prices (particularly in the Awatere Valley) and the value added from the conversion of acquired farm land into productive vineyards.

The combination of the net profit after tax and the revaluation gain results in total comprehensive income for the year of $20.2m, down $1.6m on the prior year result.

A note on evaluating the performance of the Group

When looking to ascertain the various component parts of the Group's performance, particularly at the EBITDA level, the EBITDA result of the Parent Company cannot simply be deducted from the EBITDA result of the Group to obtain the Yealands contribution. Under consolidated group accounting, an adjustment must be made to eliminate the intercompany dividend of $5.5m paid from Yealands to the Parent Company.

The Marlborough Lines Group, due to its size and public sector nature, reports its financial results using the Tier 1 for-profit accounting standards under NZ IFRS. NZ IFRS often requires transactions to be recorded at fair value and, particularly for accounting for wineries, this requires adjustment to be recorded that would not ordinarily be recorded for management accounting purposes.

For example, under NZ IFRS, depreciation costs are added to the cost of the wine inventory and recognised within cost of sales once the wine is sold. The impact of this for the current year is that $8.2m of depreciation costs are included as an operating expense reducing the EBITDA result, rather than being excluded from the result that the description *"Earnings Before … Depreciation"* would suggest.

And also, under NZ IFRS, a number of adjustments are made to the value of cost of sales, which fluctuate each year based on a number of variables, such as the district average market rate for grapes and harvest volumes. This year the NZ IFRS adjustments have increased the cost of sales by $3.8m. The following table provides a reconciliation between how the EBITDA performance of Yealands is reported under management reporting, and the adjustments required for EBITDA to be reported under NZ IFRS.

YEALANDS WINE GROUP EBITDA RECONCILIATION	Financial statement note reference	$m
EBITDA per management accounts		20.0
Depreciation reclassified to Cost of Sales	6	(8.2)
Movement in harvest fair value adjustment		(3.0)
Adjustment to Cost of Sales for acquired inventory	5	(0.8)
EBITDA per NZ IFRS	**2**	**8.0**

PERFORMANCE OF MARLBOROUGH LINES PARENT ENTITY

Revenues are up

Electricity network revenue for the year to 30 June 2019 was $46.0m, which is 3.6% up on the 2018 result of $44.4m. Modest growth in the number of customer connections and increased energy consumption volumes helped increase network revenue. An average 1.0% increase was made to prices during the year to cover inflationary pressures on costs.

External contracting revenue was $4.3m, down $2.4m or 36% on the prior year. There was an associated $1.9m reduction in associated external contracting expenses. The prior year revenue and costs were higher as it included a large one-off project for the replacement of streetlights with LED fittings.

Operating expenditure is down

Operating expenditure for the year to 30 June 2019 was $28.2m, down 5.4% on the prior year. Once the reduction in external contracting expenses is removed, then costs increased by 1.1% on the prior year.

Net profit is consistent with the previous year

Net profit for the Parent Company of $12.9m for the year, is up 0.3% on the prior year result which also rounds to $12.9m. The prior year result included a one-off gain of $0.8m recognised from the sale of an investment property.

When assessing the performance of the Parent in the Company's Statement of Service Performance a measure of net profit after tax is used after adjusting for discounts paid to consumers. In the current year this was $19.0m, up 0.5% on the prior year's result. This equates to a return on average shareholder's funds of 5.4%, ahead of the Company's performance target of 5.0%.

OUR BALANCE SHEET IS STRONG

Our balance sheet has assets of $648m

Total assets on the Group balance sheet are $648m up from $620m as at 30 June 2018. This increase is a result of the upwards fair value adjustment to the Yealands vineyard and winery assets, along with continued investment in the Group's assets.

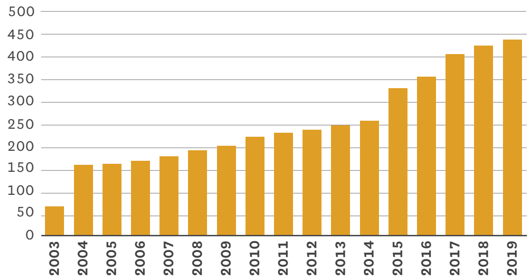
Debt levels remain low

Yealands had term borrowings secured against its assets of $112m as at 30 June 2019. This represents a debt ratio of 31% on YWG's total assets of $358m. The Marlborough Lines Parent currently holds no debt, and as at 30 June 2019, had $19.3m of funds in the banking system awaiting further investment.

Equity has increased

Equity attributable to the Marlborough Electric Power Trust, as 100% owners of the Parent entity has increased from $427m to $441m during the year (increase of 3.3%). This means the net asset backing per share has increased to $15.77 per share, also up 3.3% from the prior year.

Equity attributable to the shareholder ($m)



CASH FLOW

Operating cash flows remain strong

Group net cash flows from operating activities of $27.1m for 2019, were down on last year's result of $34.6m. The prior year result was bolstered by some one-off receipts from customers.

Capital expenditure has increased

The Group has spent $31.7m on the purchase of Plant, Property and Equipment this year, an increase from $23.9m the year before. Capital expenditure within the Parent Company was up on the prior year largely as a result of the construction of a new zone substation at Renwick to replace the existing Renwick zone substation that is ageing and earthquake prone. In conjunction with the new zone substation building and equipment, new underground and overhead reticulation has been built to provide interconnection and improve security of supply in the Renwick area. Capital expenditure is also up at Yealands as a result of the development of bare land into vineyard, ongoing investment in the winery and the construction of a major dam.

Cash distributions to the Trust were $6.01m

This year Marlborough Lines paid dividends to the Marlborough Electric Power Trust of $6.01m (2018: $5.00m) to provide the Trust funds to operate and enable a distribution to be paid to electricity consumers in the Marlborough region. The distribution will likely be paid by the Trust in early 2020.

THE FUTURE – WHAT HAPPENS NEXT IN MARLBOROUGH?

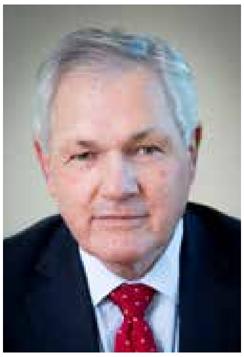
Marlborough Lines will adapt with the changes in the electricity industry

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 our shareholder and consumers.

GARETH JONES

Chief Financial Officer

BOARD OF DIRECTORS



DAVID DEW

Chairman

LLB

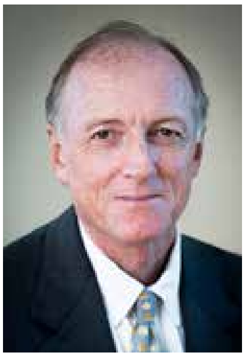
David Dew is a commercial and personal lawyer and principal of Blenheim legal firm Dew and Company. He has been a member of the Board since December 2001. David is a director of Yealands Wine Group (YWG) Ltd and Nelson Electricity Ltd and a director of various other companies.

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

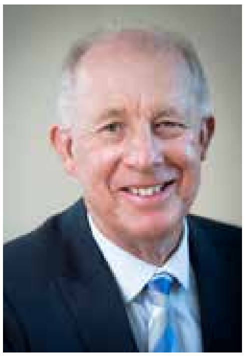
Tim Smit was appointed to the Board in September 2014. Tim is a practicing civil engineer and project manager with more than 30 years' experience and is a Principal of Marlborough Management Services. Prior to his appointment as a director Tim was the chairman of the Marlborough Electric Power Trust.

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 was a Director of WK Advisors and Accountants Ltd from 1984 to 2019, 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.

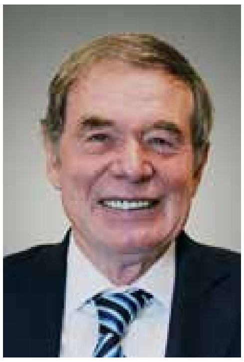
STEVEN GRANT

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.

STEPHEN MCLAUCHLAN

General Manager Contracting

MNZIM

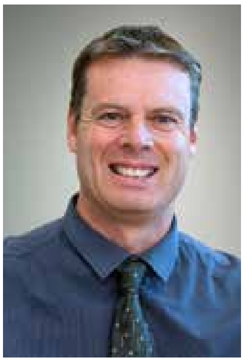
Stephen has extensive management and operational experience within the electricity industry. He manages the Company's Contracting division, which employs the majority of the Company's staff. Stephen has electrical and management qualifications, and is a member of the Institute of Managers & Leaders Australia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

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 day to day network management. Warner has substantial supply industry experience at WEL Networks, and more recently managing projects for various power companies through his own consultancy business.

SCOTT WILKINSON

Commercial Manager

BSc Hons, MBA, MESt

Scott joined Marlborough Lines in April 2014 and is responsible for network pricing, maintaining the Company's relationships with the energy retailers, network connections and special project work. Scott's background is primarily in consulting engineering, infrastructure projects and asset management, including two years working at the World Bank. He completed his MBA earlier this year.

KATHERINE HUME-PIKE

Commercial Manager

BCom, LLB, INFINZ (Cert)

Katherine joined Marlborough Lines in 2009 and was responsible for network pricing and billing, maintaining the Company's relationships with the energy retailers, forward budgeting and modelling and special project work. Katherine left the Company in December 2018.

THE REDWOOD PASS LINE UPGRADE FROM RIVERLANDS TO SEDDON.

SECTION

02

DAY TO DAY OPERATIONS

MARLBOROUGH LINES HEALTH & SAFETY

ZERO

serious harm incidents

169

applications for close approach permits during the 2019 vintage as a result of our wine industry education campaign (compared to 137 applications in 2018 and no applications in 2017)

33%

reduction in lost time incidents (per 200,000 hours worked)

97 STAFF

have participated in a frontline health and safety leadership development training programme

CERTIFIED

ISO 45001:2018
global Occupational Health and Safety Management System standard

NZS 7901:2014
New Zealand Public Safety Management System standard

HEALTH & SAFETY CANNOT BE ACCIDENTAL

Health and Safety is our first consideration in all that we do. We operate in an environment where hazards are ever-present. It is paramount that health and safety considerations are integral to every aspect of our operations, not merely an appendix to what we do.

Within Marlborough Lines this is a responsibility which we knowingly and willingly accept. To us every individual matters. 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

Our overall objective is zero serious harm incidents. Our targets to achieve this objective are:

- Improve the Company's health and safety culture
- Improve employee health and wellbeing
- Maintain ACC 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
- Undertake employee training identified in the annual Training Plan
- Prevent occurrence of incidents and injuries from major hazards
- Ensure the necessary resources are provided to enable health and safety targets to be met and to ensure the safety of employees and the public
- Provide monthly reporting to the Directorate that allows thorough analysis of the Company's performance with regard to health and safety

OUR CULTURE IS A KEY DETERMINANT IN ENSURING HEALTH AND SAFETY

Individually and collectively within Marlborough Lines it is recognised that health and safety is the responsibility of everyone. Every employee, regardless of position is empowered to stop work at any time if they consider that the work would be unsafe or detrimental to their health or that of 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.

If someone fails they must be able to fail safely. An incident should not be the cause of resultant harm.

Within the Company we recognise that health and safety cannot be considered on a one-off basis. Safety awareness and training in relation to health and safety must be ongoing. We are committed to ensuring that our staff are empowered and fully informed to address matters of safety and health in all aspects of our operations. We have sought to strengthen our workplace culture through ongoing communication, training and providing the opportunity for our people to participate and be engaged relative to health and safety.

Some 97 staff have participated in a health and safety leadership development training programme. This has resulted in the identification of actions for improvement and appropriate changes are being effected in conjunction with employees. We believe that health and safety is a matter for everyone.

Each member of our team is encouraged to contribute towards improvements in our health and safety.

The staff health and safety culture survey which we undertook last year resulted in an overall score of 77% which in itself was a good result. More importantly we acted on opportunities identified in the survey to achieve further safety improvements. Our staff are willing participants in education and training relative to health and safety and recognise the benefits of a strong health and safety culture.

We are all 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.

THERE ARE MULTIPLE ASPECTS TO HEALTH AND SAFETY

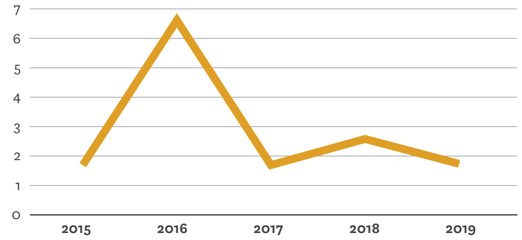
Aside from having a focus on our health and safety culture we have a strong commitment to ensuring that we have proper systems in place for all aspects of health and safety.

We have long held the highest ACC WSMP qualification for safety, that of Tertiary, and although still current, this will expire later this year given ACC has advised it will discontinue this process of certification. The Company has also long held the internationally recognised standard BS OHSAS 18001 for Occupational Health and Safety and migrated from this standard to the new ISO 45001 standard for Occupational Health and Safety in 2018. The Company also holds certification in the New Zealand standard for Public Safety Management Systems, NZS 7901:2014. An external review audit of these standards was undertaken during the year with the recommendation that certification continues.

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

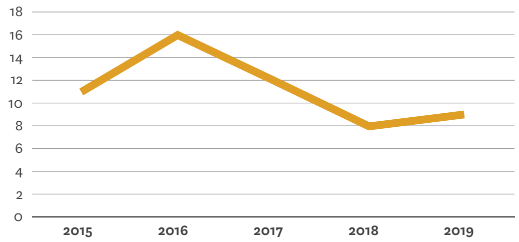
Regardless of our certification, documentation or policies and procedures it's about what happens next that counts. Vigilance relative to health and safety has to be ongoing.

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



This year we achieved a 33% reduction in lost time incidents per 200,000 hours worked.

Total recordable injuries



This graph shows total recordable injuries (TRIs) which comprise medical treatment injuries, restricted work injuries and lost time injuries. While TRIs increased by one for FY19 from the previous year, zero serious harm incidents were sustained.

OUR SAFETY SYSTEMS INCLUDE OUR CONTRACTORS

We frequently have contractors 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 for both our staff and those of contractors.

Our contractors are frequent participants in our health and safety training programmes.

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. The primary determinant of our comprehensive Asset Management Plan is health and safety (details available at: **www.marlboroughlines.co.nz/About-us/Disclosures/Asset-Management.aspx**).

Because safety is always our primary concern there have been and are likely to be further instances in the future where reliability of supply is sacrificed in the interests of public safety.

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.

We also do what we can to inform the public of the risks inherent in not utilising appropriate safety devices and not maintaining a safe distance from overhead power lines.

ACHIEVING SAFETY OVER VINTAGE

Following an incident in 2017 when a grape harvester made contact with an overhead 11kV line we undertook an industry wide education campaign in relation to working near overhead power lines for the 2018 vintage and did so again for the 2019 vintage.

Although the close approach requirements for those working in the vicinity of power lines are mandated by the New Zealand Electrical Code of Practice (NZECP 34) it has become apparent that not all of those working in the proximity of live lines are knowledgeable in relation to these requirements.

Accordingly we have created an education pack which we have provided to in excess of 121 companies and over 500 winegrowers/vineyard owners.

Again the response received from the industry was very positive and as a consequence of our campaign the Company received some 169 applications for "close approach permits" which provide for machinery to work close to the lines subject to appropriate health and safety plans being in place at each site, together with a level of close supervision.

The number of requests for close approach permits is a reflection of the success of our promotional campaign. More importantly as a consequence of our efforts there have been no further incidents of plant or machinery coming into contact with our lines over vintage.

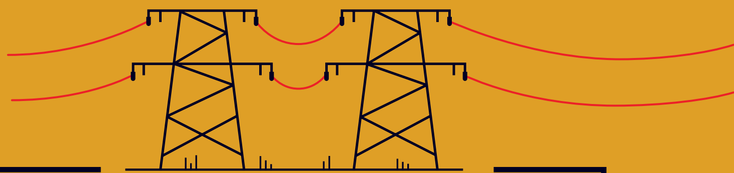
HEALTH IS AN IMPORTANT PART OF SAFETY

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 assisting in the nurturing of the health of our people, both mentally and physically. This is achieved through a number of programmes and support systems. (See further information in the "Marlborough Lines People" section, pages 52-55).

OUR STAFF WORK IN A WIDE RANGE OF CONDITIONS AND MUST ALWAYS REMAIN VIGILANT IN RELATION TO HEALTH AND SAFETY.

THE ELECTRICITY SYSTEM



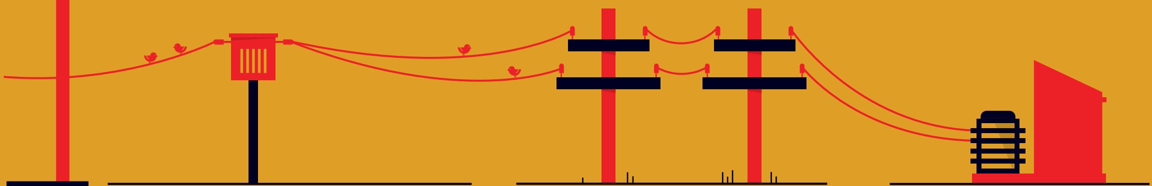
1. POWER STATIONS

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



5. DISTRIBUTION TRANSFORMERS

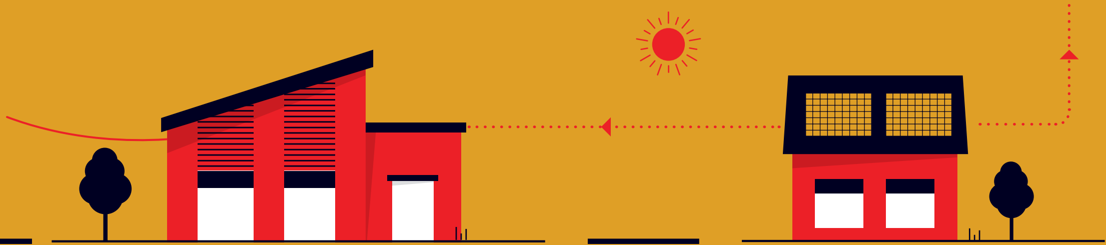
Marlborough Lines has 3,000 distribution transformers which convert 11kV electricity into 400/230V. The distribution lines deliver the electricity to the point of supply at the customers installation.

4. 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.

3. ZONE SUBSTATIONS

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



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

WHO OWNS MARLBOROUGH LINES?

In 1992 the Government of the day decided that electricity network businesses should be corporatised. The Marlborough community overwhelmingly supported the formation of a company with shares being held by a trust – the Marlborough Electric Power Trust (MEPT), for the sole benefit of electricity consumers. The Trustees collectively hold the shares and act 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 IS THE RELATIONSHIP OF THE TRUSTEES WITH MARLBOROUGH LINES?

The Companies Act 1993 provides for owner's rights in a normal company. The Energy Companies Act 1992 provides for an additional layer of supervision in relation to electricity network companies, and the Company's Constitution also sets requirements for the relationship between shareholder and company. In acting as the Company owner the Trust undertakes the following core duties:

» The Trustees review and approve the annual Statement of Corporate Intent. This is like an annual budget with key performance indicators and a roadmap of the Company's intended activities for the ensuing year.

» The Trustees appoint up to eight directors for the Company of whom one-third must retire each year. A retiring director may present themselves for re-appointment.

» The Trustees must review and approve any "major transactions" undertaken by the Company. A major transaction is defined in the Companies Act as being a purchase of assets of a value of more than half the value of the company's existing assets, or the sale of assets comprising more than half the value of the existing assets.

» The Trustees as shareholders, receive a dividend from Marlborough Lines. They then make their own decisions about further distributions to electricity customers.

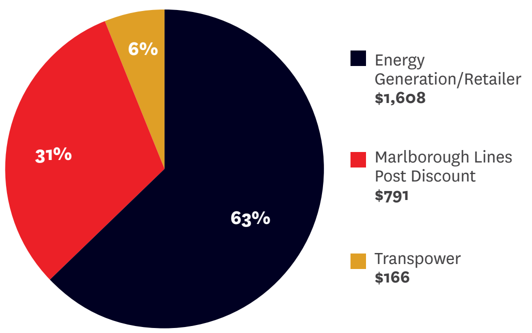
WHY DOES MARLBOROUGH LINES NEED TO MAKE A PROFIT?

The Energy Companies Act requires Marlborough Lines to operate as a "successful business". Marlborough Lines needs to make a profit – first to provide funds for capital expenditure, that is new power lines, equipment and vehicles, and second to provide for dividends to the MEPT, which in turn makes a distribution to all electricity account holders.

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 ($185 this year paid in April) is also applied to this calculation, then an average customer pays just 25.5 cents in every electricity dollar towards the Marlborough Lines network.

Allocation of average electricity account for a typical domestic consumer



Marlborough Lines' charges on a post-discount basis comprise only 31% of the total electricity account for the typical domestic consumer. A "typical domestic consumer" as defined by the Ministry of Business, Innovation and Employment uses 8,000 kWh per annum.

WHY DID MARLBOROUGH LINES INVEST IN THE YEALANDS WINE GROUP?

Marlborough Lines has a history of successful investment beyond the immediate Marlborough region.

