Annual Report 2021

Marlborough Lines

Marlborough Lines is "Leading the charge" through its transition to fully electric vehicles.

▼ One of Marlborough Lines' four electric vehicles in the fleet – a Hyundai Kona.

The energy landscape is changing. There will be challenges to face, but our team are energised and ready to tackle them.

We take pride in our vision of "Energising Marlborough's future" and in working for our community. We are proud to be Marlborough Lines.

Energising Marlborough's Future

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Introduction

◄ Hayden Marfell, Taine Cragg-Love and Kyle Marfell preparing to construct a section of new line.

About Us

Who are we?

We see ourselves as part of a wider team that encompasses:

- Our 26,000+ consumers;
- Our region – businesses, local entities, sponsorships;
- Our trustees and shareholder – the Marlborough Electric Power Trust (MEPT);
- Our people – the Board of Directors, Senior Leadership Team, and our employees; and
- Our investments in Yealands Wine Group Limited (YWG) and Nelson Electricity Limited (NEL).

Marlborough Lines primarily manages Marlborough's electricity distribution network, which is located at the top of the South Island of New Zealand. The region's electricity is supplied from a single Transpower point and from there radiates out to the wider Marlborough region.

Marlborough Lines is part of a Group structure that includes Marlborough Lines Limited (MLL), our subsidiary YWG, and a 50% share of NEL. We are required by legislation to operate as a successful business and we continue to achieve this in both financial and operational terms.

The Marlborough region

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

Marlborough is New Zealand's largest wine region, and produces over 75% of New Zealand's wine. It has more than 28,300 hectares of land currently planted in grapes and further plantings are continuing. As well as wine, Marlborough is known for aquaculture, farming, forestry and tourism.

About this report

This 2021 Annual Report summarises the operations, activities, and financial performance and position for Marlborough Lines and the Marlborough Lines Group for the year ended 30 June 2021.

Some of the Marlborough Lines electricity network reliability information provided in this report relates to the 12 months ended 31 March as the Commerce Commission uses this period for monitoring industry operational performance.

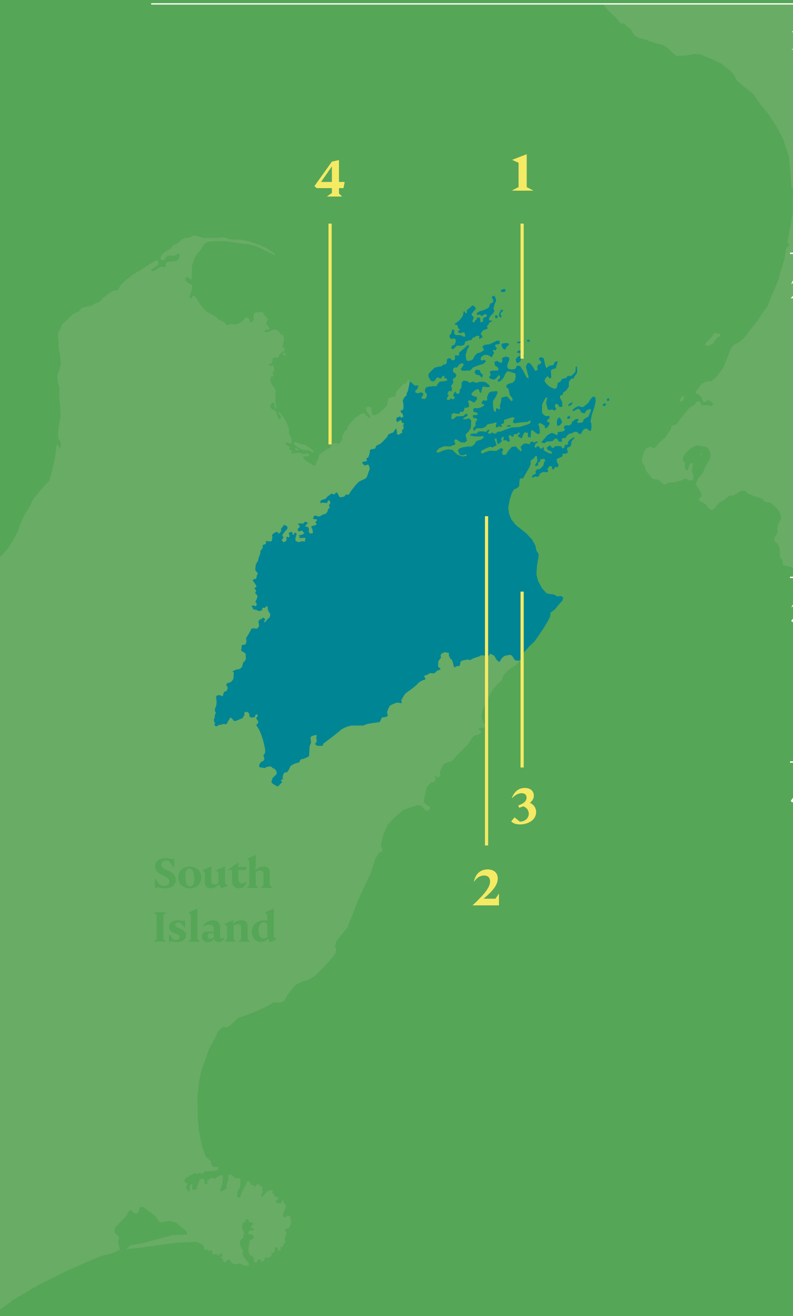
Consistent with our commitment to environmental sustainability, Marlborough Lines undertakes only a small print run of the Annual Report and we encourage interested parties to access the electronic version (PDF) on our website **www.marlboroughlines.co.nz**.

Report objectives

We recognise that different information is relevant to the Company's various stakeholders, and therefore have included in this report both financial and non-financial information, a frequently asked questions section, and a description of the electricity industry supply chain.

▲ Marlborough Lines vehicles embarking onto a barge to carry out work in areas isolated by road damage, caused by the July 2021 storm event. *Image courtesy of Marlborough District Council.*

Structure and Location



1 **Marlborough Sounds**

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

2 **Blenheim and Marlborough**

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

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

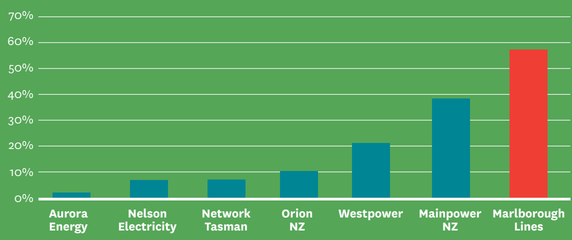
3 **Seddon**

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

4 **Nelson**

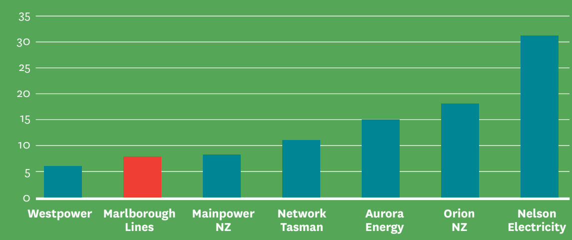
Marlborough Lines jointly owns Nelson Electricity Limited with Network Tasman Limited. Both companies own 50%.

Remote and/or Rugged Terrain (%)



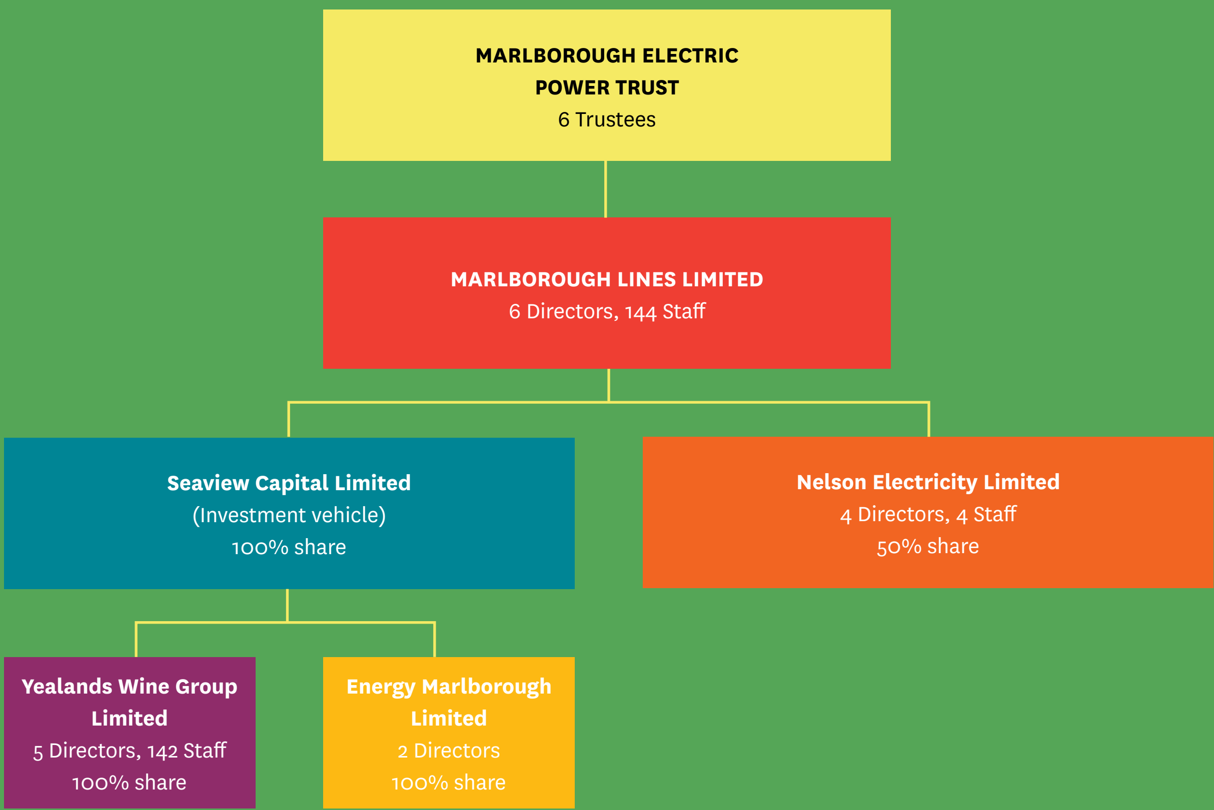
57% of Marlborough Lines' network is located on remote and/or rugged terrain. Source: Company 2021 Information Disclosure Schedules.

Connection Density (ICP/km)



Marlborough Lines has, on average, 7.8 electricity connections per kilometre of network. Source: Company 2021 Information Disclosure Schedules.

Marlborough Lines Ownership Structure
As at 30 June 2021



Performance Overview

Group Financial Results

Total operating revenue ▼ DOWN 2.0%

$144.8 million

Revenue below prior year due to COVID-19 impacting wine sales and lower electricity line revenue following a price reduction.

Earnings before interest, tax, depreciation and amortisation (EBITDA) ▼ DOWN 15%

$16.7 million

EBITDA down on prior year, with higher wine cost of sales largely as a result of low harvest volumes.

Net profit after tax (NPAT) ▼ DOWN 26%

$5.5 million

NPAT down on prior year, impacted by reduction to EBITDA, but assisted by gains on interest rate swaps.

Key Network Metrics

Volume of energy distributed ▲ UP 0.2%

417 GWh

Network volume up on prior year.

Average total minutes of lost supply per consumer per year ▼ DOWN 20%

138 minutes

Outage minutes were lower than prior year and below MLL's target of 150 minutes.

Total active Marlborough network connections ▲ UP 0.7%

26,186 consumers

Marlborough continues to have low and steady growth in connections.

Parent Outcomes

Capital and maintenance expenditure to increase capacity and improve reliability ▲ UP 10%

$21.1 million

Capital expenditure up as prior year was impacted by COVID-19 restrictions.

Total discounts, inclusive of GST, paid to Marlborough consumers ▲ UP 18%

$11.6 million

MLL paid two discount payments during the year as part of COVID-19 relief measures and realignment of timing.

Total dividend paid to the Marlborough Electric Power Trust ▲ UP 260%

$1.8 million

Dividend paid to the Trust increased with improvement to the Group's cash position and forecast.

Yealands Outcomes

Total grapes processed ▼ DOWN 34%

13,653 tonnes

Harvest yields impacted by weather over flowering season, consistent with Marlborough industry.

Wine sales ▼ DOWN 3.3%

$98.6 million

Wine sales down this year with the continued impact of COVID-19 on on-premise sales, along with shipping delays. Also there was a reduction in available wine.

Dividends paid NO CHANGE

$0 million

No dividend paid by Yealands Wine Group to Marlborough Lines as focus on debt reduction.


AICHI
MEL7

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Review of Operations

◄ The MLL team working on a transformer upgrade on a Marlborough vineyard.

Chair's Report

A new Chair

March 2021 saw the retirement of David Dew from the Marlborough Lines Limited Board of Directors. I, as the newly appointed Chair of the Company, would like to thank David for his twenty years of service, including 14 years as Board Chair of Marlborough Lines, along with his directorship of group subsidiary and associate companies, including Nelson Electricity, OtagoNet, Seaview Capital and Yealands Wine Group.

Being appointed to the role of Chair has seen a big change to my work week. It is a rewarding opportunity that I am proud to have been appointed to. Marlborough Lines is a significant business in Marlborough with a very important remit, ensuring the safe and reliable supply of electricity to the region.

Exciting times for the electricity industry

The process of decarbonisation – the reduction of fossil fuels as a source of energy – is bringing challenges for the network in Marlborough with electric vehicles (EVs) starting to gather momentum. EVs include cars, utes, vans and large vehicles, but also there has been the recent announcement by Sounds Air of their order for new electric aircraft from 2026. KiwiRail has also ordered inter-island ferries that will be running on battery power for at least part of their voyage, which are expected to be delivered in 2025. These changes will increase demand on the Marlborough Lines network and require future thinking and great planning.

Distributed generation – generation that is spread throughout the network – most commonly recognised as solar generation in Marlborough, is also on the increase. While domestic installations have been steadily increasing, there has been an increase in entrepreneurs looking to install large solar generation arrays that feed into the Marlborough Lines network. These will create capacity challenges to the network, which will have to respond to a two-way flow of electricity.

Climate risk is another area that the company is preparing for, particularly with an increase in extreme weather events, like the Marlborough flooding event that occurred in July 2021.

Events such as these highlight the need for a resilient network and show that accessing the network during these events is difficult, with slips and trees across roads for example, which delay the restoration of electricity supply. During the July flooding, the team at Marlborough Lines, as always, responded to get the power back on as soon as possible, using both barges and helicopters as required.

A repositioning year for Yealands

Part of the governance of Marlborough Lines involves the significant investment fund that the company has generated for the benefit of the beneficiaries of the Marlborough Electric Power Trust. Marlborough Lines has held a 50% shareholding in Nelson Electricity for some time, but Yealands Wine Group is the single biggest investment since 2015.

Yealands has transitioned from a privately owned company established in 2008, to a large corporate, with all the changes required to governance, management structures, internal systems and reporting which that brings. There have also been a number of headwinds for Yealands which are now largely historic, with the earthquake remediation capital expenditure nearly at an end.

Freeing up capital, with the strategic sale of four vineyards to the New Zealand Superannuation Fund, has helped with resetting the capital structure of Yealands, balancing out the owned versus grower grape supply and has allowed management to focus on running a successful company. The Maher property, which was purchased in 2019, has been developed into a 118 hectare vineyard which will be of significant production value in the future.

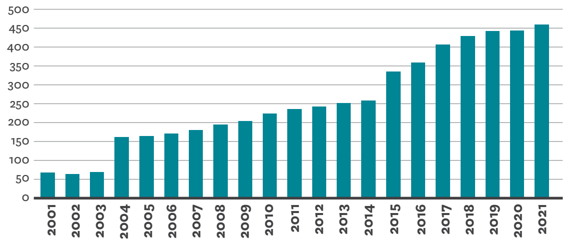
However, COVID-19 and now a light harvest for vintage 21, has Yealands in the middle of a couple of low income years for the company. Management is working to position the business to reduce the impact of the smaller returns in FY22. The Our Investments section of this Report has some further information from the Yealands team.

The improvements to Yealands' balance sheet and already being on the premiumisation journey means that Yealands is well positioned to navigate the challenges that the low harvest will bring. However, in recognition that it will be a challenging year and to set the company up for future growth, no dividend was paid to Marlborough Lines during FY21. Instead prioritisation was given to debt reduction and completing the capital expenditure programme.

Impact on the shareholder

No dividend from the Company's major investment meant a significant reduction in cash available as a dividend pool for the Trust. However, other income from its investments has allowed Marlborough Lines to pay a $1.8 million dividend to MEPT. This will mean, in turn, that there will likely be a distribution from MEPT to consumers in January 2022.

Equity Attributable to the Shareholder ($m)



The Group's equity value has increased from $65m in 2001 to $459m in 2021, through a combination of revaluations, realised gains on sale of investments and retained earnings.

