Marlborough Lines

2020

ANNUAL REPORT

Our crews get to take in some special and diverse views while working across the Marlborough region. Kyle Marfell, Derek Hebberd, Nic Seabrook, Owen Soper and Matt McCormick at Ward, south of Blenheim.

GROW MARLBOROUGH TOGETHER

Marlborough Lines is striving to help grow the Marlborough region through the provision of a safe and reliable electricity supply. It is also committed to developing its people and supporting its community through various sponsorship initiatives and the payment of discounts. The growth of the value of its investments will provide benefits for the Marlborough region into the future.

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The use of field mobility devices ensures our staff have access to up-to-date information and creates efficiencies through automating processes. Amon McGregor and Hayden Marfell are discussing job planning for the day ahead.

01

INTRODUCTION

ABOUT US

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' 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.

While Marlborough Lines continues 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. We have subsequently 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.

Our investment in Yealands Wine Group has provided significant returns since acquisition both through unrealised capital gains and dividends. These returns are passed to the Marlborough Lines' parent Trust and ultimately to the Trust's electricity consumer beneficiaries.

Marlborough Lines has 1,632km of lines located in remote and rugged terrain, which contributes to the unique and challenging environment in which we operate.

THE MARLBOROUGH REGION

Marlborough Lines is based in Blenheim, the largest town in the Marlborough region. The region is home to a population of approximately 49,000 people. Famous for its moderate climate, the region experiences approximately 2,400 sunshine hours each year.

Marlborough is New Zealand's largest and most famous wine region, and produces over 75% of New Zealand's wine, which is predominantly the world-famous Marlborough Sauvignon Blanc.

There are more than 27,500 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 2020 Annual Report summarises the operations, activities and financial position of the Marlborough Lines Group for the year ended 30 June 2020. The Group comprises Marlborough Lines Limited and subsidiary, Yealands Wine Group Limited. Marlborough Lines also owns 50% of Nelson Electricity Limited.

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

Some of the Marlborough Lines electricity network reliability information relates to the 12 months ended 31 March as that is the comparative period used by the Commerce Commission for monitoring industry operational performance.

Consistent with our commitment to environmental sustainability, 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 provides information on the Company's activities for the 2020 financial year and recognises that different information is relevant to the Company's different stakeholders. It includes both financial and non-financial information and a section for our customers on pages 17 to 20, outlining frequently asked questions and providing a description of the electricity industry supply chain.

STRUCTURE AND LOCATION

MARLBOROUGH LINES INVESTMENT OWNERSHIP STRUCTURE AS AT 30 JUNE 2020

MARLBOROUGH ELECTRIC POWER TRUST

MARLBOROUGH LINES LIMITED
7 Directors, 132 Staff

- **Seaview Capital Limited**
  (Investment vehicle)
  100% share
  - **Yealands Wine Group Limited**
    5 Directors, 160 Staff
    100% share
- **Nelson Electricity Limited**
  4 Directors, 4 Staff
  50% share

NELSON

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

BLENHEIM AND MARLBOROUGH

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.

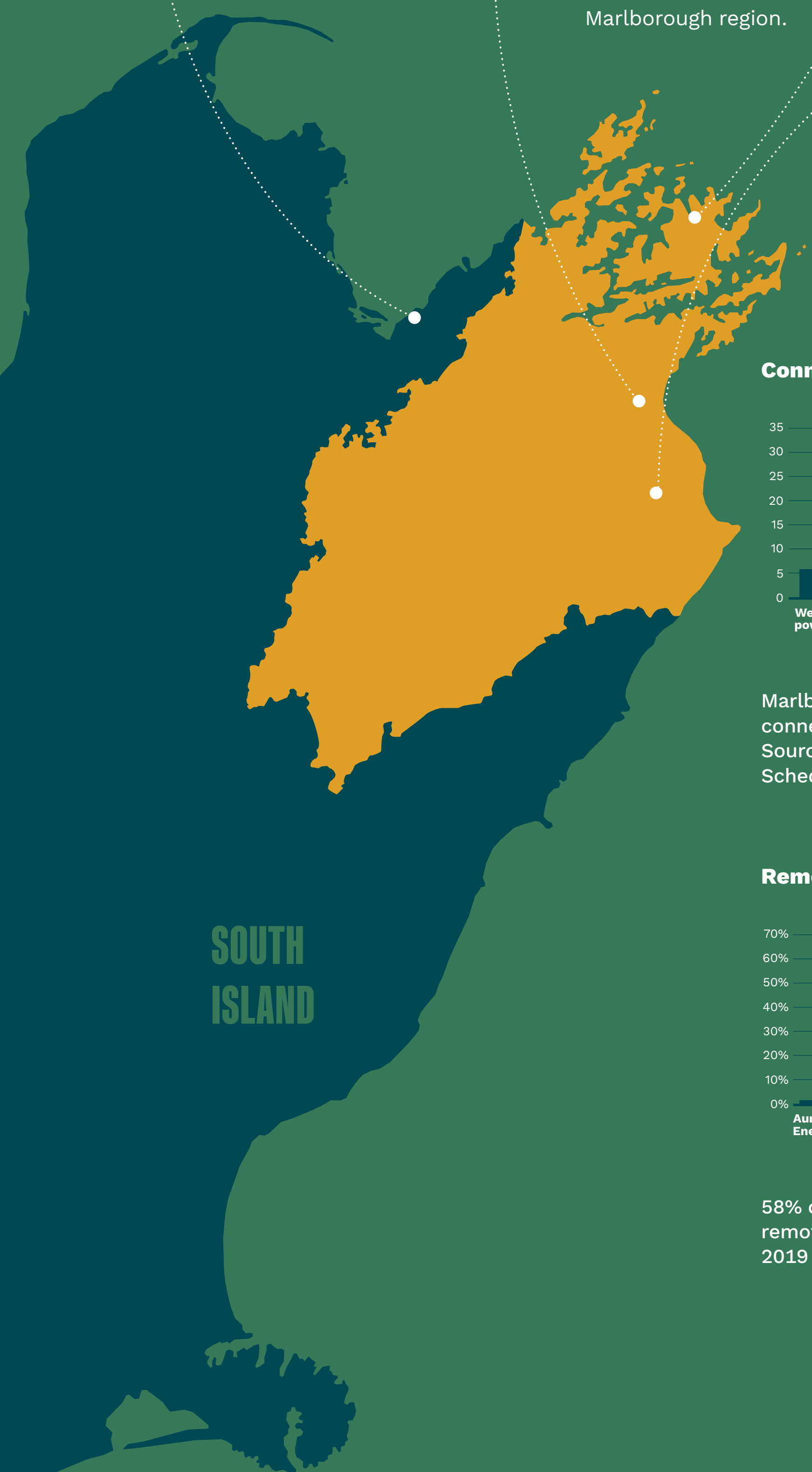
Marlborough Lines Limited (the Parent Company) is based in Blenheim in the Marlborough region.

MARLBOROUGH SOUNDS

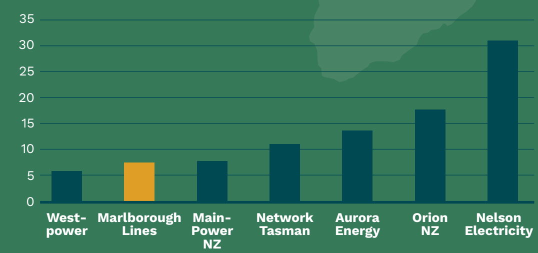
Our supply network extends into a number of very isolated areas (including the Marlborough Sounds) that pose unique challenges for electricity supply.

SEDDON

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

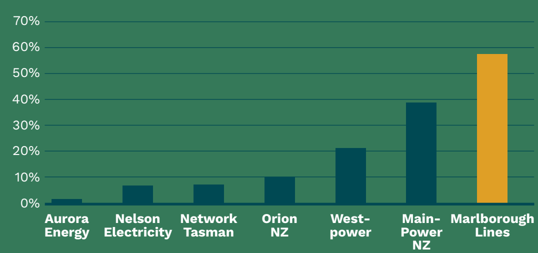


Connection Density (ICP/km)



Marlborough Lines has, on average, 7.6 electricity connection points per kilometre of network. Source: Company 2019 Information Disclosure Schedules.

Remote and/or Rugged Terrain (%)



58% of Marlborough Lines' network is located on remote and/or rugged terrain. Source: Company 2019 Information Disclosure Schedules.

PERFORMANCE OVERVIEW

GROUP FINANCIAL RESULTS

↓ 3.0%

$147.8 MILLION

Total operating revenue

Revenue below prior year due to COVID-19 impacting wine sales and lower external contracting revenue.

↓ 23%

$20.1 MILLION

Earnings before interest, tax and depreciation (EBITDA)

EBITDA down on prior year, with increased operating costs as a result of COVID-19, along with reduction to revenue.

↓ 33%

$5.6 MILLION

Net Profit After Tax (NPAT)

NPAT down $4.8m on target, impacted by reduction to EBITDA, along with $2.5m of negative movements on interest rate swaps.

KEY NETWORK METRICS

↑ 2.3%

416 GWh

Volume of energy distributed

Network volume up on prior year.

↑ 35%

174 MINUTES

Average total minutes of lost supply

Outage minutes were up on the prior year as a result of unseasonal storms.

↑ 0.8%

25,998 CONSUMERS

Total active Marlborough network connections

Marlborough continues to have low and steady growth in connections.

PARENT OUTCOMES

↓ 23%

$19.1 MILLION

Capital and maintenance expenditure to increase capacity and improve reliability

Capital expenditure down as a result of COVID-19 restrictions.

↑ 2.2%

$9.9 MILLION

Total discounts, inclusive of GST, paid to Marlborough customers

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

↓ 92%

$0.5 MILLION

Total dividend paid to the Marlborough Electric Power Trust

Dividend paid to the Trust reduced as a result of lower cash returns from investments.

YEALANDS OUTCOMES

↓ 6.1%

20,746 TONNES

Total grapes processed

Harvest yields lower due to climatic conditions.

↓ 2.6%

$102.0 MILLION

Wine sales

Wine sales down this year with reduced international on-premise sales impacted by COVID-19.

↓ 100%

$0 MILLION

Dividends paid

No dividend paid by Yealands Wine Group to Marlborough Lines as focus on increasing liquidity within Yealands in uncertain times.

Peter Cooper, part of our electrical workshop team and a Health & Safety Representative, working in the cable pit at Kinross Street substation.

02

REVIEW OF OPERATIONS

CHAIRMAN'S REPORT

A YEAR IMPACTED BY COVID-19

Marlborough Lines' position as an electricity network owner with substantial stand-alone investments has been well chronicled in previous reports. For the year in review, Marlborough Lines has continued with its 100% ownership of Yealands Wine Group and its 50% holding in Nelson Electricity, the central Nelson electricity distribution network owner. This year, the Group's net worth has continued to improve, with Group Total Assets and Equity increasing to $658m and $447m respectively. That, however, is only part of the story...

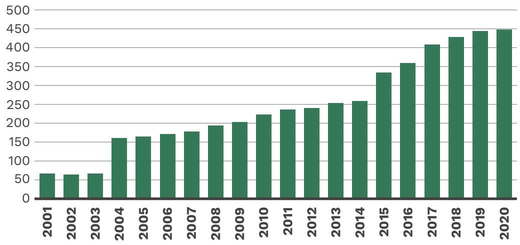
At the mid-year reporting point, it was reported to shareholders that Marlborough Lines' revenues were ahead of budget, whilst an unusual peak in fault activity had affected operating costs. It was also reported that Yealands Wine Group's net profit position was ahead of budget.

Enter COVID-19, and the subsequent New Zealand Government requirements for phased lockdown, together with the inevitable constriction of international trade activity and significant volatility in the world economy. Marlborough Lines, as an essential electricity service provider, continued to carry out fault response and critical maintenance tasks. However, Marlborough Lines put restrictions on its capital works programme both to avoid inconvenient power outages at a time when people were based at home and to keep employees and the general public safe under the lockdown guidelines.

For Yealands Wine Group, the positive half-year position was reversed as wine sales slowed, particularly in the more profitable on-premise sector. It could have been worse – there was major concern that the COVID-19 driven restrictions would prevent the 2020 grape harvest. However, the harvest was able to proceed as an essential industry.

A decision was made for Yealands Wine Group to not pay a dividend for the year ended 30 June 2020. This decision recognised the reduced Yealands Wine Group accounting profit and the need to preserve Yealands Wine Group cash and strengthen its working capital position given the immediate uncertainties of the trading environment. The directors remain firmly of the view that the investment in the wine industry is sound and that the medium to long-term outlook is bright. Since the initial investment in Yealands Wine Group in 2015, dividends totalling $19.3m have been received by Marlborough Lines. The book value of the Company's equity in Yealands Wine Group has also increased substantially, largely as a result of valuation uplifts on vineyard assets.

Equity Attributable to the Shareholder ($m)



The Group's equity value has increased from $65m in 2001 to $447m in 2020, through a combination of revaluations, realised gains on sale of investments and retained earnings.

No dividend from Marlborough Lines' major investment meant a significant reduction in cash available as a dividend pool for the Marlborough Electric Power Trust (MEPT). The trustees of the MEPT recognised the need for consolidation and caution, and resolved to take dividends totalling $500,000. This will mean, in turn, that there is unlikely to be a distribution from the MEPT to consumers in January 2021, as has occurred in previous years.

CHANGES TO PERSONNEL

Last year, I noted the imminent departure of Marlborough Lines' Managing Director Ken Forrest. Ken has made an outstanding contribution to the Company, the previous Marlborough Electric Power Board, and the electricity industry in general across a 42 year period. Marlborough Lines' current financial and operational strengths owe much to Ken's vision and tenacity. We wish him the very best in his retirement and future projects.

Following Ken's retirement in December 2019, the Company's CFO, Gareth Jones was appointed Acting CEO for the period prior to the arrival of a new CEO. The arrival of COVID-19 provided Gareth with a huge challenge in addition to assuming the joint CEO and CFO roles. I wish to record the Board's appreciation to all those involved in successfully negotiating the challenges brought by the various COVID-19 lockdown levels and restrictions, both at Marlborough Lines and Yealands Wine Group.

Early in April 2020, Marlborough Lines' new CEO, Tim Cosgrove, commenced duties in Marlborough. Tim has qualifications in engineering and commerce. He has previously worked in the retail electricity and generation sectors as well as the Royal New Zealand Navy. Tim led the crucial tasks of returning staff to the office and re-activating the capital works programme.

There have also been changes at the Board level this year, with the retirements of Tim Smit and Peter Forrest from the Marlborough Lines Board and Peter Radich from the Yealands Wine Group Board. I thank all three for their service over many years in various capacities. I welcome Deborah Selby and Alexandra Barton to the Marlborough Lines Board and, most recently, Mark Hamilton to the Yealands Wine Group Board. Each of these appointments brings fresh perspectives and new skills to the governance of the Group. Matt Thomson, a director of Yealands Wine Group since July 2016, has been appointed Yealands Wine Group Chair, following the retirement of Peter Radich. Matt brings extensive wine industry knowledge, having been involved in the Marlborough wine industry since 1992.

The Marlborough Lines Board have again this year appreciated the strong support of the MEPT. The Trustees recognised the difficulties imposed by the COVID-19 restrictions and the effects on the Group's results. The Trustees remain supportive of Marlborough Lines' strategy to seek to add value and provide increased long-term benefits to Marlborough's electricity consumers.

DAVID DEW

CHAIRMAN

CHIEF EXECUTIVE OFFICER'S REPORT

AN UNEXPECTED START

What an introduction. Day one in the role: COVID-19, Level 4 Lockdown, stuck in the North Island, and meeting many of the team for the first time via video conference.

Under the leadership of acting CEO Gareth Jones the team had already transitioned the business to Level 4 with most staff working from home. Our Engineering, Design, Planning and Administrative teams were able to continue working from home supported by our IT team who got people connected and up-and-running in a short space of time. The only field work undertaken was critical maintenance and fault response, which due to the drop in overall regional activity was relatively quiet.

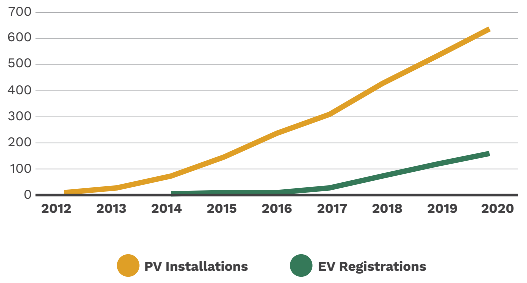
THE COMPANY RESPONDS TO THE COVID-19 CHALLENGE

So how did we fare? Like many New Zealand businesses COVID-19 has had a significant impact on operations. Well established health and safety procedures and disciplines were tailored to cater for the contact tracing and work bubble requirements of the COVID-19 world. From a financial perspective the impact on Marlborough Lines has been less about cashflow, and more about the inability to complete capital projects with staff costs, normally capitalised to projects, being expensed and negatively impacting Net Profit. As expected, there was a gradual return of electricity demand from businesses, while a year-on-year comparison shows higher than forecast residential electricity demand.