After selling its previous investments in the electricity networks OtagoNet and Horizon Energy at significant gains, the Company had a $135m pool for re-investment. Further investment in electricity networks was impractical because shareholdings are closely held. There are currently legislative restrictions on electricity network companies being involved with distribution and in selling or generating electricity.

Accordingly Marlborough Lines began looking for alternative investments which would provide continuing future benefits through annual dividend flows and longer term capital appreciation. In 2015 the Company bought an 80% share in the Yealands Wine Group. Marlborough Lines has since bought the remaining shareholdings to now own 100% of the Yealands Wine Group. Simply the purchase has been made to benefit the electricity consumers of Marlborough.

WHAT IS THE ACTUAL BENEFIT OF THE YEALANDS INVESTMENT TO MARLBOROUGH'S ELECTRICITY CONSUMERS?

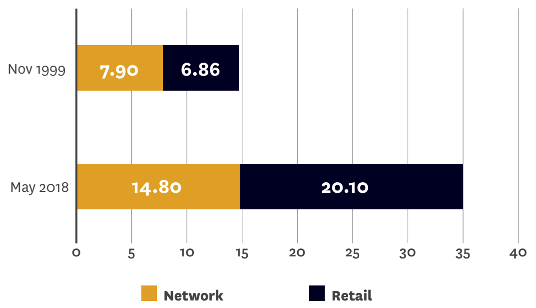
Following receipt of dividends from the Yealands Wine Group in June 2018, Marlborough Lines in turn paid dividends totalling $5m to the MEPT. To enable a tax free distribution to electricity consumers from the MEPT, the Trust must hold the funds for a period of at least six months. This enabled a payment of $185 to be made from the Trust to every electricity account holder early in 2019.

Customers also receive the annual network discount – which for a typical domestic consumer amounted to $226.38 including GST.

> Thus, a typical domestic consumer received $411.38 in total in the financial year just completed.

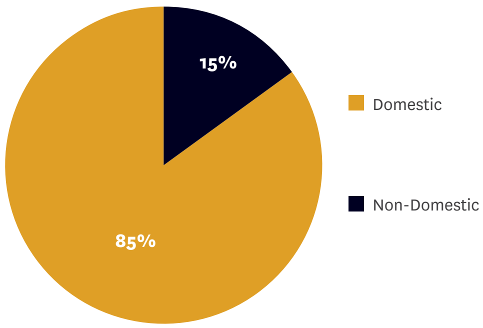
The Company expects that these levels of benefit will continue to increase going forward.

Increase in component of average electricity cost from November 1999 to May 2019 (c/kWh)



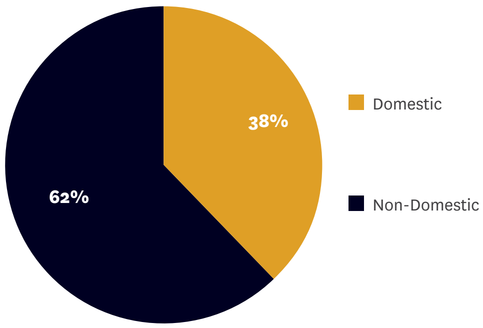
In the period from November 1999 to May 2019 (19.5 years), Marlborough Lines' network charges have increased by 87.34%, whilst the average domestic charge for the retail/generation portion of an average account has increased by 198.66% (source: Ministry of Business, Innovation and Employment).

Number of network connections (ICPs)



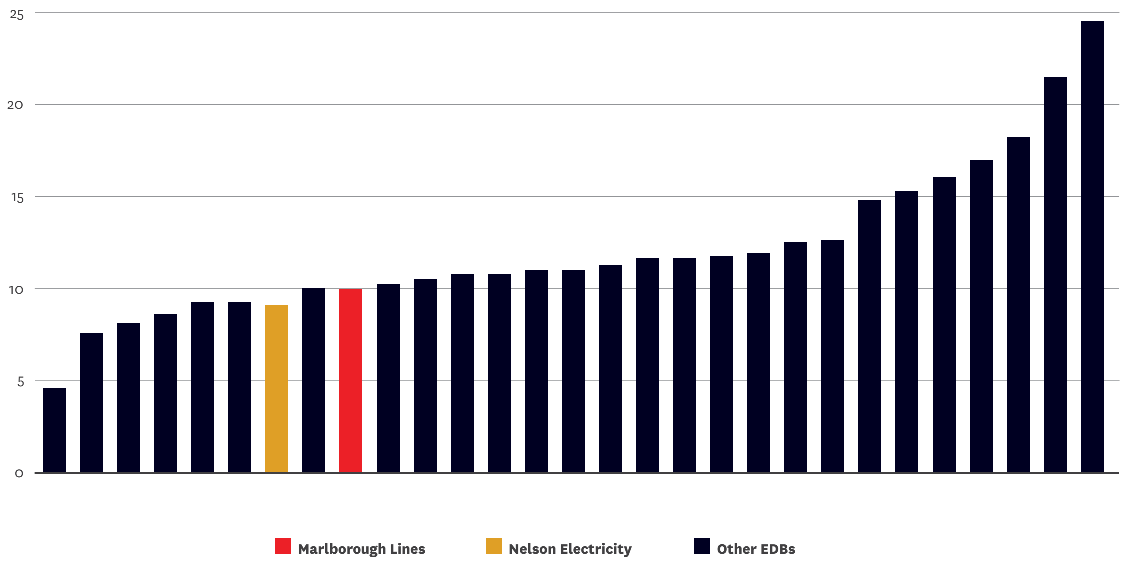
Over a 10 year period the proportion of domestic to non-domestic connections has increased by 1 %. The increase in domestic connections (subdivision development) has been largely offset by increases in non-domestic connections.

Electricity consumption by category



Conversely, over the same 10 year period the relative proportion of non-domestic electricity consumption (mostly wine industry related) has increased by 4%.

New Zealand network company annual line cost to a typical domestic consumer as at May 2019 post discount and distribution (line charges c/kWh)



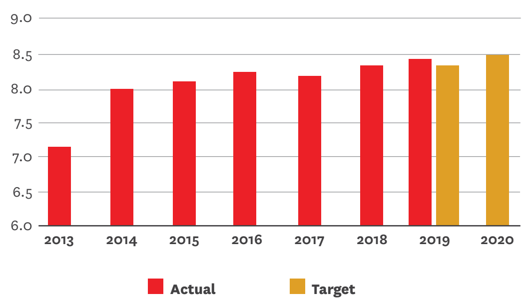
On a post discount and Trust distribution basis Marlborough Lines' network charges compare very favourably with charges of the other 28 electricity distribution businesses, particularly given the rural and rugged nature of our reticulated area.

WHAT ARE THESE CUSTOMER BENEFITS?

The total customer network discount paid in March 2019 for the period ending 30 June 2019 was $8.42m ($8.31m last year). The total, including GST, was $9.68m ($9.55m last year). The actual discount paid varies per customer relative to their individual accounts. The discount is a component of the Company's posted distribution charges. This means that if total revenue and consumption rises then total discount increases. Conversely if revenue and consumption decrease then the total discount will also decrease.

> Since 1999, electricity consumers in Marlborough have received discounts totalling $125.596m. An additional $36.47m has been paid to the MEPT as dividends.

Discounts paid to Marlborough Lines customers ($m)



Total discounts paid at $8.42m exceeded target. Our estimates allowed for similar energy consumption to the previous year. In fact delivered energy increased by 2.77% and because the discount component is part of the posted price, the discount quantum naturally increased.

DOES MARLBOROUGH LINES SUPPORT THE COMMUNITY IN OTHER WAYS?

Marlborough Lines realises that it has an important role to play in the community. As one of the bigger commercial entities in Marlborough and a major employer, 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. The Company also supports the education and advancement of youth, or events which promote the region in a sporting, cultural or historical sense.

In the Marlborough Lines Community section (see page 60) we summarise our support to the community this year, which together with our tertiary educational grant programme totalled some $514k (last year $392k).

DO CUSTOMERS IN MARLBOROUGH PAY HIGHER LINE CHARGES THAN IN OTHER PARTS OF NEW ZEALAND?

Marlborough is a relatively rugged geographical region with a small population. The average number of customers per kilometre of line is low and thus the average cost per customer to maintain the electricity system is always going to be higher than the cost in a densely populated urban area. We do know however that on an after discount basis, MLL's charges compare very favourably with other similar rural based networks (see graph on page 43).

We also know that our system reliability numbers (customer minutes of supply lost) for the 2019 year are better than many predominantly urban networks, including New Zealand's largest (Auckland based) network.

WHAT DID OUR ANNUAL CUSTOMER SURVEY TELL US THIS YEAR?

Some 85% of domestic customers responding to our latest independent customer survey said they were either satisfied or very satisfied with the Company's overall performance. Reliability and fault services scored 95% and 93% respectively.

WHAT IS THE BEST PROCEDURE FOR REPORTING FAULTS AND GIVING FEEDBACK?

We encourage all of our customers to use our main office telephone (03 577 7007) number to report all faults and to make enquiries. 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. We do not use recorded messages, other than when callers have been transferred to individual extensions. We encourage our customers to call in with fault information as often this is invaluable in locating the fault source.

CAN WE HELP CUSTOMERS WITH ADVICE ABOUT ENERGY EFFICIENCY AND CHANGING TECHNOLOGY?

Most certainly. We recognise that our world and the use of electricity is changing rapidly and that customers are moving in increasing numbers to install their own photovoltaic (on roof) generation and to convert to electric vehicles. We continue to provide a free energy efficiency and technical electrical advisory service and our customer service staff can also 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**.

CABLE JOINTER FOREMAN – OWEN ZINSLI AND LINES SUPERVISOR – TONY ROOT, PROVIDE LEADERSHIP TO OUR FRONTLINE STAFF.

MARLBOROUGH LINES NETWORK OPERATIONS

SEVENTH BEST

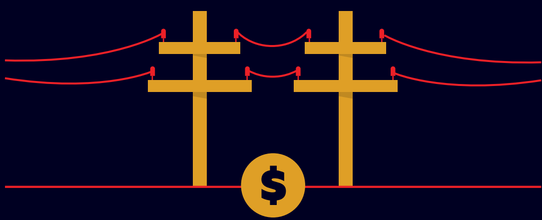
network company reliability in New Zealand for the year, despite our unique and challenging environment

129

average total minutes of lost supply was 11% better than the Commerce Commission target of 145 minutes

$9.1M

maintenance expenditure on our network



$15.8M

capital expenditure on our network

PROACTIVITY ACHIEVES CUSTOMER RELIABILITY

To our customers receiving an electricity supply is simple. Automatically or at the flick of a switch an instant source of energy is safely delivered to satisfy their demand.

We regard their expectation as an entitlement which we seek to meet 24 hours a day, 365 days a year.

But the seamless delivery of electricity to our customers can only be achieved if we are proactive. And we are.

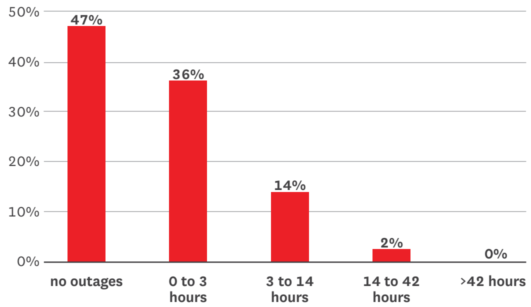
Our approach is fundamental. We construct quality assets to meet customer requirements with sufficient capacity to meet planned increases in demand. Prudent and regular maintenance of our network assets is considered essential.

We undertake regular ongoing inspection and surveillance to identify potential problems before they manifest themselves as faults and impact on the reliability of our customer supply.

Recording and analysis of surveillance data is an important part of our network management programme, the details of which are documented in our comprehensive Asset Management Plan, which is available on our website: **www.marlboroughlines.co.nz**.

A commitment to continuous improvement is integral to all aspects of our operations together with ongoing assessment and ranking of the cost/benefit of effecting improvement.

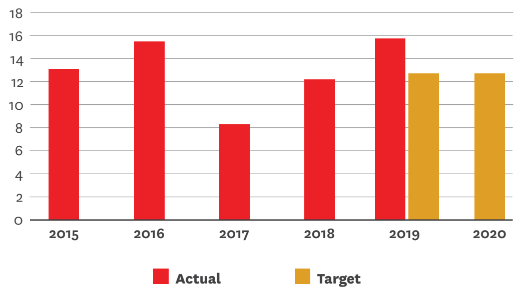
Reliability of supply (% of customers)



This year some 47% of our customers experienced a 100% continuous supply of electricity. Whilst we try to absolutely minimise planned outages, there are some jobs which cannot be undertaken without shutting down the supply.

SAIDI TOTAL MINUTES LOST	2019 SAIDI	2018 SAIDI
Total Minutes Lost	129	121
Less Planned Outages	48	61
Total Minutes Lost by Faults	81	60
Less Minutes Lost by Extreme Events	0	0
Less Minutes Lost by Remote Lines	33	30
Total Minutes Lost by Urban and Rural Faults	48	30

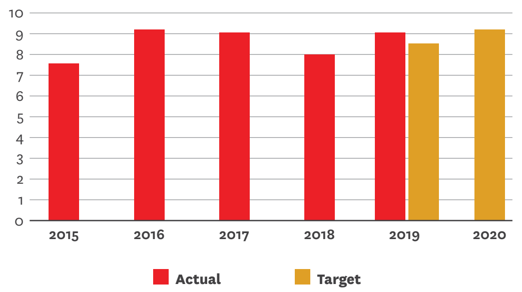
Capital expenditure ($m)



This year we were able to bring forward the completion of a large (very capital intensive) zone substation project, and we were also able to complete one major high voltage line replacement following a long period of planning and negotiation.

CAPITAL EXPENDITURE COMPARATIVE NUMBERS	2019 ($m)	2019 ($m)	2018 ($m)
Actual		15.798	12.163
Target	12.730	12.758	12.224

Maintenance expenditure ($m)



Maintenance expenditure levels have been relatively stable over the past 5 years. Costs in this area can also be very weather dependent. The mix of network maintenance vs vegetation control can also vary.

MAINTENANCE EXPENDITURE COMPARATIVE NUMBERS	2020 Target ($m)	2019 Actual ($m)	2018 Actual ($m)
Actual		9.079	8.026
Target	9.221	8.569	8.084

It is our view that timely and prudent expenditure relative to our network assets is not a cost but an investment. An investment which over time minimises our operating costs, ensures the safety of our network and enhances the reliability of our customer supply.

Our feedback from customer surveys tells us that they endorse our approach. The benefits of our proactivity are also reflected in Marlborough Lines' ranking within the Commerce Commission's reliability statistics.

For the last 12 month reporting period to 31 March the Commerce Commission ranked Marlborough Lines the seventh most reliable network in New Zealand with our overall SAIDI of 129 minutes. Although this was a minor slip in our rating from sixth in the previous year it is nevertheless a result of which we are proud. Particularly given that our line length equates approximately to four times the length of the South Island, and also the remote nature of our terrain. A significant proportion of our lines in remote areas can only be reached by boat or helicopter.

The reliability of our network is markedly better than that of the network which supplies New Zealand's largest city. Further as a consequence of our planning and focused work programmes over a period of years, unlike a number of other network companies we do not have inappropriate levels of deferred maintenance or capital expenditure postponed from previous years. We recognise that reliability has attendant costs but our feedback is our customers are not prepared to sacrifice reliability for a slight reduction in price.

PROACTIVE VEGETATION MANAGEMENT ENHANCES RELIABILITY AND PUBLIC SAFETY

Being proactive in relation to tree and vegetation management is essential.

The reality is the rural and remote forested and bush clad parts of our network are such that we have no alternative but to maintain appropriate clearances between trees and lines at all times.

This work is ongoing both in relation to lines and access tracks to the lines.

Because of the rampant growth in our area and the remoteness of our network, our vegetation management costs on a per customer basis are the most expensive of all New Zealand networks.

However the reliability of our network, particularly given the extent of our vegetation issues, demonstrates the effectiveness of what we do. Our vegetation management policy seeks to maximise the reliability of our electricity supply but also minimises the risk of fire.

The summer fire risk in Marlborough can be of particular concern especially during times of extreme drought when we work in consultation with Fire and Emergency New Zealand by adjusting the fault settings on our network on a real-time basis.

INNOVATION IS AN ESSENTIAL INGREDIENT OF NETWORK MANAGEMENT

Within Marlborough Lines we are committed to continuous improvement. Inherently we need to be cognisant of cost-effective advances in technology which provide consumer benefits.

The utilisation of a special purpose drone within our operations has proven to be especially worthwhile. It has enabled the location of faults and identification of potential problems such as cracked insulators. Aside from surveillance of the network to determine its condition and ascertain the proximity of trees, the drone has also been utilised for survey and photography work.

The attachment of an infrared camera also provides the opportunity to identify hotspots caused by unsatisfactory connections within the network.

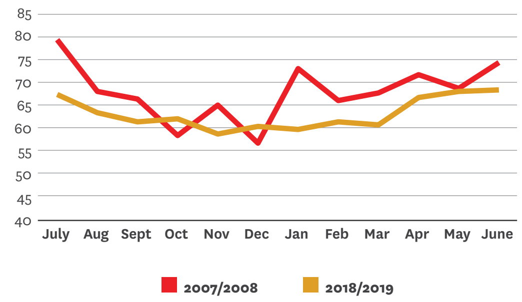
The expansion of our SCADA system has continued and has facilitated an increase in the number of circuit breakers which we can now remotely operate.

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 has included the installation of further radio communication sites and the installation of 304 remotely operated switches within our network.

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

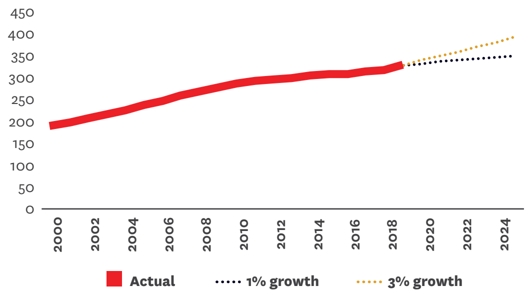
The advanced distribution management system which undertakes real-time surveillance of all network data, outage management and reporting together with customer communication and messaging continues to be of benefit. It is also utilised for network load flow management, and is integral to network analysis and design.

Total system monthly maximum demand (MW)



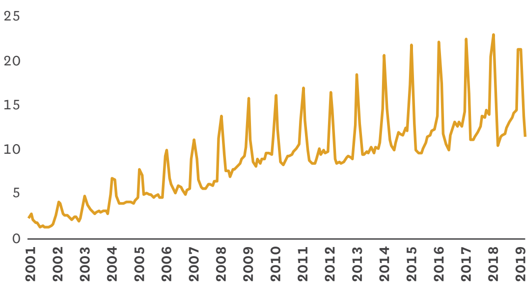
The comparison of this year and 2007/08 shows the extent to which dry periods through summer now cause spikes in irrigation consumption.

Network distribution transformer capacity (MVA)



Growth in installed distribution transformer capacity is largely dictated by subdivision and vineyard development.

Winery maximum demand by year (MVA)



As the wine industry nears development of all of the suitable grape growing land, the rate of increase in electricity consumption during vintage has stabilised. This year the crop was lighter and this is reflected in the lower consumption level.

OUR SPECIAL PURPOSE DRONE, OPERATED BY CHIEF PILOT – JASON DARK, IS UTILISED FOR NETWORK SURVEILLANCE, SURVEY AND PHOTOGRAPHY WORK.

WE ARE AWARE 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 have served both as an actual test of our network assets and a reminder to ensure the network needs to be resilient.

Earthquake resilience is another area where we have sought to be proactive. All aspects of the network are designed within practicable limits to achieve resilience in the event of an earthquake.

Subsequent to the November 2016 earthquake further data has become available and been assessed. Where appropriate we have effected changes to ensure the resilience of our network.

The strengthening of the Ward 33/11kV substation and the construction of a new 33/11kV substation at Renwick, to replace a substation located on the site since the 1920s, are examples.

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 is transverse 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 ongoing close liaison with Marlborough Civil Defence.

OUR NETWORK IS WELL PLACED TO SATISFY INCREASED CUSTOMER DEMAND

Along with our Transpower single point of supply in Blenheim, generally our network is of sufficient capacity to meet projected increased customer demand.

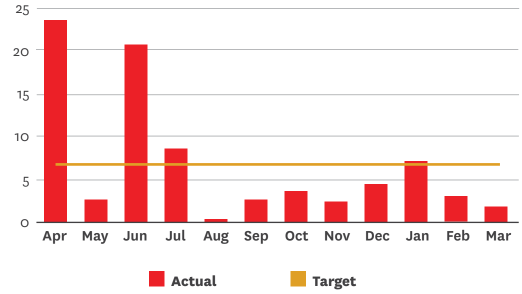
Although as has also been the case in other parts of New Zealand over recent years, domestic consumption on an individual basis has typically reduced, conversely in Marlborough non-domestic demand has increased.

Looking forward as the utilisation of electric vehicles becomes more widespread there will be further increased demand for their charging.