A team effort

The Marlborough Lines Board have again this year appreciated the strong support from the MEPT and especially my regular meeting with the Trust Chair, Nicki Stretch.

I would like to thank my fellow directors for the stimulating and at times robust debate on company business. Each member of our Board adds value to the business and I am very pleased with the Company's progress.

Also a thank you to Matt Thomson and Tiffani Graydon and the team at Yealands, along with Phil Goodall and the team at Nelson Electricity, for their efforts in working towards each company's objectives.

Finally, to Tim Cosgrove and the entire team at Marlborough Lines, who have been proactive in looking for opportunities to improve Marlborough Lines' performance both financially and with regard to levels of service. The team work tirelessly to ensure their consumers receive stable supply and great service, with a focus on affordability.

Phil Robinson

CHAIR

Chief Executive Officer's Report

Energising Marlborough's future – A new vision

The energy landscape is rapidly changing. This is the opportunity to challenge the status quo, transform the business, and move forward with a vision that resonates with all stakeholders. Being consumer-owned MLL seeks to *energise* the community, not only delivering its core function of reliable distribution of electricity, but also through numerous touch points such as sponsorships, employment, education, and positive financial and environmental outcomes.

Our mission is to *Deliver sustainable regional growth and equity through people, technology and environmental leadership*.

To provide clarity and focus this is distilled into six strategic objectives:

Our people

Provide a workplace where our people are valued, engaged, and inspired to deliver positive personal and Company outcomes for the benefit of all consumers.

Community

Improve energy equity and support regional growth through education, employment, sponsorship, and investments.

Environment

Minimise our environmental footprint through operational efficiencies, reducing net carbon emissions, and supporting regional environmental initiatives.

Technology and Innovation

Empower our consumers and region by deploying technology and commercial innovation to accelerate electrification and provide for future load growth.

Financial objectives

Deliver value to all of our consumers through efficient operations and investment success.

Assets

Optimise our assets to provide a flexible, dynamic, and resilient network to accommodate future technologies and promote regional growth.

Leading the charge

MLL is positioned to play a leading role in the electrification of vehicles and process heat. This journey has us challenging key network assumptions to ensure the elimination of potential barriers and bringing forward future projects that enable demand growth. This acceleration of electrification will require resourcing and planning to balance the timing of investment and technology.

Taking a leadership position during the past year has seen the introduction of four fully electric vehicles (EVs) to our fleet replacing older internal combustion vehicles and utes. This is the start of MLL's commitment to reducing its carbon footprint. The operation of EVs is also giving valuable insight to the consumer EV experience.

Enabling the growth in demand is just one side of the story. There is also the need for investment in renewable generation and through subsidiary, Energy Marlborough Limited, MLL is re-entering the electricity generation business through investment in grid-scale renewable solar photovoltaic generation. This investment will not only provide value to consumers but will be used to target energy *equity*.

A year of change

Driven by pricing principles published by the electricity regulator, the Electricity Authority, MLL has taken further steps in transitioning its pricing model to be more cost reflective, and to reduce cross-subsidy across consumers and consumer groups.

This not only rebalances the fixed and variable components of our pricing but also looks to remove high-cost points of supply with the promotion of alternative energy solutions such as solar and battery systems (Remote Area Power Systems – RAPS).

To achieve this MLL has secured additional specialist resources and focused on growing internal capability.

Resilience in a COVID-19 world

The operating environment has been challenging since the first period of COVID-19 lockdowns. The hangover remains of supply chain risks, cost pressures, reprioritisation of work, and most importantly staff welfare and ensuring support structures are in place to maintain a resilient workforce.

Remaining flexible and expanding our planning horizons have been key to delivering on project outcomes and minimising the impacts of COVID-19.

I would like to thank our consumers who have helped accommodate short-notice changes and allowed us to be more efficient in our service delivery.

Unlocking potential

The changing demands on the business provided the opportunity to take an inwards look at capability. This highlighted the wealth of internal capability which is being unlocked through a strategic restructure creating an environment where empowered staff have clear ownership and accountability of business outcomes.

Introducing an end-to-end project management discipline will improve overall project delivery through managing costs to budget whilst retaining control of design and quality.

What was pleasing to observe was employees taking opportunities across the wider business to advance their careers and future career path options allowing retention of our best and brightest. We have already seen a more efficient consumer-centric approach to service delivery from these changes.

Supporting our region

Marlborough Lines continues to make valuable contributions to local organisations and events through either in-kind support or financial contribution. Our sponsorship strategy focuses on education, youth development, regional events and the environment.

We aim to "Energise Marlborough's future" through youth development with our sponsorship portfolio having several touch points across all ages of youth in Marlborough.

New this year was the Marlborough Girls' College (MGC) Stars programme for mentoring Year 9 students starting at the college. Working with the Graeme Dingle Foundation and MGC, MLL removed a key barrier to the successful delivery of their Stars programme by fully funding the adventure camp component.

Tim Cosgrove
CHIEF EXECUTIVE OFFICER

Chief Financial Officer's Report

Financial performance

Starting at the bottom line, the reported net profit after tax of the Group is $5.5 million, a decrease of 26% on profit last year of $7.4 million (restated). In addition, the Group recognised unrealised net revaluation gains on assets of $13.4 million, bringing total comprehensive income for the year to $18.8 million, an increase of 154% on last year's result of $7.4 million.

The result of the Marlborough Lines Parent Company was a net profit after tax of $5.8 million, up 12% on the prior year result of $5.2 million and also up on the budget for the year of $4.8 million. The main drivers of the improvement of the result on the prior year were the increase to external contracting profit and a decrease to operating expenditure, with last year's results negatively impacted by the COVID-19 lockdown.

When assessing the performance of the Parent Company in the Company's Statement of Service Performance, a measure of net profit after tax is used after adjusting for discounts paid to consumers. In the current year, this was $12.1 million, up 7% on the prior year's result of $11.4 million. This equates to a return on average shareholder's funds of 3.35%, less than the Company's performance target of 5.0%. The lower result reflects no dividend income from Yealands. Had the $5 million of repaid debt from Yealands to Marlborough Lines been a dividend instead, then this return measure would be 4.73%.

The reported Group results also incorporate the results of Yealands which have been affected by a number of factors, including:

Positive impact

- The sale of $33.8 million of vineyards to the New Zealand Superannuation Fund, with a $3.2 million gain on sale recognised in the current year, with a further $1.2 million gain to be recognised in FY22, following the completion of the final sale conditions;
- A $5.8 million gain being recognised on the mark-to-market valuation of interest rate and foreign exchange hedges, associated with movement in market interest rates and currency movements; and
- Yealands land, vineyards and buildings were revalued as at 30 June 2021 to fair value as assessed by an independent valuer, resulting in an unrealised $13.4 million gain being recognised within other comprehensive income.

Negative impact

- COVID-19 is continuing to impact Yealands' operating results, with higher sales in lower value supermarket channels in key international markets such as the UK and Europe, along with significant shipping delays and additional costs to get product to market;
- The grape harvest in 2021 being around 30% below average as a result of inclement weather over the flowering period, which is a major factor in the negative $5.2 million impact on the inventory fair value adjustment this financial year; and
- One-off costs of $1.3 million being incurred to implement a new information system to improve visibility over costs and enhance decision making.

The implementation of the new information system alongside a review of cost accounting has identified a historical error in the way in which Yealands allocated winery costs between those expensed in the current year and those that are capitalised to inventory and expensed in the following year. The prior year Group results have been restated to correct this error, with the impact of this adjustment outlined in Note 1 of the financial statements.

Overall, Yealands' EBITDA result per its management accounts of $14.4 million is reflective of a challenging year with profitability impacted by COVID-19 and low harvest volumes both in the prior year and current year.

YEALANDS WINE GROUP EBITDA RECONCILIATION	Financial statement note reference	FY21 $m	FY20 $m
EBITDA per management accounts		14.4	15.9
Depreciation reclassified to Cost of Sales	6, 8	(8.2)	(9.1)
Movement in harvest fair value adjustment	5	(5.2)	(2.1)
Valuation impairment to vineyards	6	(0.9)	(0.0)
EBITDA per NZ IFRS		0.0	4.7

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

Financial position

Total assets on the Group Statement of Financial Position were $627 million as at 30 June 2021, down from $653 million (as restated) in the prior year.

This decrease in total assets is a result of the sale of $33.8 million of Yealands' vineyard assets, but this has been offset in part by the vineyard revaluation gain and the continued investment in the Group's assets, including the development of the Maher vineyard and investment in winery capacity and earthquake strengthening.

Wine inventory has reduced from $60.3 million from the prior year to $44.9 million, as a result of the low 2021 grape harvest volumes which will provide a challenge to wine sales in the coming year, but also an opportunity to target higher value sales.

The amount of Group external borrowings as at 30 June 2021 was $80.6 million, down from $115.5 million in the prior year. Yealands repaid $34.9 million of external debt during the year, plus an additional $5 million repaid on the intercompany loan from Marlborough Lines. This debt reduction brings Yealands' debt to total assets ratio to 26.5% and the Group's overall debt to total assets ratio to 12.8%.

Equity attributable to the MEPT, as 100% owners of Marlborough Lines, has increased from $442 million (restated) to $459 million during the year (an increase of 3.8%), largely attributable to the upwards revaluation of the Yealands assets.

Cash flow

Group net cash flows from operating activities of $30.5 million for 2021 were up on the prior year's result of $22.4 million, largely as a result of improvement in the Group's working capital position.

The Group spent $27.3 million on the purchase of Plant, Property and Equipment this year, a decrease from $34.1 million spent the year before. Capital expenditure within the Parent Company was up $1.4 million on the prior year. Capital expenditure is down at Yealands but still at an elevated level as the Maher vineyard was developed, planted and dam constructed, along with continued investment in the winery.

This year Marlborough Lines paid dividends to the MEPT of $1.8 million (2020: $0.5 million). This is below the budgeted $3.8 million dividend for the year. The lower than budgeted dividend reflects the reduction to income from investments during the year, as low harvest volumes led to Yealands reprioritising debt repayments over dividends.

Gareth Jones

CHIEF FINANCIAL OFFICER

Consumer Q&A

1 Who owns Marlborough Lines?

Marlborough Lines Limited (MLL) is owned by the Marlborough Electric Power Trust (MEPT) which comprises six consumer-elected Trustees. These Trustees hold the shares in MLL for the sole benefit of its current and future electricity consumers.

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

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

- Approve the annual Statement of Corporate Intent (SCI)
- Monitor the performance of MLL against the SCI
- Appoint directors
- Receive and distribute dividends
- Review and approve any "major transactions" undertaken by MLL
- Arrange Trustee elections
- Maintain and enhance the value of MEPT's investments.

3 Why does Marlborough Lines need to make a profit?

The Energy Companies Act 1992 requires MLL to operate as a "successful business". MLL needs to make a profit: first to provide funds for capital expenditure – 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.

4 What proportion of my electricity bill goes to Marlborough Lines?

After applying the MLL network discount payment, the MLL portion of the average eligible consumer's electricity account is just 29 cents in every dollar.

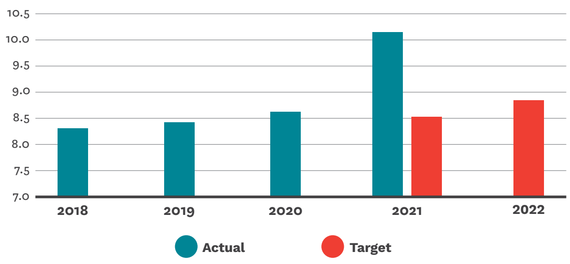
5 Why does Marlborough Lines own the Yealands Wine Group?

MLL 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 MLL bought an 80% share in the Yealands Wine Group (YWG), followed by the purchase of the remaining shares over the next two years.

6 What is the actual benefit of the YWG investment to Marlborough's electricity consumers?

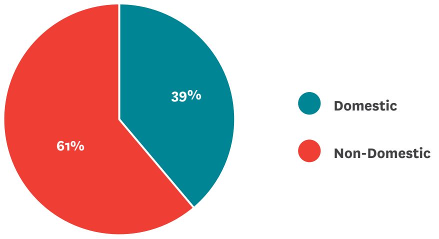
Between 2016 and 2019, MLL has received dividends from YWG, totalling $19.3 million. MLL has in turn paid dividends to the MEPT, which holds the funds for a period before making a tax-free distribution to eligible electricity consumers. As noted in the Chair's report, YWG has focussed on debt reduction and has not paid a dividend this financial year.

Discounts Paid to Marlborough Lines Consumers ($m)



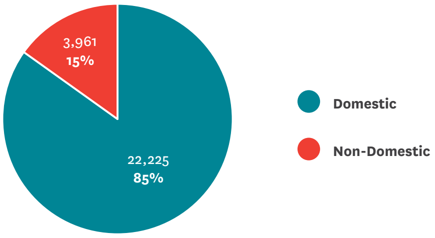
Total discounts of $10.1m (excluding GST) were paid across two payments. The first was a brought forward payment for COVID-19 relief and the second to facilitate a change to the annual timing of discount payments.

Electricity Consumption by Category



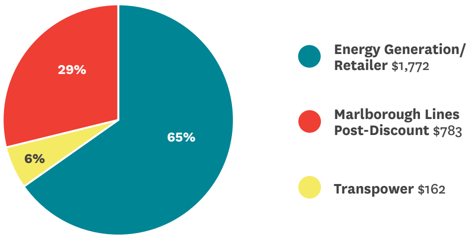
Despite making up only 15% of Marlborough Lines' network connections, non-domestic consumers use 61% of the region's electricity.

Number of Network Connections (ICPs)



85% of Marlborough Lines' network connections are domestic consumers.

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



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

7 Does Marlborough Lines provide sponsorship in the wider community?

MLL provides sponsorship to a wide range of youth, regional and environmental events and initiatives. In the Our Community section (see page 42) we summarise our support to the community this year which totalled some $383k (last year $205k).

8 Do consumers in Marlborough pay higher line charges than in other parts of New Zealand?

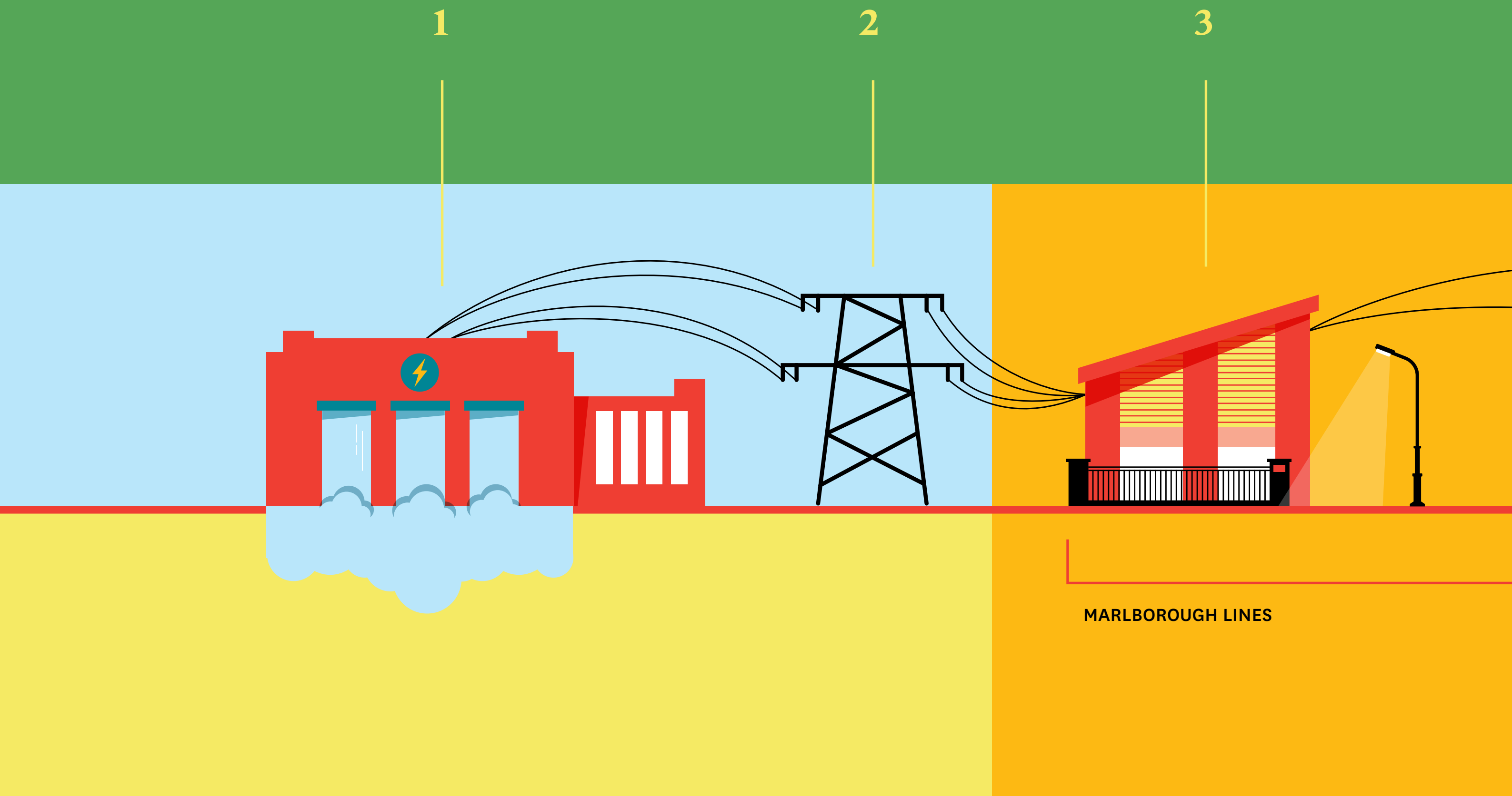
Despite Marlborough being a rugged geographical region with a small population, and a low average number of electricity consumers per kilometre of line, MLL's charges compare favourably with other similar rural-based networks on an after-discount basis.