A TEAM COMMITTED TO GETTING THE JOB DONE, SAFELY

What has really impressed me is the dedication and commitment from the field team. Safely undertaking fault response and vegetation control in all weather, all hours, and all terrain. This positive health and safety culture is embedded throughout the business as evidenced by a recent health and safety engagement survey which showed an encouraging improvement since the last survey two years ago. Continued improvement in health and safety is a key focus of the company.

Cumulative Number of Marlborough PVs and EVs



The number of photovoltaic (PV) solar installations on our network and electric vehicles (EV) used in Marlborough is increasing with 20% and 35% growth this year respectively.

HELPING OUR COMMUNITY

Aware of the challenges faced by many of our consumers, the payment of $5.1 million (approximately half) of the annual discount was brought forward to late August and provided the average domestic consumer approximately $117 (including GST). This also allows future annual payments to be made in May each year to better align with the Marlborough Lines pricing year.

Marlborough Lines continues to make valuable contributions to local organisations and events through either in-kind support or financial contribution. Marlborough Lines has adopted a sponsorship mission to "Grow Marlborough Together". This strategy focuses on education, youth development, regional events and the environment. To enable organisations to focus on the delivery of their respective programmes, and less on when the next round of funding is coming from, Marlborough Lines plans to make longer term commitments.

YEALANDS WINE GROUP TRANSITIONING ITS FOCUS FROM VOLUME TO VALUE

Special mention needs to be made of the team at Yealands Wine Group, and the wider wine industry in Marlborough. With significant uncertainty and a rapidly approaching harvest, the need to implement strict operational controls to mitigate COVID-19 risk presented the biggest exposure for the Group. Deemed an essential industry by Government, the team did a great job completing the harvest and executing a strategy to pivot sales channels.

Yealands Wine Group is in a transition phase. In recent years, the focus was on securing grape supply, either through land acquisition and development, or long-term supply contracts. As the business matures and achieves scale, the focus now turns to executing a premiumisation strategy through operations, sales and brand building. With the new leadership team now well embedded, and changes at the Board level, the business is well positioned to leverage its strong supply position and quality assets, to provide improved profitability.

ELECTRIFICATION AND GROWTH OPPORTUNITIES

Driven by the need to reduce carbon emissions, the transition to electrification provides a great opportunity for Marlborough Lines, but also a threat of business disruption. Emerging technologies will play a significant role in shaping how the business looks in coming years. Solar PV, batteries, electric vehicles and smart grid development are all technically mature and have varying degrees of commercial viability. This rapid advance in technology provides the opportunity to challenge the existing business model and develop non-conventional solutions to better serve customer needs.

Marlborough Lines will take a leadership role in the regional transition to electrification, and through the adoption of technology, will continue to develop a dynamic and flexible network platform to take opportunities to add long-term value to the region. Marlborough Lines is also looking for opportunities to grow the business with particular focus on regional enablers that, through localised investment, provide synergies for wider regional growth.

TIM COSGROVE

CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER'S REPORT

PERFORMANCE OF MARLBOROUGH LINES PARENT ENTITY

Electricity network revenue for the year to 30 June 2020 was $46.5m, a 1.1% increase on the 2019 result of $46.0m. Customer connections growth of 0.8% and increased energy consumption volumes helped increase network revenue. The increase in network revenue occurred, notwithstanding an average 2.2% decrease to prices during the year, as Marlborough Lines passed on lower forecast costs.

External contracting revenue was $3.0m, down $1.4m or 31% on the prior year. There was an associated $0.8m reduction in external contracting expenses. COVID-19 contributed to the lower result, as projects were put on hold.

Income from Marlborough Lines' investments is down, primarily as a result of Yealands Wine Group not paying a dividend to Marlborough Lines during the year. Yealands Wine Group retained cash this year with a focus on improving liquidity in these uncertain times.

Operating expenditure for the year to 30 June 2020 was $29.3m, up 3.8% on the prior year. Operating costs were higher as a result of higher fault response costs and also the impact of COVID-19 delaying the capital works plan, leaving higher costs within the income statement. Asset disposals were also higher in the current year as the old Renwick zone substation was decommissioned, replaced by the new indoor substation in Renwick.

Net profit for the Parent Company of $5.2m, is down 60% on the prior year result of $12.9m. The main drivers, as discussed above, are Yealands Wine Group not paying a dividend during the year, the reduction to external contracting margin and the increase in operating expenditure.

When assessing the performance of the Parent in the Company's Statement of Service Performance (refer page 112), a measure of net profit after tax is used after adjusting for discounts paid to consumers. In the current year this was $11.4m, down 40% on the prior year's result. This equates to a return on average shareholder's funds of 3.18%, behind the Company's performance target of 5.0%.

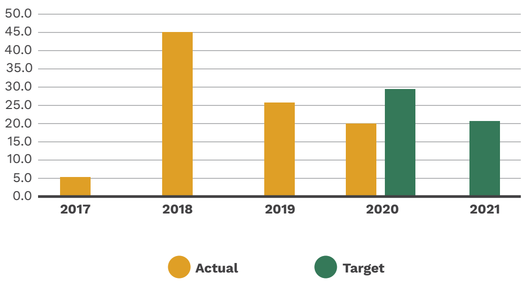
PERFORMANCE OF THE GROUP

The reported net profit after tax of the Group is $5.6m, a decrease of 33% on profit last year of $8.4m. Target profit for the year was $10.4m.

The shortfall in net profit after tax compared to target is due to multiple factors including those

YEALANDS WINE GROUP EBITDA RECONCILIATION	Financial statement note reference	FY20 $m	FY19 $m
EBITDA per management accounts		15.9	20.5
Depreciation reclassified to Cost of Sales	5, 7	(9.1)	(8.2)
Movement in harvest fair value adjustment		(2.1)	(3.0)
Acquired inventory Cost of Sales adjustment		(0.0)	(0.8)
EBITDA per NZ IFRS	**2**	**4.7**	**8.0**

Group EBITDA ($m)



Group EBITDA of $20.1m was 32% down on target EBITDA of $29.6m.

related to the Parent Company, discussed above, along with lower wine sales, higher wine cost of sales, and negative movements in the unrealised market value of interest rate swaps. The underlying driver of these variances is mostly COVID-19, along with lower than expected grape harvest volumes.

A note on evaluating the performance of the Group

The Group reports under the New Zealand equivalents of International Financial Reporting Standards (NZ IFRS), which requires adjustments to the Yealands Wine Group results that are not part of ordinary management accounts. These are outlined in the table above.

BALANCE SHEET

Total assets on the Group balance sheet were $658m as at 30 June 2020, up from $648m in the prior year. This increase is a result of continued investment in the Group's assets.

During the year, Marlborough Lines reconsidered its approach to Group funding and utilised some of its available cash to provide an inter-company loan to Yealands Wine Group. This improves Yealands Wine Group's liquidity and reduces the net interest outflows of the Group.

The amount of Yealands Wine Group external term borrowings as at 30 June 2020 was $115.5m, with an additional $15m drawn on the inter-company loan. The Parent Company has no external debt, but has access to a $30m debt facility if required. The Group, at balance date, also had $14.5m of cash and term investments.

Equity attributable to the Marlborough Electric Power Trust, as 100% owners of the Parent Company has increased from $442m to $447m during the year (an increase of 1.2%).

CASH FLOW

Group net cash flows from operating activities were $22.4m for 2020, down on the prior year's result of $27.1m, with the prior year assisted by the receipt of $3.8m of insurance proceeds by Yealands Wine Group.

The Group spent $34.1m on the purchase of Plant, Property and Equipment this year, an increase from $29.5m spent the year before. Capital expenditure within the Parent Company was down on the prior year, partly as a result of the COVID-19 impact on the capital works plan. Capital expenditure is up at Yealands Wine Group as a result of the purchase of property, development of bare land into vineyard and ongoing investment in the winery.

This year Marlborough Lines paid dividends to the Marlborough Electric Power Trust of $0.50m (2019: $6.01m). This is below the budgeted $5.8m dividend for the year. The lower dividend reflects the reduction to income from investments during the year.

GARETH JONES

CHIEF FINANCIAL OFFICER

CUSTOMER Q&A

01 Who owns Marlborough Lines?

Marlborough Lines is owned by the Marlborough Electric Power Trust (MEPT). The Trustees hold the shares in the Company for the sole benefit of Marlborough's current and future electricity consumers.

02 What is the relationship of the Trustees with Marlborough Lines?

The Trustees act as the Company owner and undertake the following core shareholder duties:

- Approve the annual Statement of Corporate Intent.
- Appoint Company directors.
- Receive and distribute dividends.
- Review and approve any "major transactions" undertaken by the Company.

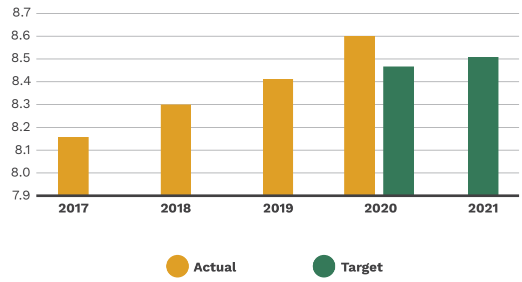
03 Why does Marlborough Lines need to make a profit?

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.

04 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 29 cents in every dollar. This is further reduced by the payment directly to customers from the MEPT ($200 paid in February 2020). For an average customer the net payment towards the Marlborough Lines network is then just 23 cents in every electricity dollar.

Discounts Paid to Marlborough Lines Customers ($m)



Total discounts of $8.6 million (excluding GST) was 1.6% above target as a result of higher electricity volumes being consumed.

05 Why does Marlborough Lines own 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 looked for investments which would provide an income stream and growth in capital value.

In 2015 the Company bought an 80% share in the Yealands Wine Group, followed by the purchase of the remaining shares over the next two years.

06 What is the actual benefit of the Yealands investment to Marlborough's electricity consumers?

Between 2016 and 2019, Marlborough Lines has received dividends from the Yealands Wine Group, totalling $19.3m. Marlborough Lines has in turn paid dividends to the MEPT, which holds the funds for a period before making a tax free distribution to electricity customers. As noted in the Chairman's report, Yealands has focussed on debt reduction in an uncertain trading environment and has not paid a dividend this financial year.

07 Does Marlborough Lines provide sponsorship in the wider community?

Marlborough Lines provides sponsorship to a wide range of youth, regional and environmental events and initiatives.

In our Community section (see page 37) we summarise our support to the community this year which totalled some $244k (last year $514k).

08 Do customers in Marlborough pay higher line charges than in other parts of New Zealand?

Despite Marlborough being a rugged geographical region with a small population, and low average number of customers per kilometre of line, Marlborough Lines' charges compare very favourably with other similar rural based networks on an after-discount basis.

09 What did our annual customer survey tell us this year?

Some 86% of 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 92% respectively.

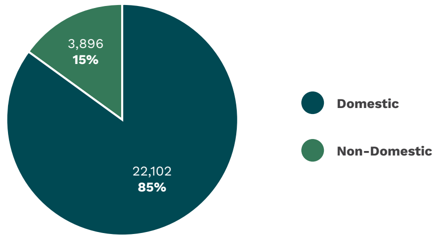
10 Where can I find more information?

Our website contains a wealth of information of interest to our customers.

Customers can access information about the Company, its history, management and annual reports as well as electrical safety, energy efficiency, network pricing, fault information and network status.

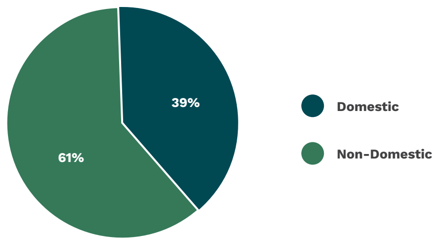
See **www.marlboroughlines.co.nz**

Number of Network Connections (ICPs)



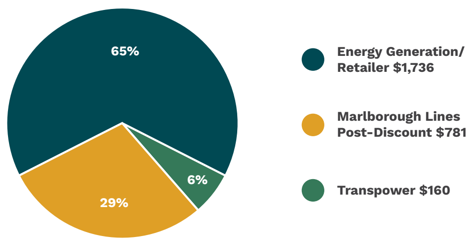
Over a ten year period the proportion of domestic to non-domestic connections has increased by 1%.

Electricity Consumption by Category

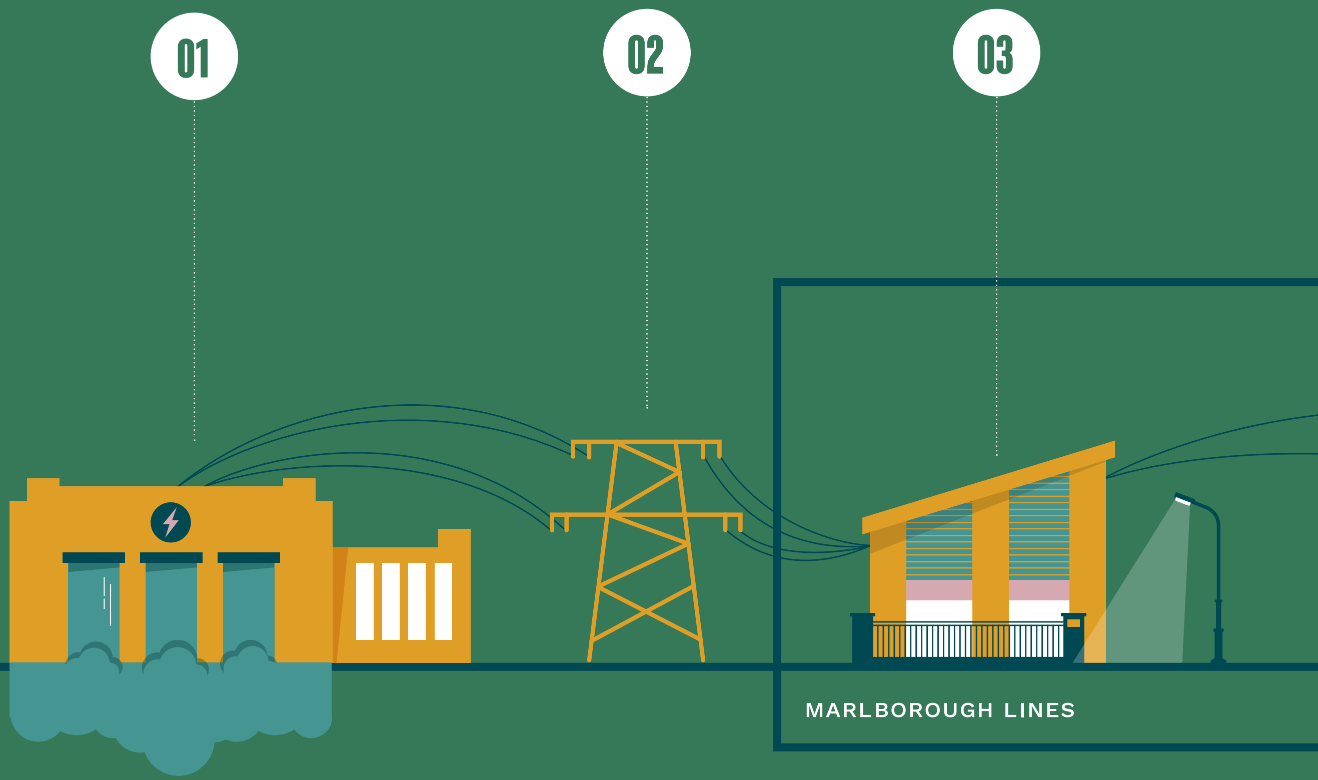


Over the same ten year period the proportion of domestic electricity consumption has decreased by 3%. The non-domestic (mostly wine industry related) consumption is increasing.