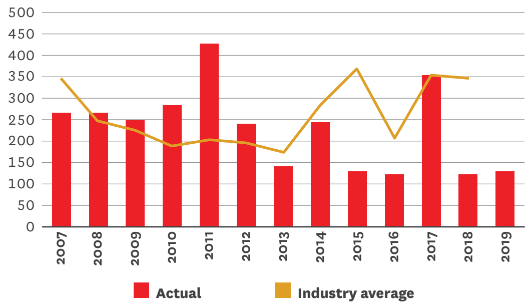
Given the strength of the Marlborough electricity network it is anticipated that through the use of appropriate load management this demand will be readily accommodated.

NETWORK RELIABILITY COMPARATIVE NUMBERS	2020	2019	2018
Unplanned outages			
Actual minutes		81.2	60.3
Target minutes	80	80	80
Planned outages			
Actual minutes		47.9	60.7
Target minutes	65	65	65

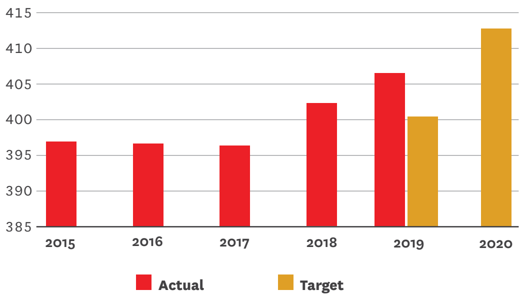
Unplanned outages (minutes lost per month per average customer)



Minutes of lost supply comparison (total SAIDI minutes)



Energy delivered to the Marlborough network (GWh)



Overall consumption across the Marlborough Lines network increased 1.0% from 402 GWh last year to 406 GWh.

MARLBOROUGH LINES PEOPLE

295 TOTAL GROUP STAFF

128 full time equivalent staff employed by Marlborough Lines in Blenheim and 167 staff employed by our subsidiary and associate companies

7,678 HOURS

spent training our Marlborough Lines staff – an average of 60 hours per employee in comparison to an average of 32 hours per employee in the previous year

57%

of Marlborough Lines staff are Trades qualified

16%

of Marlborough Lines staff are Tertiary qualified

TWENTY THREE

Marlborough Lines has 23 different initiatives to support a healthy and well workforce

OUR PEOPLE ARE ESSENTIAL TO OUR SUCCESS

We recognise the success of Marlborough Lines can only be achieved through its people.

We offer quality working conditions in one of the most picturesque and sunny regions of New Zealand.

We work hard to be a respected employer, so we are able to locate and retain high quality staff. We are serious about their health and wellbeing, about supporting staff to learn and grow through trade and tertiary qualifications, and about ensuring their work environment helps grow their skills and abilities.

Although qualified electricity industry staff are very much in demand nationwide, our staff turnover at Marlborough Lines has remained relatively low. During the year 11 staff left, and nine new staff arrived.

Ensuring we employ the right people for the job and for our organisation is key. We want people to enjoy their work and embrace the behaviours and attitudes which support our culture and enable Marlborough Lines to thrive.

Our recruitment process requires all prospective employees to undertake psychometric testing, including mechanical reasoning for field staff to ensure they are fit for the proposed role, pre-employment drug and alcohol testing and a criminal record check.

STRENGTHENING OUR CULTURE

For several years we have had a focus on strengthening our workplace culture so we can perform at our best collectively and individually. In strengthening our culture we seek to:

» Build support – trust, honesty, respect, values.

» Recognise that communication, engagement and participation of our people is key.

» Provide a fair and just workplace – we recognise that sometimes people make honest mistakes. When things go wrong it's important that good intent is acknowledged, and that honesty and good communication follow.

» Encourage our people to speak up, offer solutions, lead from where they stand and influence up, down and across the organisation. The Be a Legend health and safety leadership programme provided tools and techniques to help with that.

POSITIVE MOVES TO SUPPORT A HEALTHY AND WELL WORKFORCE

We offer a "wrap around" set of health and wellbeing services (refer to pages 56-57) with some 23 different initiatives to foster better physical and mental wellbeing. These include:

» Professional, confidential and independent counselling services.

» Staff presentations with speakers presenting on safety, health and wellbeing topics. We also invite some of our subcontracting firms to attend.

» Fully subsidised Health and Death and Disability Insurance.

» Support for employee teams taking part in sports events and community fundraising events such as the Cancer Society's "Relay for Life".

VALUING WORKPLACE DIVERSITY

In an ideal world we would like to have much better gender balance. The growth of female employees in trade and technical roles in the electricity industry continues to be slow.

We currently have qualified and capable female staff in positions of responsibility including purchasing and stores management, vegetation control, Health and Safety, Environmental and Quality management systems, electrical engineering, electricity network system control operations, geographical information systems, and design and estimating for our Contracting division.

We support the approach of industry organisations working to change the under-representation of females in roles across the industry. We also welcome opportunities to generate awareness amongst and encourage young people – female and male – to work with us, and we are investigating a programme with local colleges to develop awareness amongst young people of career opportunities within our industry.

We recognise that being a working parent poses some additional challenges, and where appropriate and possible we offer flexible working arrangements for our employees, depending on the requirements of the role.

Currently the female representation in our workforce has reached 19%.

In all our recruitment 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.

GROWING OUR LEADERSHIP CAPABILITY

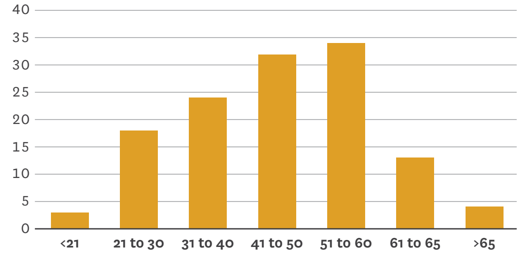
During the year we concentrated on developing health and safety leadership capability at all levels, because everyone at MLL is responsible for leading and influencing health and safety. This included:

» Executive Health and Safety Leadership programme

» “Be a Legend” Frontline Health and Safety Leadership Programme

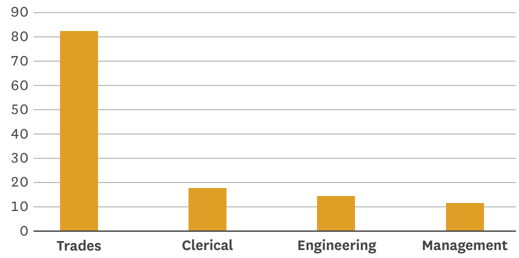
Our senior management team and operational leaders also participated in a mental health first aid course facilitated by St John to further develop skills to identify and support people who are struggling.

MLL employees by age bracket (no. of employees)



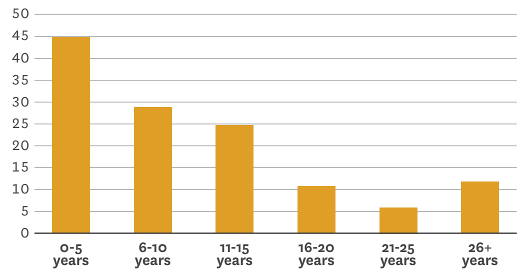
The average age of our team is 46 years.

MLL employees by occupation (no. of employees)



Building and maintaining electricity networks requires a "hands on" workforce, hence 57% of our people are trades qualified.

MLL employees by length of service (no. of employees)



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

A NUMBER OF OUR EMPLOYEES, INCLUDING DESIGN / ESTIMATOR – RACHEL MCCORMICK PICTURED, HAVE UNDERTAKEN STUDY WHILE WORKING AT MARLBOROUGH LINES.

THEIR SUCCESS IS OUR SUCCESS

In such a specialised industry there is a qualifications path for most of our staff. Approximately 20% of our staff are studying at any time. For some this is at entry level as trainees or apprentices, and for others it may involve further tertiary study for diplomas or additional degrees.

As technology evolves we are constantly looking to change or improve the way we manage our electricity network which requires further training. For example the advent of drone technology has provided a safer option to undertake aerial inspection of poles and power lines. This year our first drone pilot completed a university course and attained qualification for Remotely Piloted Aircraft Systems.

QUALIFICATIONS ACHIEVED THIS YEAR

NZQA qualifications completed:

» 2 employees attained NCES Utility Arborist (Level 3)

» 2 employees attained NCES Electrical Supply Electrician (Level 4)

» 2 employees attained NCES Network & Hydro Operator (Level 3)

» 1 employee attained NCES Powertech (Level 5)

Tertiary study completed:

» One member of the executive staff completed an MBA through the University of Otago

» One Network Project Manager completed a Certificate of Competency – Remotely Piloted Aircraft Systems through Massey University

A further 11 employees are working towards NZQA qualifications in the fields of Horticulture, Cable Jointing, Line Mechanic, Electrician, Powertech and Utility Arborist.

Two employees are working towards NZ Diplomas in Occupational Health and Safety Management and Records and Information Management.

LOOKING FORWARD – FY20 GOALS AND IMPROVEMENTS

» Increase staff uptake of voluntary health initiatives (health checks, skin checks and flu protection).

» Undertake at least four staff health and safety presentations throughout 2019/20.

» Improve the overall ratio of trades qualified staff further from the current level of 57% of the total workforce.

» Ensure that the average individual balance of outstanding annual leave days carried forward at the anniversary date is no more than 10 days. (We recognise that taking regular annual leave is essential for good mental and physical wellbeing).

MULTIPLE FACTORS TO GOOD HEALTH AND WELLBEING

01 HEALTH AND WELLBEING POLICIES AND GUIDELINES

Policies and guidelines available in Mango:

» Domestic Violence Policy
» Harassment, Bullying and Discrimination Policy
» Employee instructions for making a complaint of Harassment, Bullying or Discrimination
» Employee Mental Health and Wellbeing Policy

02 EAP SERVICES

(Employee Assistance Programme)

Professional & confidential service for all MLL employees, paid for by MLL.

03 ANNUAL HEALTH CHECKS

Available FREE to all staff (voluntary).

Compulsory health checks and health monitoring for some roles (e.g. Arborists).

Pre-employment medicals for all new field staff employees.

04 SUN / HEAT PROTECTION

Sunscreen, lip balm, insect repellent, sunglasses, caps, brimmed hats provided to field staff.

05 SKIN CHECKS

Free annual skin checks available on-site for all staff.

06 FIVE WAYS TO WELLBEING

Aligning our wellbeing initiatives with the Mental Health Foundation's "5 Ways to Wellbeing":

1. Give
2. Take Notice
3. Be Active
4. Keep Learning
5. Connect

Creating awareness of the 5 Ways and how to apply them in everyday life.

07 TRAINING TARGETED AT MENTAL HEALTH & WELLBEING

Resiliency, mental health and first aid.

08 WORK STATION ASSESSMENTS

When new employee starts, and as needed or requested.

09 SIT / STAND DESKS

Available for office based employees when requested.

10 SOUTHERN CROSS HEALTH INSURANCE

For all staff.

11 DEATH & DISABILITY INSURANCE

For all staff.

12 JOB FLEXIBILITY

Where appropriate and possible flexible working hours and arrangements can be made, depending on role.

13 HYDRATION

Filtered water dispensers at Taylor Pass and Alfred Street.

Electrolyte supplement for field workers during hotter months available through Stores.

14 SUPPORTIVE CULTURE

Trust, honesty, respect, value.

Open door policy with Managing Director and Senior Management.

15 POSITIVE HEALTH & SAFETY INITIATIVES PROGRAMME

Programme for recognising positive health and safety initiatives with quarterly and annual awards.

16 SUPPORT OF NATIONAL WELLNESS INITIATIVES

Employee participation in national wellness initiatives e.g. Relay for Life and Step-Tember with MLL support including payment of registration fees.

17 FLU JABS

Free annual flu jabs available on-site for all staff.

18 RANDOM DRUG & ALCOHOL TESTING FOR ALL STAFF

Maintaining a drug and alcohol free workplace.

19 SUBSIDISED GYM MEMBERSHIP

Only $5 per week for MLL employees for Stadium 2000 membership.

20 EARLY RETURN TO WORK

Supporting alternative/reduced duties following injury or illness.

21 H&S PRESENTATIONS WITH GUEST SPEAKERS

Since 2014 we have had 26 guest speakers talk about a range of H&S topics.

The programme will continue with at least four speakers each year.

» Raising awareness
» Thought provoking
» Generating conversations

22 MOVING FOR CANCER INITIATIVE

MLL donates $2 to the Marlborough Cancer Society for every 1km moved by employees when they enter as part of a MLL team into agreed sporting events and contributes to registration costs.

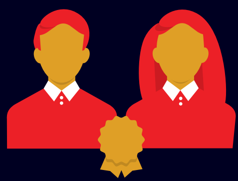
23 FATIGUE MANAGEMENT

Training and procedures for preventing and managing fatigue.

MARLBOROUGH LINES COMMUNITY

LEAD SPONSOR

for the Marlborough Lines Stadium 2000 since 2006. This year we also contributed towards new outdoor lighting at the Stadium.



$39K

tertiary grants awarded to eight students

THIRTY THREE

community activities and groups supported by Marlborough Lines during the year, which equated to:

$475K

by way of sponsorship and donations

WE DELIVER MORE THAN ELECTRICITY TO OUR COMMUNITY

As one of the larger employers, and a provider of essential services, Marlborough Lines accepts that it has an important role to play in the community as a good corporate citizen, as well as delivering a reliable electricity supply and investment returns to the region's electricity consumers.

The Company in fact has a proud record of supporting community, cultural, youth and sporting causes and initiatives.

If there is a large community event happening in Marlborough we will almost certainly be standing behind it in some way. This is either by sponsorship funding or by giving time and materials to provide on ground technical support. This typically includes the provision of temporary power supplies for events such as the annual Marlborough Wine Festival, the Classic Fighters Air Show, Havelock Mussel Festival and Picton Maritime Festival.

SUPPORTING COMMUNITY PROJECTS

When significant community facilities are being built in Marlborough we have a proud record of typically assisting in electricity related fields including lighting, wiring and power supply to the premises. In recent years we have allocated funding to many different organisations to assist with community projects, including:

- **Marlborough Community Hospice** – Extension, grounds and car park lighting
- **Giesen Sports Centre Renwick** – Power supply to complex
- **Lansdowne Park Lighting** – Rugby field lighting
- **Pollard Park** – Decorative lighting
- **Omaka Aviation Heritage Centre** – State of the art European display lighting
- **Brayshaw Park Wine Museum** – Display lighting
- **Alzheimer's Society headquarters** – Power supply
- **Marlborough Sustainable Housing Trust** – Power supply to their first housing project
- **Marlborough Community Hospice** – Emergency generator
- **Picton Coastguard and St Johns Emergency Operations Centre** – Power supply
- **Eastern States Speedway** – Underground power supply
- **Marlborough Lines Stadium** – New external lighting
- **St Johns** – New ambulance.

SUPPORTING INITIATIVES AND GROWING YOUNG MINDS

This year grants, sponsorship or in kind donations of time and materials were made to some 38 different organisations totalling $475k. This is a significant increase over the 2018 total of $346k.

For over 20 years Marlborough Lines has been the principal sponsor for the Marlborough Schools Science and Technology Fair. Contributors and exhibits are chosen from 30 schools for a central exhibition of experiments and outcomes. The Company's contribution to the Fair this year was $39k.

In addition the Company provided scholarships totalling $39k to eight students undertaking tertiary study.

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

For the year in review the Company records support to the following recipients as part of its continuing community assistance programme:

- Picton Maritime Festival
- Marlborough Schools Science and Technology Fair
- Classic Fighters Airshow
- Marlborough Sounds Restoration Trust – Wilding Pine removal
- Canterbury University Centre for Electrical Engineering Excellence
- Marlborough Cancer Society – main sponsor Relay for Life
- Central Region Rowing Trust
- Queen Charlotte Yacht Club – contribution towards the electrical fit out of their new water sports headquarters
- Marlborough Business Excellence Awards
- Marlborough Lines Stadium – annual sponsorship
- Marlborough Lines Stadium – new lighting
- Tertiary Study Scholarships
- Planting of 30,000 daffodil bulbs at our Springlands substation for the Marlborough Cancer Society to pick for its annual Daffodil Day appeal
- Sponsoring a horse at Riding for the Disabled

OUR CFO – GARETH JONES PRESENTING A CHEQUE TO FELICITY SPENCER OF THE MARLBOROUGH CANCER SOCIETY FROM FUNDS RAISED BY STAFF FROM OUR "MOVING FOR CANCER" INITIATIVE.

TUA MARINA SCHOOL STUDENTS BELLA BROMWICH AND LAURA ANDERSON WITH THEIR EXHIBIT IN THE 2018 SCIENCE AND TECHNOLOGY FAIR.

MARLBOROUGH LINES SPONSORS A HORSE FOR MARLBOROUGH RIDING FOR THE DISABLED, WHICH PROVIDES THERAPEUTIC, HORSE-RELATED ACTIVITIES FOR ITS CLIENTS, INCLUDING JARROD TEMARO PICTURED.

WHY DO WE DO IT?

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 and individuals, including the current programme of providing tertiary education grants, assisting youth development initiatives and advancing education.
- Continuing to provide technical support and advice on a range of regional events which benefit local people and the economy.

In lending 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 Sponsorship intentions for 2020

- Maintain our principal sponsorship arrangement with the Marlborough Lines Stadium.
- Assist and provide technical support to major community events.
- Maintain our principal sponsorship of the Marlborough Schools Science and Technology Fair.
- Continue to provide tertiary study scholarships including the Tertiary Scholarship for Māori and the Tertiary Study Awards.
- Consider new applications for assistance to clubs, cultural groups, and community projects in accord with the criteria outlined above.

MARLBOROUGH LINES ENVIRONMENT

RENWICK

The new Renwick substation is totally indoors, "house like' in perspective, and noise free.

27%

increase in the number of new distributed generation applications

ISO

14001:2015 Environmental Management Systems certification

30,000

Daffodil bulbs planted to beautify our Springlands System Control property and provide daffodils for the Marlborough Cancer Society's annual Daffodil Day appeal.

THINKING AND ACTING ENVIRONMENTALLY IS IMPERATIVE

Our network and operations are widely spread throughout almost all parts of Marlborough.

We recognise and willingly accept our responsibilities in seeking to minimise our impact on the environment.

This commences with our planning and design and is carried through to construction, maintenance and operations.

Environmental considerations necessarily pervade all parts of our operations. Our standards better minimum regulatory requirements. Consideration in relation to environmental issues is ongoing, and includes:

» Is the replacement of older power poles and conductors with fewer, but taller structures, better environmentally?

» How can we be the best neighbours by blending our suburban substation infrastructure to make them less obvious?

» Can we further reduce our carbon footprint?

» Can we recycle more products – packaging, oils, plastics and timber?

» Can we source products and materials from sustainable and ethical sources?

» Can we nurture and improve our environmental culture so that environmental impact is a prime consideration?

» How do we best help our customers to benefit from the impending sea-change of electrical technology?

By maintaining ISO 14001 Environmental Management certification, Marlborough Lines ensures a continual process of review and improvement.

OUR ENVIRONMENTAL POLICY OBJECTIVES

» To meet and where applicable exceed our compliance obligations.

» To maintain ISO 14001 certification and ensure the provisions of this standard are reflected in all aspects of our operations.

» 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 MLL and externally to our customers.

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

SO – HOW DID WE APPLY OUR ENVIRONMENTAL OBJECTIVES THIS YEAR?

Growing infrastructure in Renwick – new 33/11kV zone substation

Over recent years Marlborough Lines has put great effort into building suburban substations which are carefully designed to look like houses, have fully undergrounded cabling in and out, have extensive landscaping and gardens and which do not emit the traditional level of transformer noise. This makes them perfect neighbours – “quiet and unobtrusive”.

Marlborough Lines is very close to completing a new 33/11kV zone substation in Renwick. This substation is totally indoors, "house like" in perspective, and noise free.

Following the 2016 Kaikoura earthquake, an engineering study identified fault lines running under the existing Renwick Substation on State Highway 63. A suitable piece of non-productive land was identified on the north western side of Renwick and Marlborough Lines undertook a resource consent/subdivision process to acquire the land.

Construction has progressed to the stage where the building and transformer installation is complete. Underground reticulation to and from the site is being completed after which the substation will be commissioned.

Landscaping will complete the project and the substation will be named the "Tapp Substation" in honour of the recently retired Network Operations Manager, Brian Tapp, who completed in excess of 51 years of service with the Company.

Growing Power Supplies and Walkways into Havelock

For a number of years Marlborough Lines had been looking to develop a second high voltage power supply into the industrial part of Havelock town – famous as the mussel capital of New Zealand.

Walkways and cycle ways are becoming very popular across New Zealand and we became aware that the Marlborough District Council was planning to extend a pathway around the Havelock estuary to complete the Picton to Havelock link path.

We proposed to the Council that Marlborough Lines could meet a substantial part of the pathway cost by installing a buried cable one metre below the proposed pathway. This would essentially form, and provide the base for, the path with the Council only needing to provide the finishing landscaping and bridges.

The necessary planning and resource consent processes (publically notified) have been completed with no objections lodged, and construction will take place in the ensuing year. This is a significant win/win solution for both Marlborough Lines and the Havelock community. Marlborough Lines will achieve a hidden (underground) second 11kV circuit into Havelock which will provide for improved system reliability and flexibility, and the community will benefit from the completed last part of the link path at greatly reduced capital cost.