9 Where can I find more information?

Our website contains a wealth of information of interest to our consumers and other stakeholders. Included on our website is 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**

The Electricity System



1 Power stations

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

2 Transmission lines

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

3 Zone substations

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

4 Distribution network

Marlborough Lines owns and operates the distribution network within Marlborough. We have a network of lines and cables in excess of 3,391km. We also operate a business unit for the construction and maintenance of lines.

5 Distribution transformers

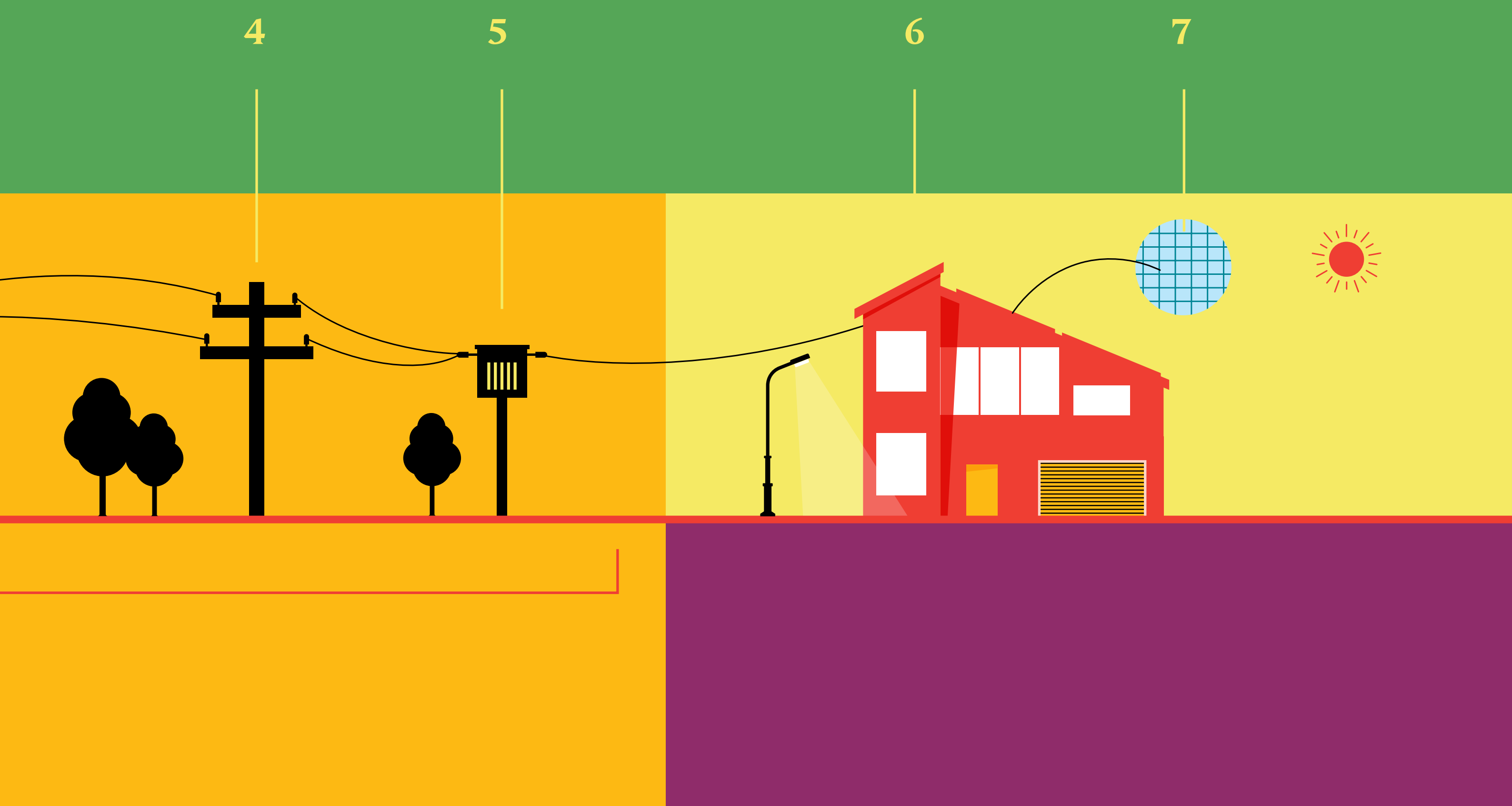
Marlborough Lines has more than 4,000 distribution transformers which convert 11kV electricity into 400/230V. The distribution lines deliver the electricity to the point of supply at the consumer's installation.

6 Electricity user

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

7 Distributed generation

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



Our Assets

81 minutes

Unplanned SAIDI down 31% on prior year. The prior year included a number of unseasonal storms.

57 minutes

Planned SAIDI up 1.8% on prior year. Impacted by location of works completed.

$10.6 million

Maintenance expenditure up 7.4% on prior year. Increased network inspections and defect rectification.

$10.4 million

Capital expenditure up 13% on prior year. Works programme was halted in the prior year due to COVID-19 restrictions.

Strengthening our network by making it more resilient to faults is key to the future success of our business. MLL has embarked on several projects at the 33kV level to do just that.

When these projects are completed, the 33kV network in the main urban areas will be "meshed", meaning a fault in any one circuit of the mesh will not affect the supply to consumers.

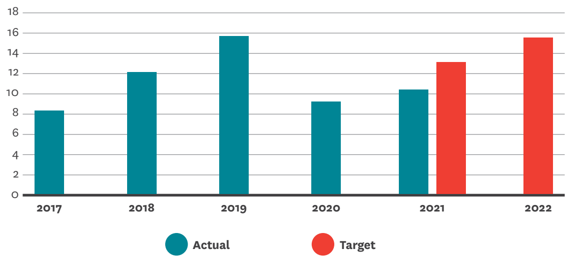
The first of these projects has now been completed and involved rebuilding the circuit between Redwoodtown and Waters Substation. The circuit capacity was increased by installing larger overhead conductor, and new crossarms and insulators were installed along Howick and Alabama Roads. A section of underground cable was upgraded and a new fibre optic cable was installed to operate the new protection scheme.

Design and planning work is underway on the next projects that make up the Meshing programme. In early 2022 two more projects will commence: the installation of new 33kV cables down Murphys Road, and from the Battys Road/New Renwick Road intersection to Redwoodtown Substation. The protection over the circuits will be upgraded to allow faults to be detected and isolated within the section the fault has occurred.

Design work has also started on Woodbourne Substation which is to have a new suite of 33kV switchgear installed in a new building. This switchgear will allow the station to be connected into the mesh configuration, and the aged outdoor buswork will be decommissioned and removed.

MLL anticipates increased future demand in the Woodbourne area, principally from charging infrastructure for new electric passenger aircraft that Sounds Air plan to have operating by 2026. It is expected that this load will be supplied from Woodbourne Substation, and the project currently under design will facilitate this by strengthening the connection at the 33kV level. Transformer replacement has been deferred until the nature of the new load is known. One of these transformers is nearing end-of-life but its condition will allow it to keep operating for the next few years at least. The way the new load will be supplied has not been decided, but options include a new 11kV feeder run from Woodbourne Substation, or an upgrade to the existing feeder.

Capital Expenditure ($m)



Capital expenditure of $10.4m was 21% below target of $13.2m. The delivery of the capital programme was impacted by COVID-19 and high levels of customer projects.

Other major projects completed include the replacement of switchgear in the Kinross Street Substation, and the replacement of a voltage regulator near Wairau Valley township. The drivers for these projects were asset replacement for end-of-life equipment.

The programme of line rebuilds continued with major rebuilds completed at Whatamango and the southern East Coast. Both jobs involved the replacement of aged poles and lines that were in poor condition and nearing end-of-life. Several smaller line rebuilds were completed at Long Valley, Weld Cone, Wither Hills, Archers Road and Rapaura Road. Each of these projects had condition and age-related drivers, where concrete poles had spalling and cracking, conductor beginning to deteriorate, and a few rail iron poles.

There were two substantial customer-driven projects undertaken: a new roundabout at the Battys Road/New Renwick Road intersection and one at the intersection of SH6 and Rapaura Road. The first required MLL to underground assets in the area including the 33kV line and the second meant relocating existing overhead lines and installing a new 11kV ground mounted switch. Both projects were part of the "shovel ready" initiative and were completed with some urgency following the Level 4 COVID-19 lockdown in April/May 2020.

Maintenance

MLL has four full-time asset inspectors who are employed for condition inspection of the overhead assets and who capture the condition of the entire network on a five-yearly cycle. This data is used for planning of replacement programmes and identifying defects which are then prioritised by the network team before release to our Field Services division to carry out the work. We also have a drone operator who works closely with the team and are now seeing real value from this where access may be difficult, or a closer look is required.

▲ Rachel McCormick and Piet Marx checking connections in a distribution pillar box.

The vegetation team had another busy year with 75% of the network patrolled by our vegetation inspectors and over 600 work packs (individual jobs) completed by our arborists. The arborists had significant periods of time staying away for work in the remote areas of the Marlborough Sounds. This work is often difficult, covering large areas with poor access and steep terrain, and while it has to be done it is a drain on resources and can slow the overall network vegetation maintenance programme.

Forestry planted in the vicinity of our power lines continues to be problematic with the management of safety for harvesting and the ever-present risk of trees bringing down lines during storm events.

Reliability

This year was a good one for reliability with unplanned SAIDI of 81.2 minutes against a target of 85 minutes and a planned total of 57.2 minutes against a target of 65 minutes. Planned work was light in April and May 2020 as a result of the COVID-19 lockdown and restrictions, and the subsequent pause before outages could be re-advertised. September 2020 was the worst month of the year for unplanned outages with a SAIDI of 16.8 minutes, this mainly the result of extreme wind causing faults in the Marlborough Sounds.

An analysis of the unplanned outage data shows that the Sounds feeder contributed 40% to the unplanned SAIDI total and is again the worst performing feeder. This is generally due to the remote location of the feeder and its exposure to extreme weather, as well as the time taken to restore faults when access is not immediately available. The Waikawa and French Pass feeders have contributed 11% and 9% respectively and share many of the same remote and weather-related issues as the Sounds feeder.

Work is ongoing to manage and improve reliability in these areas. More automated switches are being installed and planning is underway for a new radio repeater site in the Whatamango area which will allow improved coverage to existing and new remote devices. Targeted line rebuilds, asset replacement, and risk-based vegetation removal are ongoing.

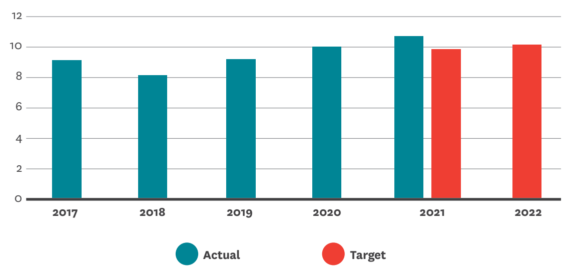
▲ Lauren Barnsley stepping into the newly-branded Hyundai Kona electric vehicle at the Taylor Pass depot.

Electrification

MLL is responding to the changing demands placed on the network through the increased use of electric vehicle (EV) and photovoltaic (PV) technology. While the ultimate pace of uptake and consumer behaviour around charging is still unknown, MLL has begun monitoring selected parts of the low voltage network to determine key parameters in these networks such as the load profile and balancing across phases. Additionally, MLL is undertaking studies to assist in understanding the impacts from EV and PV connection (voltage, line loading, and transformer constraints) at various penetration levels and to understand the number and size of EV chargers and PV systems that can be installed before congestion occurs.

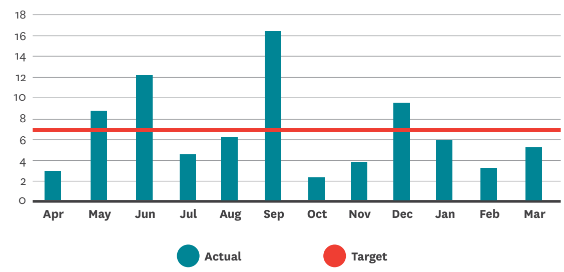
The information from these studies will feed into our network planning processes, and along with other criteria such as condition, criticality, and safety, will drive Asset Management decisions around replacement and upgrade.

Maintenance Expenditure ($m)



Maintenance expenditure of $10.6m was 8.9% above target of $9.8m. Marlborough Lines increased its asset inspections team over the year to stay on top of maintenance tasks.

Unplanned Outages (Minutes lost per month per consumer)



Unplanned outages during the year averaged 81.2 minutes per consumer, below target of 85 minutes.

Technology and Innovation

7.8MW

Installed solar, hydro, wind capacity on our network (medium to large scale >10kW).

2.7MW

Installed solar capacity on our network (small scale <10kW).

Zero

Number of non-network solutions deployed.

189

Number of EVs registered in Marlborough.

Technology is evolving rapidly across the electricity industry. The drive to reduce New Zealand's carbon emissions is accelerating the adoption of small-scale solar photovoltaics, batteries, and electric vehicles.

This technology, often referred to as distributed energy resources, or DER, along with the transition of process heat from non-renewable fuel types will result in increased demand on MLL's electricity network.

While the take-up of EVs in Marlborough is still relatively low (refer to the figure on the right), MLL expects that this will increase significantly in coming years as the Government continues with its EV incentive schemes and with the likely fall in prices of EVs.

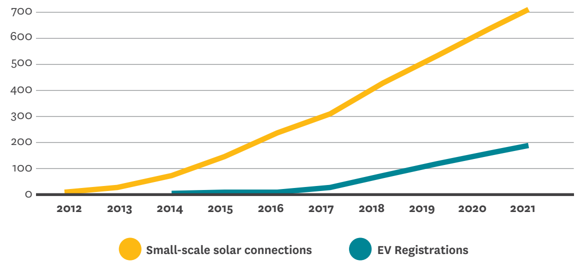
The number of small – and large-scale distributed generation systems, particularly solar, is continuing to increase (also refer to the figure on the right).

In future, the management of DER will be crucial to maintaining acceptable power quality and reliability, and potentially avoiding significant investment in network capacity upgrades.

Currently MLL can reduce network demand through turning off supply to hot water, which helps to manage peak loadings on the network. Technology developments should allow for the management of additional load from EVs, as well as energy injected back into the network from at-home batteries, such as EV batteries, for example.

MLL is actively working with electricity distribution businesses across New Zealand, and other industry participants, to consider the likely impacts from the rise in DER and options for its management. MLL will embrace and adopt new technologies when it believes there will be benefit to the network, and/or consumers.

Cumulative Number of Marlborough PVs and EVs



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

▲ Solar panels located on Yealands' winery roof at Seaview, Awatere Valley.

Our Investments

0.92%

Post-tax cash return on investments (2020: 1.05%). Negatively impacted by no dividend from Yealands.

$0.7 million

Interest received up 17% on prior year. Intercompany loan to Yealands providing higher interest rate.

$0.7 million

Dividends received from NEL down 33% on prior year due to regulatory settings. No dividend from Yealands.

13.6%

Rate of return per annum on equity invested in Yealands Wine Group since acquisition, including both cash returns and capital gains.

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

Yealands Wine Group (YWG) is a company based in Seaview, Marlborough with 1,095 hectares of planted vineyard and a winery with consented processing capacity of 27,000 tonnes. It is the sixth largest exporter in the New Zealand wine industry with global distribution to a large number of countries including strong sales in Europe.

A word from the Yealands team

Considerable progress has been made in 2021 towards Yealands' long-term strategy of premiumisation and a continued focus on supporting the vineyard with innovative sustainability and biodiversity initiatives. It has also been a year of uncertainty due to the implications of COVID-19 – border restrictions, global shipping challenges, accessibility to labour and the need to adapt to changing sales channels globally.

Financial sustainability

As a relatively young company with 13 years of trading history, Yealands has experienced its fair share of challenges – the 2013 and 2016 earthquakes and COVID-19 – which diverted resources and investment. Yealands' stated intention for 2021 was to ensure the business was financially sustainable and able to provide long-term improved returns for the Marlborough community.