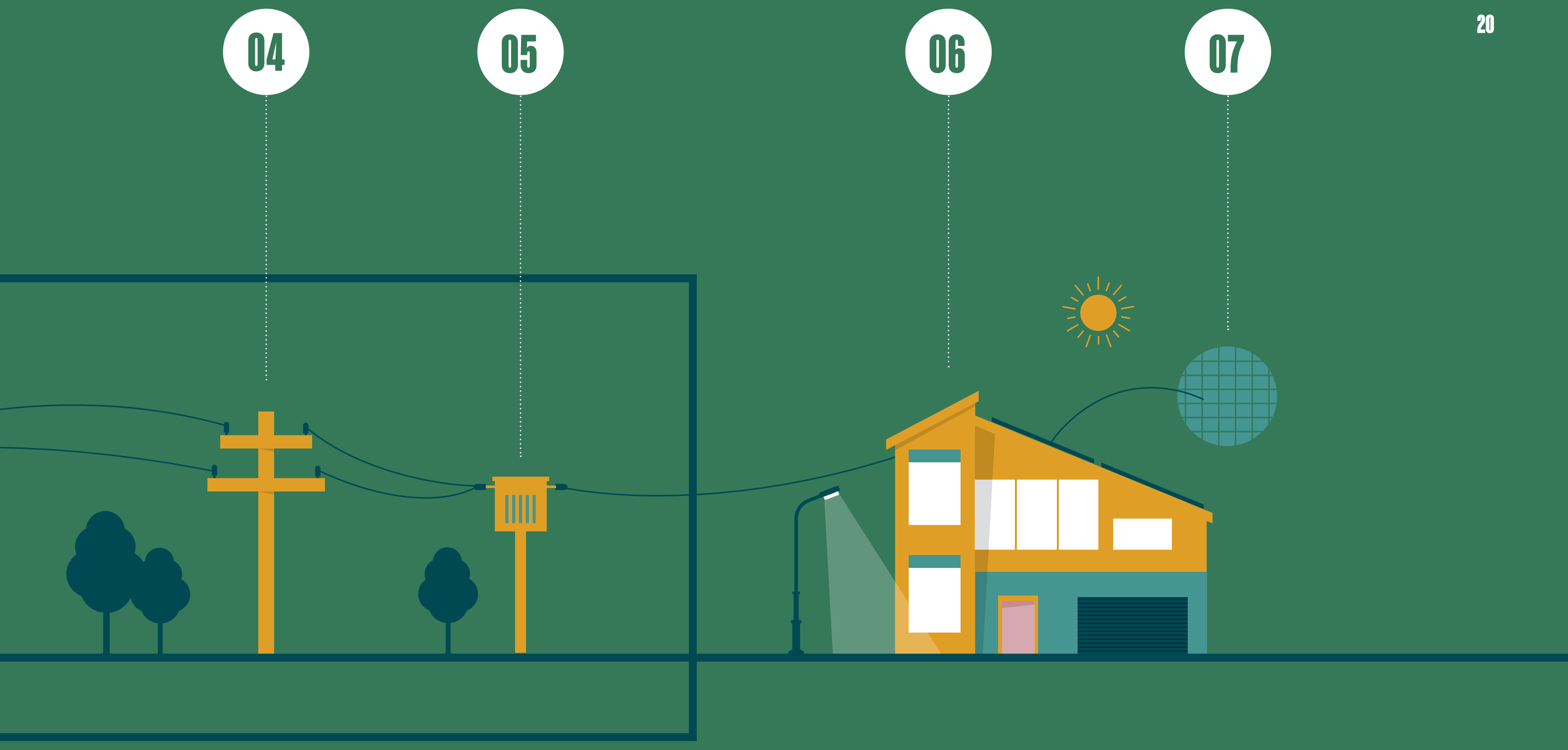
Allocation of the Average Annual Electricity Account for a Typical Domestic Customer



Marlborough Lines' charges on a post-discount basis comprise 29% of the total electricity account for a typical domestic consumer.



THE ELECTRICITY SYSTEM



01 POWER STATIONS

Electricity is principally generated by hydro-electric power stations in the South Island. The North Island has hydro, thermal and geothermal plants. The DC link allows energy to be transmitted between the North and South Islands.

02 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.

03 ZONE SUBSTATIONS

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

04 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.

05 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.

06 ELECTRICITY USER

The final part of the 400/230V lines from the street to the house is owned by the electricity user.

07 DISTRIBUTED GENERATION

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

OUR NETWORK

118 MINUTES

Unplanned SAIDI up 46% on prior year. Negatively impacted by unseasonal storms.

56 MINUTES

Planned SAIDI up 17% on prior year. Impacted by location of works completed.

$9.9 MILLION

Maintenance expenditure up 9.1% on prior year. Increased network inspections.

$9.2 MILLION

Capital expenditure down 42% on prior year. Works programme halted due to COVID-19 restrictions.

Maintaining a safe and reliable supply for all customers connected to our network is a fundamental driver that underpins every aspect of work we do, whether it be fault response, maintenance or capital investment.

A key part of keeping any electrical network reliable is the regular inspection of all assets. In doing this, not only are defects that might otherwise progress to faults identified and repaired, valuable condition data is collected which assists with planning and establishing priorities for asset replacement and capital investment.

Most work on the network requires the power to be turned off, so assets such as poles and wires can be replaced safely. In 2020 there was a high volume of planned work undertaken including line rebuilds at Seventeen Valley and Marfells Beach Road as well as major substation work, such as the completion of Renwick substation, new transformers and switchgear at Havelock substation, and new switchgear at Rai Valley substation.

Marlborough Lines strives to minimise customer disruption when undertaking planned work and will always ensure adequate resources are deployed. In some instances where possible our fleet of mobile generators are used to minimise the effect of a shutdown.

Despite the volume of planned work, the SAIDI target for planned outages was able to be achieved, with this year's total of 56 minutes being below the target of 65 minutes.

The SAIDI for unplanned outages (faults) totalled 118 minutes against a target of 80 minutes. December 2019 was the biggest contributor to this, with a total of 43.7 SAIDI minutes for the month. A significant part of this tally was damage from lightning when an electrical storm struck the Sounds feeder resulting in power being off in some areas for several days and a SAIDI total of 23.4 minutes.

Network Operations Engineer, Nick Patrick, and Network Controller, Daniel Seabrook, form part of our Network Control team – the gatekeepers to our network.

This highlights the challenges with such a remote network, where in many cases there is no road access to the fault site and time that would otherwise be spent repairing the fault is used in constructing safe roads and tracks.

Safety of our staff and the public remains our top priority, which is evidenced by the ongoing application of our lines down policy. We frequently receive reports of faults involving lines down on the ground. Although these are often telecommunication lines, we take no chances and disconnect the power remotely to allow time for staff to attend and investigate. During the year this contributed 11.8 minutes to the unplanned SAIDI total.

SAIDI TOTAL MINUTES LOST	2020 SAIDI	2019 SAIDI	2018 SAIDI
Total Minutes Lost	174	129	121
Less Planned Outages	56	48	61
Total Minutes Lost by Faults	**118**	**81**	**60**
Less Minutes Lost by Remote Lines	58	33	30
Total Minutes Lost by Urban and Rural Faults	**60**	**48**	**30**

VEGETATION MANAGEMENT – A GROWING PROBLEM

Control of trees and vegetation around power lines in Marlborough is a major undertaking for our team. Through a well-planned patrol and inspection programme, tree and vegetation faults are kept to a minimum, even with the strong seasonal winds and proliferation of trees that exist adjacent to much of our remote network.

While we manage trees in accordance with the requirements of the Electricity (Hazards from Trees) Regulations 2003, we are also focused on permanent solutions where possible, an example being the complete removal of high risk trees where appropriate criteria have been met.

This year has seen 60% of the network inspected, and there has been significant tree clearance work in the Queen Charlotte and Pelorus Sounds in addition to the network wide routine trimming and felling. While these areas may have low customer density, the effect of a tree fault can impact reliability significantly, especially when access for repair crews is restricted.

We are also very aware of the increasing risk from fire as summer droughts become more typical as climate change takes hold. Aside from dealing with problem trees in a timely way, when these conditions are present we implement measures such as disabling circuit auto reclose, and in extreme conditions deferring work, where the risk from a spark starting a fire is assessed as high.

INNOVATION AND TECHNOLOGY

The changing demands of customers mean we must be prepared to respond and ensure the Network is capable of meeting these demands.

The increasing number of electric vehicles, and the effect to the network from charging, if for example this were to occur coincidentally with peak load times on the Network, has led to a pilot programme of transformer based LV monitoring with the aim of gathering data on load profile and balancing.

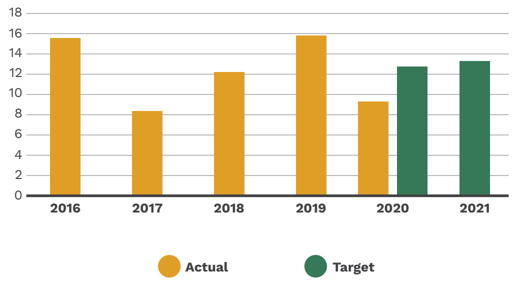
Recent advances in remote power supply solutions mean that, in situations where long and aged distribution lines supply few customers, there are now alternatives to costly line rebuilds. Marlborough Lines has begun identifying candidate sites and lines for this and work will continue in the 2021 financial year.

The drone technology that Marlborough Lines operates has been a great success in particular for fault identification, maintenance inspections and vegetation surveys. We intend to increase the number of drones deployed on the network such that they will become a regular part of pole top inspection where defects and potential faults may not have been otherwise detected through traditional ground based surveillance.

There are 335 devices across the network connected to the SCADA system. This system provides remote control and indication of these devices to assist with quicker fault location, partial restoration and ultimately total restoration once repairs have been made.

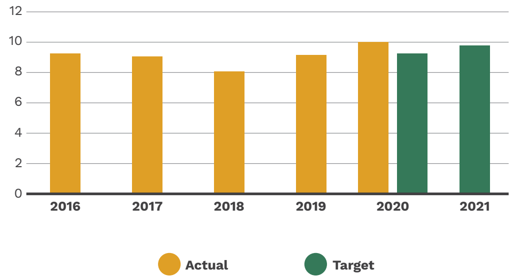
In accordance with our policy of continuous improvement another ten devices have been added this year. These will assist with the challenges that exist to reliability improvement from such things as aging equipment, climate change and the inherent remote nature of the Marlborough Lines network.

Capital Expenditure ($m)



Capital expenditure of $9.2m was 28% below target of $12.7m. The delivery of our capital programme was significantly impacted by COVID-19.

Maintenance Expenditure ($m)



Maintenance expenditure of $9.9m was 7.4% above target of $9.2m. Maintenance expenditure increased with the increased outages in December 2019 and February 2020. Critical maintenance tasks continued to be completed under COVID-19 restrictions during the last quarter of the financial year.

RESILIENCE AND NETWORK PREPAREDNESS

Subsequent to the 2016 Kaikoura earthquake the decision was taken to relocate Renwick substation rather than replace the aged assets at the existing location. The primary reason for this was the risk posed to the site from the proximity of the Alpine fault line.

In September 2020 the new substation was commissioned in Boyce Street, Renwick. The substation is built to the highest earthquake standard and all equipment including the transformers is concealed indoors.

This was a major project which, in addition to the substation itself, required extensive cabling work throughout Renwick to connect the new substation equipment to the existing Network.

Projects such as this, and the associated risk assessment work, highlight the commitment of Marlborough Lines to making long term investment decisions where network resilience is at the forefront of the thinking.

The Level 3 and Level 4 Lockdown restrictions imposed in late March as a result of the COVID-19 pandemic were unprecedented and as such provided a test of our ability to respond quickly and appropriately.

We faced the challenge of keeping the electricity network functioning as an essential service and ensuring the health and safety of our staff and the public were not at risk in the process.

Marlborough Lines was able to respond quickly and effectively and deploy critical staff such as Network controllers and first response fault staff to the back up control room or work from home situations. Response to unplanned Network events continued seamlessly with teams arranged in work bubbles ready on standby to attend as required.

MEETING INCREASED CUSTOMER DEMAND

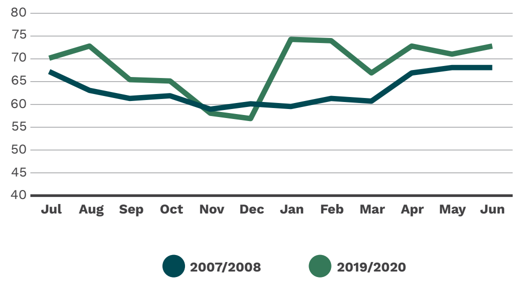
Generally, the network is of sufficient capacity to meet projected increased customer demand in urban and industrial areas. Steady residential subdivision activity and changes in the demand of some larger industrial consumers, especially within the viticulture industry, are usually easily accommodated.

Looking forward as the utilisation of electric vehicles becomes more widespread there will be increased demand for their charging. With various forecast uptake rates Marlborough Lines, and the wider power industry, need to keep well-informed on this topic to ensure the network can meet the demand.

Remote areas are becoming challenging where larger commercial or industrial consumers wish to connect. These are investigated on a case-by-case basis. Continuing line upgrades and conductor replacement projects enables further capacity in areas where load is forecast to increase.

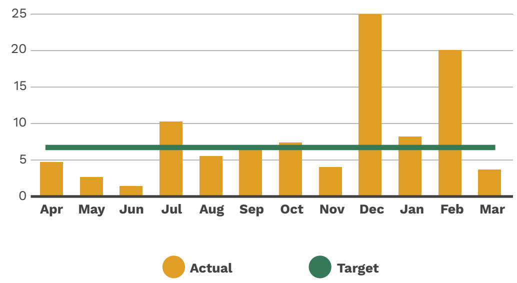
By using appropriate load management systems, such as ripple control, we have the ability to manage load across our network and lower peak demands.

Total System Monthly Maximum Demand (MW)



The comparison of this year to 2008 shows the extent to which dry periods through summer impact irrigation and cooling electricity demand.

Unplanned Outages (Minutes lost per month per average customer)



Unseasonal storms impacting the Marlborough Sounds in December 2019 and February 2020 negatively impacted our reliability results.

OUR INVESTMENTS

1.05%

Post-tax cash return on investments (2019: 4.48%). Negatively impacted by no dividend from Yealands Wine Group.

$1.05 MILLION

Dividends received down 84% on prior year. Dividend received from Nelson Electricity, but not Yealands Wine Group.

$0.59 MILLION

Interest received up 0.3% on prior year. Inter-company loan to Yealands Wine Group providing higher interest rate.

15.7%

Rate of return per annum on equity invested in Yealands Wine Group since acquisition.

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 Marlborough Lines, the consumers of Marlborough, in mind.

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

YEALANDS WINE GROUP

Yealands Wine Group is a company based in Seaview, Marlborough with 1,979 hectares of freehold land including 1,197 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 into Europe.

Yealands Wine Group recorded EBITDA of $15.9m (management accounts) and a net profit of $0.4m

Revenue for the year was $102.0 million (down 2.6% on prior year). However, profitability has reduced following the impacts of COVID-19 on wine sales and margins. Profitability has also been negatively impacted this year by both low harvest volumes, which flow through to an increased cost of sales, and also unrealised losses recognised on the market value of interest rate swaps due to the reduction in market interest rates over the year.

No dividends were paid

Due to the lower than forecast performance of Yealands Wine Group, whose sales and profitability were impacted by COVID-19, and ongoing uncertainty in the market at balance date, a decision was made for Yealands Wine Group to not pay a dividend in the year to 30 June 2020.

Upcoming prospects

Since its establishment in 2008, Yealands Wine Group has been in a growth phase. The Yealands Seaview vineyard is the single largest privately owned vineyard in New Zealand. It also owns a number of separate vineyards throughout Marlborough. Recent years have seen the company recover from the 2016 Kaikoura earthquake, secure its future water supply, and increase its winery capacity. Returns from the investment in Yealands Wine Group have primarily been from unrealised capital gains on the vineyards. In future years, Yealands Wine Group will be looking to consolidate its vineyard holdings, optimise its capital structure and execute a premiumisation strategy through operations, sales and brand building.

NELSON ELECTRICITY

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.

Nelson Electricity recorded a net profit of $2.2m

Nelson Electricity has continued its strong performance with net profit after tax for the year ended 31 March 2020 of $2.16m. This is an increase of 15% on last year's $1.88m, due primarily to a revenue wash-up adjustment being made in the prior year.

Nelson Electricity paid a dividend of $2.1m

Nelson Electricity generated $3.91m of operating cash and as a result was able to fund a $2.1m dividend to its shareholders, 50% of which is received by Marlborough Lines.

Upcoming prospects

Nelson Electricity’s Regulated Asset Base, upon which it earns a regulated rate of return, as at 31 March 2020 is $43.3m. The Commerce Commission, during September 2019, calculated that its regulated rate of return that came into effect for the five year period beginning 1 April 2020 be 4.57%. This regulated rate is a significant reduction from the 7.19% that prevailed for the five year period to 31 March 2020, with the reduction in the rate of allowable return caused by the reduction to market interest rates over the period. This will cause a reduction in Nelson Electricity’s earnings and will have flow through effects on the amount of dividends that Nelson Electricity will be able to provide to its shareholders.

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

CASH HOLDINGS

As at 30 June 2020 Marlborough Lines held $5.8m of funds in cash or on term deposit with two major New Zealand trading banks. Interest rates have been low over the year with a return on Marlborough Lines' bank deposited funds averaging 2.0%. Marlborough Lines has 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. Instead, Marlborough Lines used some of its funds available to provide an inter-company loan to Yealands Wine Group as outlined in the Chief Financial Officer's report.

INVESTMENTS INCOME SUMMARY

Total cash flows generated by Marlborough Lines from all investments, including management fees and interest received for the year (but excluding capital gains), was $1.8m compared to $7.2m for the prior year, with the major difference being that no dividend was received from Yealands Wine Group during the year.

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

Since the initial investment in Yealands Wine Group, there have also been substantial unrealised capital gains, in addition to the cash return. The uplift has not been included in the table below, but should be factored in when considering the overall level of return on Marlborough Lines' investments.

ACCOUNTING FOR OUR INVESTMENTS

As Marlborough Lines has control over Yealands Wine Group, it is treated as a fully consolidated subsidiary in the Marlborough Lines financial statements. Marlborough Lines has significant influence over, but not control of, Nelson Electricity and therefore Nelson Electricity is treated as an associate company. Further information on the accounting treatment can be found in Note 9 of the financial statements.