CLAUDIA DUNCAN ENJOYING SOME OF THE 30,000 DAFFODILS PLANTED AT OUR SPRINGLANDS SYSTEM CONTROL SITE FOR THE MARLBOROUGH CANCER SOCIETY.

Growing Daffodils – Springlands

As part of the process to landscape and beautify surplus land around our buildings and infrastructure, Marlborough Lines arranged for the planting of 30,000 daffodil bulbs in the lawns around the Springlands System Control building.

The Company has for many years been a supporter of the Marlborough Cancer Society including being the principal sponsor of the Society's 2019 Relay for Life fundraising event. It was anticipated that when the bulbs flowered each Spring there would be a good supply of flowers for the Society's "Daffodil Day" appeal.

The first crop of daffodils in August 2019 were picked by the Marlborough Cancer Society for Daffodil Day. They also provided a colourful backdrop for the Springlands substation gardens.

Growing Cross-Arms – Tapps Road Eucalypt Forest

Whilst Marlborough Lines still has to source hardwood timber for cross-arms from Australia and South East Asia we require the timber to be sourced from sustainable and renewable sources. There are few alternatives to the eucalypt hardwood currently used. But we intend to produce our own.

In 2008 we entered into a sponsorship relationship with a Marlborough based timber initiative (NZDFI) which aimed to achieve the production of superior eucalypt hardwood. In 2011 Marlborough Lines also embarked on a production trial by planting its own eucalypt forest using the knowledge already gained from the research project. We currently have 45ha of eight year old eucalypts, form pruned and thinned and showing good growth. Overall we are very pleased with the results to date.

The original NZDFI tree programme was looking to find a hardwood solution for the replacement of treated pine vineyard posts, many of which become brittle with age and then snap.

Marlborough Lines' more recent investment into the wine industry through the purchase of the Yealands Wine Group adds some additional future synergy to the decision to plant a eucalypt hardwood forest.

Whilst the Company's forest sits outside the current emissions trading scheme credits, it is providing a very valuable carbon sink offset to counteract the Company's controllable carbon footprint.

ACTION IS PARALLEL TO MEASUREMENT OF CARBON EMISSIONS

Marlborough Lines is unusual amongst New Zealand distribution networks in that it has since 2008 measured its carbon footprint on a triennial basis. Where practical we have reduced our emissions. Leaving aside the carbon emissions from electricity transmission and distribution losses (which Marlborough Lines cannot control anyway), the Company's controllable carbon emissions are fully offset by the carbon sequestration arising from its plantation forests.

The Marlborough Lines acquisition of the Yealands Wine Group in 2016 adds further strength in this regard with Yealands being fully re-certified "Carbon Zero" in 2019, a position it has held since 2008.

MANAGEMENT OF WASTE

In the previous financial year Marlborough Lines engaged a single contractor to manage all waste and recyclables generated from the Company's operations.

One of the main benefits of this is the availability of volume information in relation to the categories of waste produced. Over the past 12 months Marlborough Lines generated the following volumes of waste:

» **Paper and Cardboard** 2.737 tonnes

» **Mixed Recyclables** 2.884 tonnes

» **Other Plastics** 0.740 tonnes

» **Organic Waste** 3.120 tonnes

» **General Waste** 37.372 tonnes (Non-recyclable)

The statistical information now enables us to set some annual targets to further reduce general waste which is destined for the landfill and to increase the proportion of waste able to be recycled.

MARLBOROUGH SOUNDS RESTORATION TRUST

The Company has continued to provide financial support of the Marlborough Sounds Restoration Trust. The Trust concentrates on removing wilding pines throughout the Marlborough Sounds which in turn impacts (helpfully) on vegetation control costs incurred by Marlborough Lines. We have a common interest in removing non-native species which have the potential to grow into, or fall across, power lines.

DEVELOPING TECHNOLOGIES AND CLIMATE CHANGE – CHANGE IS THE ONLY CONSTANT

The Marlborough Lines network faces a number of challenges arising from technology advancement, and changes to Government policies as the Government embraces climate change.

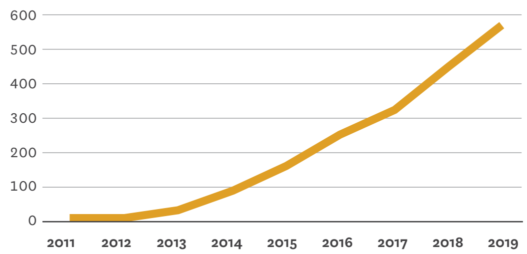
Currently the Company provides an advisory service which assists customers in most technical areas. The installation of distributed generation (mainly photovoltaics) at household level is continuing to increase as consumers understand more about the technology and because of falling prices. Marlborough Lines is not involved in the retailing of distributed generation so we are able to offer impartial advice to our consumers.

With Government potentially moving to legislate incentives for electric vehicles it can be expected the number of electric vehicles will increase.

We have undertaken extensive studies in relation to the widespread installation of photovoltaics at consumer premises and are well aware of the relevant issues which will need to be addressed within the network.

Should climate changes result in an increased incidence of storms we believe we are reasonably prepared. The quality of our network will provide a good level of resilience. We maintain a reasonable quantity of emergency spares and have the necessary resources both in terms of plant and skilled and capable staff.

Cumulative number of distributed generation installations on the Marlborough network



As costs reduce, the rate of new rooftop photovoltaic installations is increasing. This year there was a 27% increase in the number of new distributed generation applications.

MARLBOROUGH LINES REGULATION

COMMERCE COMMISSION

TE KOMIHANA TOUHOKOHOKO

The Commerce Commission is an independent Crown entity responsible for enforcing laws applying to the monopoly businesses in the electricity industry – EDBs such as Marlborough Lines and Transpower (the transmission grid owner).

Each year Marlborough Lines is required to compile and submit a detailed set of accounts and statistical data to the Commerce Commission, including financial, asset quantity and asset condition data for example.

ELECTRICITY AUTHORITY

TE MANA HIKO

The Electricity Authority is another Crown entity with regulatory responsibility. Their role is to act in the interest of long-term benefits for consumers through ensuring that New Zealand's electricity market is operated efficiently. This includes monitoring rules applicable to all electricity industry participants, as well as line delivery prices set by EDBs like Marlborough Lines.

MINISTRY OF BUSINESS, INNOVATION AND EMPLOYMENT

HĪKINA WHAKATUTUKI

MBIE is the ministry responsible for many of the legislative Acts and consequential regulations pertaining to the electricity industry, including technical and safety requirements which EDBs (and other industry stakeholders) must adhere to.

ELECTRICITY DISTRIBUTION REGULATION

Electricity Distribution Businesses (EDBs), such as Marlborough Lines, are subject to unique regulation from both the Commerce Commission and the Electricity Authority. The requirements can differ depending on the ownership structure of EDBs.

REGULATION OF OUR INDUSTRY IS COMPLEX

Marlborough Lines and its investment company Nelson Electricity, as part of the distribution sector, are subject to unique regulation, overseen by the Ministry of Business, Innovation and Employment, the Commerce Commission and the Electricity Authority.

Overall regulation continues to be a key and ongoing challenge in our industry. The regulations to which our business is subject to are complex, are often technical and over the last two years have been subject to change.

Accordingly it is essential that we are fully aware of the regulatory requirements and their consequences.

We also have to consider the impact of proposed regulations and determine their impacts in order that we can make appropriate submissions. Our network has some unique characteristics and it is important we participate effectively where there are opportunities for participation to ensure our views and particular circumstances are fully considered.

CURRENT REGULATORY WORK STREAMS

Electricity Price Review (EPR)

The EPR was commissioned by the Government in 2018 to review electricity pricing in New Zealand. An expert panel was established, chaired by Miriam Dean QC, which put forward a series of recommendations to the Energy and Resources Minister for consideration. At the time of preparation of this report the Government's position relative to the review is yet to be announced.

A key focus of the review was to investigate increases in electricity costs over time, particularly those borne by residential consumers.

The review sought to balance the desired social, fairness and equitable outcomes with the need for electricity industry participants to price in a way that reflects the costs of supply. A further consideration of the EPR was to ensure investment in emerging technologies is efficient, and there are no long term adverse impacts on consumers from these investments.

The Government's position in relation to network pricing relative to the EPR will be of particular interest to Marlborough Lines and all other network companies. Especially in relation to the inequitable low user fixed charge and the extent to which electricity pricing is influenced by desired social outcomes rather than the cost of supplying.

Distribution Pricing Reform

The Electricity Authority has advocated that network companies need to reform their distribution pricing structures so that prices are more cost-reflective and economically efficient. It is essentially the view of the Authority that with the potential for significant future uptake of new technologies such as solar photovoltaics and electric vehicles, there is a need to reform pricing structures to cater for changing patterns in consumer energy consumption. Marlborough Lines' view is that there must be stability in network pricing to enable customers to make long-term decisions. The current low user fixed charge which was introduced for political reasons some years ago has resulted in distortions in distribution pricing as has the requirement for consumers in rural areas to have the same level of price increases as urban consumers.

In the case of Marlborough Lines it has a number of lines which were uneconomic at the time of their construction and continue to be uneconomic but were constructed in accordance with the legislation which prevailed at the time.

Default Price Path Number 3

The Commerce Commission will soon announce its decision for the upcoming default price-quality path (DPP) period, 2020 to 2025. Included in this decision is the allowable revenue recoverable by EDB's who are regulated (not holding exempt status) by the Commerce Commission. This is likely to have a significant impact. While Marlborough Lines is an exempt EDB (not price-quality path regulated), it endeavours to align itself to the requirements set by the Commerce Commission for non-exempt EDBs. Marlborough Lines also owns 50% of Nelson Electricity Ltd which is not exempt.

Transmission Pricing Guidelines

Transmission pricing guidelines are set by the Electricity Authority, and are used by Transpower to determine their pricing methodology in relation to the national transmission grid. The Electricity Authority is currently consulting on proposed changes to the guidelines. It believes that the proposed changes will bring long term benefits to consumers, through Transpower setting a new transmission pricing methodology that will better reflect a more benefits or user pays based model.

Electricity (Hazards from Trees) Regulations 2003

These regulations, administered by MBIE, address the proximity of trees near power lines. Marlborough Lines has long held the view that rather than the Regulations prescribing specific clearance distances which are impracticable, particularly in rural and remote rural areas with fast-growing trees, that the Regulations should be based on principles or evaluation of risk.

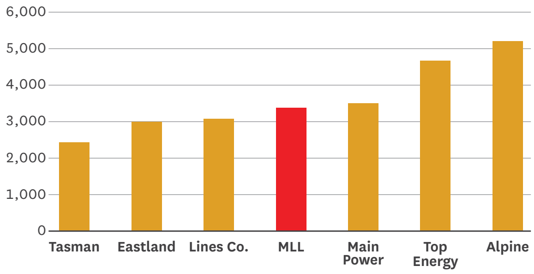
Tree Regulations are of particular importance to Marlborough Lines in the areas of safety, reliability of supply and minimisation of costs to customers. Consequently the Company will be making appropriate representations in this regard.

GAUGING OUR RELATIVE PERFORMANCE

The statistical and accounting surveillance undertaken by the Commerce Commission provides the opportunity to undertake a comparison of metrics between network companies. The following graphs compare Marlborough Lines with six other networks which have some similarity to Marlborough Lines.

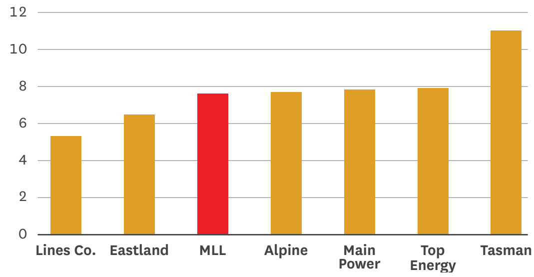
SOME REGULATORY COMPARISONS WITH OUR PEERS

Capital expenditure (average 2015 to 2019) per km



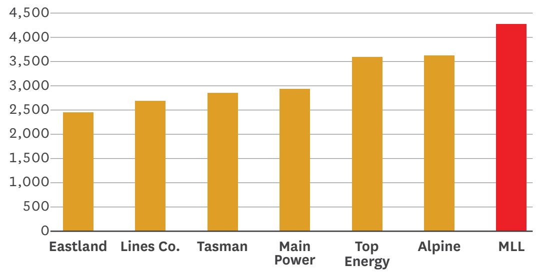
Marlborough Lines has maintained a very consistent level of capital expenditure over the last 20 years. Each company must file an Asset Management Plan which sets out capital projections for the following 10 years. Capital expenditure can vary with customer requirements.

Consumer density (ICP/km)



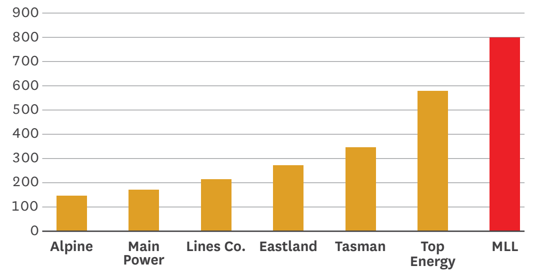
Marlborough Lines with an average of 7.6 consumers per kilometre of line is towards the lower end of the scale. City networks such as Auckland, Wellington and Nelson have 30 consumers or more per kilometre of line.

Operating expenditure (average 2015 to 2019) per km



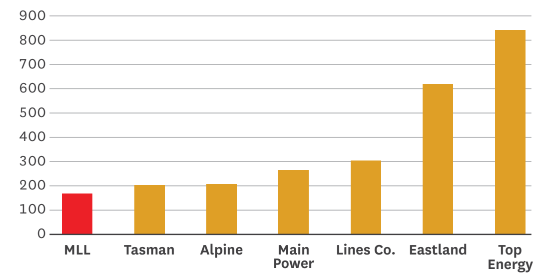
Operating expenditure is driven in part by terrain characteristics and vegetation control requirements. The Marlborough network is comparatively expensive to operate and maintain due to the remoteness of large parts of its network.

Vegetation management expenditure (average 2015 to 2019) per km



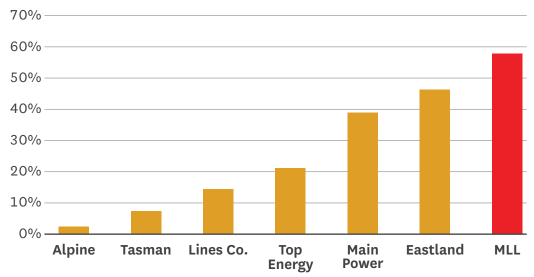
The extension of electricity reticulation into heavily forested areas such as the Marlborough Sounds adds a disproportionate cost in terms of vegetation management.

Outage minutes (average 2015 to 2019)



For a network with a high degree of difficult country and its share of challenges, such as the Kaikoura earthquake, Marlborough Lines has had very good reliability over the last five years. With supply to an average consumer out for 172 minutes per year, this is better than a number of the larger more urban networks such as Vector (356 outage minutes per consumer).

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.

STANDING TALL CAN ATTRACT CRITICISM

It is inevitable in today's environment that invariably when someone achieves they attract criticism in some form.

Marlborough Lines and its predecessors are no exceptions.

On every occasion going back to 1923 when the Company's predecessor, the former Marlborough Electric Power Board, was established there have been detractors within the community who have been against every major project starting with the Waihopai Hydro Scheme which provided the first electricity supply to the Marlborough region and is still operating successfully today.

Subsequently the Branch Hydro Scheme also attracted significant criticism during its construction and again as with the Waihopai Scheme it proved to be very successful and is still operating today, albeit for a different owner because of the forced split of generation and retailing from the network business as required by the Electricity Industry Reform Act 1998 (Bradford legislation).

Then in 1996 when the Company purchased a 50% shareholding in Nelson Electricity, the Company was again criticised by a few within the community.

The earnings from Nelson Electricity have more than paid for the purchase price and continues to pay a dividend and the Company's share of the business is worth close to double the original purchase price.

Similarly when the Company purchased a 51% shareholding in the Otago electricity network and a 13.89% shareholding in the eastern Bay of Plenty network, Marlborough Lines received some criticism. In both of these instances the purchase was made possible by leveraging the debt against the investment at no risk to the electricity consumers of Marlborough.

During each year in which Marlborough Lines had an ownership stake in these entities a dividend was paid.

Upon sale of these investments and following all debt repayment, Marlborough Lines was holding funds for reinvestment in excess of $135m.

Interestingly those who criticised these investments remained silent when the success of these investments has been demonstrated.

Achieving investment success of this magnitude set Marlborough Lines apart from its peers in the electricity distribution sector.

This difference became even more apparent when Marlborough Lines purchased its initial stake of 80% in Yealands Wine Group using some $89m of the proceeds gained from the sale of the network investments in Otago and the eastern Bay of Plenty.

Subsequently the Company purchased the remaining shares of YWG and on 29 June last year increased its shareholding to 100%.

In the time that Marlborough Lines has owned Yealands Wine Group an annual dividend of $5.5m has been paid, substantial investment has been undertaken within the Company to provide for increased earnings and the internal rate of return over the four-year period, including capital gains, has been 20%.

Marlborough Lines has invested $122m in YWG, which now has a value of $205m, with a net gain of $83m, at no cost to the electricity consumers of Marlborough.

It is fact that as a consequence of Marlborough Lines' investments in the Otago and eastern Bay of Plenty networks, together with Yealands Wine Group, there has been a capital gain in excess of $185m for the Marlborough electricity consumers which will provide benefits for current and future generations.

Irrespective there have been some in the community who have anonymously criticised Marlborough Lines within the media. A Wellington lawyer has entered the fray as has been reported.

It is the position of Marlborough Lines that there is absolutely no foundation to any of these allegations.

So yes as an entity which has acted differently to others in the electricity sector, and achieved considerable success in doing so, Marlborough Lines has received some negative criticism from a small minority.

Conversely it has received considerable support from the wider community and its electricity consumers who receive an annual distribution from the Company's investments via the Marlborough Electric Power Trust which last year equated to $185 and indeed the sole reason for undertaking the investment was for the ultimate benefit of electricity consumers.

Marlborough Lines, after having undertaken proper and prudent levels of due diligence, is very confident of the benefits that will be derived from Yealands Wine Group.

THE STUNNING VISTAS OF YEALANDS SEAVIEW VINEYARD AND WINERY.

SECTION

03

YEALANDS WINEGROUP

SOME FACTS

YEALANDS WINE GROUP WAS ESTABLISHED ON 8 AUGUST 2008

The Marlborough Lines total investment in YWG is $122m but the value of its investment is now conservatively estimated to be

$205M

70% of YWG's production is Sauvignon Blanc

Seaview is frost free

Yealands Wine Group has been purchased by the sale of investments external to Marlborough at no cost to the electricity consumers of Marlborough

The tax paid profits of Yealands Wine Group paid to Marlborough Lines ultimately benefit the electricity consumers of Marlborough

The expanse of the Seaview vineyards over rolling topography adjacent to the sea provides exceptional vistas judged by our international customers to be unique worldwide

AWARDED

Yealands Wine Group has been recognised internationally for its wine quality – having been awarded "most successful winery" three times in the last four years at The Sydney International Wine Competition

70% OF YWG'S GRAPES ARE SOURCED FROM ITS OWN VINEYARDS

YEALANDS WINE GROUP STANDS TALL IN THE VITICULTURE WORLD

With planted vineyards well in excess of 1,000 hectares across Marlborough, the Seaview Vineyard in the Awatere Valley is New Zealand's largest individual vineyard.

In spite of its relative youth (established in 2008) the Yealands Wine Group has grown rapidly on the international stage to become New Zealand's sixth largest wine exporter.

Irrespective of the company's relatively young age it has a proud record, having previously been recognised globally as a leader in wine production and achieved recognition at the prestigious International Wine Challenge in London as having produced the World's Best Sauvignon Blanc.

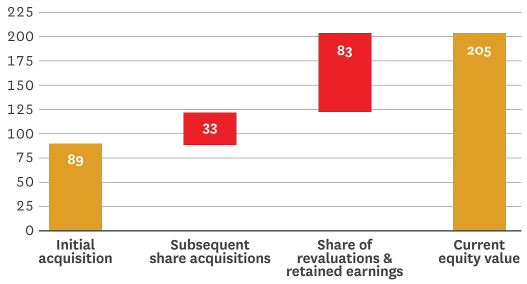
Marlborough Lines purchased 80% of Yealands Wine Group with effect from 1 July 2015 in recognition of the potential to grow and expand the business for the ultimate benefit of the electricity consumers of Marlborough.

As an indication of our confidence within Yealands Wine Group, Marlborough Lines has subsequently increased its shareholding to 100% with the purchase of YWG's founder Peter Yealands' shares on 29 June last year.

Over the period of ownership by Marlborough Lines a dividend of $5.5m has been paid each year and significant development has been undertaken within YWG to minimise production risks, improve efficiency of operations, increase the capacity of the winery and increase the planted area of the vineyards, all of which will ultimately culminate in increased financial returns.

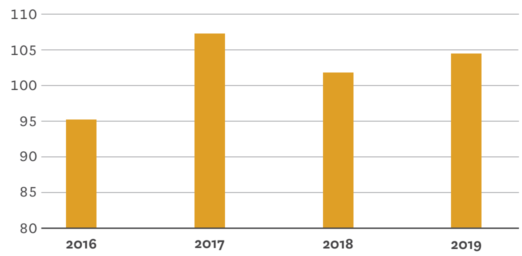
The graph below shows the increase in the value of Marlborough Lines' investment in YWG from the initial acquisition in 2015 through to the closing equity value as at 30 June 2019.