Substantial progress has been made on this front. In particular, the debt reduction achieved through divestment of four vineyards (with long-term supply partnerships established) and improved cost management and efficiencies, which have resulted in a total debt reduction of $40 million (including the $5 million repayment of loan facilities to Marlborough Lines). The business is focused on future growth opportunities and value extraction with a sound financial platform to build from.

▲ Tiffani Graydon, CEO for Yealands Wine Group.

Yealands Sauvignon Blanc success on the global stage

Global demand for Marlborough Sauvignon Blanc reached new heights in 2020 prompted by an increase in retail sales and home consumption. This was largely owing to the restrictions placed on on-premise globally (restaurants, bars and hotels). Whilst the business benefited from this heightened demand, particularly in the UK and European markets, this did create margin pressure from the changing channel mix. As the world begins to re-open and dining restrictions ease, Yealands anticipates a return of this high-margin on-premise business in 2022 and 2023.

With increased retail distribution and the success of Yealands' recent rebrand, Yealands Sauvignon Blanc is the fastest growing New Zealand Sauvignon Blanc in the UK market. Further recognition for the talented viticulture and winemaking team was achieved when they proudly took out the award for 'Best Sauvignon Blanc' at the prestigious London Wine Competition for Yealands Reserve Sauvignon Blanc 2020.

Vintage 2021 (V21)

Consistent with industry in the Marlborough region, adverse weather conditions led to a substantially lower crop for V21. Whilst this has immediate impacts to the business over the coming 12 months, including lower sales and higher reported cost of sales, V21 has provided an opportunity for Yealands to accelerate its premiumisation strategy. This has led to Yealands partnering with its global consumers to prioritise high-margin branded wines and positioning the business to shift away from entry-level supply contracts.

▲ Yealands Sauvignon Blanc.

Projects and developments

Operationally, a number of key projects were completed this year. Substantial investment has been made in Yealands' digital transformation and improving operational and finance systems. The benefits of these projects are long-lasting, allowing for greater risk mitigation, transparency of performance, improved workplace flexibility and connectivity.

Forming part of Yealands' overarching supply strategy, the completion of the Maher vineyard development (118ha) is a key step forward in supporting growth ambitions and ensuring critical future grape supply.

Beyond 2021

As a relatively young company, the need for significant investment in capital projects and vineyard development in the early years has been integral to create a platform for Yealands' future growth. With these investments substantially reducing from FY22, and the recently developed vineyards to start yielding increased quantities, the horizon for increased profitability and returns is extremely positive.

Coupled with its clear premiumisation strategy, Yealands' focus now shifts to growing its brands on the global stage and continuing to establish Yealands as a kiwi-owned wine producer which the Marlborough community, New Zealand and its global partners can all be proud of.

Nelson Electricity Limited

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

A new price path

As a privately owned electricity distribution business, Nelson Electricity's earnings are regulated by the Commerce Commission. Nelson Electricity moved to a new five-year regulated price path on 1 April 2020. The rate of return that regulated electricity distribution businesses are able to earn is 4.57%. This regulated rate of return is a significant reduction from the 7.19% that prevailed for the five-year period to 31 March 2020.

▲ Yealands White Road at the Seaview vineyard, Awatere Valley.

As a result, Nelson Electricity's net profit after tax for the year ended 31 March 2021 was $1.46 million, which is a decrease of 32% on last year's $2.16 million. This reduction to profitability has had a flow on effect to the amount of dividend that NEL is able to provide to its shareholders. A $1.4 million dividend was paid to its shareholders, 50% of which is received by Marlborough Lines.

Upcoming prospects

Having constructed a new 33kV/11kV 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 2021 Marlborough Lines held $11.0 million 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' funds averaging 0.7%.

Investments income summary

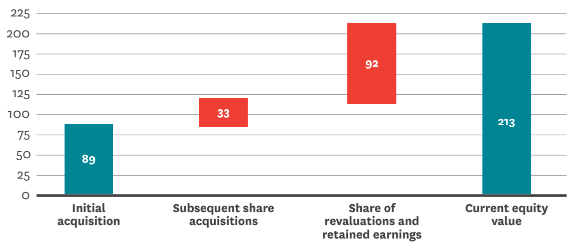
Total cash flows generated by Marlborough Lines from all investments, including management fees and interest received for the year (but excluding capital gains), was $1.5 million. This compares to $1.8 million for the prior year, with the major difference being the reduction in the dividend from Nelson Electricity from $1.050 million to $0.700 million.

Since the initial investment in Yealands Wine Group in July 2015, there have also been substantial unrealised capital gains, in addition to the cash return. This 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 10 of the financial statements.

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



Marlborough Lines has invested $122m to acquire the equity of Yealands Wine Group, which has a book value as at 30 June 2021 of $213m.

SUMMARY OF CASH FLOWS FROM INVESTMENTS	**2021**	**2020**	**2019**	**2018**	**2017**
Cash Flows from Investments ($m)	1.5	1.8	7.2	7.1	6.8
Holding Value ($m as at 30 June)					
Nelson Electricity	15.6	15.5	15.5	15.5	15.3
Yealands Wine Group	132.0	137.0	122.0	122.0	99.1
Cash and Term deposits	11.0	5.8	19.3	17.8	29.4
Total investments (at cost)	**158.6**	**158.2**	**156.8**	**155.3**	**143.8**
Cash Flow return from Investments	0.95%	1.13%	4.62%	4.60%	4.74%
ROI (post-tax)	0.92%	1.05%	4.48%	4.34%	4.49%

Yealands Wine Group Limited

Average amount invested

$136 million

Amount returned

$0.6 million

Returns through

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

Land under vineyard

1,095 hectares

Grapes processed

13,653 tonnes

Wine sold

$98.6 million

Nelson Electricity Limited

Average amount invested

$15.6 million

Amount returned

$0.7 million

Returns through

- ✓ Dividends
- ✓ Shareholder funds growth
- ✓ Directors' fees

Electricity distributed

141 GWh

Network connections

9,271

Line revenue

$9.4 million

Bank Holdings

Average amount invested

$8.2 million

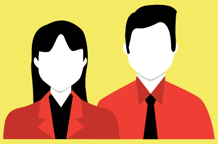
Amount returned

$0.1 million

Returns through

- ✓ Interest income

Our People



290

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

70%

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

10.1 years

Average length of service of Marlborough Lines employees.

372 kilometres

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

In today's climate of changing energy requirements and uncertainties it is essential that our team is inspired and enabled to support MLL with future-proofing the Marlborough network. To work towards achieving this, during the year MLL has implemented significant changes to unlock our people potential including: development of strategic objectives, restructuring, appointment of new staff, and the introduction of additional staff-related initiatives.

▲ Daniel Jolliffe and Hamish Inwood discuss line designs.

New strategic objectives

Our Senior Leadership Team attended a planning programme in early 2021 and developed six strategic objectives to deliver our vision and mission. Our People objective is to:

> *Provide a workplace where our people are valued, engaged, and inspired to deliver positive personal and Company outcomes for the benefit of all consumers.*

The Senior Leadership Team is excited about implementing opportunities for the progression of all staff, and successfully achieving MLL's vision for the benefit of our wider team of Marlborough consumers.

Positive restructuring

After a period of consultation and discussions with management and a wide range of staff, a restructure process commenced in early 2021 with the following objectives to:

- Build a 'one-team' culture to collectively work towards achieving MLL's vision and strategic objectives;
- Create an environment where empowered staff have clear ownership and accountability of business outcomes;
- Centralise the planning function for all field work within a well-resourced planning team;
- Have greater focus on end-to-end project management, managing costs to budget and retaining control of design and quality; and
- Provide career advancement opportunities and unlock leadership potential.

Subsequent to the initial implementation of the restructure we have achieved the following outcomes:

- Leadership potential and abilities identified, and internal staff appointed to Team Leader and Project Management roles;
- Outward Bound Professional Development opportunity offered to all current or aspiring leaders
- Process mapping to improve business flows and identify improvements;
- The recruitment of several new roles – both internally and externally – giving the opportunity for staff to apply for new roles as well as bringing new talent into the business; and
- Creation of new teams to build MLL's core capabilities, and improve planning and processes.

The restructure is a work in progress and will continue to be reviewed to ensure the changes are effective, and objectives are met.

New staff

In 2020, MLL introduced the role of HR Manager. Subsequently a number of positive initiatives have been introduced including the flexible nine-day fortnight which provides staff with an opportunity to take a three-day weekend every fortnight, wage/salary benchmarking, and a training and development focus.

Other new roles at MLL include GM Engineering & Development, and additional Project Managers and Works Planners. These roles will enhance the experience and capabilities of our existing team and assist MLL in achieving our core objectives.

Staff-related initiatives

To develop our people further we have undertaken a wide range of initiatives during the year including:

- Creation of an Innovation Team to discuss and implement staff ideas and improvements;
- A focus on youth recruitment including supporting the Graeme Dingle Future of Work Conference and the Marlborough Girls' College Careers Day;
- A review of our staff wellbeing programme and improved insurance benefits; and
- Engagement with the Marlborough Youth Trust (MYT) to give local youth a step-up and gain work experience through a six-month programme working at MLL.

▲ Sarah Marshall, part of the MYT work experience programme, completes an inventory stocktake.

The future for our people

Looking forward, we will be undertaking an engagement survey with all staff and considering HR software options to improve our current systems and processes.

Our people will continue to focus on improving Company processes and personal development to bring our ideas to life and fulfil MLL's vision for our consumers.

Health, Safety and Wellbeing

Attitudes and behaviours are key

Achieving good health and safety outcomes relies on the value and priority we each place on a range of workplace aspects. In 2018 employees participated in a Health and Safety Culture Indicator survey which evaluated mindsets and practices associated with: Valuing, Leading, Investing in, Communicating about, Engaging in, Learning for and Dealing fairly with Health and Safety.

In 2020 we completed our second survey and the results showed that our mean Health and Safety workplace culture rating has increased from 7.7/10 in 2018 to **8.2**/10, which is encouraging and a good sign that we are on the right track.

The survey identified areas for improvement which were prioritised and several focus groups led by our Health & Safety Representatives were established to identify solutions. This resulted in input to the flexible working solutions initiative and establishment of fixed overhead/underground crews (which was implemented as part of the restructure). Further work is being done to evaluate the wellbeing risk and strengthen our controls.

Understanding safety differently

We recognise that to improve we need to be open to doing things differently where it makes sense to do so and where there is evidence to support new approaches. Over the year we developed our understanding of "safety differently" principles and began exploring how they can be applied in the context of our business.

We engaged an external consultant to present to our Board and employees to build awareness around the safety differently concept and give examples of what it looks like in other organisations. This enabled us to identify the following workstreams to focus our health and safety plans around and some leading indicators to evaluate our performance against in the future. These being:

- Proactive critical risk management and continual improvement;
- Build trust through transparency throughout the organisation (frontline to the Board);
- Nurture a learning culture; and
- Declutter our systems where there is no value at all to health and safety.

For us, safety differently is not about getting rid of traditional ways of doing things for the sake of it or going against best practice. It is about being curious, learning about real work, and challenging the status quo to identify where improvements can be made to build better work together and achieve good outcomes.

Proactive critical risk management

Consistent with the above, we re-evaluated our health and safety critical risks via several internal workshops using the bow tie method. The outcome is bow tie diagrams for each critical risk showing how incidents can occur, and the controls in place to prevent and respond to incidents. The current focus is to strengthen our critical control review and improvement plan processes with our frontline employees.

COVID-19 vaccinations

The Senior Leadership Team encourages and supports employees to get COVID-19 vaccinated by allowing time off to get their COVID-19 vaccinations and providing reliable information to help with informed decision-making. We hope to be at 90%+ fully vaccinated by the end of 2021.

Zero

Number of serious harm events.

4.82

Lost time injury frequency rate, per 200,000 hours worked compared to 1.71 last year.

Certified

- Maintained certification to ISO 45001:2018 Occupational Health and Safety Management System Standard.
- Maintained certification to NZS 7901:2014 New Zealand Public Safety Management Systems Standard.

Our Community

Lead Sponsor

For the Marlborough Lines Stadium 2000 since 2006.

$383k

Sponsorship and donations (2020: $205k).

$15k

Tertiary grants awarded to three students (2020: $39k). A change in approach to sponsorship will mean ongoing four-year support. This will result in tertiary grants increasing over the next three years to $60k per annum in FY24.

89%

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

As a substantial local business owned by the electricity consumers of Marlborough, we're all about community. Improving energy equity and supporting regional growth through education, employment, sponsorship and investments is a strategic objective.

We are a team of locals working for our community every day with a common goal of ensuring our region thrives. The decisions we make and actions we take impact on current and future generations of Marlburians and we take that responsibility seriously.

MLL is excited to play a part in the clean energy revolution and a net-zero carbon economy future. New technologies are already transforming how we live and work and these will only escalate over time. The future success of Marlborough relies on our region being ready and able to reap the benefits these changes offer and that is where we come in. Energising Marlborough's future is our vision and we will be leading the charge where it makes sense to do so as well as supporting others where appropriate.

Power to the people

Unfortunately, many families and households in New Zealand, including Marlborough, are experiencing hardship, and the cost of power is an additional burden. We believe no-one in our community should go cold over winter or face undue stress to pay for an essential service that should be accessible and affordable for everyone.

As a consumer-owned electricity business, we have a responsibility to improve energy equity in Marlborough and ensure our consumers have access to a reliable and affordable energy supply. Because we only influence a percentage of our consumers' electricity bill, workable solutions that will make a difference will require some innovative thinking. We have a team of creative and diverse minds who are up for the challenge and some projects already in the pipeline.

▲ Marlborough Lines is principal sponsor of the Blenheim and Picton Santa parades.

Supporting regional growth

A thriving region has potential to attract further investment, raise incomes and increase employment opportunities. As well as helping to ensure Marlborough is ready to take full advantage of the future of electricity, Marlborough Lines supports regional growth through sponsorships that focus on youth education, employment, regional events and the environment.

Our sponsorship budget comprises up to 1% of our annual revenue, and this year amounted to $383k. A new sponsorship mission and application process has strengthened our approach. During the year, as well as continuing with some long-standing sponsorships, we locked in some new initiatives and events that we believe are making a real contribution to regional growth and making Marlborough a better place to live.

How Marlborough Lines supports youth education and employment

Year 1
School Start First Impressions

Year 1-13
Heritage Education Programme

Year 9
MGC Stars Programme

Year 13
Tertiary Study Scholarships

Tertiary Students
Summer Employment Programme

Year 1-7
Kārearea, Falcons in Schools Programme

Year 1-13
Science & Technology Celebration

Year 9-13
Cactus Youth Development Programme

University of Canterbury
Power Engineering Excellence Trust

MYT Employment Programme

▲ Marlborough Girls' College students participate in the Stars programme at Anakiwa. *Photo credit: Meg Cuddon-Corlet*

Building brilliant futures

During the year Marlborough Lines was delighted to enter into a five-year sponsorship arrangement with Marlborough Girls' College as part of their Stars programme. Marlborough Lines is principal sponsor of the Stars camp, which all year nine students attend as part of the programme. Our sponsorship means that every student can attend the camp free of charge.

The Stars programme is delivered by the Graeme Dingle Foundation Marlborough at the Outward Bound, Anakiwa site. The programme has proven to achieve excellent outcomes which help our young women flourish as they make the transition to college. It also gives senior students an opportunity to develop their leadership skills which will help them succeed as they embark on their future studies and/or careers.

As a significant consumer-owned entity, Marlborough Lines is committed to playing a part in ensuring our Marlborough youth have opportunities to build brilliant futures. We believe the Stars programme provides a strong foundation to do just that.

Starting school on an equal footing

School Start First Impressions (SSFI) Marlborough works to reduce the impact of poverty on the education of Marlborough children. The initiative is designed to give Marlborough's at-risk 5-year-olds the opportunity to start school on an equal footing with their peers, enable them to embrace the challenge of school, focus on learning, and give them a chance to be the best that they can be.

Marlborough Lines is proud to be the Foundation Sponsor of the SSFI Marlborough charity. We strongly support the charity's goal for "every Marlborough 5-year-old to start school with pride and be equipped to learn", which aligns with our sponsorship objective.

We want our young Marlburians to have opportunities to succeed and thrive. Starting school with pride and confidence and the ability to focus on learning from the outset goes a long way towards shaping successful futures and growing our Marlborough community.

▲ Drake Henderson-Keen putting his all into pulling the fire truck during the Longest Day Challenge. *Photo credit: Stuff Limited.*

Marlborough Foodbank

The Marlborough Foodbank is an important community organisation for families in need. The need becomes greater during times like COVID-19 lockdowns, which put additional pressures on many families who need to seek food parcels to help make ends meet.

For the year in review, the Marlborough Foodbank processed 1,863 food parcels.

As well as providing sponsorship funds, our staff helped collect food donations for the 2020 Street Appeal and were humbled by the generosity of the Marlborough community.

Marlborough Foodbank Manager, Wynnie Cosgrove, says "Thanks to the management of Marlborough Lines, the Marlborough Community Foodbank has been extremely grateful for the very generous contributions, both financially and in giving us encouragement and advice in assisting in the efficiency of our operation, and in the improvements of our building infrastructure. The MLL CEO, Mr Tim Cosgrove, often calls in to offer his advice and assistance, and this has been very motivating for all the volunteers and staff employed within our organisation."