SUMMARY OF CASH FLOWS	2020	2019	2018	2017	2016
Cash Flows from Investments ($m)	1.8	7.2	7.1	6.8	8.3
Holding Value ($m as at 30 June)					
Nelson Electricity	15.6	15.5	15.5	15.3	15.0
Yealands Wine Group – Equity	122.0	122.0	122.0	99.1	89.2
Yealands Wine Group – Loan	15.0	–	–	–	–
Cash and Term deposits	5.8	19.3	17.8	29.4	28.0
Total value of investments	**158.4**	**156.8**	**155.3**	**143.8**	**132.2**
Cash Flow return from Investments	1.14%	4.62%	4.60%	4.74%	6.31%

Note: 2016 was a 15 month period, but only includes 12 months of results from Yealands Wine Group and the annual dividend from Nelson Electricity.

YEALANDS WINE GROUP LIMITED

AVERAGE AMOUNT INVESTED **$128.3 MILLION**

FY20 AMOUNT RETURNED **$0.8 MILLION**

RETURNS THROUGH

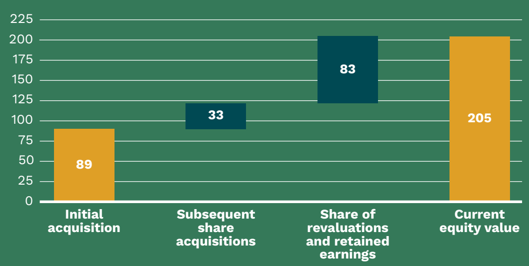
- ✗ Dividends
- ✓ Shareholder funds growth
- ✓ Interest income

LAND UNDER VINEYARD
1,197 HECTARES

GRAPES PROCESSED
20,746 TONNES

WINE SOLD
$102 MILLION

Yealands Increase in Book Value Over Five Years ($m)



NELSON ELECTRICITY LIMITED

AVERAGE AMOUNT INVESTED **$15.6 MILLION**

FY20 AMOUNT RETURNED **$1.2 MILLION**

RETURNS THROUGH

- ✓ Dividends
- ✓ Shareholder funds growth

ELECTRICITY DISTRIBUTED
143 GWH

NETWORK CONNECTIONS
9,273

LINE REVENUE
$9.9 MILLION

CASH HOLDINGS

AVERAGE AMOUNT INVESTED **$14.3 MILLION**

FY20 AMOUNT RETURNED **$0.3 MILLION**

RETURNS THROUGH

- ✓ Interest income

OUR PEOPLE

296

Total group staff, including Marlborough Lines, Yealands Wine Group and Nelson Electricity.

70%

Proportion of Marlborough Lines employees who are trade and tertiary qualified.

10.6 YEARS

Average length of service of Marlborough Lines employees.

382 KILOMETRES

The distance Marlborough Lines employees ran or walked to raise money for the Cancer Society.

At Marlborough Lines our people are our most valued asset and the heart of our success. We have a talented team working throughout the business in a diverse range of occupations. We keep the power humming to Marlborough homes and businesses and work hard to ensure the highest levels of safety, reliability and customer service are maintained.

Our goal is to be an employer of choice and attract and retain high quality people. Our workplace environment is one where safety, health and wellbeing come first, no matter what. Ensuring our people feel valued, stimulated and challenged and are given opportunities to develop their skills and abilities to be the best they can be, is important to us. We are continually improving our performance in this area through several key initiatives and our low staff turnover is one indicator that we are on the right track. We will be doing further work to understand the drivers of staff engagement and plan to implement more initiatives over the next year.

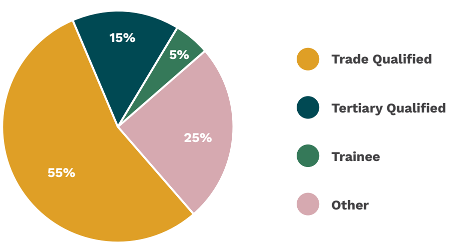
THE GREATEST WEALTH IS HEALTH

Learning about what makes a difference to employee health and wellbeing and the actions we can take as an organisation to positively influence that for our employees is an ongoing journey for Marlborough Lines.

Our goal is to ensure our work environment impacts positively on employee health and wellbeing and our people feel cared about and can confidently speak up if they, or their workmates, need support. We offer a suite of initiatives to our people to help them proactively look after their health and wellbeing and to get support when they need it. We have also worked over the past few years to develop skills and knowledge within Marlborough Lines so people can identify when others are struggling and direct them to the support they need.

During the year all our employees had the opportunity to participate in a personal resilience workshop. The workshop provided insight to how the brain processes information and the stressors that impact on our wellbeing, along with techniques to significantly reduce them. These types of programmes build awareness and provoke thought and conversations which are an important aspect of maintaining a supportive culture.

Employee Qualifications



Marlborough Lines employs a number of trainees and invests in their development through to industry trade qualifications.

Amanda McCallum was one of the 17 staff who participated in the 2020 Wairua Warrior obstacle course race, which was one of the many wellbeing initiatives supported by Marlborough Lines during the year.

DEVELOPING GREAT LEADERS

At Marlborough Lines we give our current and aspiring leaders opportunities to grow their leadership skills within our workplace and through external training programmes. We aim to ensure the people within our business who want to take the next step in their careers, have clear pathways to do so and opportunities to continually develop and build on their leadership skills.

During the year we offered all employees the opportunity to apply to attend an Outward Bound Professional Development Programme. The programme helps build the resilience, adaptability, confidence and self-awareness needed to be a talented leader.

All applications received were of a high-quality and we were impressed by the authenticity and enthusiasm expressed by each applicant about where they were currently on their leadership journey and their aspirations for the future.

We intended sending two people on the programme, but the high calibre of applications led to four employees being selected from our Arborist, Lines and Network teams who will attend in late 2020 and early 2021. We plan to run the process again next year.

TRAINING AND QUALIFICATIONS

As a large employer in the Marlborough community we recognise the important role we can play in providing trainee and apprenticeship opportunities and we are one of the few Marlborough businesses currently doing this.

We understand that a key driver to keeping young people in the region is to have these opportunities available, whilst also future-proofing the business with the skills we need.

BUILDING CAPABILITY FOR THE FUTURE

We recognise that in the information age and the rapid pace at which technology is developing, Marlborough Lines needs to be ready and able to quickly embrace, adapt and respond to change. Building a workforce capable of meeting current and future requirements is critical to the ongoing success of Marlborough Lines.

We have recruited a Human Resources Manager and Business Development Engineer, both starting later in 2020, who will play important roles in our journey forward.

Trainee Line Mechanics, Karlos Tautari and Liam Duncan, participating in pole top rescue training.

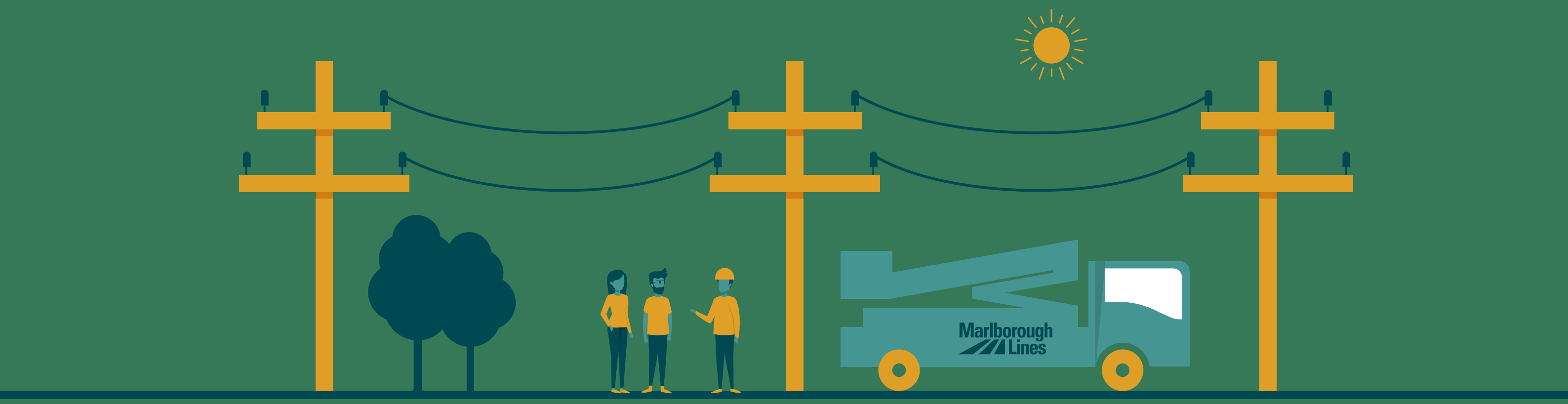
Electrical engineers, Brendan Sutherland and Irene Anderson, getting into the nitty gritty at Kinross Street substation.

SUPPORTING OUR PEOPLE

With our goal of being an employer of choice, there are already many ways in which we are supporting our people. For example, the assistance we gave to our staff through the COVID-19 lockdown period and beyond. We had no redundancies and offered work flexibility and a transition back to work that suited individual needs. We also ensured that everyone knew their role was secure and provided support to enable them and their families to cope with what was a very challenging time for everyone. We would like to publicly thank our people for being flexible and adaptable over that period.

We also pride ourselves on helping our people through their tough times. We understand that all of us at some time are presented with challenges that impact on our ability to be present at work. We support our people so that they are able to deal with whatever it is they are facing at that time.

OUR HEALTH AND SAFETY



ZERO

Number of notifiable events.
The last notifiable event was in 2017.

1.71

Lost time injury frequency rate, per 200,000 hours worked.

CERTIFIED

Maintained certification to ISO 45001:2018 Occupational Health and Safety Management System Standard.

CERTIFIED

Maintained certification to NZS 7901:2014 and 7901:2008 New Zealand Public Safety Management Systems Standard.

At Marlborough Lines the safety, health and wellbeing of our people, contractors, visitors and the public is and has always been our priority. We work in an environment where hazards are ever-present. To prevent harm, health and safety considerations need to be embedded into everything we do and become business as usual.

CULTURE IS KEY

During the year our focus on strengthening our workplace culture continued. We recognise that the attitudes and behaviours of each of us as individual employees and collectively as an organisation are vital to achieving health and safety excellence. This includes:

- How we show up each day fit for work and committed to achieving positive outcomes;
- How we demonstrate leadership and courage from wherever we each stand;
- How we communicate and engage with each other;
- How open we are to learn and continually improve our performance;
- How much as an organisation we invest in health and safety; and
- How fairly as an organisation we deal with people.

We worked on increasing our performance in each of these areas through a range of initiatives. Most importantly through ensuring the lines of communication are open and working effectively, and there are a variety of ways for our people to engage and influence how things are done within our business.

Our resilient workplace culture came into play when we had to quickly respond to the COVID-19 restrictions and continue providing a safe and reliable electricity supply to our Marlborough electricity consumers. People from all areas of our operations stepped up and took a leadership role to help get us through this unprecedented time. Ensuring each member of the Marlborough Lines team felt supported and was kept fully informed throughout the lockdown was critical to how well we weathered the storm as individuals and as a Company.

Our Health & Safety Committee comprises elected Health and Safety Representatives and senior managers, who all work together to improve health, safety and wellbeing at Marlborough Lines.

Lines Supervisor, Tony Root, at a pre-job briefing to ensure everyone involved understands the scope and responsibilities of the work to be performed, and the controls in place to prevent harm.

PROVIDING MULTIPLE WAYS TO ENGAGE AND PARTICIPATE

Our second round of Health and Safety Representative (HSR) elections was held during the year resulting in our total number of HSRs increasing from seven to nine, representing seven work groups. All our HSRs have completed training and are part of our Health & Safety Committee.

Since 2014 we have held employee health and safety events where a guest speaker presents on a health and / or safety topic to raise awareness and generate conversations. To date we have had 31 presentations, and feedback is that they are valuable and thought-provoking learning opportunities. During the year three events where held where guest speakers discussed:

- Workplace sexual harassment
- Drug and alcohol misuse in the workplace
- Neuroplasticity

We are always looking for new initiatives to keep our people engaged and raise health and safety awareness. This year we ran a Health and Safety slogan competition, which was a fun opportunity for employees to get their creative juices flowing and come up with a catchy saying to print onto T-shirts. The response was fantastic with over 180 slogan ideas received. The Health and Safety Committee selected 11 winners, including an overall winner, and each winning entry received a prize. Every Marlborough Lines employee was given the opportunity to select one of the winning slogans to be printed onto a T-shirt for their personal use.

LEARNING AND IMPROVING

During the year we increased our use of learning teams to debrief and learn from incidents and near misses. This approach has proved beneficial in giving people confidence to freely discuss events in a non-judgemental environment where everyone shares the common goal of learning and improving.

Learning teams have resulted in some improvement initiatives that we may not have identified had we relied solely on the more traditional incident investigation methods. We will continue developing the skills of our people to facilitate effective learning teams and to champion their use within the business.

CONTROLLING WHAT MATTERS

Increasing our understanding of critical risks and the controls in place to prevent harm continued during the year. Everyone on a worksite needs to understand what must be in place and working effectively before a job starts and be alert to when a job must be stopped for whatever reason. Empowering our people to respond and adapt to changing circumstances and variability on the job is fundamental to preventing harm. Employee feedback has positively reinforced the focus is on critical risks and controls before all else.

Improvements in our reporting have given us increased visibility of where our incidents fall relative to risks and where our controls need strengthening. Our data shows that most incidents occurring associated with critical risks are near misses. Ensuring we proactively identify the weaknesses in our systems so they can be addressed is essential to preventing harm. As well as investigating incidents when they occur, on a quarterly basis we complete critical risk reviews at a senior management level as a further check to identify trends and further improvements to control risks.

HEALTH AND WELLBEING

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

Marlborough Lines is committed to assisting our employees to achieve and maintain good health and wellbeing through a range of programmes and support systems. (See further information in the “Our People” section, page 29)

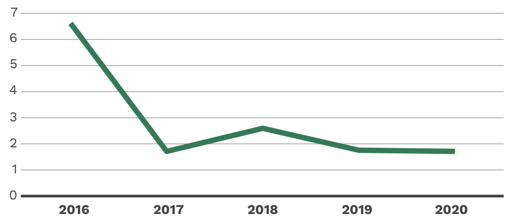
KEEPING THE PUBLIC SAFE

Our electricity distribution assets are everywhere in Marlborough and we have strict systems and procedures in place to ensure public safety is achieved. The primary determinant of our comprehensive Asset Management Plan is health and safety (details available at: **www.marlboroughlines.co.nz**).

Because safety is always our main 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. An example is our “Lines down policy” explained in the Our Network section, page 21.

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 region can include fire.

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



Our lost time incident frequency rate was 1.7 incidents per 200,000 hours worked, which is consistent with industry average.

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.

Throughout the year we endeavour to raise public awareness about safety around electricity distribution assets in a variety of ways including newspaper advertorials, our website and industry campaigns.

LEARNING FROM MISTAKES

In the process of restoring power to the Dominion Salt privately owned network following the 2016 Kaikoura Earthquake, Marlborough Lines was involved in a near miss incident. A misunderstanding occurred during communication between Dominion Salt and Marlborough Lines regarding the extent of the re-livening being requested from Marlborough Lines. This led to Marlborough Lines closing a switch which had been padlocked and tagged by a contractor working for Dominion Salt. Although no-one was injured, there was a risk that the lines could have been relivened while Dominion Salt’s own electrical contractor was working on them.

WorkSafe has accepted Enforceable Undertakings (EU) from both parties and Marlborough Lines is working on several deliverables as part of the EU compliance. We regret the incident occurred and have identified areas where our systems can and have been improved as a result.

The most important outcome has been establishment of a Network Management Agreement between the two parties which gives Marlborough Lines operational control over the Dominion Salt privately owned network.

OUR COMMUNITY

LEAD SPONSOR

For the Marlborough Lines Stadium 2000 since 2006.

$205K

Sponsorship and donations (2019: $475k).

$38.5K

Tertiary grants awarded to seven students (2019: $39k).

86%

Proportion of consumers surveyed that rated their satisfaction with the Company's overall performance as either satisfied or very satisfied.

As a large local employer, community-owned entity and supplier of essential services, Marlborough Lines has an important role to play in supporting community projects and events.

Over the years we have keenly assisted a range of youth education, regional events and environmental initiatives with varying levels of funding or in-kind support. These are all important aspects that help make Marlborough a special place to live, and Marlborough Lines is proud to play a part in that.

This year we refreshed our sponsorship mission statement to **Grow Marlborough Together**. Growing Marlborough so it continues to thrive and be a brilliant place to live is something we are passionate about. We are doing this together in recognition of our community ownership and our responsibility as a good corporate citizen. Sponsorship will continue to focus on three key areas:

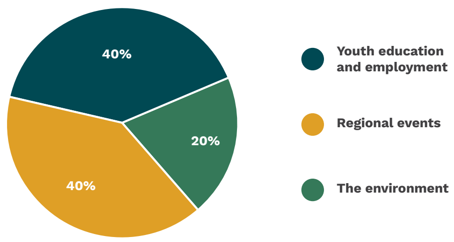
- Youth education and employment
- Regional events
- The environment

Our annual sponsorship budget equates to up to 1% of revenue.

Going forward our approach will be to target fewer sponsorships with greater levels of support for longer terms. This will help ensure that our support makes a real difference towards the selected events and initiatives achieving their desired outcomes. We will continue with some of our long-standing sponsorships as well as adding some new initiatives to the mix that align closely with our selection criteria.

Information about our criteria for evaluating sponsorship requests and the application process is available on our website.