Yealands increase in investment value over four years ($m)



MLL's total investment in YWG is $122m, but it is currently valued at $205m.

YWG revenue ($m)



Revenue has been above $100m in each of the last three years.

FINANCIALS

YWG's financial accounts are underpinned by solid assets. Its vineyards, winery and associated equipment is valued at $253m and its total assets, including wine stock and working capital, is $358m. At balance date it had bank debt of $112m, and a debt to total assets ratio of 31%.

YEALANDS FINANCIAL POSITION ($M)	**30 June 2019**	**30 June 2018**
Cash and cash equivalents	4.2	4.3
Trade receivables	21.5	23.7
Inventory	73.4	73.3
Property, plant and equipment	253.2	231.9
Other assets	5.6	2.2
Total assets	**357.9**	**335.4**
Trade and other payables	18.4	18.1
Deferred tax liabilities	11.7	10.6
Bank loans	112.3	102.2
Other liabilities	10.9	7.2
Total liabilities	**153.3**	**138.1**
Share capital	115.9	115.9
Reserves	72.3	60.4
Retained earnings	16.4	20.9
Total equity (Net assets)	**204.6**	**197.2**

Overall, in the four year period that Marlborough Lines has owned Yealands Wine Group, when valuation increases are included, the internal rate of return on cash invested is 20%. Wine sales have increased from $95m in 2016 to $105m in 2019 and a rebranding exercise has recently been completed. YWG has a strong financial base from which it can grow both sales, and more importantly margins.

YEALANDS FINANCIAL PERFORMANCE ($M)	**2019**	**2018**
Revenue	105.8	103.4
Operating expenses	(97.8)	(88.4)
Operating surplus before non-recurring expenses	8.0	15.0
Non-recurring income and expenditure	(0.0)	12.0
EBITDA	8.0	27.0
Depreciation and amortisation	(0.4)	(0.3)
Financing income and expenditure	(6.0)	(7.8)
Profit before tax expense	1.6	18.9
Tax expense	(0.6)	(5.6)
Net profit after tax	1.0	13.3
Other comprehensive income	11.8	0.1
Total comprehensive income	**12.8**	**13.4**

A BLEMISH

During the year, the Ministry of Primary Industries (MPI) laid charges under the Wine Act 2003 against a subsidiary of Yealands Wine Group Limited (Yealands), being Yealands Estate Wines Limited (YEWL). Charges were also laid against Peter Yealands, as a director of YEWL and two former employees.

The charges related to false records and the export of some non-compliant wine to the European Union. The records were falsified by employees of YEWL. Because the offending was on behalf of YEWL, YEWL was vicariously liable for the conduct of its employees.

This occurred before Marlborough Lines owned Yealands and was unknown to Marlborough Lines until the MPI investigation began, after the time of the sale and purchase.

All parties were fined and convictions entered.

These are unfortunate historical events which pre-dated Marlborough Lines' involvement with Yealands. All subsequent audits and investigations have confirmed that the current compliance systems and records-keeping processes are fit for purpose and have been significantly improved under Marlborough Lines' ownership.

All major customers of Yealands were apprised of the situation prior to the prosecution and their support of Yealands has continued which is a reflection of the strength of the partnership between Yealands and its customers.

WE HAVE ACHIEVED SEASONAL IRRIGATION STORAGE

At the time of Marlborough Lines' investment in Yealands Wine Group it was recognised that the most significant potential risk to the business could be the lack of irrigation water in summer drought conditions.

At the time of acquisition the irrigation of the Seaview vineyards were principally dependent upon an appropriate level of flow within the Awatere River together with limited storage on the Seaview property.

Following an assessment of irrigation requirements and opportunities for improvement it was decided to construct two significant storage dams. Both of these have now been completed to the extent that they can be utilised. The cost of the dams was approximately $8.3m.

This storage together with other dams on the Seaview property will provide up to six weeks of irrigation, effectively providing seasonal storage to a level beyond that of many vineyards in Marlborough.

A further significant storage dam is currently under construction which will provide a substantial increment in storage capacity, and will markedly reduce the risk of insufficient irrigation water during droughts.

EXPANSIVE VIEWS OVER THE WINERY AND VINEYARDS AT SEAVIEW, SEDDON.

YEALANDS' HAS IN EXCESS OF 1,000HA OF PLANTED VINEYARDS ACROSS MARLBOROUGH, WITH FURTHER QUALITY GRAPE LAND TO BE PLANTED.

WE HAVE INCREASED OUR PLANTED AREA

In recognition of market requirements and to maximise scale economies from the time of acquisition of YWG it was recognised that the company would ultimately benefit by increasing the planted area of the vineyards in Marlborough.

Accordingly within five months of Marlborough Lines' involvement in YWG the company purchased the 63 hectare Medway vineyard from one of its contract growers at a cost of $4.3m.

The company has also sold the Hawke's Bay vineyards and winery which were acquired as part of the YWG acquisition to concentrate on grape production in Marlborough.

Within YWG it has the capacity to cost effectively develop bare land into production vineyards. Hence over the period of Marlborough Lines ownership in YWG the company has planted some 55 hectares of grapes on the former Dodson property in Cable Station Road, and over the last year has developed a further 95 hectares of land on the former Marfell property acquired following Marlborough Lines' acquisition of YWG. There is a further 10 hectares of the Marfell property which is available for planting.

Of course these recently planted vineyards are yet to achieve full production but undoubtedly will contribute to the increased profitability of the company going forward. It is also very relevant that within YWG bare land can be converted into vineyard at a lower cost than prevailing market prices for developed land.

Accordingly during the year the company was able to contract for the purchase of an area of some 160 hectares of flat land in the Awatere Valley in close proximity to existing YWG vineyards.

Importantly the land has been identified as having the potential to produce quality wines especially given the known performance of the company's existing adjacent vineyards.

OUR COMMITMENT TO SUSTAINABILITY

Not only is the production of wine on a sustainable basis important to YWG but equally so is its environment.

Accordingly within the vineyards significant areas of native plants and trees have been established together with a monarch butterfly reserve, and the water bird life has increased.

Going forward it is our intent to expand our native plantings to further enhance the attractiveness of our vineyards and provide native bird habitat.

As part of YWG's commitment to sustainability, during the year the company constructed a covered grape marc processing facility which enables up to 6,000 tonnes of marc to be stored under a covered roof. The leachate from the marc is separated out and is stored separately, and at the appropriate times within the composting process reintegrated with the marc to produce compost which is applied to the vineyards to enhance the composition of our soils in an environmentally sustainable manner.

OUR VINEYARDS ARE OPEN TO THE PUBLIC

The vistas offered by the expanse of our rolling vineyards adjacent to the sea are unique among Marlborough vineyards.

Accordingly public access through our property is encouraged.

We are currently in the process of establishing specific bike and walking trails through our expansive vineyards to provide further opportunities for members of the public to enjoy our unique landscape.

MARKETS WANT OUR WINE

The demand for YWG's wine continues to increase and this is particularly so in the current year given that last year's overall Marlborough vintage was less than the previous year.

Yealands wines represents very good value for the quality provided and going forward it is expected that this will be further recognised by the markets and the returns to YWG will increase accordingly.

As part of the marketing of YWG wines during the year there has been a complete revaluation of all YWG's wine production and labels, and as a consequence some rationalisation has occurred and a new series of labels have been developed.

Some 70% of YWG's production is Sauvignon Blanc in accord with market demand and overall some 80% of the company's total production is exported.

There is no reason not to expect that the demand for quality wine will continue in the future based on market intelligence and indeed the current position of YWG is that the demand for its wine outstrips its capacity to supply.

HOW DOES THE FUTURE LOOK

YWG produces quality wines which are sought after by its customers.

As the recently developed vineyards come into production over the next few years the volume of grapes produced within the company will further increase the company's profitability.

The risk of the company being affected by drought has been addressed by the establishment of seasonal storage for irrigation.

The Seaview vineyards are established in a frost free environment.

The consented capacity of the winery is some 27,000 tonnes.

Going forward the company is well placed to handle additional production as production increases.

The company is of such a size that it has economies of scale. Within the viticulture and wine sectors YWG is well placed to achieve increased performance for the ultimate benefit of the electricity consumers of Marlborough.

STORESPERSON – JOHN WHETREN AND NETWORK OPERATIONS MANAGER – WARNER NICHOL, GETTING DOWN TO THE NUTS AND BOLTS OF OUR OPERATIONS.

SECTION 04

FINANCIAL PERFORMANCE

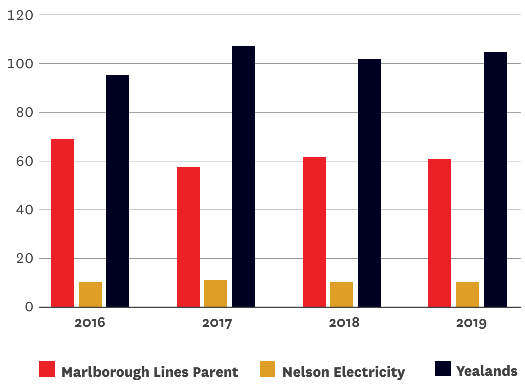
OUR INVESTMENTS

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 electrical distribution and contracting business, 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, 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.

Individual company turnover ($m)



YEALANDS WINE GROUP

Yealands Wine Group is a company based in Seaview, Marlborough with 1,798 hectares of freehold land including 1,180 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 a large number of countries including strong sales in Europe.

Yealands recorded a net profit of $1.0m and a net revaluation gain of $11.9m

Revenue for the year was $105.8 million (up 2.3% on prior year), however profitability has reduced when compared year on year due to the one-off insurance proceeds recognised in the prior year. Profitability has also been negatively impacted this year by both low harvest volumes, which flow through to an increased cost of sales, and also losses recognised on interest rate swaps due to the reduction in market interest rates over the year.

In addition to the net profit of $1.0m, Yealands revalued its property portfolio, which resulted in an uplift in value of $13.8m, based on strong sales evidence in the Awatere Valley for vineyards and the improvement in value following the company's development of bare land into vineyard. This value uplift is offset by the recognition of the deferred tax impact of $1.9m, resulting in a net revaluation gain of $11.9m.

A dividend of $5.5m was paid

The low net profit result includes a number of non-cash adjustments that are not reflective of the underlying performance of Yealands, including the fair value movement on the interest rate swaps and also the NZ IFRS adjustments to the cost of sales that are further discussed in the Chief Financial Officer's report. Adjusting for these movements Yealands' performance was in line with that budgeted and therefore the budgeted dividend was paid.

Upcoming prospects

Yealands is nearing the end of its growth phase. It has secured its future water supply and has also completed its recovery from the 2016 Kaikoura earthquake. Following the acquisition of the Maher property in July 2019, Yealands will be looking to consolidate its vineyard holdings and focus will turn to improving margins on wine sales and improving the efficiency of its operations.

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 $1.9m

NEL has continued its strong performance with net profit after tax for the year ended 31 March 2019 of $1.88m, down 13% on last year's $2.16m, due to a wash-up adjustment being made.

And paid a dividend of $1.9m

NEL generated $3.06m of operating cash and as a result was able to fund a $1.9m dividend to its shareholders, in addition to its capital expenditure requirements.

Upcoming prospects

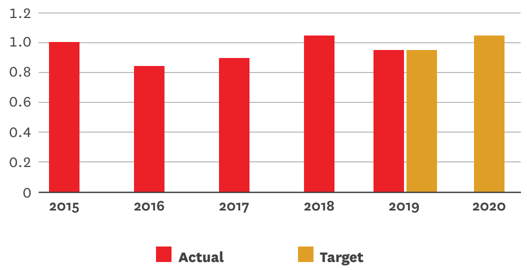
NEL's Regulated Asset Base upon which it earns a regulated rate of return as at 31 March 2019 is $41.9m. The Commerce Commission, during September 2019, calculated the rate of return that will come into effect for the five year period beginning 1 April 2020 to be 4.57%. This rate is a significant reduction from the 7.19% that prevailed for the five year period to 31 March 2020, with the reduction in rate caused by the reduction to interest rates over the period. This reduction to the regulated rate of return will see a reduction to NEL's earnings and will have flow through effects to the amount of dividends that NEL will be able to provide its shareholders.

NEL having constructed a new 33/11kV 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.

CASH HOLDINGS

As at 30 June 2019 Marlborough Lines also held $19.3m 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 3.15%. Marlborough Lines has actively considered a number of investment opportunities over the year to allow these funds to yield a higher return but did not identify a suitable investment.

NEL dividends received ($m)



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 $7.2m compared to $7.1m 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 capital gain has been recorded on our investment in Yealands Wine Group. This uplift has not 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.

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.

Nelson Electricity is an associate company

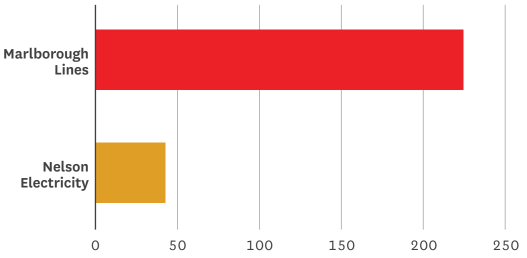
Nelson Electricity is defined under the FRSs as an associate company – that is a company in which an interest in the equity is held and significant influence is exercised, but control is not established. In such cases, equity accounting is applied in accord with NZ IAS 28. Thus, Marlborough Lines is 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.

SUMMARY OF CASH FLOWS GENERATED FROM INVESTMENTS	2019	2018	2017	2016	2015
Cash Flows from Investments ($m)	7.2	7.1	6.8	8.3	9.7
HOLDING VALUE ($M)					
Nelson Electricity	15.5	15.5	15.3	15	14.9
Horizon Energy Distribution	0	0	0	0	15.3
Yealands Wine Group	122.0	122.0	99.1	89.2	0
Term Deposits	19.3	17.8	29.4	28.0	108.0
Total Value of Investments	**156.8**	**155.3**	**143.8**	**132.2**	**138.2**
Cash Flows Generated from Investments	4.62%	4.60%	4.74%	6.31%	7.01%

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

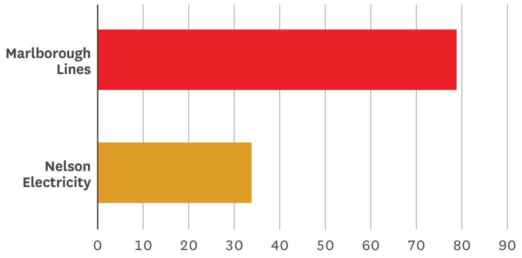
COMPARISON OF OUR NETWORKS

Regulatory asset base ($m)



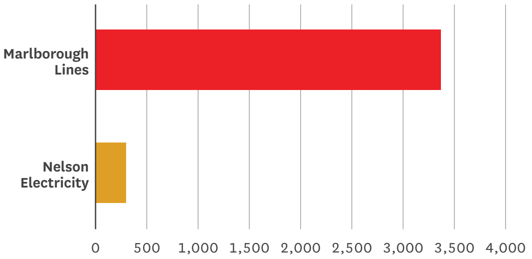
Nelson Electricity's RAB is $42m and is the base from which it is able to earn a regulatory return.

Network system demand (MW)



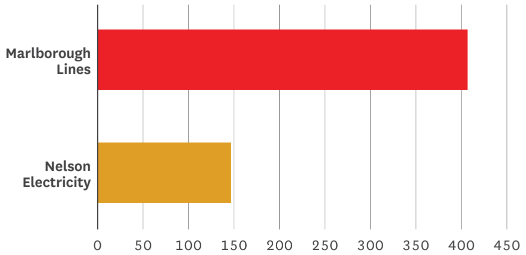
Despite the small size of Nelson's network, the peak demand on its network is relatively high due to its mix of consumers.

Network system lengths (kilometres of line)



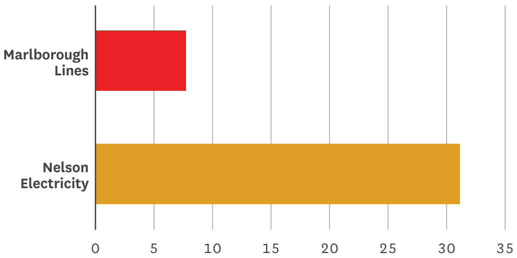
The Nelson network consists of 300km of overhead and underground circuit, compared to Marlborough's 3,300km.

Energy delivered (GWh)



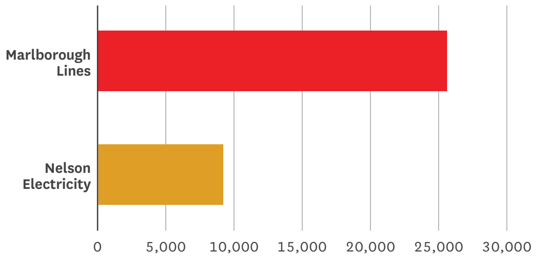
Over the last 9 years Nelson's total consumption has been relatively stable within a band of 145-151 GWh. The Nelson area is tightly constrained with little room for development.

Network customer density (consumers per km of line)



The Nelson network averages 31 connections per kilometre of circuit, compared to Marlborough's 8 per kilometre.

Network customer numbers (installation connection points)



The Nelson network has 9,200 consumer connections. Marlborough is nearing 26,000.

GOVERNANCE, DISCLOSURES AND FINANCIAL STATEMENTS

CORPORATE GOVERNANCE STATEMENT

GOVERNANCE STRUCTURE AT MARLBOROUGH LINES

Following the introduction of the Energy Companies Act 1992, Marlborough Lines Limited (the Company) was corporatised as the successor entity to the Marlborough Electric Power Board.

The ownership of the shares in the Company were vested in the Marlborough Electric Power Trust (the Trust), a body formed to undertake the shareholder role on behalf of the electricity consumers of the Marlborough region.

Six publicly-elected trustees individually hold the shares on behalf of the Trust and its beneficiaries. The trustees are referred to within this document as the shareholders. Trustee profiles are available on the Trust's website **www.mept.co.nz**.

The Trust Deed, which governs the conduct and activities of the Trust, also requires the shareholders 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. The Trust Deed is available on the Trust's website.

The shareholders through a collective resolution of the Trust are responsible for the selection and appointment of the directors. The directors perform the key corporate governance role of the Company.

The board of directors (the Board) is responsible for setting the strategies and objectives of the Company in accordance with key policies endorsed by the Company's shareholders in the Company's annual Statement of Corporate Intent (SCI).

DIRECTORS' AND MANAGEMENT COMMITMENT

The directors of Marlborough Lines acknowledge the need for high standards of corporate governance and ethical behaviour by all directors and employees of the Company, its subsidiaries and associates.

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

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

The Board seeks to ensure that 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 have prepared a Corporate Governance Manual including a Code of Conduct. The Board seeks to ensure that the Company is properly governed within a broader framework of corporate social responsibility and regulatory oversight.

During the year the Board has reviewed and refreshed its Corporate Governance Manual, and has also compared itself against the Financial Markets Authority (FMA) corporate governance principles and guidelines. The following sections outline how the Company has applied the eight corporate governance principles.

FMA PRINCIPLE 1: ETHICAL STANDARDS

Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for delivering these standards throughout the organisation.

The Board has reviewed and adopted a Code of Conduct that outlines the ethical and professional standards by which the Company's directors and employees are expected to conduct their professional lives. It outlines responsibilities to various stakeholders and provides guidance, for example, on how to deal with conflicts of interest and the receipt of gifts. The Company also has a suite of policies that support the Code of Conduct, including a Fraud Policy, a Travel and Expenses Policy and a Receipt of Gifts Policy. These are available to all employees.

FMA PRINCIPLE 2: BOARD COMPOSITION AND PERFORMANCE

To ensure an effective board, there should be a balance of skills, knowledge, experience, independence and perspectives.

The shareholders, through a collective resolution of the Marlborough Electric Power Trust, are responsible for the selection and appointment of the directors. The Board has historically appointed one of the directors to be the Managing Director.

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. In practice, this means that two directors retire each year. The shareholders may reappoint retiring directors or make new appointments following advertising for applications for appointment.

The Company's Managing Director, Ken Forrest, announced his pending retirement, to come into effect from 23 December 2019. Changes have been made to the Company's Constitution so that following Mr Forrest's retirement the position of Managing Director will be disestablished and replaced with the position of Chief Executive Officer (CEO). The Constitution will still allow for a maximum of eight directors, however, the CEO will not be a director.

At the Annual General Meeting (AGM) in November 2018, Peter Forrest and Phil Robinson were reappointed to the Board.

This year at the AGM, David Dew and Tim Smit will retire by rotation. Messrs Dew and Smit are available for reappointment to the Board.

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 business strategy and outlook, its relationship with its shareholders, current issues before the Board and the Company's operations generally.

The Board has a formal Board Charter that outlines the Board's role and responsibilities, including formal delegations to management and dealing with conflicts of interest.

The performance of the Board and its committees is evaluated annually in accordance with the Board's Performance Evaluation Policy. This evaluation 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.