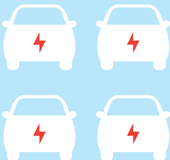
CACTUS Youth Development Programme

In 2020 Marlborough Lines entered into a three-year sponsorship deal with the Marlborough Youth Trust (MYT), to deliver the CACTUS programme in Marlborough.

CACTUS has been runnning programmes in Blenheim and Picton since 2008. Young people take part in the course for eight weeks, three mornings a week between 6-7am, building up to "The Longest Day", when all their skills are put together in a series of exercises. The programme gives participants the opportunity to get fit, build self-confidence, learn to work as a team and enjoy a challenge.

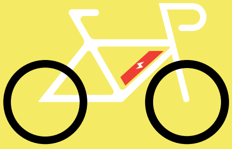
CACTUS aligns with our commitment to support youth development. It is a well-run programme with clearly demonstrated results, which we are proud to support.

Our Environment



Four

Fully electric vehicles used as pool vehicles.

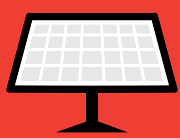


Trial complete

Electric bike trialled for quickly accessing remote sites, rather than quad bike.

Ten

Distribution transformers with additional insulation installed this year to protect kārearea. There are now 225 on MLL's network with bird protection installed.



Three

Solar farm projects in planning, to generate electricity in Marlborough and reduce line losses.

Marlborough Lines is well positioned to enable significant reductions in carbon emissions within Marlborough through leading the charge on the electrification journey and the reduction of fossil and thermal fuel use.

Due to New Zealand's already impressive renewable generation portfolio, electrification is a technically mature and proven carbon reduction strategy and, through a resilient and flexible network, Marlborough Lines will be central to this journey for Marlborough.

As well as focusing on our own business MLL is working with local enterprise to understand their journey towards a low carbon electrified economy.

Electrification journey

Across New Zealand there is increasing focus on reducing the carbon emissions from transport and industry. These activities are primarily fuelled by high emission fossil fuels or similar thermal fuels such as biomass. Substituting these fuel sources for electricity is what is referred to as the electrification journey.

A key part of enabling the region to reduce its carbon footprint is to understand the quantum of load to be displaced, as this influences network strategy and investment. This has been achieved through close engagement with industrial consumers with the priority being to displace fossil fuels such as coal and diesel, and secondly the conversion of biomass boilers as medium-term supply constraints and projected price parity with electrical options make this conversion more viable.

This engagement with key industrial consumers allows for the efficient and timely investment in infrastructure or technology to enable this transition.

▲ Martin Rowe testing the new fully electric Ubco motorbike, used for asset inspections in remote areas.

Support of regional electrification projects

Marlborough Lines is proud to be supporting Sounds Air's industry-leading journey to electric commercial flights from Marlborough. The anticipated increase in electricity demand from this initiative is being factored into near-term network planning. It is great to see a local company making headlines on a global stage.

The other significant electrification project in Marlborough is KiwiRail's partial electrification of the new Cook Strait ferries. This project requires major upgrades to capacity in and around Picton Port, and once operational will deliver significant environmental benefits through removing the need to run diesel generators in port.

Investment focus – Making a difference

To offset this new demand requires investment in renewable generation. Marlborough Lines is re-entering the electricity generation business through subsidiary Energy Marlborough Limited. This investment will initially focus on grid-scale renewable solar PV generation, which will provide value to consumers and be used to target energy equity through an innovative partnership with an electricity retailer.

To address our own carbon footprint, Marlborough Lines has started to transition its vehicle fleet to electric vehicles and plug-in hybrid electric vehicles. The trial and introduction of Ubco electric motorbikes for asset checking and vegetation surveys is also making a positive impact. Work previously undertaken by diesel powered utility vehicles can now be done more quickly and efficiently by the Ubco.

▲ A rendering of what Sounds Air's new electric plane, due for take-off in 2026, might look like.

This is not only good for the environment but also saves on inspection time and reduces the maintenance of access tracks due to the smaller footprint of the Ubco.

From a regional perspective an area of particular focus will be providing alternatives to the wine industry practice of using large quantities of diesel for irrigation. This will require strategic network investment to provide the necessary capacity to displace this high carbon emission source.

Education – Marlborough Youth Trust Electric Vehicle

Our focus on leading the charge also extends to our sponsorships. Providing Marlborough youth with education and employment opportunities is central to this strategy. Engagement with the Marlborough Youth Trust through our Youth Employment Programme identified that not holding a full driver's licence was a barrier to employment, and the lack of access to a suitable vehicle was a barrier to gaining a driver's licence.

With the donation of an environmentally friendly Nissan Leaf Electric Vehicle, Marlborough Lines not only removed this potential barrier to employment, but also provides exposure to Marlborough youth to the technology and operation of EVs and how this makes a difference to the environment.

Environmental stewardship

To enhance regional biodiversity Marlborough Lines has been working with the Pine Valley Outdoor Centre Trust to scope and design a potential wetland remediation project. The Trust is showing great leadership with its pest eradication and focus on improving the area's native bush and wildlife. The Centre provides Marlborough schools with easy and affordable access to great outdoor experiences in a safe rural environment, and has been a part of Marlborough youth outdoor education over the past 40 years.

▲ Bees and other wildlife can be seen on the Yealands White Road tour through the Seaview vineyard, Awatere Valley.

Yealands Sustainability Award

Yealands has recently been recognised on the global stage for their sustainability focus. Yealands won trophies at the "2021 Best in Biz Awards" (US) for the "Most Environmentally Responsible Company of the Year" and "Environmental Programme of the Year". At the 2021 Global Good Awards (UK), the company also came second in the "Climate Action: Journey to Net Zero" category. The accolades are a great endorsement for the company's ongoing efforts to lead the world in sustainable winemaking.


PETZL

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Management and Governance

◄ Blair Timms during a pole installation.

Board of Directors

Phil Robinson

Chair

NZCQS, MInstD

Phil was appointed as Chair in March 2021, and prior to that served as a director on the Marlborough Lines Board since September 2015. He is Managing Director of Robinson Construction Ltd and has been involved in business interests that include several construction and development-related companies. Phil is a director of various other companies.

Steven Grant

Director

BCom, LLB Hons

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

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.

Jonathan Ross

Director

LLB Hons, BCL, BA

Jonathan 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.

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 Women in Energy awards. She is an experienced leader with current governance experience and strong financial, commercial and strategic skills. Deborah's previous roles include the Group Financial Controller for Chorus, 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 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 is responsible for the Group's finance 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 several senior finance roles at Powerco Limited for the five years prior to joining Marlborough Lines.

Rebeca Clifton

HSEQ Manager

GradDipBusStuds, NZDipWHSM, ProfNZISM

Rebeca is responsible for leading the strategy to continually improve workplace health, safety and wellbeing and the integrated management system for health, safety, environment, and quality. Rebeca has a background in office administration and project management and has been leading health and safety management at MLL for the past five years.

Stephen McLauchlan

GM Field Services

IMLANZ

Stephen is responsible for the Field Services 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).

Warner Nichol

GM Network Operations

DipEng (Electrical)

Warner 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.

Rebecca Wheeler

Human Resources Manager

BBus (HR & IR)

Rebecca is responsible for the full HR portfolio, developing and delivering the people plan to support the achievement of our strategic objectives. Rebecca has over 20 years' experience as an HR business partner, supporting medium and large teams in the FMCG industry in Australia and New Zealand.

Scott Wilkinson

Commercial Manager

BSc Hons, MBA, MESt

Scott 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 was 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.

The Board has 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 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 Koha and Donations 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 six 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 2020, Steven Grant and Ivan Sutherland were reappointed to the Board.

In March 2021, David Dew retired from the Marlborough Lines Board. Phil Robinson was appointed as Chair to replace Mr Dew.

This year at the AGM, Jonathan Ross will retire by rotation. Mr Ross is available for reappointment to the Board.

All new directors undertake an induction process at the time of their appointment to the Board to become familiar 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 2021, there were ten Board meetings, five Audit and Risk Committee meetings and two Investment Committee meetings held. The meetings were attended by directors as follows:

DIRECTOR	BOARD		AUDIT AND RISK COMMITTEE		INVESTMENT COMMITTEE	
	Meetings held[1]	Attended	Meetings held[1]	Attended	Meetings held[1]	Attended
A Barton	10	10				
D Dew	7	7				
S Grant	10	10	5	5	2	2
P Robinson	10	10			2	2
J Ross	10	10	5	5	2	2
D Selby	10	10	5	5		
I Sutherland	10	10				

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 and an Investment Committee, which operate under formal Committee Charters. The Charters outline 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 2021 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 objective of the Investment Committee is to assist the Board in identifying and assessing possible investment opportunities. The Committee as at 30 June 2021 is made up of Steven Grant, Phil Robinson and Jonathan Ross. Mr Grant has been Chair of the Investment Committee since its establishment in April 2021.

The 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 committees would report to the Board and make any necessary recommendations.

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

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.

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, and customer and environmental performance targets.

FMA Principle 5

Remuneration

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

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	Board fees	Audit and Risk Committee fees	Investment Committee fees	Total remuneration
A Barton	52,750			52,750
D Dew *Retired 31 March 2021*	79,125 *Chair to 31 March 2021*			79,125
S Grant	52,750	4,375	2,082 *Chair*	59,207
P Robinson	65,938 *Chair from 1 April 2021*		1,041	66,979
J Ross	52,750	8,750 *Chair*	1,041	62,541
D Selby	52,750	4,375		57,125
I Sutherland	52,750			52,750
Total	**408,813**	**17,500**	**4,164**	**430,477**

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

No directors hold any shares in any of the Group companies.

The directors of Yealands Wine Group Limited are appointed by the Board of Marlborough Lines Limited. As at 30 June 2021, two 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	Board fees	Audit and Risk Committee fees	Health and Safety Committee fees	Total remuneration
D Dew	50,000	4,319	4,319	58,638
S Grant	50,000	4,319		54,319
M Hamilton *Appointed 23 Sept 2020*	38,611			38,611
D Selby	50,000	9,804 *Chair*		59,804
M Thomson	105,000 *Chair*		4,319	109,319
Total	**293,611**	**18,442**	**8,638**	**320,691**

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 incidents 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 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 accreditations 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.

The Company also holds the following accreditations 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

Boards 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 as well as 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 that encourage them to engage with the entity.

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

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

- Quarterly financial reports;
- Opportunities for questions at periodic meetings between the Trustees and the Board;
- Special meetings and visits to operational sites;
- Briefings as required by representatives of the Board; and
- The Annual Report.

The Trustees, as 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 consumer, 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 2021

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 2021 $000	Restated Group 2020 $000
Net profit after tax	5,463	7,391
Other comprehensive income net of tax	13,290	4
Net surplus attributable to the shareholders	**18,753**	**7,395**

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 further explained in the Chief Financial Officer's Report.

3. 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 (retired 31 March 2021)	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
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	Black Stump Investments Limited Construction Coatings Limited Group Hire Limited Maruia Trustee Services Limited Outer Limits Limited Precast Systems Limited Redwood Development Limited Robinson and Company Limited Robinson Construction Limited Robinson Developments Limited Scaffold Marlborough Limited Waterfront Construction Limited XPotential Health and Fitness Limited
J Ross	Marlborough Lines Limited Seaview Capital Limited	P.R.I.M.E. Finance Stichting The Reserve Bank of New Zealand The Rhodes Scholarships in New Zealand
D Selby	Marlborough Lines Limited Seaview Capital Limited Yealands Estate Limited Yealands Estate Wines Limited Yealands Wine Group Limited	Chorus Limited (employee role – Group Financial Controller)
I Sutherland	Marlborough Lines Limited Seaview Capital 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

DIRECTORS' INTERESTS

Director	Group entities	External entities
Subsidiary directors		
T Cosgrove	Energy Marlborough Limited Nelson Electricity Limited	Evolution Business Performance Limited T&L Limited Treasury Advisory Services Limited Treasury Management Services Limited Treasury Services Group Limited
M Hamilton	Yealands Estate Limited Yealands Estate Wines Limited Yealands Wine Group Limited	Brothers Beer Holdings Limited BTCC Holdings Limited Ceres Organics Limited Epicurean Dairy Holdings Limited (and subsidiaries) Freshpork New Zealand Limited (and subsidiaries) Hamilton Concepts Limited Living Drinks Holdings Limited Pluscarden Spiers Trust Limited Rugby Imports Limited
G Jones	Energy Marlborough 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.

4. Dividends

The directors recommended, and the shareholders authorised, the following dividend payments for the year ended 30 June 2021.

DIVIDENDS FOR THE YEAR ENDED 30 JUNE 2021	Declaration date	Amount
Final dividend	22 June 2021	$1,800,000
Total dividend		**$1,800,000**
Ordinary shares issued		28,000,000
Dividend per share		$0.064
Value of Share Capital (Parent net assets at current valuation)		$363,690,000

Full imputation credits were attached to all dividend payments.

5. 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	$96,000	$34,000
Deloitte Limited – for Yealands Wine Group Limited	$120,000	$0
Disbursements including OAG fees	$61,000	$0
Total amount paid to Auditors	**$277,000**	**$34,000**

6. Donations

During the year, the Company made tertiary education grants totalling $15k. These grants are in addition to the support the Group provides to many organisations throughout the year by way of sponsorship and donation.

The Company did not receive any donations during the year.

7. Employee remuneration

Details of the number of employees in each remuneration range (above $100,000) for the Marlborough Lines Group are below.

REMUNERATION RANGE	PARENT – NUMBER OF EMPLOYEES		SUBSIDIARIES – NUMBER OF EMPLOYEES	
	2021	2020	2021	2020
$100,000 – $110,000	18	15	7	8
$110,000 – $120,000	6	4	5	8
$120,000 – $130,000	2	2	2	5
$130,000 – $140,000	1	3	4	7
$140,000 – $150,000	2	2	2	1
$150,000 – $160,000	3	1	–	1
$160,000 – $170,000	1	1	1	1
$170,000 – $180,000	1	1	–	1
$180,000 – $190,000	1	–	–	1
$190,000 – $200,000	–	–	3	1
$200,000 – $210,000	–	–	1	–
$210,000 – $220,000	–	–	1	2
$220,000 – $230,000	–	–	1	2
$230,000 – $240,000	1	2	1	–
$240,000 – $250,000	1	–	–	–
$250,000 – $260,000	–	–	1	1
$270,000 – $280,000	1	1	1	–
$280,000 – $290,000	1	–	1	–
$290,000 – $300,000	–	–	1	1
$300,000 – $310,000	–	1	–	–
$310,000 – $320,000	–	–	–	1
$380,000 – $390,000	–	–	–	1
$410,000 – $420,000	1	–	–	–
$430,000 – $440,000	–	–	–	1
$560,000 – $570,000	–	–	1	–

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

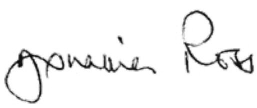
8. Certification

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

P I Robinson

CHAIR

28 September 2021



C J Ross

DIRECTOR

28 September 2021

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Reporting

◂ Anna Reed, Marion Terpstra and Ben Hessell discuss policies in the Boardroom.

Contents

Results in Brief

GROUP	2022 Target	2021 Actual	2021 Target	2020 Actual (Restated)	2019 Actual	2018 Actual
EBITDA	22.8	16.7		19.5	25.9	45.1
EBIT	12.4	6.8		9.5	16.3	35.8
Total revenue	127.2	144.8		147.8	152.4	151.6
Pre-tax pre-discount surplus	17.4	17.2		10.9	19.4	37.4
Net profit after tax	5.7	5.5		7.4	8.4	21.5
Total value of group assets	626.5	627.4		652.9	648.0	619.6
Share capital	29.0	29.0		29.0	29.0	29.0
Shareholder's equity	463.0	459.1		442.2	441.5	427.3
Net asset backing per share	16.54	16.40		15.79	15.77	15.26
Pre-discount return on shareholder's funds	3.22%	3.22%		2.46%	4.40%	8.76%
Net interest bearing debt	80.6	80.6		115.5	112.3	102.2
Interest cover (EBIT/Interest)	3.14	1.67		1.70	3.38	7.63

PARENT	2022 Target	2021 Actual	2021 Target	2020 Actual	2019 Actual	2018 Actual
EBITDA	16.4	16.6	16.2	15.3	23.4	22.8
EBIT	6.0	7.2	5.9	5.9	14.3	13.8
Customer discount (accrued)	8.8	8.8	8.5	8.6	8.4	8.3
Net profit after tax	4.3	5.8	4.8	5.2	12.9	12.9
Pre-discount return on shareholder's funds	2.93%	3.35%	3.04%	3.18%	5.39%	5.48%

Note: Due to considerable uncertainty at the time of publishing the 2020 results, 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 were not presented.

Financial Statements

Directors' Report

The Directors are pleased to present the consolidated financial statements of the Marlborough Lines Limited Group (the "Group") for the year ended 30 June 2021.

