

14th October 2019

Marlborough Electric Power Trust

Chairman's Report Annual Reporting Meeting.

Trust business

As trustees, our role includes encouraging and facilitating the Company to be a successful business for the benefit of the electricity consumers connected to the Marlborough network. We have an oversight role on behalf of our consumers to monitor the performance of the Company. We do not have an operational governance role.

We also act much like any company shareholder, appointing Directors, approving the company's annual Statement of Intent and receiving Marlborough Lines' dividends and returning those dividends to consumers.

Over the past year trustees have been challenged on how we undertake our duties. A number of baseless allegations have been made by a Wellington based lawyer acting for a small number of beneficiaries. Originally allegations were made against the board of directors then later against the Trustees. These allegations have been an unwelcome distraction which has consumed a significant amount of time.

These allegations include that Marlborough Lines Directors did not seek professional advice in relation to transactions within the group, including the purchase of the remaining shares in Yealands Wine Group and the purchase of additional land for winery expansion. I wish to provide comfort to the beneficiaries that in each case the directors sought appropriate professional advice and acted in accordance with normal business practise and within the parameters of the professional advice sought. The Trust has also sort professional advice and has reviewed the board of directors' practises in relation to the claims and reviewed the allegations made against the company. We have found the allegations to be without basis in fact.

Trustees have continued to enhance their learning with attendance at two Energy Trusts of NZ conferences this year. Topics at these conferences are varied and relative to our industry. Two such topics this year have been in relation to the Trustee Act and Advancing Technologies.

As trustees, we must comply with the Trustee Act. Impending changes to the current Trustee Act 1956 and Perpetuities Act 1964 come into effect in January 2021. Regarding the Trustee Act, the major changes concerning the MEPT are the mandatory trustee duties in relation to sections 23 – 27. In general the purpose of these changes is to make trust law more accessible, to clarify and simplify core trust principals and essential obligations for trustees and provide mechanisms to resolve trust related disputes.

Interestingly the amendment to the Perpetuities Act allows for the term of a trust to be extended from 80 years to 125 years. This will make for some thought-provoking discussion amongst the trustees regarding this Trust.

Advancing technologies and how they apply to networks is always a considered subject for trustees. We want to ensure the network remains viable and meets the needs of all our beneficiaries, so ensuring the company is considering appropriate technologies, and constantly monitoring the current and projected future needs of Marlborough is important to us.

Company performance

Marlborough Lines Limited (MLL) continues to operate effectively, in relation to the Statement of Corporate Intent (SCI) the company continues to either achieve target or come close.

Lost minutes on the network are very impressive – we are very proud to say Marlborough Lines has one of the lowest outage times in the country in relation to the 29 distribution businesses in NZ. This is no small feat given that a significant proportion of the 3,000 kilometres of lines traverse some challenging terrain, a proportion of which is only accessible by boat or helicopter.

Marlborough Lines has a quality network because of prudent maintenance and regular capital expenditure which has been undertaken over a period of years. Given our geographical location around ten percent of the connections to the MLL network are grossly uneconomic because of the challenges I just mentioned. Taking those challenges into account, the financial outcomes for the beneficiaries in relation to lines charges are very pleasing.

The Trust continues to receive dividends from Marlborough Lines and the majority of this is distributed to beneficiaries as a credit on their electricity account. The next distribution is due for payment in February and will total approximately \$5.1 million. This equates to \$200 per connection. This distribution is in addition to the Marlborough Lines discount, which for the typical domestic consumer is \$226.

From a shareholder's perspective the asset backing per share of Marlborough Lines has increased from \$1.51 per share in 1999 to \$15.77 in 2019. The value of net assets of the company attributable to the Trust has increased to \$441.5 million.

The return on shareholders' funds for the financial year end June 2019 equated to 5.4% based on pre discount to consumers, the target for the financial year was 5% ROI.

Marlborough Lines continues to own 50% of Nelson Electricity and 100% ownership in Yealands Wine Group.

As a large employer and a company which is owned (by the Trustees of MEPT) on behalf of the beneficiaries, Marlborough Lines recognise their social responsibilities and actively support our community. During the past financial year the company has committed \$475,000 to various initiatives which members of our community benefit from.

Changes to directors

Marlborough Electric Power Trust has recently appointed two new directors, Deborah Selby & Alexandra (Alex) Barton.

Deborah is a chartered accountant with considerable experience in the electricity sector, achieving industry recognition as a finalist in the Deloitte woman in energy awards. She is an experienced leader with current governance experience and strong financial, commercial and strategic skills.

Alex is a chartered accountant with a law and commerce degree, she resides in Blenheim and is a director of a local accounting firm. Alex has current governance experience with strong skills in audit and risk, investor relations and strategic consultancy. Alex's directorship will come into effect from late December 2019.

I would like to acknowledge Director Tim Smit's contribution as he retired by rotation this year after serving 2 terms as a Director. The Trust would like to wish Tim well for his future endeavors.

I cannot let this occasion pass without noting the retirement of Marlborough Lines Managing Director Ken Forrest.

Ken's association with the company and the original Marlborough Electric Power Board began in October 1977 with his appointment as a senior engineer. Ken was appointed Manager in 1980 and amongst other projects he became responsible for the construction of the Branch River Power Scheme and the completion of the Marlborough Sounds electricity reticulation. Ken was subsequently appointed Managing Director when the Power Board became a company in 1993.

During the corporatisation process, Ken was one of the primary architects in the development of the Trust ownership model, which was then successfully adopted by almost all of the Power Boards, so he is very much responsible for the existence of this Trust. Ken's wider interest in the electricity industry continued at national level where he has led a number of industry associations and groups with distinction. Following the corporatisation process, Ken has been instrumental in guiding the company through further industry restructuring, and perhaps more importantly the development of an investment policy beyond the provincial Marlborough area. The investment policy results speak for itself in terms of the increase in net shareholder value.

Ken will retire in December this year, bringing to a close a 42 year career with electricity in Marlborough.

On behalf of the Trustees of MEPT and indeed the electricity consumers of Marlborough I wish to record my sincere appreciation to Ken for his immense contribution both in relation to the company and the Trust. I am sure that all of the Trustees will join me in wishing Ken all the very best for his retirement and future endeavours.

Ian Martella



Chair – Marlborough Electric Power Trust