Sponsorship Fund Allocation



Participants from Ward School receive their certificates and prizes from Marlborough Lines CFO, Gareth Jones, for their achievements in the 2020 Marlborough Lines Science and Technology Celebration.

Children enjoying fun times at Marlborough Lines Stadium 2000. The Stadium is one of the many initiatives we support as part of our "Grow Marlborough Together" programme.

HOW WE SUPPORTED OUR COMMUNITY THIS YEAR

Marlborough Lines provides support either by direct grant or in-kind by assisting with temporary power supplies at major regional events like the annual Marlborough Wine and Food Festival and the Classic Fighters Air-Show. Recipients this year included:

- Marlborough Lines Stadium 2000 – continuation of headline sponsorship
- Marlborough Schools Science and Technology Celebration
- Marlborough Colleges Tertiary Study Awards
- Picton and Blenheim Christmas parades
- Central Region Rowing Development Trust
- Picton Maritime Festival Trust
- Blenheim Tuia 250 Tauihu Sculpture
- Marlborough Riding for the Disabled
- Havelock Mussel Festival
- Marlborough Sounds Restoration Trust, Wilding Pine Eradication Programme
- Another 25 smaller but also important causes/initiatives/events

Marlborough Lines' subsidiary in the wine industry, Yealands Wine Group, also undertakes a considerable level of community sponsorship and support.

GROWING FUTURE LEADERS AND STIMULATING YOUNG SCIENTISTS

In 1991 the Marlborough Electric Power Board recognised a need for scholarship support for young Marlborough citizens attending tertiary study in the main centres. Students not domiciled in the main university centres typically face greater costs through living away from home.

Over the past 29 years Marlborough Lines in its current and previous forms has assisted some 240 students with scholarships. Recipients and allocation of awards are determined by the secondary schools in the Marlborough region.

Prior to the 2020 awards, we intend reviewing the principles that guide the allocation process and the value of the awards, in consultation with the Marlborough colleges, to ensure they achieve our mutual objective of easing the financial burden of tertiary study for deserving young people.

In recognition of the Company's relationship with the various Iwi groups in the region, a Māori scholarship is also awarded.

In the 2020 year a total of $38,500 was awarded to seven recipients.

For the last 25 years Marlborough Lines has also been the lead sponsor for the Marlborough Schools Science and Technology Celebration.

This programme invites exhibits and experiments from schools across Marlborough. Judging is undertaken and prizes are awarded for the best presentations.

This year the Company's underwrite for the Science and Technology Celebration totalled $23,000.

NEW SPONSORSHIPS FOR 2021

Consistent with our refreshed sponsorship mission and approach we have signed up some worthy new sponsorships for the next financial reporting year, which include:

- Marlborough Youth Trust, CACTUS Youth Programme
- Marlborough Heritage Trust, Heritage Education Programme
- School Start First Impressions Marlborough
- Marlborough Foodbank
- Waikawa Ratepayers Association – Waikawa Wattle Eradication Programme

We look forward to working with these organisations and contributing to their success.

Participants in the 2020 CACTUS youth programme, ready for the challenge!

OUR ENVIRONMENT

733 TONNES

Nett carbon consumption (benefit) from the Company's operations.

1,314

Plants and grasses planted at the new zone substation in Renwick.

16

Additional insulation installed on rural distribution transformers this year to protect kārearea.

CERTIFIED

Maintained certification to ISO 14001:2015 Environmental Management System Standard.

Marlborough Lines is committed to enhancing the Marlborough environment as well as playing its part in enabling a transition to a low carbon economy.

ASSESSING OUR CARBON EMISSIONS

We have recently completed a voluntary assessment of our annual carbon emissions, an exercise we have undertaken every three years since 2008. Reporting this helps us to understand where the main sources of our carbon emissions arise, and allows us to develop targeted plans for managing and reducing those emissions.

The carbon assessment has been undertaken in accordance with the Ministry for the Environment's greenhouse gas voluntary reporting guidance. When allowing for our eucalypt forest (refer below) and the exclusion of transmission and distribution line losses (indirect scope 3 emissions), Marlborough Lines' carbon emissions are fully offset, with a nett carbon consumption (benefit) of 733 tonnes.

The table below summarises Marlborough Lines' carbon emissions and compares our FY20 assessment to FY17 (the most recent prior reporting year). A direct comparison between years is not straightforward with our work activities being significantly disrupted during COVID-19 Alert Levels 3 and 4 in 2020.

Yealands Wine Group (wholly owned by Marlborough Lines), has been certified carbon neutral since 2008 and has committed to ambitious targets for reductions of its total carbon emissions, 50% by 2030 and 80% by 2045.

GROWING A FOREST

In 2011 Marlborough Lines planted its own 60 hectare eucalypt forest in the Wakamarina Valley northwest of Blenheim. This was in conjunction with the New Zealand Dryland Forestry Initiative which had an initial vision to produce hardwood timber for vineyard posts. Marlborough Lines added its support, after recognising the potential use of the New Zealand grown hardwoods as power pole cross arms.

ENHANCING LANDSCAPES

During the year our new zone substation in Renwick was commissioned. The substation is located at the north western edge of Renwick on State Highway 6 and has high visibility.

The zone substation has been landscaped with predominantly native plants, enhancing the previous site considerably. The landscaping incorporates an irrigation system which is partially supplied by stormwater collected from the zone substation building.

This landscaped site builds on other environmental gardens and plantings at Marlborough Lines owned offices, depots and zone substations.

Carbon Emissions Assessment

TONNES	2020	2017
Scope 1 (Fuel and fugitive emissions)	486	795
Scope 2 (Electricity – end use)	85	90
Scope 3 (excludes T&D losses)	461	435
Forest offsets	(1,765)	(1,919)
Nett emissions (excluding T&D loss)	**(733)**	**(599)**

Fern the Falcon coming in for landing on Marlborough Lines CEO, Tim Cosgrove's, arm. Fern is the Marlborough Falcon Trust's advocacy star, and makes annual visits to local schools with her trainer.

SUPPORTING KĀREAREA

When the Marlborough Falcon Trust was first set up in 2008 to reintroduce kārearea (New Zealand falcons) to areas of Marlborough for pest bird control, a small number of kārearea unfortunately were lost when roosting on distribution transformers. To mitigate this, Marlborough lines installed additional insulation on new and existing rural distribution transformers.

Additional insulation has been installed on approximately 180 rural distribution transformers to date, and the ongoing installation of additional insulation will help to protect kārearea.

HOW WE'RE HELPING MARLBOROUGH

Marlborough Lines has updated its Sponsorship Policy this year, with a specific focus on environmental initiatives.

Removing wilding pines and wattle

For a number of years Marlborough Lines has supported the Marlborough Sounds Restoration Trust in their programme to eradicate wilding pines in the Marlborough Sounds. Trees pose a risk to power lines, and the eradication of wilding pines has the dual benefit of enhancing the natural environment while at the same time removing trees which have the potential to fall across lines and cause faults.

In addition, Marlborough Lines has agreed to support the Waikawa Wattle Eradication Programme, which has recently been established to eradicate this invasive species around the Picton and Waikawa area.

Yealands Environmental Sustainability Initiative

Yealands' approach to environmental sustainability is well documented and their initiatives have been acknowledged by a number of awards. Yealands consistently takes an innovative approach to alternative forms of energy, pursuing energy efficiency and practising and sponsoring environmental enhancement.

This year, Yealands, in conjunction with the Marlborough District Council and the Blenheim Sun newspaper, have created the "Yealands Wine Sustainability Initiative". The initiative offers $100,000 per year to local environmental not for profit groups working to improve water quality, preserve sensitive natural areas and protect biodiversity in Marlborough.

There have already been a number of deserving recipients of grants from this initiative.

WE'RE THINKING ABOUT CLIMATE RISKS AND OPPORTUNITIES

Marlborough Lines is in the process of identifying future risks and opportunities arising from climate change as part of the annual reporting process. This is to inform stakeholders of the possible future impacts of climate change on our business.

We have undertaken an exercise to separately identify risks which arise locally within the Marlborough region and then also risks which arise nationally (legislative change) and which flow on internationally (trading changes).

Identified risks from climate change include increased severe storms and wind speeds, with possible damage to our network from trees, increased fire conditions and the potential for sea level rise. The potential impact on electricity volumes from changes to weather include lower heating demand expected in winter, higher summer cooling demand and increased irrigation volumes.

Identified opportunities from a drive to decarbonise the economy include the electrification of transport, and in particular electric vehicles, and also significantly for Marlborough, the partial electrification of the Cook Straight ferries, as well as other processing and manufacturing sectors.

Marlborough Lines's network has been constructed to be resilient to natural events, including those related to climate change. We will continue to evaluate the risks and potential impacts on our network and take further steps to increase resilience where appropriate. Details of our planned investment in our network are included in our publicly available Asset Management Plan.

Tapp Substation located in Renwick is our latest indoor zone substation which integrates into the suburban surrounds and has been extensively landscaped to blend into the local environment.

Newly qualified arborist, Hayden Nott, removing vegetation adjacent to line assets.

03

MANAGEMENT AND GOVERNANCE

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.

ALEXANDRA BARTON

Director
BCom, LLB, CA

Alex was appointed to the Board in December 2019. She resides in Blenheim and has been a director of local accounting firm Leslie & O'Donnell Ltd since 2017. Alex has worked in the UK, Australia and New Zealand both in corporate and advisory roles within investor relations, strategy and financial communication. Alex is also a director of Marlborough District Council Holdings Limited and Marlborough Airport Limited.

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.

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.

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 both the Management Board and the Panel of Experts of P.R.I.M.E. Finance in The Hague, and a director of Reserve Bank of New Zealand.

JONATHAN ROSS

PHIL ROBINSON

IVAN SUTHERLAND

STEVEN GRANT

ALEXANDRA BARTON

DAVID DEW

DEBORAH SELBY

DEBORAH SELBY

Director

BCom, CA, MInstD

Deborah was appointed to the Board in November 2019. She is a chartered accountant and has considerable experience in the electricity sector achieving industry recognition as a finalist in the Deloitte Woman in Energy awards. She is an experienced leader with current governance experience and strong financial, commercial and strategic skills. Deborah is currently the Group Financial Controller for Chorus and previous roles include Group CFO at Electra and Shared Services Programme Financial Controller at Transpower.

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.

SENIOR LEADERSHIP TEAM

TIM COSGROVE

Chief Executive Officer

ME(Mgt), BE (Hons) (Mech), BCom, CEng, CMInstD

Tim joined Marlborough Lines as Chief Executive in April 2020. He is responsible for the leadership, strategic direction and delivery of all stakeholder, financial and operational objectives. Tim has held roles within the Todd Corporation as General Manager Todd Generation and headed Operations and Development for Nova Energy. Prior to his time with Todd Corporation, Tim was a Lieutenant Commander in the Royal New Zealand Navy.

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.

STEPHEN MCLAUCHLAN

GM Contracting

IMLANZ

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).

STEPHEN MCLAUCHLAN

GARETH JONES

TIM COSGROVE

SCOTT WILKINSON

WARNER NICHOL

WARNER NICHOL

Network Operations Manager

DipEng (Electrical)

Warner joined Marlborough Lines in November 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 electricity retailers, network connections and customer services. Scott's background is primarily in consulting engineering, infrastructure projects and asset management, including two years working at the World Bank. Outside of work he is chair of Marlborough Kindergarten Association.

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 to the trustees of the Marlborough Electric Power Trust (the Trust).

The 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.

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 2019 the Board reviewed and refreshed its Corporate Governance Manual, and 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, are responsible for the selection and appointment of the directors.

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

At the Annual General Meeting (AGM) in November 2019, David Dew and Tim Smit retired from the Board. David Dew was reappointed to the Board and Deborah Selby was appointed.

In December 2019, Managing Director Ken Forrest retired. Alexandra Barton was appointed to the Board effective 23 December 2019.

In March 2020 Peter Forrest retired.

This year at the AGM, Steven Grant and Ivan Sutherland will retire by rotation. Messrs Grant and Sutherland 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 2020, there were seventeen Board meetings and four Audit and Risk Committee meetings were held. The increased Board meeting frequency was a result of weekly videoconference meetings being held during COVID-19 Alert Levels 3 and 4. The meetings attended by directors as follows:

DIRECTOR	BOARD		AUDIT AND RISK COMMITTEE	
	Meetings Held[1]	Attended	Meetings Held[1]	Attended
A Barton	10	10		
D Dew	17	17		
K Forrest	7	7		
P Forrest	9	9	3	3
S Grant	17	17	4	4
P Robinson	17	15		
J Ross	17	16	4	4
D Selby	11	11	1	1
T Smit	6	6		
I Sutherland	17	17		

FMA PRINCIPLE 3

Board Committees

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

The Board has established an Audit and Risk Committee, which operates under a formal Audit and Risk Committee Charter. The Charter 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 as at 30 June 2020 is made up of Steven Grant, Jonathan Ross and Deborah Selby. Mr Ross has been Chair of the Audit and Risk Committee since 1 July 2019.

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 an 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.

1 Meetings Held is the number of meetings held during that individual director's tenure on the Board/Committee

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 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 Chief Executive Officer, 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	
		2020	2019
A Barton	(Appointed 23 December 2019)	$27,522	–
D Dew	Board Chair	$100,034	$92,000
K Forrest	Managing Director (retired 23 December 2019)	$657,230[2]	$585,975[2]
P Forrest	Audit and Risk Committee Member (retired 27 March 2020)	$39,454	$53,000
S Grant	Audit and Risk Committee Member	$53,517	$49,500
P Robinson		$50,017	$46,000
J Ross	Audit and Risk Committee Chair	$57,017	$49,500
D Selby	Audit and Risk Committee Member	$32,267	–
T Smit	(Retired 26 November 2019)	$18,625	$46,000
I Sutherland		$50,017	$46,000

2 Directors' fees totalling $41,145 (2019: $104,000) 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.

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

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

The directors of Yealands Wine Group Limited are appointed by the Board of Marlborough Lines Limited. As at 30 June 2020, 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.

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

DIRECTOR	SPECIAL RESPONSIBILITIES	TOTAL REMUNERATION AND OTHER BENEFITS	
		2020	2019
P Radich	Board Chair (retired 15 June 2020)	$97,774	$105,000
D Dew	Audit and Risk Committee Member	$52,353	$53,791[3]
K Forrest	Audit and Risk Committee Chair, Health and Safety Committee Chair (retired 23 December 2019)	$30,623[4]	$82,083[3,4]
P Forrest	(retired 27 March 2020)	$36,962	$50,000
S Grant	(appointed 1 October 2019)	$35,843	–
D Selby	(appointed 27 March 2020)	$12,195	–
M Thomson	Audit and Risk Committee Member, Health and Safety Committee Member	$56,694	$63,417[3]

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:

- Health and Safety Management System conforming to ISO 45001:2018; and
- Safety Management Systems for Public Safety conforming to NZS 7901:2014 and 7901:2008.

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

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

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

- Quality Management System conforming to ISO 9001:2015; and
- Environmental Management System 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 Limited, 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.

In addition to undertaking the statutory audit function on behalf of the Controller and Auditor-General, Deloitte Limited 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 its 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 trustees 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 2020

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

Marlborough Lines is an 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 2020 $000	Group 2019 $000
Net profit after tax	5,644	8,404
Other comprehensive income net of tax	4	11,840
Net surplus attributable to the shareholders	**5,648**	**20,244**

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

The financial performance of the Company and Group are explained in detail in the Chief Financial Officer's report.

3) Dividends

The directors recommended, and the shareholders authorised, the following dividend payments for the year ended 30 June 2020.

DIVIDENDS FOR THE YEAR ENDED 30 JUNE 2020

	Declaration date	Amount
Interim dividend	24 March 2020	$300,000
Final dividend	22 June 2020	$200,000
Total dividend		**$500,000**
Ordinary shares issued		28,000,000
Dividend per share		$0.018
Value of Share Capital (Parent net assets at current valuation)		$359,685,000

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 Nicole Dring of Deloitte Limited.