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 2021.

The Directors consider that the consolidated 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 28 September 2021 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.

P I Robinson	**C J Ross**
CHAIR	DIRECTOR
28 September 2021	28 September 2021

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2021

	Notes	Group 2021 $000	Group (Restated) 2020 $000
CONTINUING OPERATIONS			
Revenue	4	144,704	147,465
Operating expenses	5	(130,280)	(127,961)
Operating surplus		**14,424**	**19,504**
Share of equity accounted investments net surplus	10.4	30	31
Gain recognised on sale of assets	6	3,151	–
Impairment of vineyard assets	6	(932)	–
EBITDA		**16,673**	**19,535**
Depreciation and amortisation	6, 7, 8	(9,879)	(10,019)
Finance income	16	57	301
Finance expenses	16	(127)	(8,121)
Realised / unrealised foreign exchange gains	16	1,743	636
Profit before tax expense		**8,467**	**2,332**
Tax (expense) / benefit	23.1	(3,004)	5,059
Net profit for the year		**5,463**	**7,391**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss			
Net change in foreign currency translation reserve		(107)	4
Asset revaluation	6	14,781	–
Tax effect of asset revaluation	23.2	(1,384)	–
Other comprehensive income net of tax		**13,290**	**4**
Total comprehensive income for the year		**18,753**	**7,395**

The accompanying notes form an integral part of these financial statements and include further information on the prior period restatement.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2021

	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 2019	29,026	113,317	(177)	299,320	441,486	32	441,518
Correction of prior period error	–	–	–	(6,228)	(6,228)	–	(6,228)
Restated balance at 1 July 2019	**29,026**	**113,317**	**(177)**	**293,092**	**435,258**	**32**	**435,290**
TOTAL COMPREHENSIVE INCOME							
Net profit	–	–	–	7,391	7,391	–	7,391
OTHER COMPREHENSIVE INCOME NET OF TAX							
Net change in foreign currency translation reserve	–	–	4	–	4	–	4
Net change in asset revaluation reserve	–	–	–	–	–	–	–
Total comprehensive income	**–**	**–**	**4**	**7,391**	**7,395**	**–**	**7,395**
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY							
Dividends paid to equity holders	–	–	–	(500)	(500)	–	(500)
Balance at 30 June 2020 (Restated)	**29,026**	**113,317**	**(173)**	**299,983**	**442,153**	**32**	**442,185**
Balance at 1 July 2020	**29,026**	**113,317**	**(173)**	**299,983**	**442,153**	**32**	**442,185**
TOTAL COMPREHENSIVE INCOME							
Net profit	–	–	–	5,463	5,463	–	5,463
OTHER COMPREHENSIVE INCOME NET OF TAX							
Sale of assets	–	(14,485)	–	14,485	–	–	–
Net change in foreign currency translation reserve	–	–	(107)	–	(107)	–	(107)
Net change in asset revaluation reserve	–	13,397	–	–	13,397	–	13,397
Total comprehensive income	**–**	**(1,088)**	**(107)**	**19,948**	**18,753**	**–**	**18,753**
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY							
Dividends paid to equity holders	–	–	–	(1,800)	(1,800)	–	(1,800)
Balance at 30 June 2021	**29,026**	**112,229**	**(280)**	**318,131**	**459,106**	**32**	**459,138**

The accompanying notes form an integral part of these financial statements and include further information on the prior period restatement.

Consolidated Statement of Financial Position

As at 30 June 2021

	Notes	Group 30 June 2021 $000	Group (Restated) 30 June 2020 $000
NON-CURRENT ASSETS			
Plant, property and equipment	6	504,722	510,880
Intangible assets	7	2,664	2,900
Right of use assets	8	4,416	4,282
Investments in associates accounted for using the equity method	10.3	15,597	15,567
Derivatives	21.7	2,034	2,400
Total non-current assets		**529,433**	**536,029**
CURRENT ASSETS			
Cash and cash equivalents		5,365	11,988
Short-term investments		8,500	2,500
Trade and other receivables	11	24,858	29,280
Income tax receivable		1,451	2,296
Inventories and biological work in progress	12	56,246	69,887
Derivatives	21.7	1,549	945
Total current assets		**97,969**	**116,896**
Total assets		**627,402**	**652,925**

	Notes	Group 30 June 2021 $000	Group (Restated) 30 June 2020 $000
NON-CURRENT LIABILITIES			
Lease liability	8	3,704	3,744
Other borrowings		229	638
Retirement benefit obligations		521	578
Derivatives	21.7	6,788	10,969
Deferred tax liability	23.2	50,526	49,050
Borrowings	15	69,600	95,000
Total non-current liabilities		**131,368**	**159,979**
CURRENT LIABILITIES			
Trade and other payables	13	21,111	25,483
Income tax payable		429	196
Lease liability	8	797	610
Other borrowings		1,138	1,310
Employee entitlements	14	2,296	2,439
Derivatives	21.7	125	223
Borrowings	15	11,000	20,500
Total current liabilities		**36,896**	**50,761**
EQUITY			
Share capital	17	29,026	29,026
Revaluation reserves and foreign currency translation reserve	18	111,949	113,144
Retained earnings		318,131	299,983
Equity attributable to owners of the Company		**459,106**	**442,153**
Non-controlling interests	19	32	32
Total equity		**459,138**	**442,185**
Total equity and liabilities		**627,402**	**652,925**

The accompanying notes form an integral part of these financial statements and include further information on the prior period restatement.

Consolidated Statement of Cash Flows

For the year ended 30 June 2021

	Note	Group 2021 $000	Group 2020 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from consumers		156,757	152,628
Receipts from associates		116	147
Interest received		57	301
Dividends received		700	1,050
Payments to consumers, suppliers and employees		(120,616)	(122,637)
Interest paid		(4,643)	(5,487)
Income tax paid		(1,829)	(3,632)
Net cash generated from operating activities	**26**	**30,542**	**22,370**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of plant, property and equipment		33,620	1,029
Purchase of plant, property and equipment		(27,294)	(34,096)
Purchase of intangible assets		(141)	(418)
Net cash used in investing activities		**6,185**	**(33,485)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Lease liability principal repayments		(517)	(496)
Lease liability interest repayments		(133)	(136)
Proceeds from borrowings		74,500	76,200
Repayment of borrowings		(109,400)	(73,000)
Dividends paid		(1,800)	(500)
Net cash generated from financing activities		**(37,350)**	**2,068**
Net (decrease) in cash and cash equivalents		(623)	(9,047)
Cash and cash equivalents at the beginning of the period		14,488	23,535
Cash and cash equivalents at the end of the period		**13,865**	**14,488**

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

Statement of Accounting Policies

For the year ended 30 June 2021

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); and
- Energy Marlborough Limited (100% owned subsidiary).

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. The Company is a Tier 1 entity applying full New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS) on the basis that it is a large, for-profit public sector entity with total expenses greater than $30 million. These consolidated 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 consolidated financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP). 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 Consolidated Statement of Comprehensive Income and Consolidated Statement of Cash Flows have been prepared so that all components are stated exclusive of GST. All items in the Consolidated Statement of Financial Position are stated exclusive of GST except for receivables and payables which include GST.

The consolidated 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 consolidated 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

The accounting policies adopted are consistent with those of the previous financial year.

Notes to the Financial Statements

Restatement and Key Judgements and Estimates

This section provides information on the prior period restatement and the subjective assessments made by Group management that affect the reported results.

1. Restatement of Inventory Under NZ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

In the current year, the Group engaged consulting advisors to review the allocation methods used by Yealands Wine Group Limited in the vineyard and winery to better support its premiumisation strategy. Through this process it was identified that winery costs relating to the processing of inventory, and depreciation of non-vintage assets, were incorrectly allocated across the prior year and current year vintages. The Group's consolidated financial statements have been restated to correctly allocate these costs to the prior year vintage, with only vintage-related costs being capitalised to inventory at balance date.

In accordance with NZ IAS 8, the financial statements for the year ended 30 June 2020 have been restated to recognise that this treatment constitutes a prior period error, therefore requiring restatement of prior period balances.

This adjustment has resulted in the following restatements:

	Group 2020 $000	Adjustment	Group (Restated) 2020 $000
CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE			
Decrease in wine cost of sales	(73,232)	93	(73,139)
(Increase) in other operating and administrative expenses	(23,836)	(609)	(24,445)
Increase in income tax credit	2,796	2,263	5,059
Increase in net profit for the year	**5,644**	**1,747**	**7,391**
CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
(Decrease) in inventory	76,631	(6,744)	69,887
(Decrease) in inventory for year	–	(516)	(516)
Increase in income tax receivable	327	1,969	2,296
Decrease in deferred tax liability	(49,344)	294	(49,050)
Decrease in opening retained earnings	(299,320)	6,228	(293,092)
Increase in equity (profit for the year)	**5,644**	**1,747**	**7,391**

Opening inventory balance as at 1 July 2019 of $77,825,000 was adjusted by $6,228,000 to a restated opening inventory balance of $71,597,000.

2. Key Judgements and Estimates

The preparation of consolidated 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 2021, that have the potential to cause a material adjustment to the carrying amounts of assets and liabilities, are disclosed below. In summary, they are:

Fair value of electricity reticulation network	Note 6	Plant, Property and Equipment
Fair value of land, buildings, vineyard improvements and bearer plants	Note 6	Plant, Property and Equipment
Application of NZ IFRS 16 Leases	Note 8	Leases
Valuation of inventory	Note 12	Inventories and Biological Work in Progress
Impairment	Note 2.4	Critical Accounting Estimate – Impairment

2.1 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 adverse impact globally. 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. Supply chains have been impacted.

Overall, the electricity distribution business has not been materially impacted by COVID-19, apart from the capital works programme being 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 Consolidated Statement of Financial Position.

For Yealands Wine Group Limited, this has led to changes in lead times for dry materials, shipping delays and increased customer demand as they build additional safety stock for key peak trading periods. This has seen Yealands Wine Group Limited adapt to changing customer order patterns, production runs, shipment fulfilments and working capital requirements. It has led to overall reduced profitability as sales have moved to lower margin off-premise sales, away from higher margin on-premise sales.

2.2 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 consolidated financial statements due to the sensitivities of the valuation methodology.

Electricity Reticulation Network assets belonging to the Company had their fair value assessed as at 30 June 2020 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 a 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. This did not change the valuation outcome.

In order to derive the valuation, a forecasting model was developed which incorporated 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 used to discount the forecast cash flows. 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.

In the current year, management reviewed the key assumptions used in the 30 June 2020 valuation and found no reason to change the assessment of fair value.

2.3 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 2021 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 ($153,237 per hectare) and the Seaview Winery which was valued on a Depreciated Replacement Cost basis at $24.6 million.

The fair value of the land, buildings, vineyard improvements and bearer plants was assessed at $205.4 million, resulting in a net $13.85 million uplift on the carrying value as at 30 June 2021. The valuation increase of $14.78 million was recognised through other comprehensive income and recognised through the asset revaluation reserve, while a valuation decrease of $0.93 million was treated as an impairment and recognised through profit and loss, in accordance with NZ IAS 16. Management have considered the appropriateness of the carrying value of these assets in the current year, including consideration of market comparable sales.

2.4 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. Parent Company information has been provided as a note below to inform readers of how it has performed as an individual entity.

3. Parent Company Information

Statement of Comprehensive Income

For the year ended 30 June 2021

	Parent 2021 $000	Parent 2020 $000
CONTINUING OPERATIONS		
Revenue	45,675	44,580
Operating expenses	(29,055)	(29,287)
Operating surplus	**16,620**	**15,293**
EBITDA	**16,620**	**15,293**
Depreciation and amortisation	(9,388)	(9,350)
Finance income	698	594
Finance costs	(169)	(20)
Profit before tax expense	**7,761**	**6,517**
Income tax expense	(1,956)	(1,336)
Net profit for the period	**5,805**	**5,181**
Total comprehensive income for the period	**5,805**	**5,181**

Parent Company Statement of Financial Position Information

As at 30 June 2021

	Parent 30 June 2021 $000	Parent 30 June 2020 $000
Plant, property and equipment	244,301	242,773
Investments in subsidiaries and associates	133,621	138,621
Other assets	35,937	35,529
Total assets	**413,859**	**416,923**
Deferred tax liability	41,682	42,197
Other liabilities	8,486	15,041
Total liabilities	**50,168**	**57,238**
Share capital	29,026	29,026
Retained earnings and reserves	334,665	330,659
Total equity	**363,691**	**359,685**
Total equity and liabilities	**413,859**	**416,923**

4. Revenue

	Group 2021 $000	Group 2020 $000
Electricity network revenue	45,628	46,492
Electricity network discounts	(8,770)	(8,602)
Net electricity network revenue	36,858	37,890
Wine sales	98,752	101,989
External contracting revenue	3,683	2,977
Vested assets	1,477	961
Dividends from equity accounted associates	700	1,050
Other income	3,234	2,598
Operating revenue	**144,704**	**147,465**

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 electrical 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 capitalises the value of the asset at its fair value, being its current replacement cost and treats 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 Consolidated Statement of Comprehensive Income over time as the wine making services are completed.

5. Expenditure

	Notes	Group 2021 $000	Group (Restated) 2020 $000
PROFIT BEFORE TAXATION HAS BEEN ARRIVED AT AFTER CHARGING:			
Remuneration of Auditors – audit of the financial statements		216	220
Remuneration of Auditors – other assurance services		34	33
Directors' fees		751	720
Bad debts written off (recovered)		(16)	38
Employee benefits – retirement gratuities		37	117
Employee benefits – employer superannuation contributions		720	769
Educational grants		15	39
Loss on disposal of plant, property and equipment		1,509	1,125
Lease expenses	8	223	221
External contracting expenses		3,610	2,911
Wine cost of sales		73,745	71,075
NZ IFRS inventory fair value adjustment		5,245	2,064
Wine distribution and selling expenses		14,234	16,683
Transmission costs		6,939	7,501
Other operating and administrative expenses		23,019	24,445
Total operating expenses		**130,280**	**127,961**

Long Term Assets

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

6. Plant, Property and Equipment

GROUP	Electricity Reticulation Network at Fair Value $000	Land at Fair Value $000	Buildings at Fair Value $000	Vineyard Improvements at Fair Value $000	Bearer Plants at Fair Value $000	Vehicles, Plant and Equipment at Cost $000	Capital Work in Progress $000	Total $000
COST OR VALUATION								
Balance at 1 July 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**
Additions	–	–	302	458	25	742	28,042	29,569
Transfers	11,539	–	2,103	3,077	–	6,317	(23,036)	–
Revaluation	–	1,904	1,278	3,057	298	–	2,137	8,674
Revaluation impairment	–	–	–	–	–	–	(932)	(932)
Disposals / adjustments	(3,518)	(13,670)	(344)	(6,857)	(9,034)	(4,594)	(853)	(38,870)
Impairment released	–	–	–	–	–	1,590	–	1,590
Balance at 30 June 2021	**410,914**	**80,028**	**54,193**	**64,642**	**5,904**	**100,020**	**40,433**	**756,134**
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
Balance at 1 July 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**
Depreciation expense	7,659	–	730	1,908	322	6,420	–	17,039
Disposals / adjustments	(2,425)	–	(14)	(652)	(426)	(2,500)	–	(6,017)
Impairment	–	–	–	–	–	(316)	–	(316)
Impairment released	–	–	–	–	–	1,590	–	1,590
Revaluation – write back	–	–	(667)	(5,076)	(364)	–	–	(6,107)
Balance at 30 June 2021	**197,882**	**–**	**10,081**	**1,120**	**91**	**42,238**	**–**	**251,412**
NET BOOK VALUE								
Balance at 30 June 2020	210,245	91,794	40,822	59,967	14,056	58,921	35,075	510,880
Balance at 30 June 2021	**213,032**	**80,028**	**44,112**	**63,522**	**5,813**	**57,782**	**40,433**	**504,722**
FAIR VALUE ADJUSTMENT 30 JUNE 2021								
Revaluation	–	1,904	1,278	3,057	298	–	2,137	8,674
Revaluation – depreciation write back	–	–	667	5,076	364	–	–	6,107
Revaluation gain	**–**	**1,904**	**1,945**	**8,133**	**662**	**–**	**2,137**	**14,781**

CAPITAL WORK IN PROGRESS – BASIS OF MEASUREMENT	At Cost	At Fair Value	Total
Balance at 30 June 2020	6,599	28,476	35,075
Balance at 30 June 2021	**3,377**	**37,056**	**40,433**

Land and Buildings (not including reticulation system assets), Vineyard Improvements and Bearer Plants were revalued to fair value as at 30 June 2021 as described in Note 2.3.

As at 30 June 2021, some assets of the Group were subject to a registered general security agreement to secure bank loans (see Note 15).

Explanatory Note – Capitalisation of Depreciation

Depreciation relating to the vineyards and winery of Yealands Wine Group Limited of $7.7 million (2020: $8.7 million) has been incurred in producing and processing wine during the period. This depreciation has been split between vintage and non-vintage depreciation and $5.5 million (2020: $5.6 million) of vintage depreciation has been capitalised into the cost of inventory. Non-vintage depreciation is expensed to wine cost of sales as it relates to the processing and dispatch of wine from previous vintages.