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

During the year to 30 June 2019, eleven Board meetings and four Audit and Risk Committee meetings were held, attended by directors as follows:

DIRECTOR	BOARD		AUDIT AND RISK COMMITTEE	
	Meetings Held	Attended	Meetings Held	Attended
D Dew	11	11		
K Forrest	11	11		
P Forrest	11	10	4	4
S Grant	11	10	4	4
P Robinson	11	9		2
J Ross	11	11	4	4
T Smit	11	11		
I Sutherland	11	11		

FMA PRINCIPLE 3: BOARD COMMITTEES

The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.

During 2017, the Board resolved to establish an Audit and Risk Committee, which took effect from January 2018. The Audit and Risk Committee operates under a formal Audit and Risk Committee Charter, which outlines the Committee's authority, duties and responsibilities, composition and procedures.

The objective of the Audit and Risk Committee is to assist the Board in fulfilling its oversight responsibilities in relation to internal control systems, 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 Peter Forrest, Steven Grant and Jonathan Ross. Mr Forrest was Chair until 30 June 2019, and from 1 July 2019 the Chair has rotated to Mr Ross.

The Audit and Risk Committee proceedings are reported back to the Board and minutes are provided. Any director may attend Committee meetings.

The Board may from time to time establish other committees to assist it by focusing on specific responsibilities in greater detail than is possible or practical for the Board as a whole. These would report to the Board and make any necessary recommendations.

FMA PRINCIPLE 4: REPORTING AND DISCLOSURE

The board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.

The Board demands integrity in financial and non-financial reporting. The Board requires that sufficient meaningful information is provided to its stakeholders (in addition to that required by law) to ensure that they are well informed.

Each year, the Company produces a SCI that outlines the Company's objectives and also the information requirements of its shareholders. The SCI is agreed in consultation with the Trustees of the Marlborough Electric Power Trust.

Key reports provided by the Company to its stakeholders include:

» Quarterly reports provided to the Marlborough Electric Power Trust;

» Publicly-disclosed Asset Management Plan;

» Publicly-disclosed Electricity Distribution Business Information Disclosure Schedules;

» Publicly-disclosed Financial Statements and Statement of Service Performance; and

» Other information included in the Annual Report.

The Electricity Distribution Business Information Disclosure Schedules, Financial Statements and Statement of Service Performance are subject to external audit. Unqualified audit opinions have been obtained for the most recent year.

In addition to the role of the Audit and Risk Committee, the Board meets to consider appropriate matters. The Board recognises that it has overall responsibility to safeguard the integrity of the Company's financial and regulatory reporting.

As a public benefit entity, with a strong community role, the Board reports on a number of non-financial metrics and results. The Annual Report reports on the Company's people, health and safety performance, electricity network performance, the support it provides the community, and its environmental impact. The Statement of Service Performance reports on the Company's performance against network reliability, health and safety, customer and environmental performance targets.

FMA PRINCIPLE 5: REMUNERATION

The remuneration of directors and executives should be transparent, fair and reasonable.

The Company has a remuneration policy that outlines the process for setting the Managing Director's, directors' and executive remuneration.

The Company's Constitution provides that the shareholders set the directors' remuneration. This is undertaken following an independent external evaluation of remuneration levels and workloads.

The Board sets the remuneration of the Managing Director, following the receipt of independent external advice.

Remuneration of the directors of Marlborough Lines Limited is outlined in the table below:

DIRECTOR	SPECIAL RESPONSIBILITIES	TOTAL REMUNERATION AND OTHER BENEFITS	
		2019	2018
D Dew	Board Chair	$92,000	$92,000
K Forrest	Managing Director	$585,975[1]	$585,975[1,2]
P Forrest	Audit and Risk Committee Chair	$53,000	$49,500[3]
S Grant	Audit and Risk Committee Member	$49,500	$47,750[3]
P Robinson		$46,000	$46,000
J Ross	Audit and Risk Committee Member	$49,500	$47,750[3]
T Smit		$46,000	$46,000
I Sutherland		$46,000	$46,000

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.

No directors hold any shares in Marlborough Lines Limited, Southern Lines Limited or Seaview Capital Limited.

The directors of Yealands Wine Group Limited are appointed by the Board of Marlborough Lines Limited. As at 30 June 2019, three Marlborough Lines directors were also on the Yealands Wine Group Board. The directors' fees paid to the directors of Yealands Wine Group are determined by the Board of Marlborough Lines following the receipt of independent external advice.

1 Directors' fees totalling $104,000 (2018: $72,000) earned by Mr K Forrest through membership of the boards and committees of Yealands Wine Group Limited and Nelson Electricity Limited are paid to Marlborough Lines Limited.

2 In addition to annual salary, in 2018 Mr K Forrest was also paid $331,932 for back pay to cover the period from 1 April 2011 to 30 June 2017.

3 The Audit and Risk Committee was established for only half of the 2018 financial year.

The directors of Yealands Wine Group Limited and their remuneration is outlined in the table below:

DIRECTOR	SPECIAL RESPONSIBILITIES	TOTAL REMUNERATION AND OTHER BENEFITS	
		2019	2018
P Radich	Board Chair	$105,000	$105,000
D Dew	Audit and Risk Committee Member	$53,791[4]	$50,000
K Forrest	Audit and Risk Committee Chair, Health and Safety Committee Chair	$82,083[4,5]	$50,000[5]
P Forrest		$50,000	$50,000
M Thomson	Audit and Risk Committee Member, Health and Safety Committee Member	$63,4173[4]	$50,000
P Yealands[6]		–	$0

FMA PRINCIPLE 6: RISK MANAGEMENT

Directors should have a sound understanding of the key risks faced by the business, and should regularly verify there are appropriate processes to identify and manage these.

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

The Board, so far as reasonably practicable, is committed to ensuring that the Company's employees, contractors and the public are kept safe.

The Company holds the following certifications for its health and safety management systems:

» Occupational Health and Safety conforming to ISO 45001:2018; and

» Public Safety conforming to NZS 7901:2014.

The Company also holds the following management system certifications to assist with the management of certain other risks:

» Quality conforming to ISO 9001:2015; and

» Environmental conforming to ISO 14001:2015.

FMA PRINCIPLE 7: AUDITORS

The board should ensure the quality and independence of the external audit process.

The Company's auditors, Deloitte, are appointed by the Controller and Auditor-General, pursuant to Section 45 of the Energy Companies Act 1992. The term of the lead audit partner is governed by the Controller and Auditor-General requirements. The lead audit partner is required to rotate every six years.

The Audit and Risk Committee meets periodically during the year with the auditor to discuss the audit plan and also findings from audit procedures. The Board has extended an open invitation to the auditor to discuss any issue at any time.

4 Includes back pay of Audit Committee fees to May 2018 and Health and Safety Committee fees to February 2016.

5 Directors' fees for Mr K Forrest are paid to Marlborough Lines Limited.

6 Mr P Yealands' remuneration was as an employee of Yealands Wine Group. I.e. he received no directors' fees. Mr P Yealands resigned as a director on 29 June 2018.

In addition to undertaking the statutory audit function on behalf of the Controller and Auditor-General, Deloitte also undertakes the audit of the Company's financial and performance disclosure information provided to the Commerce Commission in accordance with the Commerce Act. This function is also undertaken on behalf of the Controller and Auditor-General.

FMA PRINCIPLE 8: SHAREHOLDER RELATIONS AND STAKEHOLDER INTERESTS

The board should respect the rights of shareholders, and foster constructive relationships with shareholders and stakeholders. Shareholders should be encouraged to engage with the entity.

The Energy Companies Act provides that the directors will provide a draft SCI within the first working month of the year and that the shareholders will respond with their views during the following month. The directors are responsible for monitoring management's operation of the Company in accordance with the targets and policies outlined in the SCI. The SCI is available on the Company's website.

The Company's shareholders play an integral part in the Company's corporate governance. To give effect to this oversight role, the Board keeps the shareholders fully informed through the provision of relevant information, including:

» Quarterly financial reports;

» Opportunities for questions at periodic meetings between the Trust and the Board;

» Special meetings and visits to operational sites;

» Briefings as required by representatives of the Board; and

» The Annual Report.

Representatives of the Board attended Trust meetings three times during the year. In addition, three meetings, including the Company's Annual General Meeting, were held between the Board and the Trust.

The shareholders are able to raise matters for discussion at annual and special meetings of the Company. They have ultimate control of the Company 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, the completion of the Information Disclosures accounts and Asset Management Plan as required by the Commerce Commission and the provision of an extensive selection of information statistics and reports on the Company's website.

FURTHER INFORMATION

Further information on corporate governance at Marlborough Lines can be found in the Corporate Governance Manual available on the Company's website.

Further information on the directors' qualifications, experience and length of service are available towards the front of this Annual Report. The directors' disclosures of interests are available in the General Disclosures section.

GENERAL DISCLOSURES

For the year ended 30 June 2019

INTRODUCTION

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

1. Principal activities of the Company

During the year, Marlborough Lines Limited has maintained its focus as a leading and innovative electricity network owner and operator. The Company also operates related electrical contracting services. The Company owns Yealands Wine Group, a major wine producer and exporter, with extensive vineyards and a winery located in Marlborough. The Company also holds an investment in the Nelson-based electricity network company, Nelson Electricity Limited.

2. Review of financial performance

SUMMARY FINANCIAL RESULTS	Group 2019 $000	Group 2018 $000
Net profit after tax	8,404	21,479
Other comprehensive income net of tax	11,840	360
Net surplus attributable to the shareholders	**20,244**	**21,839**

All results are stated in current accounting terms and are derived in accordance with the New Zealand equivalents of the International Financial Reporting Standards.

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 recommended, and the shareholders authorised, the following dividend payments for the year ended 30 June 2019.

DIVIDENDS FOR THE YEAR ENDED 30 JUNE 2019	Declaration date	Amount
Interim dividend	27 July 2018	$510,000
Final dividend	26 June 2019	$5,500,000
Total dividend		**$6,010,000**
Ordinary shares issued		28,000,000
Dividend per share		$0.2146
Value of Share Capital (Parent net assets at current valuation)		$355,004,000

Full imputation credits were attached to all dividend payments.

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 (Deloitte).

FEES PAID TO AUDITORS (FOR GROUP)	Audit Fees	Other Fees
Deloitte Christchurch – for Marlborough Lines Limited Group	$80,500	$46,050[1]
Deloitte Wellington – for Yealands Wine Group Limited Group	$79,000	$0
Disbursements including OAG fees	$50,400	$0
Total amount paid to Auditors	**$209,900**	**$46,050**

1 Other fees include the audit of the Marlborough Lines Limited Information Disclosure accounts.

5. Directors' interests

DIRECTOR	GROUP ENTITIES	EXTERNAL ENTITIES
Marlborough Lines Limited directors		
D Dew	» Marlborough Lines Limited » Nelson Electricity Limited » Seaview Capital Limited » Southern Lines Limited » Yealands Estate Limited » Yealands Estate Wines Limited » Yealands Wine Group Limited	» Clear Trustee Company Limited » Dew & Company Limited » Dew & Company Trustee Services Limited » Maxwell Road Trustee Company Limited » Range View Trustee Limited » The Lakes-St Arnaud Limited » The Lakes Trustee Services Limited
K Forrest	» Marlborough Lines Limited » Nelson Electricity Limited » Seaview Capital Limited » Southern Lines Limited » Yealands Estate Limited » Yealands Estate Wines Limited » Yealands Wine Group Limited	» Ayakulik Marine Farms Limited » Cuddon Limited » Fraser River Limited
P Forrest	» Marlborough Lines Limited » Seaview Capital Limited » Southern Lines Limited » Yealands Estate Limited » Yealands Estate Wines Limited » Yealands Wine Group Limited	» Dog Point Vineyards Limited » Forrest Cove Limited » Kakapo Bay Forests (2004) Limited » Moritaki Holdings Limited » Northbank Vineyards Limited » RS Investments 2007 Limited
S Grant	» Marlborough Lines Limited » Seaview Capital Limited » Southern Lines Limited	» Astute Consulting & Management Limited » Import Distribution Limited » The New Zealand Automobile Association Limited (and subsidiaries)
P Robinson	» Marlborough Lines Limited » Seaview Capital Limited » Southern Lines Limited	» Black Stump Investments Limited » Construction Coatings Limited » Group Hire Limited » Maruia Trustee Services Limited » Outer Limits Limited » Precast Systems Limited » Redwood Development Limited » Robinson and Company Limited » Robinson Construction Limited » Robinson Developments Limited » Scaffold Marlborough Limited » Waterfront Construction Limited » XPotential Health and Fitness Limited

J Ross	» Marlborough Lines Limited » Seaview Capital Limited » Southern Lines Limited	» Oceania Health Holdings Limited » P.R.I.M.E. Finance Stichting » The Reserve Bank of New Zealand » The Rhodes Scholarships in New Zealand
T Smit	» Marlborough Lines Limited » Seaview Capital Limited » Southern Lines Limited	» Marlborough Management Services Limited
I Sutherland	» Marlborough Lines Limited » Seaview Capital Limited » Southern Lines Limited	» Ashmore Vineyards Limited » Axel 2000 Limited » Beviamo Limited » Dog Point Estate Limited » Dog Point Vineyards Limited » Dog Point Winery Limited » Greywacke Vineyards Limited » MWCS Investments Limited » Omaka Settlement Vineyards Limited » Waikaitu Limited » Whatamonga Farm Limited » Whatamongo Forests Limited » Yarrum Vineyards Limited
Subsidiary directors		
P Radich	» Yealands Estate Limited » Yealands Estate Wines Limited » Yealands Wine Group Limited	» Ayakulik Marine Farms Limited » Flaxmere Trustees Limited » Koteze Investments Limited » Radich Family Trustees Limited
M Thomson	» Yealands Estate Limited » Yealands Estate Wines Limited » Yealands Wine Group Limited	» Foxrock Holdings Limited » Kiwi-Oeno Imports Limited » Kiwi-Oeno Limited » Kiwi-Oeno Winemaking Consultancy Limited » Ko Brewing Company Limited » Terrapieno s.r.l. Italy » Tinpot Hut Wines Limited

Payments are from time to time made to entities in which directors have an interest. These are documented in the related party note of the Financial Statements and have been undertaken on an arms-length commercial basis.

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 resulting payments arising from a liability to persons, incurred in their position as a director.

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.

Information on directors' remuneration is included in the Corporate Governance Statement. No director of the Company has received, or become entitled to receive, a benefit other than that listed in the remuneration section of the Corporate Governance Statement.

6. Employee Remuneration

Details of the number of employees in each remuneration range for the Marlborough Lines Group are below.

REMUNERATION RANGE	PARENT – NUMBER OF EMPLOYEES		SUBSIDIARIES – NUMBER OF EMPLOYEES	
	2019	2018	2019	2018
$100,000 – $110,000	9	6	6	7
$110,000 – $120,000	8	5	9	4
$120,000 – $130,000	1	3	7	4
$130,000 – $140,000	–	3	4	2
$140,000 – $150,000	4	1	–	4
$150,000 – $160,000	1	1	2	3
$160,000 – $170,000	–	1	3	–
$170,000 – $180,000	1	–	1	–
$180,000 – $190,000	1	–	3	–
$200,000 – $210,000	–	–	1	–
$220,000 – $230,000	1	1	–	1
$230,000 – $240,000	–	1	–	1
$240,000 – $250,000	–	1	–	–
$250,000 – $260,000	2	–	2	–
$270,000 – $280,000	–	1	–	1
$280,000 – $290,000	–	–	–	1
$320,000 – $330,000	–	–	1	–
$330,000 – $340,000	–	–	1	–
$340,000 – $350,000	–	1*	–	–
$370,000 – $380,000	–	–	–	1
$510,000 – $520,000	–	–	–	1
$520,000 – $530,000	–	–	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.

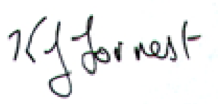
7. Donations

During the year, the Company made tertiary education grants totalling $39,000. These grants are in addition to the support the Group provides to many organisations throughout the year by way of sponsorship and donation.

CERTIFICATION

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

D W R Dew
Chairman
27 September 2019



K J Forrest
Managing Director
27 September 2019

FINANCIAL STATEMENTS 2019

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 2019.

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 2019.

This report is dated 27 September 2019 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.

K J Forrest

D W R Dew
Chairman
27 September 2019

K J Forrest
Managing Director
27 September 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2019

	Notes	Group 2019 $000	Group 2018 $000
CONTINUING OPERATIONS			
Revenue	3	151,806	150,411
Operating expenses	4	(125,875)	(118,134)
Operating surplus before non-recurring expenses		**25,931**	**32,277**
Non-recurring income – earthquake insurance proceeds	5	–	12,057
Non-recurring expenses – earthquake related stock loss and costs	5	(44)	(414)
Operating surplus		**25,887**	**43,920**
Share of equity accounted investments net surplus	9.4	(9)	30
Gain recognised on disposal of available-for-sale assets		–	1,168
EBITDA		**25,878**	**45,118**
Depreciation and amortisation	6, 7	(9,533)	(9,347)
Financial income	15	594	1,225
Financial expenses	15	(9,387)	(6,527)
Realised / unrealised foreign exchange gains / (losses)	15	3,435	(1,381)
Profit before tax expense		**10,987**	**29,088**
Tax expense	22	(2,583)	(7,609)
Net profit for the year		**8,404**	**21,479**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss			
Net change in foreign currency translation reserve		(88)	7
Asset revaluation	6	13,792	–
Tax effect of asset revaluation	22.2	(1,864)	121
Other	9.4	–	232
Other comprehensive income net of tax		**11,840**	**360**
Total comprehensive income for the year		**20,244**	**21,839**
NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		8,404	19,560
Non-controlling interests	18	–	1,919
		8,404	**21,479**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		20,244	19,902
Non-controlling interests	18	–	1,937
		20,244	**21,839**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

	Note	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 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	18	–	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**
Balance at 1 July 2018		**29,026**	**101,389**	**(89)**	**296,926**	**427,252**	**32**	**427,284**
TOTAL COMPREHENSIVE INCOME								
Net profit		–	–	–	8,404	8,404	–	8,404
OTHER COMPREHENSIVE INCOME NET OF TAX								
Net change in foreign currency translation reserve		–	–	(88)	–	(88)	–	(88)
Net change in asset revaluation reserve		–	11,928	–	–	11,928	–	11,928
Total comprehensive income		–	**11,928**	**(88)**	**8,404**	**20,244**	–	**20,244**
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY								
Dividends paid to equity holders		–	–	–	(6,010)	(6,010)	–	(6,010)
Balance at 30 June 2019		**29,026**	**113,317**	**(177)**	**299,320**	**441,486**	**32**	**441,518**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	Group 30 June 2019 $000	Group 30 June 2018 $000
NON-CURRENT ASSETS			
Plant, property and equipment	6	496,418	469,100
Intangible assets	7	3,030	2,589
Investments in associates accounted for using the equity method	9.3	15,536	15,545
Derivatives	20.7	2,184	–
Total non-current assets		**517,168**	**487,234**
CURRENT ASSETS			
Cash and cash equivalents		7,511	6,924
Short-term investments		16,024	15,212
Trade and other receivables	10	28,346	31,562
Inventories	11	77,825	78,549
Derivatives	20.7	1,170	101
Total current assets		**130,876**	**132,348**
Total assets		**648,044**	**619,582**
NON-CURRENT LIABILITIES			
Finance lease payable		272	128
Retirement benefit obligations		531	499
Derivatives	20.7	8,322	3,848
Deferred tax liability	22.2	53,666	52,790
Term borrowings	14	90,800	65,000
Total non-current liabilities		**153,591**	**122,265**
CURRENT LIABILITIES			
Trade and other payables	12	25,356	25,374
Income tax payable		1,975	2,738
Finance lease payable		882	509
Employee entitlements	13	2,953	3,091
Derivatives	20.7	269	1,121
Term borrowings	14	21,500	37,200
Total current liabilities		**52,935**	**70,033**
EQUITY			
Share capital	16	29,026	29,026
Revaluation reserves and foreign currency translation reserve	17	113,140	101,300
Retained earnings		299,320	296,926
Equity attributable to owners of the Company		441,486	427,252
Non-controlling interests	18	32	32
Total equity		**441,518**	**427,284**
Total equity and liabilities		**648,044**	**619,582**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

	Note	Group 2019 $000	Group 2018 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		156,621	163,366
Receipts from associates		206	189
Interest received		594	1,252
Dividends received		950	1,050
Insurance proceeds received		3,826	2,558
Payments to consumers, suppliers and employees		(125,879)	(125,395)
Interest paid		(4,859)	(4,757)
Income tax paid		(4,355)	(3,702)
Net cash generated from operating activities	25	**27,104**	**34,561**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of plant, property and equipment		184	3,255
Proceeds from sale of investment property		–	3,937
Purchase of plant, property and equipment		(29,477)	(23,887)
Purchase of intangible assets		(502)	(263)
Net cash used in investing activities		**(29,795)**	**(16,958)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		80,950	83,200
Repayment of borrowings		(70,850)	(83,100)
Cash paid to non-controlling interest		–	(22,826)
Dividends paid		(6,010)	(5,794)
Net cash (used in) / generated from financing activities		**4,090**	**(28,520)**
Net decrease in cash and cash equivalents		1,399	(10,917)
Cash and cash equivalents at the beginning of the period		22,136	33,053
Cash and cash equivalents at the end of the period		**23,535**	**22,136**

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

STATEMENT OF ACCOUNTING POLICIES

For the year ended 30 June 2019

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 Statement of Financial Position 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, agricultural produce 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

On 1 July 2018 the following accounting standards were adopted:

i) NZ IFRS 9: Financial Instruments; and

ii) NZ IFRS 15: Revenue from contracts with customers.