FEES PAID TO AUDITORS (FOR GROUP)

	Audit Fees	Other Fees
Deloitte Limited – for Marlborough Lines Limited Group	$100,000	$33,000
Deloitte Limited – for Yealands Wine Group Limited Group	$120,000	$0
Disbursements including OAG fees	$69,450	$0
Total amount paid to Auditors	**$289,450**	**$33,000**

5) Directors' interests

DIRECTORS' INTERESTS

Director	Group entities	External entities
Marlborough Lines Limited directors		
A Barton	• Marlborough Lines Limited • Seaview Capital Limited	• Barton Food Limited • Leslie & O'Donnell Trustees Limited • Leslie & O'Donnell Limited • MDC Holdings Limited • Marlborough Airport Limited
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 (retired 23 December 2019)	• 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 (retired 27 March 2020)	• 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 • Yealands Estate Limited • Yealands Estate Wines Limited • Yealands Wine Group Limited	• Astute Consulting & Management Limited • Import Distribution Limited • The New Zealand Automobile Association Limited (and subsidiaries)
P Robinson	• Marlborough Lines Limited • Nelson Electricity 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

DIRECTORS' INTERESTS

Director	Group entities	External entities
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 Limited
D Selby	• Marlborough Lines Limited • Seaview Capital Limited • Yealands Wine Group Limited	• Chorus Limited (employee role – Group Financial Controller)
T Smit (retired 26 November 2019)	• 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 (retired 15 June 2020)	• 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

Note: All interests are as a director or trustee of the entity, unless otherwise stated

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	
	2020	2019	2020	2019
$100,000 – $110,000	15	9	8	6
$110,000 – $120,000	4	8	8	9
$120,000 – $130,000	2	1	5	7
$130,000 – $140,000	3	–	7	4
$140,000 – $150,000	2	4	1	–
$150,000 – $160,000	1	1	1	2
$160,000 – $170,000	1	–	1	3
$170,000 – $180,000	1	1	1	1
$180,000 – $190,000	–	1	1	3
$190,000 – $200,000	–	–	1	–
$200,000 – $210,000	–	–	–	1
$210,000 – $220,000	–	–	2	–
$220,000 – $230,000	–	1	2	–
$230,000 – $240,000	2	–	–	–
$250,000 – $260,000	–	2	1	2
$270,000 – $280,000	1	–	–	–
$290,000 – $300,000	–	–	1	–
$300,000 – $310,000	1	–	–	–
$310,000 – $320,000	–	–	1	–
$320,000 – $330,000	–	–	–	1
$330,000 – $340,000	–	–	–	1
$380,000 – $390,000	–	–	1	–
$430,000 – $440,000	–	–	1	–
$520,000 – $530,000	–	–	–	1

In addition, medical insurance is provided to all employees. Death and disability insurance is provided to all Marlborough Lines employees. Company motor vehicles are provided to senior managers.

7) Donations

During the year, the Company made tertiary education grants totalling $38,500. 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
29 September 2020

C J Ross
Director
29 September 2020

Aveshni Massey leads our GIS team and is pictured here with the team's newest recruit, Steven Robbie.

04

REPORTING

CONTENTS

RESULTS IN BRIEF

GROUP	2020 Actual 12 months	2020 Target 12 months	2019 Actual 12 months	2018 Actual 12 months	2017 Actual 12 months
EBITDA	20.1	29.6	25.9	45.1	5.6
EBIT	10.0	19.7	16.3	35.8	-4.3
Total Revenue (Group)	147.8	156.3	152.4	151.6	154.4
Pre-tax Pre-discount Surplus	11.4	22.6	19.4	37.4	3.7
Surplus after Taxation	5.6	10.4	8.4	21.5	-1.5
Total Value of Group Assets	657.7	677.6	648.0	619.6	632.5
Share Capital	29.0	29.0	29.0	29.0	29.0
Shareholder's Equity	446.7	446.4	441.5	427.3	434.1
Net Asset Backing Per Share	15.95	15.94	15.77	15.26	15.50
Pre-discount Return on Shareholder's Funds	2.56%	5.07%	4.40%	8.76%	0.84%
Net Interest Bearing Debt	115.5	136.7	112.3	102.2	102.1
Interest Cover (EBIT/Interest)	1.79	3.21	3.38	7.63	(0.99)

PARENT	2021 Target 12 months	2020 Actual 12 months	2020 Target 12 months	2019 Actual 12 months	2018 Actual 12 months	2017 Actual 12 months
EBITDA	16.2	15.3	24.4	23.4	22.8	18.3
EBIT	5.9	5.9	14.5	14.3	13.8	8.9
Customer Discount (paid and accrued)	8.5	8.6	8.5	8.4	8.3	8.2
Surplus After Taxation	4.8	5.2	12.3	12.9	12.9	9.1
Pre-discount return on Shareholder's Funds	3.04%	3.18%	5.16%	5.39%	5.48%	4.26%

Note: Due to considerable uncertainty at the time of publication, related to the ongoing impact of COVID-19 on international wine markets sales (particularly sales into the on-premise channel), Group target results for FY21 have not been presented.

FINANCIAL STATEMENTS

DIRECTORS CERTIFICATE

The Directors are pleased to present the financial statements of the Marlborough Lines Limited Group for the year ended 30 June 2020.

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 2020.

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 which 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.

This report is dated 29 September 2020 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 of Marlborough Lines Limited.

D W R Dew

Chairman
29 September 2020

C J Ross

Director
29 September 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2020

	Notes	Group 2020 $000	Group 2019 $000
CONTINUING OPERATIONS			
Revenue	3	147,465	151,806
Operating expenses	4	(127,445)	(125,919)
Operating surplus		**20,020**	**25,887**
Share of equity accounted investments net surplus	9.4	31	(9)
EBITDA		**20,051**	**25,878**
Depreciation and amortisation	5, 6, 7	(10,019)	(9,533)
Financial income	15	301	594
Financial expenses	15	(8,121)	(9,387)
Realised / unrealised foreign exchange gains	15	636	3,435
Profit before tax expense		**2,848**	**10,987**
Tax benefit / (expense)	22	2,796	(2,583)
Net profit for the year		**5,644**	**8,404**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss			
Net change in foreign currency translation reserve		4	(88)
Asset revaluation	5	–	13,792
Tax effect of asset revaluation	22.2	–	(1,864)
Other comprehensive income net of tax		**4**	**11,840**
Total comprehensive income for the year		**5,648**	**20,244**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

	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 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**
Balance at 1 July 2019	**29,026**	**113,317**	**(177)**	**299,320**	**441,486**	**32**	**441,518**
TOTAL COMPREHENSIVE INCOME							
Net profit	–	–	–	5,644	5,644	–	5,644
OTHER COMPREHENSIVE INCOME NET OF TAX							
Net change in foreign currency translation reserve	–	–	4	–	4	–	4
Total comprehensive income	**–**	**–**	**4**	**5,644**	**5,648**	**–**	**5,648**
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY							
Dividends paid to equity holders	–	–	–	(500)	(500)	–	(500)
Balance at 30 June 2020	**29,026**	**113,317**	**(173)**	**304,464**	**446,634**	**32**	**446,666**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	Group 30 June 2020 $000	Group 30 June 2019 $000
NON-CURRENT ASSETS			
Plant, property and equipment	5	510,880	496,418
Intangible assets	6	2,900	3,030
Right of use assets	7	4,282	–
Investments in associates accounted for using the equity method	9.3	15,567	15,536
Derivatives	20.7	2,400	2,184
Total non-current assets		**536,029**	**517,168**
CURRENT ASSETS			
Cash and cash equivalents		11,988	7,511
Short-term investments		2,500	16,024
Trade and other receivables	10	29,280	28,346
Income tax receivable		327	–
Inventories	11	76,631	77,825
Derivatives	20.7	945	1,170
Total current assets		**121,671**	**130,876**
Total assets		**657,700**	**648,044**
NON-CURRENT LIABILITIES			
Lease liability	7	3,744	–
Other borrowings		638	272
Retirement benefit obligations		578	531
Derivatives	20.7	10,969	8,322
Deferred tax liability	22.2	49,344	53,666
Borrowings	14	95,000	90,800
Total non-current liabilities		**160,273**	**153,591**
CURRENT LIABILITIES			
Trade and other payables	12	25,483	25,356
Income tax payable		196	1,975
Lease liability	7	610	–
Other borrowings		1,310	882
Employee entitlements	13	2,439	2,953
Derivatives	20.7	223	269
Borrowings	14	20,500	21,500
Total current liabilities		**50,761**	**52,935**
EQUITY			
Share capital	16	29,026	29,026
Revaluation reserves and foreign currency translation reserve	17	113,144	113,140
Retained earnings		304,464	299,320
Equity attributable to owners of the Company		**446,634**	**441,486**
Non-controlling interests	18	32	32
Total equity		**446,666**	**441,518**
Total equity and liabilities		**657,700**	**648,044**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

	Notes	Group 2020 $000	Group 2019 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		152,628	156,621
Receipts from associates		147	206
Interest received		301	594
Dividends received		1,050	950
Insurance proceeds received		–	3,826
Payments to consumers, suppliers and employees		(122,637)	(125,879)
Interest paid		(5,487)	(4,859)
Income tax paid		(3,632)	(4,355)
Net cash generated from operating activities	**25**	**22,370**	**27,104**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of plant, property and equipment		1,029	184
Purchase of plant, property and equipment		(34,096)	(29,477)
Purchase of intangible assets		(418)	(502)
Net cash used in investing activities		**(33,485)**	**(29,795)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Lease liability principal repayments		(496)	–
Lease liability interest repayments		(136)	–
Proceeds from borrowings		76,200	80,950
Repayment of borrowings		(73,000)	(70,850)
Dividends paid		(500)	(6,010)
Net cash generated from financing activities		**2,068**	**4,090**
Net (decrease) / increase in cash and cash equivalents		**(9,047)**	**1,399**
Cash and cash equivalents at the beginning of the period		23,535	22,136
Cash and cash equivalents at the end of the period		**14,488**	**23,535**

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

STATEMENT OF ACCOUNTING POLICIES

For the year ended 30 June 2020

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 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 2019 NZ IFRS 16: Lease as adopted.

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

The Group has adopted NZ IFRS 16 Leases, which replaces 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. Under NZ IAS 17, a lessee was 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 lessee. Lessor accounting remains substantially unchanged.

On initial application of NZ IFRS 16, for all leases the Group has:

a. recognised right-of-use assets and lease liabilities in the Consolidated Statement of Financial Position, initially measured at the present value of the future lease payments. The lease liability is the present value of future lease payments, discounted using the rate implicit in the lease. Where the discount rate is not readily identifiable in the lease contract, the payments are discounted at the incremental borrowing rate applicable to the lease. The lease term is generally the non-cancellable period of the lease contract. A period covered by an option to extend the lease is included if it is reasonably certain the Group will exercise that option. The same term is applied as the economic useful life of the right-of-use asset. The right-of-use assets are initially recognised at the amount of the initial lease liability;
b. recognised depreciation of right-of-use assets and interest on lease liabilities in the Consolidated Statement of Comprehensive Income; and
c. separated the total amount of cash paid into the principal portion (presented within financing activities) and interest (presented within operating activities) in the Consolidated Statement of Cash Flows.

The Group has adopted the modified retrospective approach on transition and used the practical expedient of relying on hindsight for determining the term of property leases. Under this approach, NZ IFRS 16 has been applied to leases from the transition date on 1 July 2019 (the transition date). Accordingly, there is no cumulative catch-up adjustment to retained earnings. Prior year comparatives have not been restated.

The adoption of NZ IFRS 16 has not had a material impact on the Group's Statement of Comprehensive Income but has introduced new line items onto the Statement of Financial Position.

For short term leases (lease term of 12 months or less) and leases of low value assets, the Group has opted to recognise a lease expense on a straight line basis, as permitted by NZ IFRS 16.

A reconciliation of operating lease commitments at 30 June 2019 to lease liability recognised at 1 July 2019 is shown below:

	Group 2020 $000
Operating lease commitments disclosed at 30 June 2019	2,196
Discounted using the lessee's incremental borrowing rate at the date of initial application	(259)
Different treatment of extentions	2,329
Lease liability recognised as at 1 July 2019	**4,266**

NOTES TO THE FINANCIAL STATEMENTS

Key Judgements and Estimates

This Key Judgements and Estimates section provides information on 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 2020, 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 5	Plant, Property and Equipment
Fair value of land, buildings, vineyard improvements and bearer plants	Note 5	Plant, Property and Equipment
Application of NZ IFRS 16 Leases	Note 7	Leases

1.1 Explanatory Note – Impact of COVID-19

The outbreak of Coronavirus (COVID-19) was declared by the World Health Organisation as a 'Global Pandemic' on 11 March 2020. Since that time, there has been an increased adverse impact on global financial markets. Travel restrictions have been implemented by many countries and economic stimulus packages announced by many governments. Market activity has been impacted in almost every sector and there has been a major reduction in hospitality activity.

Overall, electricity volumes in Marlborough have not been materially impacted by COVID-19, though there have been some impacts at the customer category level, with a reduction in small commercial volumes and an increase in residential volumes. Electricity volumes for the year ended 30 June 2020 were within 0.5% of forecast. The Company's electricity network capital works programme was delayed by restrictions imposed under COVID-19 Alert Levels 3 and 4 and as a result, some costs remained within operating expenses, rather than being capitalised to the Statement of Financial Position.

Yealands Wine Group sells wine through both off-premise and on-premise channels. During this pandemic, volume and revenue has shifted channels. Yealands has a much stronger off-premise based business and services the grocery and retail channel via in market distributors or to supermarket distribution centres. The Group saw a reduction in demand through the pandemic, particularly in the on-premise channel, where there are still restrictions in place across the globe. The grocery channel demand has remained strong, but working capital changes in distributor and grocer warehouses resulted in reduced shipments in the interim as businesses focussed on cash requirements. Management undertook a number of initiatives to secure Group business performance, including Marlborough Lines Limited establishing a standby $30 million debt facility with ASB Bank Limited.

The Group's activities in the electricity distribution industry and the wine manufacturing industry were both deemed essential services and were allowed to continue to operate under Alert Levels 3 and 4. New ways of working were implemented, electricity outages were responded to and the Yealands Wine Group harvest was completed. The Group did not claim the wage subsidy.

Management have considered the impacts of COVID-19 on future cash flows and consider that the Group has sufficient cash resources to continue as a going concern for the 12 months following the date of the financial statements.

1.2 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 had their fair value assessed as at 30 June 2020 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 the Company’s network assets, the valuation was undertaken by way of discounted cash flow methodology in order to establish fair value. PricewaterhouseCoopers considered the impact of COVID-19 as part of the forecast cash flows, including revenues, and this did not change the valuation outcome.

In order to derive the valuation, a forecasting model was developed which incorporates the regulatory input methodologies. The model forecasts cash flows for a 10 year period, and derives a terminal value for the cash flows beyond the 10 year forecast. The resulting valuation has been expressed as a range based on the discount rate. 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	Combined volume and price growth of 1.1%	5% movement in revenue	5.1% movement
Operating expenditure	Consistent with Asset Management Plan	5% movement in opex	0.2% movement
Discount rate	4.7% to 5.7%	0.5% movement in rate	4.2% movement
RAB multiple	1.0 times	0.05 increase	3.8% movement

The carrying value of reticulation system assets was found to be within the valuation range and no adjustment was made for 2020.

1.3 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 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 carrying values as at 30 June 2019. Management have considered the appropriateness of the carrying value of these assets in the current year, including consideration of market comparable sales. No change to the carrying value was made as at 30 June 2020.

1.4 Critical Accounting Estimate – Impairment

The Company's Directors are of the view that there is no 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 2020

	Parent 2020 $000	Parent 2019 $000
CONTINUING OPERATIONS		
Revenue	44,580	51,646
Operating expenses	(29,287)	(28,214)
Operating surplus	**15,293**	**23,432**
EBITDA	**15,293**	**23,432**
Depreciation and amortisation	(9,350)	(9,084)
Finance income	594	592
Finance costs	(20)	(89)
Profit before tax expense	**6,517**	**14,851**
Income tax expense	(1,336)	(1,949)
Net profit for the period	**5,181**	**12,902**
Total comprehensive income for the period	**5,181**	**12,902**

Parent Company Statement of Financial Position Information

As at 30 June 2020

	Parent 30 June 2020 $000	Parent 30 June 2019 $000
Plant, property and equipment	242,773	243,183
Investments in subsidiaries and associates	153,621	138,621
Other assets	20,529	32,084
Total assets	**416,923**	**413,888**
Deferred tax liability	42,197	42,542
Other liabilities	15,041	16,342
Total liabilities	**57,238**	**58,884**
Share capital	29,026	29,026
Retained earnings and reserves	330,659	325,978
Total equity	**359,685**	**355,004**
Total equity and liabilities	**416,923**	**413,888**

Explanatory Note – Dividends from subsidiaries

Parent Company revenue includes dividend income received from subsidiaries of $0 (2019: $5.5 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 below.

EBITDA reconciliation

For the year ended 30 June 2020

	Notes	2020 $000	2019 $000
Parent EBITDA		15,293	23,432
Eliminate intercompany dividend	23.3	–	(5,500)
Add equity accounted investments net (deficit) / surplus	9.4	31	(9)
Add Yealands EBITDA under NZ IFRS		4,727	7,955
Consolidated Group EBITDA		**20,051**	**25,878**

3. REVENUE

	Group 2020 $000	Group 2019 $000
Electricity network revenue	46,492	45,973
Electricity network discounts	(8,602)	(8,418)
Net electricity network revenue	37,890	37,555
Wine sales	101,989	104,658
External contracting revenue	2,977	4,334
Vested assets	961	1,696
Dividends from equity accounted associates	1,050	950
Other income	2,598	2,613
Operating revenue	**147,465**	**151,806**

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. Electricity network discounts are allocated proportionately against electricity network revenue in accordance with the performance obligations of the posted discounts.
- 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

	Notes	Group 2020 $000	Group 2019 $000
PROFIT BEFORE TAXATION HAS BEEN ARRIVED AT AFTER CHARGING:			
Remuneration of Auditors – audit of the financial statements		220	166
Remuneration of Auditors – other assurance services		33	39
Directors' fees		720	655
Bad debts written off (recovered)		38	76
Employee benefits – retirement gratuities		117	103
Employee benefits – employer superannuation contributions		769	718
Educational grants		39	39
Loss on disposal of plant, property and equipment		1,125	416
Lease expenses	7	221	623
External contracting expenses		2,911	3,685
Wine cost of sales		73,232	71,435
Wine distribution and selling expenses		16,683	18,688
Transmission costs		7,501	7,965
Other operating and administrative expenses		23,836	21,311
Total operating expenses		**127,445**	**125,919**

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.