Explanatory Note – Vineyard Sale

During the year, Yealands Estate Limited sold four vineyard properties located in the Awatere and Wairau Valleys. The total sale price for these four vineyard properties was $33.759 million plus GST, if any. The Group has recognised a $3.2 million gain on sale of these properties and a further $1.2 million is expected to be recognised in the year to 30 June 2022 following the completion of certain sale conditions. The $0.9 million revaluation impairment relates to expenditure incurred on a development which fulfills these conditions. This transaction accounts for $29.0 million of the current year disposals from the land, buildings, vineyard improvements, bearer plants, vehicles, plant and equipment categories.

Accounting Policy – Basis of Measurement

The Company's 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, including those vineyards that are classified as work in progress through to the point of full production. 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 the 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 profit or loss 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 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.

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

Category	Method	Useful Life	Rate
Buildings	Diminishing value over	5 to 100 years	0% to 20%
Buildings	Straight line over	40 to 100 years	1% to 2.5%
Electricity reticulation network	Straight line over	15 to 70 years	1.5% to 6.5%
Plant, equipment and motor vehicles	Diminishing value over	2 to 20 years	3% to 67%
Plant, equipment and motor vehicles	Straight line over	30 to 35 years	3%
Vineyard improvements	Diminishing value over	3 to 35 years	3% to 40%
Vineyard improvements	Straight line over	10 to 35 years	3% to 10%
Bearer plants	Straight line over	30 to 35 years	3%

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 2021 $000	Fair Value as at 30 June 2020 $000	Historic Cost Value as at 30 June 2021 $000	Historic Cost Value as at 30 June 2020 $000
Electricity reticulation network	Level 3	213,032	210,245	72,067	66,598
Land	Level 3	80,028	91,794	37,474	44,185
Buildings	Level 3	44,112	40,822	30,165	28,453
Vineyard improvements	Level 2	63,522	59,967	37,540	39,258
Bearer plants	Level 3	5,813	14,056	1,710	6,436
Total		**406,507**	**416,884**	**178,956**	**184,930**

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. Refer to Note 21.7 for a description of the various fair value levels. 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 are included in 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 2021 (nil in the prior year). This is further discussed in the Critical Accounting Estimate Note 2.3.

7. Intangible Assets

Group	Easements $000	Software $000	Trademarks $000	Total $000
COST				
Balance at 1 July 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**
Additions	46	95	32	173
Disposals / transfers	–	(18)	–	(18)
Balance at 30 June 2021	**1,935**	**3,820**	**891**	**6,646**
ACCUMULATED AMORTISATION AND IMPAIRMENT				
Balance at 1 July 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**
Amortisation expense	–	330	77	407
Disposals / transfers	–	(16)	–	(16)
Balance at 30 June 2021	**–**	**3,468**	**514**	**3,982**
NET BOOK VALUE				
Balance at 30 June 2020	1,889	589	422	2,900
Balance at 30 June 2021	**1,935**	**352**	**377**	**2,664**

As at 30 June 2021, some assets of the Group were subject to a registered general security agreement to secure bank loans (see Note 15).

Accounting Policy – Recognition and Amortisation

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

Computer software is capitalised as an intangible asset on the basis of the costs incurred to acquire and bring the software into service and it is amortised over its expected useful economic life. Costs associated with developing and maintaining computer software programmes are recognised as expenses 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 Consolidated 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.

Explanatory Note – Software as a Service (SaaS) treatment

NZ IFRS does not provide specific guidance on how a company purchasing cloud based technology should account for SaaS arrangements. The IFRS Interpretations Committee (IFRIC) published agenda decisions in March 2021 which have been used to support the Group's treatment of SaaS. On 1 July 2021, Yealands Wine Group Limited retired its previous accounting software with the introduction of cloud based ERP systems for finance, production and customer services. The Group has assessed the accounting for upfront configuration and customisation costs incurred in system implementations, and the resulting ongoing costs of SaaS arrangements. In referencing the agenda decisions published by the IFRIC, which clarified its interpretation of how current accounting standards apply to these types of arrangements, the Group has expensed within profit and loss all the development costs which would have previously been capitalised during the year of $1.3 million. An assessment on the customisation of the software has been completed, with an assessment that the modifications do not warrant capitalisation to the Consolidated Statement of Financial Position.

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.

8. Leases

GROUP	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)
Balance at 30 June 2020	**2,903**	**814**	**565**	**4,282**
Additions	–	–	357	357
Lease variation	486	–	–	486
Depreciation	(410)	(139)	(160)	(709)
Closing Net Book Value 30 June 2021	**2,979**	**675**	**762**	**4,416**
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**
Cost	3,313	953	941	5,207
Accumulated depreciation	(334)	(278)	(179)	(791)
Closing Net Book Value 30 June 2021	**2,979**	**675**	**762**	**4,416**

GROUP	Land and Vineyard Improvements $000	Buildings $000	Plant, Equipment and Motor Vehicles $000	Total $000
LEASE LIABILITY				
Balance at 1 July 2019	3,313	953	–	4,266
Additions	–	–	584	584
Interest expense	104	30	2	136
Principal repayments	(468)	(143)	(21)	(632)
Balance at 30 June 2020	**2,949**	**840**	**565**	**4,354**
Additions	–	–	357	357
Lease variation	438	–	–	438
Interest expense	93	26	14	133
Principal repayments	(468)	(148)	(165)	(781)
Balance at 30 June 2021	**3,012**	**718**	**771**	**4,501**
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**
Current – with 1 year	474	130	193	797
Non-current – 1 to 2 years	455	139	197	791
Non-current – 2 to 5 years	1,428	449	381	2,258
Non-current – 5 or more years	655	–	–	655
Closing Lease Liability 30 June 2021	**3,012**	**718**	**771**	**4,501**

	Group 2021 $000	Group 2020 $000
AMOUNTS RECOGNISED IN PROFIT AND LOSS		
Amortisation expense on right-of-use assets	159	139
Interest expense on lease liabilities	28	30
Expense relating to short-term leases	–	–
Expense relating to leases of low value assets	36	51
AMOUNTS CAPITALISED TO BIOLOGICAL WORK IN PROGRESS		
Amortisation expense on right-of-use assets	550	429
Interest expense on lease liabilities	105	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 Hawke's Bay vineyard lease and the lease of vineyard plant and equipment. The Group has applied judgement in recognising leases under NZ IFRS 16. 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 lessee. 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 used to discount future cashflows was 3.15%.

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 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.

9. 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 to the Group, liabilities assumed by the Group from 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 exceed the cost of acquisition, the discount is credited to profit or loss in the period of acquisition.

10. Investments in Subsidiaries and Associates

10.1 Group Entities

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

	Year End	Effective Ownership 30 June 2021	Effective Ownership 30 June 2020
INVESTMENTS 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%
INVESTMENTS HELD BY SUBSIDIARIES OF MARLBOROUGH LINES LIMITED			
Energy Marlborough Limited	30 June	100%	–
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 Company or Parent of the last six companies in the table above.

Explanatory Note – Investments in Subsidiaries

Energy Marlborough Limited was incorporated on 20 May 2021 as a subsidiary of Seaview Capital Limited.

Southern Lines Limited was amalgamated into Marlborough Lines Limited on 25 June 2021.

10.2 Marlborough Lines Investments in Subsidiaries

	Parent 30 June 2021 $000	Parent 30 June 2020 $000
Investment in Seaview Capital Limited	121,951	121,951
Investment in Southern Lines Limited	–	5,000
Total investments in subsidiaries	**121,951**	**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 subsidiary, Yealands Wine Group Limited. Consistent accounting policies are used in the preparation and presentation of the consolidated financial statements. In preparing the consolidated financial statements, all intercompany balances and transactions and unrealised gains arising within the Group are eliminated.

10.3 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 2021 $000	Group 30 June 2020 $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	21	(9)
Interest in associate (excluding goodwill)	**14,377**	**14,347**
Current balance associate goodwill	1,220	1,220
Total interest in associate (including goodwill)	**15,597**	**15,567**

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 Consolidated 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.

10.4 Results of the Group's Associates

	31 March 2021 $000	31 March 2020 $000
A SUMMARY OF NELSON ELECTRICITY LIMITED'S RESULTS IS AS FOLLOWS:		
Assets as at 31 March	42,769	43,618
Liabilities as at 31 March	14,031	14,941
Revenue for year ended 31 March	9,380	9,889
Net profit after tax	1,461	2,162
THE GROUP'S SHARE OF THE RESULTS OF ITS ASSOCIATE IS AS FOLLOWS:		
Share of surpluses before tax	1,156	1,504
Less taxation	(426)	(423)
Less dividends / distributions received	(700)	(1,050)
Gain attributable to associate	**30**	**31**

Explanatory Note – Timing of Associate Year End

The gain 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. The cash position is shown on the Consolidated Statement of Financial Position.

11. Trade and Other Receivables

	Group 30 June 2021 $000	Group 30 June 2020 $000
THE BALANCE OF ACCOUNTS RECEIVABLE COMPRISES:		
Trade debtors	22,561	27,894
GST receivable	557	340
Accrued income	374	539
Works under construction	727	283
Prepayments	844	589
Allowance for expected credit losses	(205)	(365)
Total	**24,858**	**29,280**

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 general economic 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 $1,382,714 (2020: $724,499) which are past due at balance date. The Group has provided for $204,994 (2020: $365,273) 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 21.5.

12. Inventories and Biological Work in Progress

	Group 30 June 2021 $000	Group (Restated) 30 June 2020 $000
Electricity reticulation stock	6,733	6,153
Bulk wine	37,452	51,763
Bottled wine	7,407	8,511
Packaging and labels	425	422
Biological work in progress	4,229	3,038
Total	**56,246**	**69,887**

As at 30 June 2021, some assets of the Group were subject to a registered general security agreement to secure bank loans (see Note 15).

Accounting Policy – Valuation

Reticulation stock comprises of network system spares and materials which 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.

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 estimated costs to be incurred in marketing, selling and distribution.

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.

The growth on the vines in the period from harvest to 30 June 2021 cannot be reliably measured due to the lack of market information and the variables in completing the biological transformation process between balance date and the time of harvest. As allowed under NZ IAS 41, the cost of agricultural activity in the period to 30 June has been recognised as work in progress for the next harvest. This assumes the cost of the agricultural activity approximates fair value in determining the value of the biological transformation that has occurred in that period.

13. Trade and Other Payables

	Group 30 June 2021 $000	Group 30 June 2020 $000
IN CURRENT LIABILITIES THE BALANCE OF TRADE AND OTHER PAYABLES COMPRISES:		
Trade creditors	17,479	20,781
Provision for discount	2,143	3,496
GST payable	424	375
Income in advance	1,054	825
Retailer prudential security held in Trust	11	6
Total	**21,111**	**25,483**

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.

14. Employee Entitlements

	Group 30 June 2021 $000	Group 30 June 2020 $000
Employee entitlements	2,296	2,439
Total	**2,296**	**2,439**

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.

15. Borrowings

	Group 30 June 2021 $000	Group 30 June 2020 $000
Current	11,000	20,500
Non-current	69,600	95,000
Total	**80,600**	**115,500**

Terms and repayments schedule

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

As at 30 June 2021

Lender	Nominal Interest Rate	Maturity	Currency	Face Value $000	Carrying Amount $000
ASB Bank Limited	1.85%	Jul-22	NZD	45,000	45,000
ASB Bank Limited	1.78%	Jul-22	NZD	6,200	6,200
ASB Bank Limited	2.14%	Jul-23	NZD	5,700	5,700
ASB Bank Limited	2.08%	Jul-23	NZD	3,000	3,000
ASB Bank Limited	2.11%	Jul-23	NZD	3,100	3,100
ASB Bank Limited	2.10%	Jul-23	NZD	6,600	6,600
Total interest-bearing liabilities				**69,600**	**69,600**

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**

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 $11 million current amount relates to a Working Capital Facility. The remaining ASB Bank Limited term facilities range in remaining terms from one year through to two 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 2021, there is no guarantee or security provided by the Parent Company in relation to the term facilities of Yealands Wine Group.

As at 30 June 2021, the Parent Company 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 the Parent Company. At balance date, this facility had not been drawn down.

16. Net Financing Income

	Group 2021 $000	Group 2020 $000
FINANCIAL INCOME		
Interest income on bank deposits	57	301
Total finance income	**57**	**301**
FINANCIAL EXPENSES		
Interest cost – term borrowings	(4,057)	(5,603)
Interest cost – other	(169)	(20)
Unrealised interest rate swap gain / (loss)	4,099	(2,498)
Total finance expenses	**(127)**	**(8,121)**
REALISED / UNREALISED FOREIGN EXCHANGE GAINS / (LOSSES)		
Realised foreign exchange gain / (loss)	1,960	(37)
Unrealised foreign exchange (loss) / gain	(217)	673
Total gains on financial instruments	**1,743**	**636**

Accounting Policy – Revenue Recognition

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

17. Share Capital

	Group 30 June 2021 $000	Group 30 June 2020 $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.

18. Revaluation Reserves and Foreign Currency Translation Reserve

18.1 Revaluation Reserves

	Group 2021 $000	Group 2020 $000
PROPERTIES REVALUATION RESERVE		
Balance at the beginning of the year	113,317	113,317
Revaluation gains transferred to retained earnings upon sale	(14,485)	–
Increase in fair value of land, buildings, vineyard improvements and bearer plants, net of tax	13,397	–
Balance at end of the year	**112,229**	**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 2021 $000	Group 30 June 2020 $000
THE GROUP PROPERTIES REVALUATION RESERVE COMPRISES REVALUATIONS IN THE FOLLOWING CATEGORIES:		
Land, buildings, vineyard improvements and bearer plants	72,904	73,992
Electricity reticulation network	35,639	35,639
Investments in associates	3,686	3,686
Total	**112,229**	**113,317**

18.2 Foreign Currency Translation Reserve (FCTR)

	Group 2021 $000	Group 2020 $000
Balance at the beginning of the year	(173)	(177)
Movement for the year	(107)	4
Balance at end of the year	**(280)**	**(173)**

Accounting Policy – Foreign Currency Transactions

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

19. Non-Controlling Interests

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.

20. Dividends

	Group 2021 $000	Group 2020 $000
AMOUNTS RECOGNISED AS DISTRIBUTIONS TO EQUITY HOLDERS IN THE PERIOD:		
Total dividends ($000)	1,800	500
Cents per share	6.429	1.786

Explanatory Note – Dividends

The dividends in the table above are those from the Parent Company to the Marlborough Electric Power Trust. Dividends from subsidiaries to the Parent Company, if any, are eliminated on consolidation and are not included in the above table.

Financial Risk Management

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

21. Financial Risk Management

21.1 Financial Risk Management

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

The agricultural activity of the Group's subsidiary Yealands Wine Group Limited consists of the management of vineyards to produce grapes for use in the production of wine. The primary financial risk associated with this activity occurs due to the length of time between expending cash on the purchase or planting and maintenance of grape vines and on harvesting grapes, and ultimately receiving cash from the sale of wine to third parties. Yealands Wine Group Limited's 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 $45.6 million (2020: $34.5 million).

21.2 Market Risk Management

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

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

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

21.3 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 2021 $000	Group 30 June 2020 $000
FOREIGN CURRENCY DENOMINATED ASSETS AND LIABILITIES		
Cash and cash equivalents	1,073	1,880
Trade and other receivables	9,234	14,072
Trade and other payables	(995)	(1,061)
Total	**9,312**	**14,891**

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 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.

	$000 AUD	$000 EUR	$000 GBP	$000 USD	$000 Other
CHANGE IN NEW ZEALAND DOLLAR AGAINST FOREIGN CURRENCY					
Impact on Group 2021 net surplus:					
10% increase	(100)	(538)	(69)	(124)	(15)
10% decrease	122	658	84	152	18
Impact on Group 2020 net surplus					
10% increase	(159)	(840)	(198)	(134)	(24)
10% decrease	194	1,026	242	164	29

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 2021 $000	Group 30 June 2020 $000
EUR	43,872	65,035
USD	6,555	10,628
AUD	4,778	3,898
Other	8,891	9,147
Total	**64,096**	**88,708**

21.4 Interest Rate Risk Management

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

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

The Group is exposed to interest rate risk as it borrows 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 manage interest expense from increases to interest rates.

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. The 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 2021 $000	Group 2020 $000
Impact on Group net surplus:		
2.0% increase	(611)	(250)
2.0% decrease	611	250

The Group's sensitivity to interest rates has increased during the year due to an increase in debt exposed to floating interest rates.

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 hedge 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.

	Group 30 June 2021 $000	Group 30 June 2020 $000
Notional principal of outstanding contracts	50,000	95,000

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.

The interest rates applicable to the interest rate swap contracts during the year were 4.02% to 4.15% per annum (2020: 2.56% to 3.70%). During the current year, management reprofiled the Group's swap position, with existing swap contracts closed out and new contracts entered into to align with a lower debt profile. The contractual obligations were transferred to the new swap contracts.