NZ IFRS 9: FINANCIAL INSTRUMENTS

The key changes to the Group's accounting policies resulting from the adoption of NZ IFRS 9 are stated below:

a. Classification and measurement of financial assets

NZ IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under NZ IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Compared to NZ IAS 39, the standard imposes stricter requirements for determining those financial assets that can be recognised at amortised cost or fair value.

b. Classification and measurement of financial liabilities

Under NZ IFRS 9, the Group's financial liabilities consist of trade payables which is measured at amortised cost. The adoption of NZ IFRS 9 has not had a significant effect on classification or the Group's accounting policies for financial assets and liabilities.

c. Impairment of financial assets

NZ IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under NZ IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Given the nature of the Group's financial assets, the expected credit loss model did not materially change the impairment allowance for doubtful debts.

NZ IFRS 15: REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group has applied NZ IFRS 15 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under NZ IAS 18 and NZ IAS 11.

The adoption of NZ IFRS 15 has had the following impacts on the Group's financial statements:

a) The amount that the Group provides as discounts to its consumers is no longer shown as a separate item on the face of the Statement of Comprehensive Income, but is netted off against revenue. The discount amount is shown separately in Note 3. This is presentational only and has no impact on the overall profitability of the Group.

b) External contracting revenue is no longer recognised by reference to the stage of completion, but is instead recognised once performance obligations have been satisfied or control of the asset has transferred to the purchaser. This is typically following completion of the works once the electrical assets are livened. This has resulted in a reduction to the amount of external contracting revenue recognised in the current year. The impact on contracting revenue is not material.

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 2019, 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 2019 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 ($136,660 per hectare) and the Seaview Winery which was valued on a Depreciated Replacement Cost basis at $23.2 million.

The fair value of the land, buildings, vineyard improvements and bearer plants was assessed at $195.5 million, resulting in a $13.8 million uplift on the 30 June 2019 carrying values.

Management prepared a discounted cash flow (DCF) model as a cross check to the market based direct comparison assessment of fair value. The fair value determined by Colliers was supported by the DCF calculation.

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 2019

	Parent 2019 $000	Parent 2018 $000
CONTINUING OPERATIONS		
Revenue	51,646	51,846
Operating expenses	(28,214)	(29,831)
Operating surplus	**23,432**	**22,015**
Gain recognised on disposal of available-for-sale assets	–	826
EBITDA	**23,432**	**22,841**
Depreciation and amortisation	(9,084)	(9,085)
Finance income	592	1,203
Finance costs	(89)	(68)
Profit before tax expense	**14,851**	**14,891**
Income tax expense	(1,949)	(2,029)
Net profit for the period	**12,902**	**12,862**
Total comprehensive income for the period	**12,902**	**12,862**

PARENT COMPANY STATEMENT OF FINANCIAL POSITION INFORMATION

As at 30 June 2019

	Parent 30 June 2019 $000	Parent 30 June 2018 $000
Plant, property and equipment	243,183	237,242
Investments in subsidiaries and associates	138,621	138,621
Other assets	32,084	31,981
Total assets	**413,888**	**407,844**
Deferred tax liability	42,542	42,770
Other liabilities	16,342	16,962
Total liabilities	**58,884**	**59,732**
Share capital	29,026	29,026
Retained earnings and reserves	325,978	319,086
Total equity	**355,004**	**348,112**
Total equity and liabilities	**413,888**	**407,844**

Explanatory Note – Dividends from subsidiaries

Parent Company revenue includes dividend income received from subsidiaries of $5.5 million (2018: $4.7 million). Dividend income from subsidiaries is eliminated on consolidation and therefore is not included within the results reported in Consolidated Statement of Comprehensive Income. A reconciliation of Parent Company EBITDA to Group EBITDA is presented on the following page.

EBITDA RECONCILIATION

For the year ended 30 June 2019

	Notes	2019 $000	2018 $000
Parent EBITDA		23,432	22,841
Eliminate intercompany dividend	23.3	(5,500)	(4,706)
Add equity accounted investments net (deficit) / surplus	9.4	(9)	30
Add Yealands EBITDA under NZ IFRS		7,955	26,953
Consolidated Group EBITDA		**25,878**	**45,118**

3. Revenue

	Group 2019 $000	Group 2018 $000
Electricity network revenue	45,973	44,367
Electricity network discounts	(8,418)	(8,345)
Net electricity network revenue	37,555	36,022
Wine sales	104,658	101,838
External contracting revenue	4,334	6,751
Vested assets	1,696	1,616
Dividends from equity accounted associates	950	1,050
Other income	2,613	3,134
Operating revenue	**151,806**	**150,411**

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 at the fair value of services provided. This revenue stream relates to the provision of electricity distribution services. Revenue is recognised over time based on an output method as the service of electricity delivery is matched to the pattern of consumption.

» Wine Sales are recognised when control is passed to the buyer. Control is considered to be 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 when control of the assets is transferred to the buyer. This is typically once the assets are livened.

» 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 over time as the wine making services are completed.

4. Expenditure

	Group 2019 $000	Group 2018 $000
Profit before taxation has been arrived at after charging:		
Remuneration of Auditors – audit of the financial statements	166	153
Remuneration of Auditors – other assurance services	39	23
Remuneration of Auditors – other services	–	32
Directors' fees	655	639
Bad debts written off (recovered)	76	8
Employee benefits – retirement gratuities	103	94
Employee benefits – employer superannuation contributions	718	664
Educational grants	39	42
Loss on disposal of plant, property and equipment	416	584
Rental and operating lease expenses	623	620
External contracting expenses	3,685	5,563
Wine cost of sales	71,435	63,806
Wine distribution and selling expenses	18,688	17,266
Other operating and administrative expenses	29,232	28,640
	125,875	**118,134**

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

	Group 2019 $000	Group 2018 $000
Insurance proceeds received and accrued	–	12,057
Earthquake related income	**–**	**12,057**
Expenses incurred and stock loss	44	414
Earthquake related expenses	**44**	**414**

Explanatory Note – Impact of earthquake

As a result of the November 2016 Kaikoura Earthquake, in the current year Yealands Wine Group incurred costs in maintaining services and reinstating damaged facilities. During the 2018 financial year $12.1 million of insurance proceeds were recognised as income as final 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 2017	381,048	86,216	41,501	62,187	14,247	72,324	12,122	669,645
Additions	–	–	–	–	–	1,219	24,797	26,016
Transfers	9,130	206	2,280	234	–	15,884	(27,734)	–
Disposals / adjustments	(2,596)	(1,791)	(168)	(114)	(168)	453	(162)	(4,546)
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**
Additions	–	–	–	–	–	1,514	30,149	31,663
Transfers	7,649	–	2,132	2,341	–	4,985	(17,107)	–
Revaluation	–	7,134	3,479	259	536	–	170	11,578
Disposals / adjustments	(1,247)	–	(73)	–	–	(2,062)	–	(3,382)
Impairment released	–	–	–	–	–	(224)	–	(224)
Balance at 30 June 2019	**393,984**	**91,765**	**49,151**	**64,907**	**14,615**	**92,479**	**22,235**	**729,136**
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
Balance at 1 July 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**
Depreciation expense	7,360	–	613	2,092	422	6,853	–	17,340
Disposals / adjustments	(877)	–	(4)	–	–	(1,704)	–	(2,585)
Impairment released	–	–	–	–	–	(224)	–	(224)
Revaluation – write back	–	–	(62)	(1,430)	(722)	–	–	(2,214)
Balance at 30 June 2019	**187,567**	**–**	**9,633**	**2,858**	**121**	**32,539**	**–**	**232,718**
NET BOOK VALUE								
Balance at 30 June 2018	**206,498**	**84,631**	**34,527**	**60,111**	**13,658**	**60,652**	**9,023**	**469,100**
Balance at 30 June 2019	**206,417**	**91,765**	**39,518**	**62,049**	**14,494**	**59,940**	**22,235**	**496,418**
FAIR VALUE ADJUSTMENT 30 JUNE 2019								
Revaluation	–	7,134	3,479	259	536	–	170	11,578
Revaluation – depreciation write back	–	–	62	1,430	722	–	–	2,214
Revaluation gain	**–**	**7,134**	**3,541**	**1,689**	**1,258**	**–**	**170**	**13,792**

Depreciation relating to Yealands Wine Group Limited of $8.2 million (2018: $7.4 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 2019 some assets of the Consolidated Group were subject to a registered general security agreement to secure bank loans (see Note 14).

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 (OCI)), 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 2019 $000	Fair Value as at 30 June 2018 $000	Historic Cost Value as at 30 June 2019 $000	Historic Cost Value as at 30 June 2018 $000
Electricity reticulation network	Level 3	206,417	206,498	62,719	63,084
Land	Level 3	91,765	84,631	45,178	43,808
Buildings	Level 3	39,518	34,527	26,923	25,466
Vineyard improvements	Level 2	62,049	60,111	46,739	42,665
Bearer plants	Level 2	14,494	13,658	6,377	7,059
Total		**414,243**	**399,425**	**187,936**	**182,082**

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

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

There have been adjustments to the Fair Value as at 30 June 2019, 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 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**
Additions	98	624	112	834
Disposals / transfers	–	(248)	–	(248)
Balance at 30 June 2019	**1,810**	**3,452**	**834**	**6,096**
ACCUMULATED AMORTISATION AND IMPAIRMENT				
Balance at 1 July 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**
Amortisation expense	–	294	99	393
Disposals / transfers	–	(248)	–	(248)
Balance at 30 June 2019	**–**	**2,734**	**332**	**3,066**
NET BOOK VALUE				
Balance at 30 June 2018	1,712	388	489	2,589
Balance at 30 June 2019	**1,810**	**718**	**502**	**3,030**

As at 30 June 2019 some assets of the Consolidated Group were subject to a registered general security agreement to secure bank loans (see Note 14).

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 2019 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 2019	Effective Ownership 30 June 2018
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%	52%
Yealands Wine Group Limited	30 June	100%	100%
Yealands Estate Limited	30 June	100%	100%
Yealands Estate Wines Limited	30 June	100%	100%
Yealands Estate Wines (Australia) Limited	30 June	100%	100%
Yealands Estate Wines (USA) Limited	30 June	100%	100%
Yealands Estate Wines (USA) LLC	30 June	100%	100%
Yealands Estate Wines (UK) Limited	30 June	100%	100%

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 2019 $000	Parent 30 June 2018 $000
Investment in Seaview Capital Limited	121,951	121,951
Investment in Southern Lines Limited	5,000	5,000
Total Investments in Subsidiaries	**126,951**	**126,951**

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 2019 $000	Parent 30 June 2018 $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	3,906
Less share of post acquisition results	(40)	(31)
Interest in associate entity (excluding goodwill)	**14,316**	**14,325**
Current balance associate goodwill	1,220	1,220
Total interest in associate entities (including goodwill)	**15,536**	**15,545**

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 2019 $000	31 March 2018 $000
A SUMMARY OF NELSON ELECTRICITY LIMITED'S RESULTS IS AS FOLLOWS:		
Assets as at 31 March	43,546	43,319
Liabilities as at 31 March	14,931	14,686
Revenue for year ended 31 March	10,199	10,516
Net profit after tax	1,882	2,160
THE GROUP SHARE OF THE RESULTS OF ITS ASSOCIATE ENTITIES IS AS FOLLOWS:		
Share of surpluses before tax	1,307	1,543
Less taxation	(366)	(463)
Less dividends / distributions received	(950)	(1,050)
Share of equity accounted net (deficit) / surplus	**(9)**	**30**
Plus other comprehensive income	–	232
(Loss) / gain attributable to associate entities	**(9)**	**262**

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.

10. Trade and Other Receivables

	Group 30 June 2019 $000	Group 30 June 2018 $000
THE BALANCE OF ACCOUNTS RECEIVABLE COMPRISES:		
Trade debtors	25,807	25,730
GST receivable	605	304
Retailer prudential security held in Trust	–	405
Accrued income	914	4,140
Works under construction	405	–
Prepayments	799	1,087
Related party advances	–	12
Allowance for expected credit losses	(184)	(116)
Total	**28,346**	**31,562**

Accounting Policy – Recognition and Impairment

Trade receivable, including intergroup receivables, are valued at amortised cost less an allowance for expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition. The expected credit loss on trade receivables is estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

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 allowance for expected credit losses. 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.

Explanatory Note – Carrying Value of Debtors

Included in the Group's trade receivables balance are debtors with a carrying value of $622,737 (2018: $2,256,534) which are past due at reporting date. The Group has provided for $184,443 (2018: $116,061) of this balance through the allowance for credit losses 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. Further information is provided in Note 20.5.

11. Inventories and Work in Progress

	Group 30 June 2019 $000	Group 30 June 2018 $000
Electricity reticulation stock	4,438	5,254
Bulk wine	59,138	61,294
Bottled wine	9,420	7,072
Packaging and labels	886	817
Work in progress (next vintage)	3,943	4,112
Total	**77,825**	**78,549**

As at 30 June 2019 some assets of the Consolidated Group were subject to a registered general security agreement to secure bank loans (see Note 14).

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.

12. Trade and Other Payables

	Group 30 June 2019 $000	Group 30 June 2018 $000
IN CURRENT LIABILITIES THE BALANCE OF TRADE AND OTHER PAYABLES COMPRISES:		
Trade creditors	20,612	19,821
Provision for discount	3,401	3,395
GST payable	356	532
Income in advance	981	1,221
Retailer prudential security held in Trust	6	405
Total	**25,356**	**25,374**

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.

13. Employee Entitlements

	Group 30 June 2019 $000	Group 30 June 2018 $000
Employee entitlements	2,953	3,091
Total	**2,953**	**3,091**

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.

14. Term Borrowings

	Group 30 June 2019 $000	Group 30 June 2018 $000
Current	21,500	37,200
Non-current	90,800	65,000
Total	**112,300**	**102,200**

Terms and Repayments Schedule

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

As at 30 June 2019

Lender	Nominal Interest Rate	Year of Maturity	Currency	Face Value $000	Carrying Amount $000
ASB Bank Limited	3.34%	Jul-21	NZD	10,000	10,000
ASB Bank Limited	3.05%	Jul-20	NZD	20,000	20,000
ASB Bank Limited	3.20%	Jul-22	NZD	45,000	45,000
ASB Bank Limited	3.46%	Jul-23	NZD	5,700	5,700
ASB Bank Limited	3.54%	Jul-23	NZD	3,000	3,000
ASB Bank Limited	3.51%	Jul-23	NZD	1,600	1,600
ASB Bank Limited	3.29%	Jul-23	NZD	5,500	5,500
Total interest-bearing liabilities				**90,800**	**90,800**

As at 30 June 2018

Lender	Nominal Interest Rate	Year of Maturity	Currency	Face Value $000	Carrying Amount $000
ASB Bank Limited	3.45%	Jul-20	NZD	20,000	20,000
ASB Bank Limited	3.60%	Jul-22	NZD	45,000	45,000
Total interest-bearing liabilities				**65,000**	**65,000**

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.

The $21.5 million current amount relates to a Working Capital Facility. The remaining ASB Bank Limited term facilities range in remaining terms from 2 years through to 5 years, with a final expiry date on 15 July 2024.

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.

As at 30 June 2019, there is no guarantee or security provided by Marlborough Lines Limited in relation to these term facilities.

15. Net Financing Income

	Group 2019 $000	Group 2018 $000
FINANCIAL INCOME		
Interest income on bank deposits	594	1,225
Total finance income	**594**	**1,225**
FINANCIAL EXPENSES		
Interest cost – term borrowings	(4,843)	(4,689)
Interest cost – other	(90)	(69)
Unrealised interest rate swap loss	(4,454)	(1,769)
Total finance expenses	**(9,387)**	**(6,527)**
REALISED / UNREALISED FOREIGN EXCHANGE GAINS / (LOSSES)		
Realised foreign exchange (loss)	(554)	(80)
Unrealised foreign exchange gain / (loss)	3,989	(1,301)
Total gains / (losses) on financial instruments	**3,435**	**(1,381)**

Accounting Policy – Revenue Recognition

Interest income is recognised in the Consolidated Statement of Comprehensive Income as it accrues, using the effective interest method.

16. Share Capital

	Group 2019 $000	Group 2018 $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.

17. Revaluation Reserves and Foreign Currency Translation Reserve

17.1 Revaluation Reserves

	Group 2019 $000	Group 2018 $000
PROPERTIES REVALUATION RESERVE		
Balance at the beginning of the year	101,389	103,191
Increase in fair value of land, buildings, vineyard improvements and bearer plants, net of tax	11,928	121
Increase in fair value of buildings held by associate	–	232
Disposal of held-for-sale assets	–	(2,155)
Balance at end of the year	**113,317**	**101,389**

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 2019 $000	Group 2018 $000
THE GROUP PROPERTIES REVALUATION RESERVE COMPRISES REVALUATIONS IN THE FOLLOWING CATEGORIES:		
Land, buildings, vineyard improvements and bearer plants	73,992	62,064
Electricity reticulation network	35,639	35,639
Associate entities	3,686	3,686
Total	**113,317**	**101,389**

17.2 Foreign Currency Translation Reserve (FCTR)

	Group 2019 $000	Group 2018 $000
Balance at the beginning of the year	(89)	(96)
Movement for the year	(88)	7
Balance at end of the year	**(177)**	**(89)**

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.

18. Non-Controlling Interests

	Group 2019 $000	Group 2018 $000
Balance at the beginning of the year	32	27,361
Share of profit (loss) for the year	–	1,919
Share of other comprehensive income	–	18
Less share of dividends received	–	(794)
Reduction to non-controlling interest following share transfer	–	(28,472)
Balance at end of year	**32**	**32**

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 prior year the 14.44% Non-Controlling Interest in Yealands Wine Group Limited was acquired. The non-controlling interest was attributed to its share of the earnings during the prior year and it received its share of the dividend paid prior to 30 June 2018. As at 30 June 2018 there was no non-controlling interest remaining in Yealands Wine Group. The non-controlling interest remaining as at 30 June 2019 relates to an external shareholding in Seaview Water Group Limited.

19. Dividends

	Group 2019 $000	Group 2018 $000
Amounts recognised as distributions to equity holders in the period:		
Total dividends ($000)	6,010	5,000
Cents per share	21.464	17.857

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.

20. Financial Risk Management

20.1 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 $7.4 million (2018: $16.0 million).

20.2 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 changes in interest rates.

20.3 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 2019 $000	Group 30 June 2018 $000
Cash and cash equivalents	936	995
Trade and other receivables	11,009	8,833
Trade and other payables	(1,394)	(1,755)
	10,551	**8,073**

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 2019 net surplus:				
10% increase	(140)	(655)	(152)	(12)
10% decrease	171	801	186	14
Impact on Group 2018 net surplus				
10% increase	(188)	(282)	(192)	(72)
10% decrease	230	345	235	88

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 2019 $000	Group 30 June 2018 $000
EUR	58,578	54,126
USD	11,174	10,933
AUD	4,340	3,657
Other	8,925	7,055
	83,017	**75,771**

20.4 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 a 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 hedging strategies are applied to protect 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 2019 $000	Group 2018 $000
Impact on Group net surplus:		
2.0% increase	116	(72)
2.0% decrease	(116)	72

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 values of interest rate swaps are based on market values of equivalent instruments at the reporting date as disclosed below.

	Group 30 June 2019 $000	Group 30 June 2018 $000
Notional principal of outstanding contracts	95,000	95,000

The interest rates applicable to the interest rate swap contracts during the year were 2.550% to 3.695% per annum (2018: 2.560% to 3.700%).

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.

20.5 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 expected credit losses, estimated by the Group's management based on prior experience and their views in relation to the current trading environment. See also Note 10.

The Group has applied the simplified approach in NZ IFRS 9 to measure the lifetime expected credit loss of Trade Receivables. The Group determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of debtors, adjusted as appropriate to reflect current conditions and estimates for future economic conditions.

	Group 30 June 2019		Group 30 June 2018	
STATUS OF TRADE RECEIVABLES	**Gross $000**	**Impairment $000**	**Gross $000**	**Impairment $000**
Not past due	21,459	(2)	13,586	–
Current	3,725	(8)	9,887	–
30 days overdue	292	(7)	1,872	(10)
60 days overdue	25	(0)	150	–
90 days overdue	306	(167)	234	(106)
	25,807	**(184)**	**25,730**	**(116)**

20.6 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
2019 CONTRACTUAL MATURITY				
Trade and other payables	25,356	–	–	–
Interest cost on term debt	4,582	4,096	7,001	653
Term borrowings	21,500	20,000	70,800	–
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	–

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 interest rate swaps that settle on a net basis and the undiscounted gross inflows / (outflows) on those forward exchange contracts 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
2019 LIQUIDITY ANALYSIS				
Interest rate swaps – net settled cash outflows	735	735	1,471	4,343
Forward exchange contracts – cash outflows	21,060	25,004	19,315	17,639
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

20.7 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 2019 $000	Group 30 June 2018 $000
Derivative financial assets – current	Level 2	1,170	101
Derivative financial assets – non-current	Level 2	2,184	–
Total financial assets		**3,354**	**101**
Derivative financial liabilities – current	Level 2	(269)	(1,121)
Derivative financial liabilities – non-current	Level 2	(8,322)	(3,848)
Total financial liabilities		**(8,591)**	**(4,969)**
Net financial liability		**(5,237)**	**(4,868)**

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 is recognised in the Consolidated Statement of Comprehensive Income.