5. PLANT, PROPERTY AND EQUIPMENT

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 Equipment at Cost $000	Capital Work in Progress at Cost $000	Total $000
COST OR VALUATION								
Balance at 1 July 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**
Additions	–	–	37	–	–	1,142	33,444	34,623
Transfers	12,427	29	1,975	–	–	6,173	(20,604)	–
Disposals / adjustments	(3,518)	–	(309)	–	–	(3,829)	–	(7,656)
Balance at 30 June 2020	**402,893**	**91,794**	**50,854**	**64,907**	**14,615**	**95,965**	**35,075**	**756,103**
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
Balance at 1 July 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**
Depreciation expense	7,446	–	708	2,082	438	7,285	–	17,959
Disposals / adjustments	(2,365)	–	(309)	–	–	(2,780)	–	(5,454)
Balance at 30 June 2020	**192,648**	**–**	**10,032**	**4,940**	**559**	**37,044**	**–**	**245,223**
NET BOOK VALUE								
Balance at 30 June 2019	**206,417**	**91,765**	**39,518**	**62,049**	**14,494**	**59,940**	**22,235**	**496,418**
Balance at 30 June 2020	**210,245**	**91,794**	**40,822**	**59,967**	**14,056**	**58,921**	**35,075**	**510,880**
FAIR VALUE ADJUSTMENT 30 JUNE 2019								
Revaluation	–	7,134	3,479	259	536	–	170	11,578
Revaluation – write back	–	–	62	1,430	722	–	–	2,214
Revaluation gain	**–**	**7,134**	**3,541**	**1,689**	**1,258**	**–**	**170**	**13,792**

There was no fair value revaluation adjustment for the year ending 30 June 2020.

Depreciation relating to the vineyard and winery of Yealands Wine Group Limited of $8.7 million (2019: $8.2 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 2020, some assets of the Group were subject to a registered general security agreement to secure bank loans (see Note 14).

Accounting Policy – Basis of Measurment

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 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 over	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 2020 $000	Fair Value as at 30 June 2019 $000	Historic Cost Value as at 30 June 2020 $000	Historic Cost Value as at 30 June 2019 $000
Electricity reticulation network	Level 3	210,245	206,417	66,598	62,719
Land	Level 3	91,794	91,765	44,185	45,178
Buildings	Level 3	40,822	39,518	28,453	26,923
Vineyard Improvements	Level 2	59,967	62,049	39,258	40,079
Bearer Plants	Level 3	14,056	14,494	6,436	6,377
Total		**416,884**	**414,243**	**184,930**	**181,276**

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. Bearer Plants have been transferred into Level 3 of the fair value hierarchy as their fair value is determined by reference to market prices for each variety of grape grown in the local area and the market price paid to independent grape growers.

Adjustments to fair value were made as at 30 June 2019 (nil in current year). This is further discussed in the Critical Accounting Estimate Note 1.2.

6. INTANGIBLE ASSETS

	Easements $000	Software $000	Trademarks $000	Total $000
COST				
Balance at 1 July 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**
Additions	79	340	25	444
Disposals / transfers	–	(49)	–	(49)
Balance at 30 June 2020	**1,889**	**3,743**	**859**	**6,491**
ACCUMULATED AMORTISATION AND IMPAIRMENT				
Balance at 1 July 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**
Amortisation expense	–	467	105	572
Disposals / transfers	–	(47)	–	(47)
Balance at 30 June 2020	**–**	**3,154**	**437**	**3,591**
NET BOOK VALUE				
Balance at 30 June 2019	1,810	718	502	3,030
Balance at 30 June 2020	**1,889**	**589**	**422**	**2,900**

As at 30 June 2020, some assets of the 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 when 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 date 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.

7. LEASES

	Land and Vineyard Improvements $000	Buildings $000	Plant, Equipment and Motor Vehicles $000	Total $000
RIGHT-OF-USE ASSETS				
Opening Net Book Value 1 July 2019	3,313	953	–	4,266
Additions	–	–	584	584
Depreciation	(410)	(139)	(19)	(568)
Closing Net Book Value 30 June 2020	**2,903**	**814**	**565**	**4,282**
Cost	3,313	953	584	4,850
Accumulated depreciation	(410)	(139)	(19)	(568)
Closing Net Book Value 30 June 2020	**2,903**	**814**	**565**	**4,282**
LEASE LIABILITY				
Opening Lease Liability 1 July 2019	3,313	953	–	4,266
Additions	–	–	584	584
Interest expense	104	30	2	136
Principal repayments	(468)	(143)	(21)	(632)
Closing Lease Liability 30 June 2020	**2,949**	**840**	**565**	**4,354**
Current – with 1 year	375	122	113	610
Non-current – 1 to 2 years	413	142	124	679
Non-current – 2 to 5 years	777	303	126	1,206
Non-current – 5 or more years	1,384	273	202	1,859
Closing Lease Liability 30 June 2020	**2,949**	**840**	**565**	**4,354**

	Group 2020 $000	Group 2019 $000
AMOUNTS RECOGNISED IN PROFIT AND LOSS:		
Amortisation expense on right-of-use assets	139	–
Interest expense on lease liabilities	30	–
Expense relating to short-term leases	–	–
Expense relating to leases of low value assets	51	–
AMOUNTS CAPITALISED TO BIOLOGICAL WORK IN PROGRESS:		
Amortisation expense on right-of-use assets	429	–
Interest expense on lease liabilities	106	–
Expense relating to short-term leases	–	–
Expense relating to leases of low value assets	–	–

Explanatory Note – Measurement

The Group's lease arrangements consist of an Auckland office lease, two Marlborough vineyard leases, one Hawkes Bay vineyard lease and the lease of vineyard plant and equipment. The Group has applied judgement in determining the impact of adoption of NZ IFRS 16 on the Group. These were primarily regarding the lease term (which can be complex where leases include a right of renewal or cancellation). Where a lease contract includes a right of renewal, the Group has included this in the right-of-use asset and lease liability unless there is clarity that such lease agreement will not be renewed.

In determining the discount rate to measure the present value of the lease payments remaining, the Group has used the incremental borrowing rate of the leases. When estimating this rate, the Group took into consideration the market interest rate and applied a risk factor to this. The weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was estimated at 3.32% by management.

Accounting Policy – Recognition and Measurement

The Group leases vineyards, office space and vineyard machinery. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. These lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the lease term on a straight line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and;
- restoration costs.

The Group has applied the exemptions allowed under NZ IFRS 16 for low value and short-term leases. This recognises payments for leases of 12 months or less or leases of a low value on a straight-line basis as an expense in the Consolidated Statement of Comprehensive Income.

Investments

This Investments section provides information on the various companies in the Group, including any acquisition or disposal undertaken.

8. BUSINESS COMBINATIONS

Subsidiaries Acquired

No subsidiaries have been acquired in the current or prior year.

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.

9. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

9.1 Group Entities

Investments in subsidiaries and associates within the Group as at balance date were as follows:

	Year End	Effective Ownership 30 June 2020	Effective Ownership 30 June 2019
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 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 2020 $000	Parent 30 June 2019 $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 Group, being the Parent Company 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

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

	Group 30 June 2020 $000	Group 30 June 2019 $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	(9)	(40)
Interest in associate (excluding goodwill)	**14,347**	**14,316**
Current balance associate goodwill	1,220	1,220
Total interest in associate (including goodwill)	**15,567**	**15,536**

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 `typically reduce the equity adjustment for the share of associates' post acquisition profits.

9.4 Results of the Group's Associates

	31 March 2020 $000	31 March 2019 $000
A SUMMARY OF NELSON ELECTRICITY LIMITED'S RESULTS IS AS FOLLOWS:		
Assets as at 31 March	43,618	43,546
Liabilities as at 31 March	14,941	14,931
Revenue for year ended 31 March	9,889	10,199
Net profit after tax	2,162	1,882
THE GROUP SHARE OF THE RESULTS OF ITS ASSOCIATE IS AS FOLLOWS:		
Share of surpluses before tax	1,504	1,307
Less taxation	(423)	(366)
Less dividends / distributions received	(1,050)	(950)
Gain / (loss) attributable to its associate	**31**	**(9)**

Explanatory Note – Timing of Associate Year End

The gain / (loss) recognised in the Consolidated Statement of Comprehensive Income for Nelson Electricity Limited is for the 12 month period ended 31 March. The three month difference in reporting period is not considered material to the Group's results.

Working Capital

This Working Capital section provides information on the assets that 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 balance sheet.

10. TRADE AND OTHER RECEIVABLES

	Group 30 June 2020 $000	Group 30 June 2019 $000
THE BALANCE OF ACCOUNTS RECEIVABLE COMPRISES:		
Trade debtors	27,894	25,807
GST receivable	340	605
Accrued income	539	914
Works under construction	283	405
Prepayments	589	799
Allowance for expected credit losses	(365)	(184)
Total	**29,280**	**28,346**

Accounting Policy – Recognition and Impairment

Trade receivables, 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 balance 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 balance date. The Group assessed the impact of COVID-19 on trade receivables and adjusted the expected credit losses further in those receivable balances which were most likely impacted.

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 Consolidated Statement of Comprehensive Income within 'Operating expenses'. Subsequent recoveries of amounts previously written off are credited against 'Operating expenses'.

Explanatory Note – Carrying Value of Debtors

Included in the Group’s trade receivables balance are debtors with a carrying value of $724,499 (2019: $622,737) which are past due at balance date. The Group has provided for $365,273 (2019: $184,443) 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 2020 $000	Group 30 June 2019 $000
Electricity reticulation stock	6,153	4,438
Bulk wine	57,694	59,138
Bottled wine	9,324	9,420
Packaging and labels	422	886
Work in progress (next vintage)	3,038	3,943
Total	**76,631**	**77,825**

As at 30 June 2020, some assets of the 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 2020 $000	Group 30 June 2019 $000
IN CURRENT LIABILITIES THE BALANCE OF TRADE AND OTHER PAYABLES COMPRISES:		
Trade creditors	20,781	20,612
Provision for discount	3,496	3,401
GST payable	375	356
Income in advance	825	981
Retailer prudential security held in Trust	6	6
Total	**25,483**	**25,356**

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 2020 $000	Group 30 June 2019 $000
Employee entitlements	2,439	2,953
Total	**2,439**	**2,953**

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 balance 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.

14. BORROWINGS

	Group 30 June 2020 $000	Group 30 June 2019 $000
Current	20,500	21,500
Non-current	95,000	90,800
Total	**115,500**	**112,300**

Terms and repayments schedule

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

As at 30 June 2020

Lender	Nominal Interest Rate	Maturity	Currency	Face Value $000	Carrying Amount $000
ASB Bank Limited	1.90%	Jul-21	NZD	10,000	10,000
ASB Bank Limited	1.69%	Jul-22	NZD	20,000	20,000
ASB Bank Limited	1.76%	Jul-22	NZD	45,000	45,000
ASB Bank Limited	2.02%	Jul-23	NZD	15,400	15,400
ASB Bank Limited	2.03%	Jul-23	NZD	1,600	1,600
ASB Bank Limited	2.20%	Jul-23	NZD	3,000	3,000
Total interest-bearing liabilities				**95,000**	**95,000**

As at 30 June 2019

Lender	Nominal Interest Rate	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**

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 – Borrowing facilities

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

The $20.5 million current amount relates to a Working Capital Facility. The remaining ASB Bank Limited term facilities range in remaining terms from 1 years through to 3 years, with a final expiry date on 15 July 2023. 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 have provided an unconditional and irrevocable guarantee to ASB Bank Limited.

As at 30 June 2020, there is no guarantee or security provided by Marlborough Lines Limited in relation to the term facilities of Yealands Wine Group.

As at 30 June 2020, Marlborough Lines Limited had a standby $30 million facility with ASB Bank Limited, with a final expiry date of 16 June 2025. This facility is secured by a general security deed over the property of Marlborough Lines Limited. At balance date, this facility had not been drawn down.

15. NET FINANCING INCOME

	Group 2020 $000	Group 2019 $000
FINANCIAL INCOME		
Interest income on bank deposits	301	594
Total finance income	**301**	**594**
FINANCIAL EXPENSES		
Interest cost – term borrowings	(5,603)	(4,843)
Interest cost – other	(20)	(90)
Unrealised interest rate swap loss	(2,498)	(4,454)
Total finance expenses	**(8,121)**	**(9,387)**
REALISED / UNREALISED FOREIGN EXCHANGE GAINS / (LOSSES)		
Realised foreign exchange (loss)	(37)	(554)
Unrealised foreign exchange gain / (loss)	673	3,989
Total gains / (losses) on financial instruments	**636**	**3,435**

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 30 June 2020 $000	Group 30 June 2019 $000
28 million Ordinary Shares	29,026	29,026
Total	**29,026**	**29,026**

Explanatory Note – Share Capital

The Company's shares are held by the Trustees of 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. 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 2020 $000	Group 2019 $000
PROPERTIES REVALUATION RESERVE		
Balance at the beginning of the year	113,317	101,389
Increase in fair value of land, buildings, vineyard improvements and bearer plants, net of tax	–	11,928
Balance at end of the year	**113,317**	**113,317**

Explanatory Note – Revaluation Reserve

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

	Group 30 June 2020 $000	Group 30 June 2019 $000
THE GROUP PROPERTIES REVALUATION RESERVE COMPRISES REVALUATIONS IN THE FOLLOWING CATEGORIES:		
Land, buildings, vineyard improvements and bearer plants	73,992	73,992
Electricity reticulation network	35,639	35,639
Investments in associates	3,686	3,686
Total	**113,317**	**113,317**

17.2 Foreign Currency Translation Reserve (FCTR)

	Group 2020 $000	Group 2019 $000
Balance at the beginning of the year	(177)	(89)
Movement for the year	4	(88)
Balance at end of the year	**(173)**	**(177)**

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

Explanatory Note – Non-Controlling Interests

The non-controlling interest recognised within equity as at balance date relates to an outside interest in Seaview Water Group Limited.

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. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another NZ IFRS.

19. DIVIDENDS

	Group 2020	Group 2019
AMOUNTS RECOGNISED AS DISTRIBUTIONS TO EQUITY HOLDERS IN THE PERIOD:		
Total dividends ($000)	500	6,010
Cents per share	1.786	21.464

Explanatory Note – Dividends

A lower dividend was paid to the Marlborough Electric Power Trust in the current year, following lower cash returns received from the Company's investments.

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.

The Group maintains credit facilities at a level sufficient to fund working capital during the period between cash expenditure and cash inflow. At balance date, the Group had unused credit facilities in the form of undrawn bank loan facilities of $34.5 million (2019: $7.4 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 manage the exchange rate risk arising on the export of wine principally to the United States, United Kingdom, the European Union 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 and therefore exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved parameters utilising forward foreign currency exchange contracts.

	Group 30 June 2020 $000	Group 30 June 2019 $000
Cash and cash equivalents	1,880	936
Trade and other receivables	14,072	11,009
Trade and other payables	(1,061)	(1,394)
	14,891	**10,551**

Sensitivity Analysis

The Group is mainly exposed to Euros (EUR), Pound Sterling (GBP), Australian dollars (AUD) and US Dollars (USD). 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 GBP	$000 USD	$000 Other
IMPACT ON GROUP 2020 NET SURPLUS:					
10% increase	(159)	(840)	(198)	(134)	(24)
10% decrease	194	1,026	242	164	29
IMPACT ON GROUP 2019 NET SURPLUS					
10% increase	(140)	(655)	(14)	(152)	2
10% decrease	171	801	17	186	(3)

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 balance date.

Notional principal of outstanding currency exchange contracts	Group 30 June 2020 $000	Group 30 June 2019 $000
EUR	65,035	58,578
USD	10,628	11,174
AUD	3,898	4,340
Other	9,147	8,925
	88,708	**83,017**

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.

The Group is exposed to interest rate risk as it 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 balance 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.

Change in interest rate %	Group 2020 $000	Group 2019 $000
IMPACT ON GROUP NET SURPLUS:		
2.0% increase	(250)	116
2.0% decrease	250	(116)

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 as at balance date, as disclosed below.

Change in interest rate %	Group 30 June 2020 $000	Group 30 June 2019 $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 (2019: 2.550% to 3.695%).

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

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 general policy of trading with customers for which trade credit insurance has been granted by the Group's trade credit insurance provider, guarantees received 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.

Status of trade receivables	Group 30 June 2020 Gross $000	Group 30 June 2020 Impairment $000	Group 30 June 2019 Gross $000	Group 30 June 2019 Impairment $000
Not past due	24,171	–	21,459	(2)
Current	2,999	–	3,725	(8)
30 days overdue	358	(150)	292	(7)
60 days overdue	41	(8)	25	(0)
90 days overdue	325	(207)	306	(167)
	27,894	**(365)**	**25,807**	**(184)**

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.

During the year, the Group changed its approach to liquidity risk management by Marlborough Lines Limited obtaining a standby debt facility, as discussed in Note 14. At balance date, this facility had not been drawn down.