21.5 Credit Risk Management

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

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

Credit risk exists in respect of accounts receivable. In respect of its electricity business, the Group is able to impose bond requirements on retailers trading across its network in accord with the Use of System Agreements held with the retailers. In respect to wine sales, the Group has a policy of trading with consumers for which trade credit insurance has been granted by the Group's trade credit insurance provider, guarantees received or on cash terms. Approximately 2% of annual wine sales is exposed to consumers who do not have credit insurance.

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 Consolidated Statement of Financial Position 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 11.

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

	Group 30 June 2021		Group 30 June 2020	
STATUS OF TRADE RECEIVABLES	Gross $000	Impairment $000	Gross $000	Impairment $000
Not past due	18,505	–	24,171	–
Current	2,673	–	2,999	–
30 days overdue	992	–	358	(150)
60 days overdue	74	–	41	(8)
90 days overdue	316	(205)	325	(207)
Total	**22,561**	**(205)**	**27,894**	**(365)**

21.6 Liquidity Risk Management

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

The Group assesses its liquidity requirements on a regular basis and has funding arrangements in place to cover short-term variations and shortfalls in operating cash flows.

During the prior year, the Group changed its approach to liquidity risk management with the Parent Company obtaining a standby debt facility. See Note 15. 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 and 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
2021 CONTRACTUAL MATURITY				
Trade and other payables	21,111	–	–	–
Finance lease	1,167	180	55	–
Interest cost on term debt	1,768	1,246	108	–
Borrowings	11,000	51,200	18,400	–
2020 CONTRACTUAL MATURITY				
Trade and other payables	25,483	–	–	–
Finance lease	1,349	482	199	55
Interest cost on term debt	5,596	4,844	6,176	–
Borrowings	20,500	10,000	65,000	20,000

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

	Less than 6 months $000	6–12 months $000	1–2 years $000	Over 2 years $000
2021 LIQUIDITY ANALYSIS				
Interest rate swaps – net settled cash outflows	366	501	1,711	8,856
Forward exchange contracts – cash outflows	13,944	18,890	22,127	9,135
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

21.7 Fair Values

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

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

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

Fair value measurements recognised in the Consolidated 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 liabilities that are not based on observable market data (unobservable inputs).

	Fair Value Category	Group 30 June 2021 $000	Group 30 June 2020 $000
Derivative financial assets – current	Level 2	1,549	945
Derivative financial assets – non-current	Level 2	2,034	2,400
Total financial assets		**3,583**	**3,345**
Derivative financial liabilities – current	Level 2	(125)	(223)
Derivative financial liabilities – non-current	Level 2	(6,788)	(10,969)
Total financial liabilities		**(6,913)**	**(11,192)**
Net financial liability		**(3,330)**	**(7,847)**

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 2021 $000	Group 2020 $000
Foreign currency forward contracts	3,371	2,953
Interest rate swaps	(6,701)	(10,800)
Net financial liability	**(3,330)**	**(7,847)**

21.8 Capital Risk Management

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern. The capital structure comprises share capital (see Note 17), reserves and retained earnings (see Note 18). 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 15. All banking covenants have been complied 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 prior year, a change to the Group's capital management approach was implemented, with the provision of an intercompany loan from Marlborough Lines Limited to Yealands Wine Group Limited, as disclosed in Note 24.3.

22. Financial Instruments

22.1 Classification of Financial Instruments

Group as at 30 June 2021

	Loans and Receivables $000	Held for Trading (FVTPL) $000	Other Amortised Cost $000	Total Carrying Amount $000
FINANCIAL ASSETS				
Current assets				
Cash and cash equivalents	5,365	–	–	5,365
Short-term deposits	8,500	–	–	8,500
Trade and other receivables	23,457	–	–	23,457
Derivatives	–	1,549	–	1,549
Non-current assets				
Derivatives	–	2,034	–	2,034
Total financial assets	**37,322**	**3,583**	**–**	**40,905**

	Held for Trading (FVTPL) $000	Other Financial Liabilities $000	Total Carrying Amount $000
FINANCIAL LIABILITIES			
Current liabilities			
Trade and other payables	–	20,687	20,687
Derivatives	125	–	125
Term borrowings	–	11,000	11,000
Non-current liabilities			
Derivatives	6,788	–	6,788
Term borrowings	–	69,600	69,600
Total financial liabilities	**6,913**	**101,287**	**108,200**

Group as at 30 June 2020

	Loans and Receivables $000	Held for Trading (FVTPL) $000	Other Amortised Cost $000	Total Carrying Amount $000
FINANCIAL ASSETS				
Current assets				
Cash and cash equivalents	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**

	Held for Trading (FVTPL) $000	Other Financial Liabilities $000	Total Carrying Amount $000
FINANCIAL LIABILITIES			
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**

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 Consolidated Statement of Financial Position 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 contracts and forward foreign currency contracts to hedge 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 re-measured 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 interest rates and market exchange rates and the resulting gain or loss that would accrue if the derivative was terminated at balance date.

Other

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

23. Taxation

23.1 Income Tax

	Group 2021 $000	Group (Restated) 2020 $000
Tax expense comprises:		
Current tax expense / (benefit)	2,912	(443)
Deferred tax expense relating to the origination and reversal of temporary differences	92	(4,616)
Tax expense / (benefit)	**3,004**	**(5,059)**
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	**8,467**	**2,332**
Prima facie income tax calculated at 28%	2,371	653
Plus / (less) taxation adjustments:		
Non-deductible expenses and deferred revenue	550	(29)
Asset capitalised for tax purposes	363	0
Prior period adjustment	–	(1,998)
Deferred tax on reinstatement of depreciation on buildings	–	(3,268)
Net benefit of imputation credits	(272)	(408)
Equity accounted earnings of associates	(8)	(9)
Tax expense / (benefit) recognised in the Statement of Comprehensive Income	**3,004**	**(5,059)**

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).

23.2 Deferred Taxation

Group for the year ended 30 June 2021

	Opening Balance $000	Charged to Income $000	Charged to OCI $000	Closing Balance $000
DEFERRED TAX LIABILITIES				
Plant, property and equipment	49,005	734	1,384	51,123
Inventory	1,660	(1,469)	–	191
	50,665	**(735)**	**1,384**	**51,314**
DEFERRED TAX ASSETS				
Provisions for employee entitlements, retirement obligations and doubtful debts	(873)	136	–	(737)
Tax losses	(684)	684	–	–
Leases	(20)	(18)	–	(38)
Doubtful debts and impairment losses	(38)	25	–	(13)
	(1,615)	**827**	**–**	**(788)**
Net deferred tax liability	**49,050**	**92**	**1,384**	**50,526**

Group for the year ended 30 June 2020 (Restated)

	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)	147	–	(873)
Tax losses	–	(684)	–	(684)
Leases	–	(20)	–	(20)
Doubtful debts and impairment losses	(74)	36	–	(38)
	(1,094)	**(521)**	**–**	**(1,615)**
Net deferred tax liability	**53,666**	**(4,616)**	**–**	**49,050**

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 on a straight line basis. 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 prior 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 Consolidated Statement of Comprehensive Income, except when it relates to items credited or debited directly to equity, in which case the current or deferred tax is also recognised directly in equity or where it arises from the initial accounting for a business combination in which case it is taken into account in the determination of goodwill or excess.

23.3 Imputation Credit Account

	Group 2021 $000	Group 2020 $000
Balance at beginning of period	65,614	62,687
Attached to dividends paid in the period	(700)	(194)
Attached to dividends received	272	408
Income tax payments during the period	2,237	2,713
Balance at end of period	**67,423**	**65,614**

24. Related Parties

24.1 Marlborough Electric Power Trust

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

24.2 Parties Associated with Group Directors

Related party	Relationship	Product Sold or Services Rendered $000	Product Purchased or Services Received $000	Disbursements passed through to third parties $000	Balance Receivable $000	Balance Payable $000
MARLBOROUGH LINES LIMITED DIRECTOR RELATIONSHIPS – 2021						
Dew & Company Limited	Director	–	5	–	–	–
Outer Limits Limited	Director	470	–	–	–	–
Nikau Drive Limited	Director	426	–	–	–	–
Precast Systems Limited	Director	–	16	–	–	–
YEALANDS WINE GROUP LIMITED DIRECTOR RELATIONSHIPS – 2021						
None		–	–	–	–	–
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

Directors fees paid to Directors are disclosed in Note 25.

All products and services rendered and received were completed on normal arms-length commercial terms.

Explanatory Note – Related Party Transactions

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

Outer Limits Limited and Nikau Drive Limited (entities associated with Phil Robinson) are property development companies, to which Marlborough Lines Limited provides electrical reticulation services.

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.

Peter Radich retired as a director of Yealands Wine Group Limited on 15 June 2020 and therefore was not a related party during the financial year ended 30 June 2021.

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

24.3 Subsidiary Companies

	2021 $000	2020 $000
YEALANDS WINE GROUP LIMITED		
Directors' fees paid to Marlborough Lines Limited	–	34
Purchases from Yealands Wine Group Limited	4	12
Electricity assets paid for by Yealands Wine Group Limited	409	48
Interest income paid or payable to Marlborough Lines Limited	641	307
Amounts receivable from Yealands Wine Group Limited	10,118	15,055
SOUTHERN LINES LIMITED		
Term debt owed by Marlborough Lines Limited	–	5,000

Explanatory Note – Intercompany loan

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

24.4 Associate Entities

	2021 $000	2020 $000
NELSON ELECTRICITY LIMITED		
Directors' fees paid to Marlborough Lines Limited	14	11
Dividend income paid to Marlborough Lines Limited	700	1,050
Management fees charged to Nelson Electricity Limited by the Company	102	102
Amounts owed by Nelson Electricity Limited	78	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, Marlborough Lines Limited provided management and accounting services to Nelson Electricity Limited. These services were charged at commercial rates.

25. Key Management Personnel

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

	Group 2021 $000	Group 2020 $000
Directors' fees	752	735
Salaries and short-term employee benefits	3,746	3,666
Retirement benefits paid	–	55
Compensation during the period	**4,498**	**4,456**

	Group 30 June 2021 $000	Group 30 June 2020 $000
Retirement benefits accrued as at balance date	153	153

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

	Group 2021 $000	Group (Restated) 2020 $000
Profit for the year from continuing operations	**5,463**	**7,391**
ADD / (LESS) NON-CASH ITEMS		
Depreciation and amortisation	17,452	18,430
Fair value adjustment to inventory	5,245	2,064
Income from vested assets and capital contributions	(2,419)	(1,301)
Impairment on vineyard assets	932	–
Other non-cash items	(3,166)	4,092
NON-CASH ITEMS IN RELATION TO INVESTING / FINANCING ACTIVITIES		
Share of associate net (profit) /loss	(30)	(31)
(Gain) / loss on sale of fixed assets	(1,642)	1,125
Current charge to deferred taxation	1,024	(4,322)
CHANGES IN WORKING CAPITAL ITEMS		
(Increase) / decrease in assets		
Decrease / (increase) in accounts receivable	2,921	(1,295)
Decrease / (increase) in inventories	8,397	(2,617)
Increase / (decrease) in liabilities		
(Decrease) / increase in trade and other payables	(4,841)	660
Increase / (decrease) in tax payable	1,936	(2,106)
(Decrease) in employee entitlements	(143)	(514)
(Decrease) / increase in finance lease payable	(587)	794
Net cash generated from operating activities	**30,542**	**22,370**

27. Commitments

27.1 Capital Commitments

	Group 30 June 2021 $000	Group 30 June 2020 $000
Capital expenditure committed to at balance date but not recognised in the financial statements	859	3,599

27.2 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 have remaining terms of between one and nine years.

28. Contingent Assets and Liabilities

28.1 Contingent Assets

None.

28.2 Contingent Liabilities

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

29. 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.

30. Events Subsequent to Balance Date

Impact of COVID-19

On 18 August 2021 all of New Zealand moved to COVID-19 Alert Level 4, following community outbreak of the Delta strain of COVID-19. As at the date of signing these financial statements, the Auckland region was at Alert Level 3, with the rest of New Zealand at Alert Level 2. This is not expected to have a material impact on the financial performance or position of the Group.

Statement of Service Performance

For the year ended 30 June 2021

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 (SCI) each year in collaboration with the MEPT. This SCI 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 2021, 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 (reliability, health and safety and customer) and due to delays was not able to complete re-certification audits during the year. Financial results in the current year were impacted by COVID-19 and a low 2021 grape harvest, amongst other things, which meant that the financial 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 3.35% (2020: 3.18%) return on average shareholders' funds of $362 million for the year. This result is after including Marlborough Lines Limited network assets at valuation and adding back consumer discounts adjusted for tax.
2	Target	To achieve a post-tax cash flow return from investments greater than 300 basis points over the five year risk-free rate (2021 target: 4.02%).
	Result	Cash received from investments, including dividends, interest and management fees totalled $1.5 million, equating to a post-tax return of 0.92% (2020: 1.05%) on the amount invested. No dividend was received from Yealands Wine Group during the year. 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 $1.800 million (2020: $0.500 million). This was paid in accordance with the Company's dividend policy.
4	Target	Pay discounts to consumers of at least $8.5 million (excluding GST).
	Result	Marlborough Lines made two discount payments during the year totalling $10.1 million (2020: $8.5 million). The first was a brought forward payment in August 2020 to assist with COVID-19 relief and the second was made in May 2021 to facilitate a change in the annual timing of discount payments. These discounts were paid to Electricity Retailers, who then pass them through to end consumers.

NETWORK RELIABILITY PERFORMANCE TARGETS

5	Target	Planned SAIDI (average duration of consumer outages) not to exceed 65 minutes.
	Result	An average of 57.2 minutes (2020: 56.1 minutes) lost per consumer for the year to 31 March 2021. This number is reflective of the quantity and type of work performed on our network.
6	Target	Unplanned SAIDI (average duration of consumer outages) not to exceed 85 minutes.
	Result	An average of 81.2 minutes (2020: 118.0 minutes) lost per consumer for the year to 31 March 2021.

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 Safety Management Systems for Public Safety.
	Result	Due to an organisational restructure, the Company's revalidation assessment in relation to these standards has been postponed until October 2021.

CUSTOMER PERFORMANCE TARGETS

9	Target	Maintain overall consumer satisfaction at above 85%.
	Result	Consumer satisfaction with Marlborough Lines' performance remains high. 89% of a sample of over 2,000 consumers rated their satisfaction with the Company's overall performance as either Satisfied or Very Satisfied (2020: 86%).
10	Target	Communicate at least twice annually with consumers providing financial, energy efficiency and health and safety information.
	Result	Two newsletters were published during the year.

ENVIRONMENT PERFORMANCE TARGET

11	Target	Maintain certification in ISO 14001:2015 Environmental Management System.
	Result	Due to an organisational restructure, the Company's revalidation assessment in relation to this standard has been postponed until October 2021.

Deloitte.

Independent Auditor's Report

To the readers of Marlborough Lines Limited's Group consolidated financial statements and performance information for the year ended 30 June 2021.

The Auditor-General is the auditor of Marlborough Lines Limited and its subsidiaries (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 74 to 121, that comprise the consolidated statement of financial position as at 30 June 2021, 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 on pages 122 to 123.

In our opinion:

- the consolidated financial statements of the Group:
  - present fairly, in all material respects:
    - its consolidated financial position as at 30 June 2021; 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 (NZ IFRS) and International Financial Reporting Standards (IFRS); and
- 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 2021.

Our audit was completed on 28 September 2021. 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.

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

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

Responsibilities of the auditor for the audit of the 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 budget information reported in the consolidated financial statements and performance information, 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 or 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 performance information, and our auditor's report thereon.

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 of this other information, we are required to report that fact.

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: *International Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, 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

R J Clifton
GradDipBusStuds, NZDipWHSM, ProfNZISM

Heath, Safety, Environment, Quality Manager

G D Jones
BCom, CA

Chief Financial Officer

S J Mclauchlan
IMLANZ

General Manager Field Services

W G Nichol
DipEng (Electrical)

General Manager Network Operations

R M Wheeler
BBus (HR & IR)

Human Resources Manager

S J Wilkinson
BSc Hons, MBA, MESt

Commercial Manager

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Registered Office of Company
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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

Glossary

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

DER
Distributed energy resources, which includes distributed generation

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

ha
Hectare – 10,000 square metres

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

ISO
International Organization for Standardization – a standards body

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

MEPT
Marlborough Electric Power Trust

MLL
Marlborough Lines Limited

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

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

NEL
Nelson Electricity Limited

NPAT
Net Profit after Tax

NZ IFRS
New Zealand International Financial Reporting Standards

OAG
Office of the Auditor-General

PV
Photovoltaic – the conversion of light into electricity

RAPS
Remote area power systems – typically off-grid electricity supply arrangements utilising PV arrays, other generation and battery storage

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

SCI
Statement of Corporate Intent

YWG
Yealands Wine Group Limited

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

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