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS	Group 2019 $000	Group 2018 $000
Foreign currency forward contracts	3,065	(1,020)
Interest rate swaps	(8,302)	(3,848)
Net financial liability	**(5,237)**	**(4,868)**

20.8 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 16), reserves and retained earnings (Note 17). The Group keeps its capital structure under review throughout the year.

Yealands Wine Group Limited is subject to a number of banking covenants in relation to the term debt facility outlined in Note 14. There has been no breach of covenants during the year.

The Group's objective is to provide returns for its shareholder 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 its shareholder 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.

21. Financial Instruments

21.1 Classification of Financial Instruments

Consolidated Group as at 30 June 2019

Financial Assets	Available for Sale Financial Assets $000	Amortised Cost $000	Held for Trading (FVTPL) $000	Total Carrying Amount $000
CURRENT ASSETS				
Cash and cash equivalents	–	7,511	–	7,511
Short-term deposits	–	16,024	–	16,024
Trade and other receivables	–	26,942	–	26,942
Derivatives	–	–	1,170	1,170
NON-CURRENT ASSETS				
Derivatives	–	–	2,184	2,184
Total financial assets	**–**	**50,477**	**3,354**	**53,831**

Financial Liabilities	Held for Trading (FVTPL) $000	Other Financial Liabilities $000	Total Carrying Amount $000
CURRENT LIABILITIES			
Trade and other payables	–	25,000	25,000
Derivatives	269	–	269
Term borrowings	–	21,500	21,500
NON-CURRENT LIABILITIES			
Derivatives	8,322	–	8,322
Term borrowings	–	90,800	90,800
Total financial liabilities	**8,591**	**137,300**	**145,891**

Consolidated Group as at 30 June 2018

Financial Assets	Available for Sale Financial Assets $000	Amortised Cost $000	Held for Trading (FVTPL) $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			
Derivatives	3,848	–	3,848
Term borrowings	–	65,000	65,000
Total financial liabilities	**4,969**	**127,042**	**132,011**

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 for hedge accounting purposes. 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.

22. Taxation

22.1 Income Taxes Relating to Continuing Operations

	Group 2019 $000	Group 2018 $000
Tax expense comprises:		
Current tax expense	3,571	8,168
Deferred tax expense relating to the origination and reversal of temporary differences	(988)	(559)
Tax expense	**2,583**	**7,609**
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	**10,987**	**29,088**
Prima facie income tax calculated at 28%	3,076	8,145
Plus / (less) taxation adjustments:		
Non-deductible expenses and deferred revenue	472	392
Net benefit of imputation credits	(968)	(920)
Equity accounted earnings of associates	3	(8)
Tax expense recognised in the Statement of Comprehensive Income	**2,583**	**7,609**

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).

22.2 Deferred Taxation

Consolidated Group for the Year Ended 30 June 2019

	Opening Balance $000	Charged to Income $000	Charged to OCI $000	Closing Balance $000
DEFERRED TAX LIABILITIES				
Plant, property and equipment	50,486	172	1,864	52,522
Inventory	3,300	(1,062)	–	2,238
	53,786	**(890)**	**1,864**	**54,760**
DEFERRED TAX ASSETS				
Provisions for employee entitlements, retirement obligations and doubtful debts	(962)	(58)	–	(1,020)
Doubtful debts and impairment losses	(34)	(40)	–	(74)
	(996)	**(98)**	–	**(1,094)**
Net Deferred Tax Liability	**52,790**	**(988)**	**1,864**	**53,666**

Consolidated Group for the Year Ended 30 June 2018

	Opening Balance $000	Charged to Income $000	Charged to OCI $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**

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.

22.3 Imputation Credit Account

	Group 2019 $000	Group 2018 $000
Balance at beginning of period	60,150	58,796
Attached to dividends paid in the period	(2,337)	(1,944)
Attached to dividends received	2,508	2,238
Tax refund / transfer	–	174
Income tax payments during the period	2,366	886
Balance at end of period	**62,687**	**60,150**

23. Related Parties

23.1 Marlborough Electric Power Trust

The Company pays dividends to its shareholder the Marlborough Electric Power Trust, as outlined in Note 19.

23.2 Parties Associated with Group Directors

Related party	Relationship	Product Sold or Services Rendered $000	Product Purchased or Services Received $000	Disbursements Passed Through to Third Parties $000	Balance Receivable $000	Balance Payable $000
MARLBOROUGH LINES LIMITED DIRECTOR RELATIONSHIPS – 2019						
Construction Coatings Limited	Director	–	78	–	–	13
Cuddon Limited	Director	2	35	–	–	–
Precast Systems Limited	Director	–	15	–	–	–
Robinson Construction Limited	Director	–	9	–	–	–
Scaffold Marlborough Limited	Director	–	3	–	–	–
YEALANDS WINE GROUP LIMITED DIRECTOR RELATIONSHIPS – 2019						
Dew & Company Limited	Director	–	38	–	–	–
KO Wine Consultants Limited	Director	–	1	–	–	–
PJ Radich Family Trust	Associated to a Director	–	462	–	–	254
Radich Law	Partner	1	595	351	–	32
Tin Pot Hut Wines Limited	Director	1	–	–	–	–
MARLBOROUGH LINES LIMITED DIRECTOR RELATIONSHIPS – 2018						
Ashmore Vineyards Limited	Director	7	–	–	–	–
Construction Coatings Limited	Director	–	4	–	–	–
Cuddon Limited	Director	1	42	–	–	1
Fraser River Limited	Director	1	–	–	–	–
Precast Systems Limited	Director	–	20	–	–	–
Robinson Construction Limited	Director	–	115	–	–	–
Scaffold Marlborough Limited	Director	–	1	–	–	–
YEALANDS WINE GROUP LIMITED DIRECTOR RELATIONSHIPS – 2018						
Dew & Company Limited	Director	–	5	–	–	–
Growco Limited	Director	–	71	–	–	–
PJ Radich Family Trust	Associated to a Director	–	491	–	–	291
P.Y.G. Limited	Director	154	991	–	12	17
Radich Law	Partner	–	521	81	–	11

Directors fees paid to Directors are disclosed in Note 24.

Explanatory Note – Related Party Transactions

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

Radich Law (an entity associated with Peter Radich) provides legal advice to Marlborough Lines Limited and Yealands Wine Group Limited. In addition to the legal fees paid to Radich Law, the Group has paid disbursements to Radich Law, for which Radich Law receives no benefit, but they are passed through to third parties for legal representation, land survey fees etc. These amounts are shown separately in the previous table.

PJ Radich Family Trust (an entity associated with Peter 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.

Construction Coatings Limited, Precast Systems Limited and Robinson Construction Limited (entities associated with Phil Robinson) provide construction services to Marlborough Lines Limited.

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

23.3 Subsidiary Companies

	2019 $000	2018 $000
YEALANDS WINE GROUP LIMITED		
Director's fees paid to Marlborough Lines Limited for Mr K Forrest	82	50
Dividend income paid to Marlborough Lines Limited	5,500	4,706
Purchases from Yealands Wine Group Limited	13	12
Electricity assets paid for by Yealands Wine Group Limited	43	64
Amounts receivable from Yealands Wine Group Limited	5	36
SOUTHERN LINES LIMITED		
Term debt owed by Marlborough Lines Limited	5,000	5,000

23.4 Associate Entities

	2019 $000	2018 $000
NELSON ELECTRICITY LIMITED		
Director's fees paid to Marlborough Lines Limited for Mr K Forrest	22	22
Dividend income paid to Marlborough Lines Limited	950	1,050
Management fees charged to Nelson Electricity Limited by the Company	102	102
Amounts owed by Nelson Electricity Limited	58	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.

24. Key Management Personnel

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

	Group 2019 $000	Group 2018 $000
Directors' fees	656	630
Salaries and short term employee benefits	3,177	4,206
Retirement benefits paid	29	117
Compensation during the period	**3,862**	**4,953**

	Group 30 June 2019 $000	Group 30 June 2018 $000
Retirement benefits accrued as at balance date	151	149

Peter Radich served as acting CEO of Yealands Wine Group Limited during the current year, however did not receive remuneration for those services.

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

	Group 2019 $000	Group 2018 $000
Profit for the year from continuing operations	**8,404**	**21,479**
ADD / (LESS) NON CASH ITEMS		
Depreciation and amortisation	17,650	16,668
Fair value adjustment to inventory	3,794	3,318
Income from vested assets and capital contributions	(1,730)	(1,711)
Other non cash items	(5)	2,544
NON CASH ITEMS IN RELATION TO INVESTING / FINANCING ACTIVITIES		
Share of associate net loss / (profit)	9	(30)
Loss / (gain) on sale of fixed assets	416	(584)
Current charge to deferred taxation	(988)	(559)
CHANGES IN WORKING CAPITAL ITEMS		
(Increase) / decrease in assets		
Decrease in accounts receivable	2,709	3,046
(Increase) in inventories	(3,070)	(3,601)
Increase / (decrease) in liabilities		
Increase / (decrease) in trade and other payables	301	(11,066)
(Decrease) / increase in tax payable balance	(763)	4,493
(Decrease) / increase in employee entitlements	(138)	120
Increase in finance lease payable liabilities	517	444
Net cash generated from operating activities	**27,105**	**34,561**

26. Commitments

26.1 Capital Commitments

	Group 30 June 2019 $000	Group 30 June 2018 $000
Capital expenditure committed to at Balance Date but not recognised in the financial statements	11,206	2,366

26.2 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 2019 $000	Group 30 June 2018 $000
No later than one year	696	598
Later than one year and no later than five years	1,249	1,476
Later than five years	735	840
	2,680	**2,914**

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.

26.3 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.

27. Contingent Assets and Liabilities

27.1 Contingent Assets

None.

27.2 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.

28. 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 2019 are outlined below:

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

NZ IFRS 16 Leases, replaces 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 under 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.

29. Events Subsequent to Balance Date

Purchase of Property

On 11 July 2019 Yealands Wine Group completed settlement on the Maher property for $11,250,000. This property consists of 181 hectares of which 116 hectares is suitable for vineyard development.

Bank Facility Agreement

On 11 July 2019 an amended and restated facility agreement was signed by Yealands Wine Group with ASB Bank Limited as Security Trustee for a $150 million facility.

STATEMENT OF SERVICE PERFORMANCE

For the year ended 30 June 2019 (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 profit after tax, and adding back discounts paid to consumers.
	RESULT	Achieved 5.39% (2018: 5.48%) return on average shareholders' funds of $352 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 $7.2 million, equating to a post-tax return of 4.48% (2018: 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 $5.5 million.
	RESULT	MEPT was paid total dividends of $6.0 million (2018: $5.0 million). This was made up of an interim dividend paid during July 2018 of $0.5 million and a final dividend during June 2019 of $5.5 million.
4.	TARGET	Pay discounts to consumers of $8.3m (excluding GST).
	RESULT	In accord with the posted price/discount requirements total discounts of $8.4 million (2018: $8.3 million) were paid to Electricity Retailers in March 2019.

NETWORK RELIABILITY PERFORMANCE TARGETS

5.	TARGET	Planned SAIDI (average duration of customer outages) not to exceed 65 minutes.
	RESULT	An average of 47.5 minutes (2018: 60.7 minutes) lost per customer for the year to 31 March 2019. This number 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 81.2 minutes (2018: 60.3 minutes) lost per customer for the year to 31 March 2019.

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 45001:2018 Occupational Health and Safety and maintain certification in NZS 7901:2014 Safety Management Systems for Public Safety.
	RESULT	The Company's compliance with ISO 45001:2018 was assessed in July 2018 and certification was received. The Company was reviewed against both ISO 45001:2018 and NZS 7901:2014 in April 2019 and certification was achieved.

CUSTOMER PERFORMANCE TARGETS

9.	TARGET	Maintain overall consumer satisfaction at above 85%.
	RESULT	Consumer satisfaction with Marlborough Lines' performance remains high. 85% of the sample rated their satisfaction with the Company's overall performance as either Satisfied or Very Satisfied (2018: 93%).
10.	TARGET	Provide at least four newsletters to consumers providing financial, energy efficiency and health and safety information.
	RESULT	One Connections newsletter was published during the year.

ENVIRONMENT PERFORMANCE TARGET

11.	TARGET	Maintain certification in ISO 14001:2015 Environmental Management System.
	RESULT	The Company's compliance with ISO 14001:2015 was assessed in October 2018 and certification was achieved.

INDEPENDENT AUDITOR'S REPORT

To the readers of Marlborough Lines Limited's group financial statements and performance information for the year ended 30 June 2019.

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 101 to 141, that comprise the statement of financial position as at 30 June 2019, 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 2019 on pages 142 to 143

In our opinion:

» the financial statements of the Group:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2019; 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 2019.

Our audit was completed on 27 September 2019. 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.

For the performance information reported in the financial statements, our procedures were limited to checking that the information agreed to the Group's statement of corporate intent.

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 comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated 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.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information in the Annual Report, if, we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and consider further appropriate actions.

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

Deloitte.

COMPANY INFORMATION

COMPANY STRUCTURE

- **TRUST BENEFICIARIES**
  - MARLBOROUGH CUSTOMERS CONNECTED TO NETWORK
- **MARLBOROUGH ELECTRIC POWER TRUST**
  - 6 TRUSTEES (SHAREHOLDER)
- **MARLBOROUGH LINES LTD DIRECTORATE**
  - 8 DIRECTORS
- **MANAGING DIRECTOR**
  - Operations Manager
  - Commercial Manager
  - Chief Financial Officer/Company Secretary
  - General Manager – Contracting
  - Purchasing Manager
  - Executive Project Manager

WEBSITE

- **WWW.MARLBOROUGHLINES.CO.NZ**
- **HOME PAGE**
  - **ABOUT US**: Our History; Our People; Ownership and Management; Annual Reports; Corporate Responsibility; Disclosures
  - **OUR NETWORK**: Operating Region Map; Outage Map; The Electricity System; Network Status
  - **OUR SERVICES**: Get Connected; Contracting Services
  - **SAFETY**: Your Safety; Trees and Powerlines; Working Near Network Assets; General Information
  - **COMMUNITY**: Sponsorship; Education
  - **CAREERS**: Working with us; Current Vacancies
  - **NEWS**: News Articles; Download Connections Newsletters
  - **USEFUL INFO**: Useful Info
  - **CONTACT US**: Contact us; Who to contact?

EMAIL CONTACT

General enquiries	info@mll.co.nz	**Contracting**	contracting@mll.co.nz
Network	network@mll.co.nz	**Store and purchasing**	store@mll.co.nz

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the twenty-sixth Annual General Meeting of the shareholder of Marlborough Lines Limited will be held at the Company's offices in Alfred Street, Blenheim on Tuesday 26 November 2019 at 4.00pm.

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 2019.
2. During the 2018/19 financial year the shareholder authorised payment of dividends totalling $6.01m. There is no recommendation for a final dividend for the year ended 30 June 2019.
3. To appoint Directors.
   The Directors advise that Mr David Dew and Mr Tim Smit retire at the meeting by rotation as provided by clause 21.7 of the Company's constitution. Messrs Dew and Smit are available for re-appointment.
4. To determine remuneration of Directors.
5. Pursuant to Section 45 of the Energy Companies Act 1992, the Audit Office is responsible for appointing the Company's Auditors. The shareholder must resolve to authorise the Directors to determine the Auditors remuneration.
6. General Business.

PROXIES

The Company's constitution does not presently provide for the exercising of proxy votes. The Company's shares are held by individual trustees on behalf of the Marlborough Electric Power Trust. The Trust Deed provides that resolutions exercising shareholder rights require a resolution of the Trust. Any such Trust resolution will be subject to the Trust's requirements for quorums and resolutions.

FINANCIAL CALENDAR

Annual General Meeting

26 November 2019 at 4.00pm
Venue: Marlborough Lines Registered Office
1-3 Alfred Street, Blenheim

Financial results announced

Half year: February
Final year: December

By order of the Board of Directors

G D Jones
Company Secretary
27 September 2019

DIRECTORY

MANAGEMENT

K J Forrest, BSc Hons (Electrical Eng), MIPENZ
Managing Director

S J McLauchlan, MNZIM
General Manager Contracting

G D Jones, BCom, CA
Chief Financial Officer

W G Nichol, DipEng (Electrical)
Network Operations Manager

S J Wilkinson, BSc Hons, MBA, MESt
Commercial Manager

ADDRESS

Registered Office of Company
1-3 Alfred Street, Blenheim 7240

POSTAL ADDRESS

PO Box 144, Blenheim 7240

WEBSITE

www.marlboroughlines.co.nz

AUDITORS

Deloitte on behalf of the Controller
and Auditor-General

BANKERS

Westpac Banking Corporation, New Zealand

SOLICITORS

Radich Law, Blenheim
Simpson Grierson, Auckland

FINANCIAL AND TAX ADVISORS

PricewaterhouseCoopers, Wellington/Auckland

A BRIEF HISTORY OF MARLBOROUGH LINES

Milestones

1923 The original founding entity, the Marlborough Electric Power Board, was constituted under gazette on 25 October 1923.

This followed local petition to the Government for the creation of a power board following the Government's refusal to provide a state supply of electricity to Marlborough.

1923 The first Board was elected in November 1923 and set about providing supply to an area embracing the Borough of Blenheim and the Marlborough and Awatere Counties, as then defined.

1927 The Power Board commissioned its first hydro generation plant in the remote Waihopai River at a site about 25 miles from Blenheim. This hydro scheme was commissioned in 1927 and subsequent diesel generation was added on the outskirts of Blenheim as demand increased. Additional hydro generation was established some 56 years later, in 1983, at the Branch River, west of Blenheim.

1993 Under Government decree New Zealand's electric power boards were corporatised in April 1993 and the Marlborough Electric Power Board became Marlborough Electric Limited.

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.

2002 Marlborough Lines acquires a 51% share of the Otago regional electricity network operator OtagoNet and also a 51% share of related contracting company Otago Power Services Limited.

2010 Marlborough Lines acquires a 13.89% shareholding in the Whakatane based electricity network, Horizon Energy Distribution Limited.

2014 Marlborough Lines sells its 51% share of the Otago investments.

2015 Marlborough Lines sells its Horizon Energy Distribution Limited shareholding.

2015 Marlborough Lines broadens its investment base by acquiring an 80% shareholding in the Marlborough based Yealands Wine Group.

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.

ANNUAL REPORT AWARDS

Each year, for the past fifteen years, Marlborough Lines has submitted its most recent annual report for appraisal in the Australasian Reporting Awards. These awards recognise excellence by awarding Bronze, Silver or Gold awards depending upon the standard reached.

AUSTRALASIAN REPORTING AWARDS

Gold Award
2019, 2018, 2017, 2016, 2015, 2014, 2013, 2012, 2011

Silver Award
2010, 2009, 2008, 2007, 2006, 2005

GLOSSARY

AS/NZS ISO
Australian/New Zealand Standard/International Organisation for Standardisation.

AVERAGE DOMESTIC CUSTOMER
This is an accepted industry standard for a domestic customer using 8,000kWh per annum comprising 3,200 off peak water heating units and the balance at 24 hour availability rates.

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.

EDB
Electricity Distribution Business.

DPP
Default Price Path – a price setting mechanism applied by the Commerce Commission.

GWh
Gigawatt hour – 106 kWh, measurement of energy.

GXP
Grid exit point.

km
Kilometre.

kV
kilovolt – 1,000 volts, measurement of electrical potential.

kVA
kilovolt Ampere – measurement of apparent power.

kWh
kilowatt hours – electrical energy equivalent to a power consumption of 1,000 watts for one hour, typically referred to as one unit.

MBIE
Ministry of Business Innovation and Employment.

NZ IFRS
New Zealand International Financial Reporting Standards.

NPAT
Net Profit After Tax.

ODV
Optimised Deprival Value – an initial valuation process used by the Commerce Commission in 2001 to establish an asset value starting point for regulatory oversight of electricity networks in NZ.

RAB
Regulated Asset Base – value of the assets used in the Electricity Distribution Business calculated based on the ODV methodology. Used for regulatory purposes.

SAIDI
System Average Interruption Duration Index – the average time supply unavailable to all consumers.

SCADA
Supervisory Control and Data Acquisition.

SCI
Statement of Corporate Intent.

SF6 gas
Sulphahexaflouride Gas. Used inside switchgear as an insulating agent.

Tangata Whenua
Māori term for original indigenous inhabitants, literal translation means “people of the land”.

WACC
Weighted Average Cost of Capital.

NEW STEEL POLES IN REDWOOD PASS.

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