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
2020 CONTRACTUAL MATURITY				
Trade and other payables	25,483	–	–	–
Interest cost on term debt	5,596	4,844	6,176	–
Borrowings	20,500	10,000	65,000	20,000
2019 CONTRACTUAL MATURITY				
Trade and other payables	25,356	–	–	–
Interest cost on term debt	4,582	4,096	7,001	653
Borrowings	21,500	20,000	70,800	–

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 as at balance date.

	Less than 6 Months $000	6–12 Months $000	1–2 Years $000	Over 2 Years $000
2020 LIQUIDITY ANALYSIS				
Interest rate swaps – net settled cash outflows	1,455	1,571	3,141	5,533
Forward exchange contracts – cash outflows	13,910	18,022	31,645	25,130
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

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 2020 $000	Group 30 June 2019 $000
Derivative financial assets – current	Level 2	945	1,170
Derivative financial assets – non-current	Level 2	2,400	2,184
Total financial assets		**3,345**	**3,354**
Derivative financial liabilities – current	Level 2	(223)	(269)
Derivative financial liabilities – non-current	Level 2	(10,969)	(8,322)
Total financial liabilities		**(11,192)**	**(8,591)**
Net financial liability		**(7,847)**	**(5,237)**

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 2020 $000	Group 2019 $000
Foreign currency forward contracts	2,953	3,065
Interest rate swaps	(10,800)	(8,302)
Net financial liability	**(7,847)**	**(5,237)**

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 and Marlborough Lines Limited are subject to a number of banking covenants in relation to the term debt facilities outlined in Note 14. All banking covenants have been compiled with 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.

During the year, a change to the Group's capital management approach was implemented, with the provision of an inter-company loan from Marlborough Lines Limited to Yealands Wine Group Limited, as disclosed in Note 23.2. A review and strengthening of the cash management plan at Yealands Wine Group was also undertaken, in response to COVID-19.

21. FINANCIAL INSTRUMENTS

21.1 Classification of Financial Instruments

Consolidated Group as at 30 June 2020

Financial Assets	Loans and Receivables $000	Held for Trading (FVTPL) $000	Other Amortised Cost $000	Total Carrying Amount $000
CURRENT ASSETS				
Cash and cash equivalents	11,988	–	–	11,988
Short-term deposits	2,500	–	–	2,500
Trade and other receivables	28,351	–	–	28,351
Derivatives	–	945	–	945
NON-CURRENT ASSETS				
Derivatives	–	2,400	–	2,400
Total financial assets	**42,839**	**3,345**	**–**	**46,184**

Financial Liabilities	Held for Trading (FVTPL) $000	Other Financial Liabilities $000	Total Carrying Amount $000
CURRENT LIABILITIES			
Trade and other payables	–	25,107	25,107
Derivatives	223	–	223
Term borrowings	–	20,500	20,500
NON-CURRENT LIABILITIES			
Derivatives	10,969	–	10,969
Term borrowings	–	95,000	95,000
Total financial liabilities	**11,192**	**140,607**	**151,799**

Consolidated Group as at 30 June 2019

Financial Assets	Loans and Receivables $000	Held for Trading (FVTPL) $000	Other Amortised Cost $000	Total Carrying Amount $000
CURRENT ASSETS				
Cash and cash equivalents	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**

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 balance 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

Fair Value of derivative financial instruments	Group 2020 $000	Group 2019 $000
TAX EXPENSE COMPRISES:		
Current tax expense	1,526	3,571
Deferred tax expense relating to the origination and reversal of temporary differences	(4,322)	(988)
Tax (benefit) / expense	**(2,796)**	**2,583**
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	**2,848**	**10,987**
Prima facie income tax calculated at 28%	797	3,076
Plus / (less) taxation adjustments:		
Non-deductible expenses and deferred revenue	92	472
Deferred tax on reinstatement of depreciation on buildings	(3,268)	–
Net benefit of imputation credits	(408)	(968)
Equity accounted earnings of associates	(9)	3
Tax (benefit) / expense recognised in the Statement of Comprehensive Income	**(2,796)**	**2,583**

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 balance 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 2020

Financial Assets	Opening Balance $000	Charged to Income $000	Charged to OCI $000	Closing Balance $000
DEFERRED TAX LIABILITIES				
Plant, property and equipment	52,522	(3,517)	–	49,005
Inventory	2,238	(578)	–	1,660
	54,760	**(4,095)**	**–**	**50,665**
DEFERRED TAX ASSETS				
Provisions for employee entitlements, retirement obligations and doubtful debts	(1,020)	133	–	(887)
Tax losses	–	(376)	–	(376)
Leases	–	(20)	–	(20)
Doubtful debts and impairment losses	(74)	36	–	(38)
	(1,094)	**(227)**	**–**	**(1,321)**
Net deferred tax liability	**53,666**	**(4,322)**	**–**	**49,344**

Consolidated Group for the year ended 30 June 2019

Financial Assets	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**

Explanatory Note – Changes to tax depreciation

On 17 March 2020, the Government announced a package of measures to support businesses through the impact of COVID-19. One of the measures introduced was the reintroduction of tax depreciation on commercial and industrial buildings. For non-residential buildings, tax depreciation is claimed at 1.5% per annum straight line. Tax losses on the disposal of a building remain non-deductible and should a building be sold for more than its tax book value, tax depreciation previously claimed will be recoverable. The impact of the change in the treatment of tax depreciation has been reflected through the current year tax expense, being the financial reporting period in which the reintroduction of tax depreciation on non-residential buildings was substantively enacted.

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 nor 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 balance 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 2020 $000	Group 2019 $000
Balance at beginning of period	62,687	60,150
Attached to dividends paid in the period	(194)	(2,337)
Attached to dividends received	408	2,508
Income tax payments during the period	2,713	2,366
Balance at end of period	**65,614**	**62,687**

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 – 2020						
Construction Coatings Limited	Director	–	91	–	–	–
Cuddon Limited	Director	–	38	–	–	2
Precast Systems Limited	Director	–	28	–	–	6
Robinson Construction Limited	Director	–	3	–	–	–
YEALANDS WINE GROUP LIMITED DIRECTOR RELATIONSHIPS – 2020						
Dew & Company Limited	Director	–	12	–	–	–
PJ Radich Family Trust	Associated to a Director	–	608	–	–	341
Radich Law	Partner	–	377	75	–	2
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	–	–	–	–

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).

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

PJ Radich Family Trust (an entity associated with Peter Radich) supplies grapes to Yealands Wine Group Limited.

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. These are passed through to third parties for legal representation, land survey fees etc. These amounts are shown separately in the table above.

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

23.3 Subsidiary Companies

	2020 $000	2019 $000
YEALANDS WINE GROUP LIMITED		
Director's fees paid to Marlborough Lines Limited for Mr K Forrest	34	82
Dividend income paid to Marlborough Lines Limited	–	5,500
Purchases from Yealands Wine Group Limited	12	13
Electricity assets paid for by Yealands Wine Group Limited	48	43
Interest income paid / payable to Marlborough Lines Limited	307	–
Amounts receivable from Yealands Wine Group Limited	15,055	5
SOUTHERN LINES LIMITED		
Term debt owed by Marlborough Lines Limited	5,000	5,000

Explanatory Note – Inter-Company loan

During the year, Marlborough Lines Limited provided Yealands Wine Group Limited with an inter-company loan, with interest payable monthly.

23.4 Associate Entities

	2020 $000	2019 $000
NELSON ELECTRICITY LIMITED		
Director's fees paid to Marlborough Lines Limited for Mr K Forrest	11	22
Dividend income paid to Marlborough Lines Limited	1,050	950
Management fees charged to Nelson Electricity Limited by the Company	102	102
Amounts owed by Nelson Electricity Limited	58	58

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 Marlborough Lines Limited provided management and accounting services to Nelson Electricity Limited. 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 2020 $000	Group 2019 $000
Directors' fees	735	656
Salaries and short term employee benefits	3,666	3,177
Retirement benefits paid	55	29
Compensation during the period	**4,456**	**3,862**

	Group 30 June 2020 $000	Group 30 June 2019 $000
Retirement benefits accrued as at balance date	153	151

25. RECONCILIATION OF PROFIT TO NET CASH GENERATED FROM OPERATING ACTIVITIES

	Group 2020 $000	Group 2019 $000
Profit for the year from continuing operations	**5,644**	**8,404**
ADD / (LESS) NON-CASH ITEMS		
Depreciation and amortisation	18,430	17,650
Fair value adjustment to inventory	2,064	3,794
Income from vested assets and capital contributions	(1,301)	(1,730)
Other non cash items	4,092	(7)
NON-CASH ITEMS IN RELATION TO INVESTING / FINANCING ACTIVITIES		
Share of associate net (profit) /loss	(31)	9
Loss on sale of fixed assets	1,125	416
Current charge to deferred taxation	(4,322)	(988)
CHANGES IN WORKING CAPITAL ITEMS		
(Increase) / decrease in assets		
(Increase) / decrease in accounts receivable	(1,295)	2,709
(Increase) in inventories	(870)	(3,070)
Increase / (decrease) in liabilities		
Increase in trade and other payables	660	301
(Decrease) in tax payable	(2,106)	(763)
(Decrease) in employee entitlements	(514)	(138)
Increase in finance lease payable	794	517
Net cash generated from operating activities	**22,370**	**27,104**

26. COMMITMENTS

26.1 Capital Commitments

	Group 30 June 2020 $000	Group 30 June 2019 $000
Capital expenditure committed to at balance date but not recognised in the financial statements	3,599	11,206

26.2 Grape Purchase Commitments

In the ordinary course of business, Yealands Wine Group Limited has agreements with grape growers which require 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 action. The Group has sufficient means to address any such actions including legal fees.

28. NEW AND REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS

There are no NZ IFRS standards and interpretations that have been recently issued or amended but are not yet effective.

29. EVENTS SUBSEQUENT TO BALANCE DATE

Impact of COVID-19

In August 2020, following identified cases of community transmission in Auckland, Auckland moved to Alert Level 3 and the rest of New Zealand to Alert Level 2. This had no material impact on the operations of the Group.

STATEMENT OF SERVICE PERFORMANCE

For the year ended 30 June 2020

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.

For the year ended 30 June 2020, the Company set itself targets in five areas: financial, network reliability, health and safety, customer and environment. The Company achieved its targets in three of these areas (health and safety, customer and environment) and achieved one of the two network reliability targets. Financial results in the current year were impacted by COVID-19, amongst other things, which meant that the return targets were not achieved.

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 3.18% (2019: 5.39%) return on average shareholders' funds of $357 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 $1.8 million, equating to a post-tax return of 1.05% (2019: 4.48%) on the amount invested. This rate of return does not include any capital gains on Marlborough Lines' investments.
3	**Target:**	Pay a dividend in accordance with the Company's dividend policy.
	Result:	MEPT was paid total dividends of $0.50 million (2019: $6.01 million). This was made up of an interim dividend paid during March 2020 of $0.30 million and a final dividend during June 2020 of $0.20 million.
4	**Target:**	Pay discounts to consumers of at least $8.4m (excluding GST).
	Result:	In accordance with the posted price/discount requirements, total discounts of $8.5 million (2019: $8.4 million) were paid to Electricity Retailers in March 2020.

NETWORK RELIABILITY PERFORMANCE TARGETS

5	**Target:**	Planned SAIDI (average duration of customer outages) not to exceed 65 minutes.
	Result:	An average of 56.1 minutes (2019: 47.5 minutes) lost per customer for the year to 31 March 2020. 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 118.0 minutes (2019: 81.2 minutes) lost per customer for the year to 31 March 2020.

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:**	Maintain certification in ISO 45001:2018 Occupational Health and Safety and NZS 7901:2014 and 7901:2008 Safety Management Systems for Public Safety.
	Result:	The Company was reviewed against both ISO 45001:2018 and NZS 7901:2014 and 7901:2008 in June 2020 and recertification was achieved.

CUSTOMER PERFORMANCE TARGETS

9	**Target:**	Maintain overall consumer satisfaction at above 85%.
	Result:	Consumer satisfaction with Marlborough Lines' performance remains high. 86% (p37) of the sample rated their satisfaction with the Company's overall performance as either Satisfied or Very Satisfied (2019: 85%).
10	**Target:**	Provide at least two newsletters to consumers providing financial, energy efficiency and health and safety information.
	Result:	Two Connections newsletters were 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 June 2020 and recertification was achieved.

Deloitte.

Independent Auditor's Report

To the readers of Marlborough Lines Limited's consolidated financial statements and performance information for the year ended 30 June 2020.

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

Opinion on the consolidated financial statements and the performance information

We have audited:

- The consolidated financial statements of the Group on pages 69 to 111, that comprise the consolidated statement of financial position as at 30 June 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date and the notes to the consolidated financial statements that include accounting policies and other explanatory information; and
- the performance information of the Group for the year ended 30 June 2020 on pages 112 to 113.

In our opinion:

- the consolidated financial statements of the Group:
  - present fairly, in all material respects:
    - its consolidated financial position as at 30 June 2020; and
    - its consolidated financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with 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 2020.

Our audit was completed on 29 September 2020. 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 consolidated 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.

Emphasis of Matter – COVID-19

Without modifying our opinion, we draw attention to Note 1 and Note 29 to the consolidated financial statements, which explains the impact of the Covid-19 pandemic on the entity.

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

The Board of Directors is responsible on behalf of the Group for preparing consolidated 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 consolidated financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the performance information, the Board of Directors is responsible on behalf of the Group for assessing the Group'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 consolidated financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements and performance information.

For the performance information reported in the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements and the performance information, including the disclosures, and whether the consolidated 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 consolidated 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 an engagement in the area of Information Disclosure which is compatible with those independence requirements. Other than the audit and this engagement, we have no relationship with or interests in the Group.

Nicole Dring

Partner For Deloitte Limited
On behalf of the Auditor-General
Christchurch, New Zealand

DIRECTORY

MANAGEMENT

T J COSGROVE
ME (Mgt), BE (Hons) (Mech), BCom, CEng, CMInstD

Chief Executive Officer

G D JONES
BCom, CA

Chief Financial Officer

S J MCLAUCHLAN
IMLANZ

General Manager Contracting

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 Limited on behalf of the Controller and Auditor-General

BANKERS

Westpac Banking Corporation, New Zealand

FINANCIAL AND TAX ADVISORS

PricewaterhouseCoopers, Wellington/Auckland

SOLICITORS

Radich Law, Blenheim
Simpson Grierson, Auckland

A BRIEF HISTORY OF MARLBOROUGH LINES

A STORY OF GROWTH

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 40 kms from Blenheim. This hydro scheme was commissioned in 1927 and subsequently, diesel generation was added on the outskirts of Blenheim as demand increased.

1983
Additional hydro generation was built and commissioned in 1983, with the establishment of two stations at the Branch River, west of Blenheim.

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

1993
The shares in the Company were vested in the Trustees to the Marlborough Electric Power Trust, a body set up under legislation to perform the shareholder duties on behalf of electricity consumers and to appoint commercial directors.

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" electricity legislation, Marlborough Electric was forced to sell its generation assets and its electricity trading business unit to become solely an electricity network owner and operator.

1999

In March 1999, Marlborough Electric Limited became Marlborough Lines Limited – the name change reflecting the new focus. Following the sale of its electricity trading and generation businesses the Company began investigating further investment within the electricity distribution sector.

2002

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

2010

Marlborough Lines acquired a 13.89% shareholding in the Whakatane based regional 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 the Yealands Wine Group to 86%.

2018

Marlborough Lines acquires the remaining shares in Yealands Wine Group to now hold 100% of the issued capital.

GLOSSARY

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

Average Typical Domestic Customer
This is an accepted industry standard for a domestic customer using 8,000kWh per annum comprising 3,200 water heating units (usually controlled) and the balance at 24 hour availability rates

Distributed Generation
Customer owned generation capable of exporting electricity into the local distribution grid

EBIT
Earnings Before Interest and Taxation

EBITDA
Earnings Before Interest, Taxation, Depreciation and Amortisation

EV
Electric Vehicle

GWh
Gigawatt hour – 10^6 kWh, measurement of energy

GXP
Grid exit point. (Usually refers to a Transpower supply point)

ICP
Installation Connection Point. Point of the supply system where the end use customer is connected

km
Kilometre. Unit of distance measurement

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

kVA
kilovolt Ampere – measurement of apparent power

kWh
kilowatt hour – 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

MEPT
Marlborough Electric Power Trust

MVA
Megavolt Ampere – measurement of apparent power (1,000 kilovolt amperes)

MW
Measurement of electricity. 1 MW equals 1,000 kilowatts

NZ IFRS
New Zealand International Financial Reporting Standards

NPAT
Net Profit after Tax

OAG
Office of the Auditor General

PV
Photovoltaic

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

SCADA
Supervisory Control and Data Acquisition

SCI
Statement of Corporate Intent

Zone Substation
Point within the network where the power supply changes from 33kV to 11kV

WACC
Weighted Average Cost of Capital

MARLBOROUGH LINES

1-3 Alfred Street
PO Box 144
Blenheim 7240
New Zealand

T +64 3 577 7007
F +64 3 579 3806

www.marlboroughlines.co.nz