

3 December 2020

Chairman's Report Annual Reporting Meeting.

It is the trustees' role to monitor the investment of the Marlborough Electric Power Trust (MEPT) in Marlborough Lines Limited (MLL), in a prudent, diligent and responsible manner and to ensure, to the extent reasonably possible, that the value of the investment is protected, enhanced and applied for the benefit of the beneficiaries of the Trust as defined by the Trust Deed.

As Trustees we recognise this past year has been challenging and we have worked hard to continue a positive trajectory.

Personal Acknowledgements

Before looking at operations, I would like to acknowledge some personal contributions.

First, I must acknowledge Trustee Malcolm Aitken who passed away earlier this year. Malcolm was a well-respected personality within the Marlborough community with a passion for all things Marlborough and doing the right thing. This extended to Malcolm's duties as a trustee. His memory and the legacy of his contributions continue on and he has been sorely missed.

Following Malcolm's passing we seconded Cathie Bell as a trustee. Cathie was the next highest polling candidate in the March election and brings with her strong skills gained through her experience in the communications industry, journalism, and strategic business consultancy.

The trustees also wish to acknowledge MLL board chair David Dew. David announced his retirement at the recent annual general meeting following a remarkable 19 year tenure. During David's time at MLL, the net asset backing per share grew from \$2.34 to today's value of \$15.95, equating to an increase in the equity value of the company of \$381m.

The trustees wish to publicly extend their acknowledgement of David's commitment and service to MLL and its subsidiaries and associates over the years, and we wish David all the best for his future endeavours.

Company Operations

At this time, the economic impact of COVID-19 is still unfolding, and the effects on the local and global economies remain uncertain to many industries. MLL was not immune to the impacts and trading restrictions of COVID-19, with a reduction to some income lines, and an increase to operating costs.

MLL continues to operate effectively in an operationally sound manner, despite the lack of capital works able to be undertaken this year due to New Zealand's COVID-19 management plan for community and business.

The actual results of lost minutes in relation to power outages on the network were 20% above target performance levels. These outages were significantly attributable to heavy storm activity in the Marlborough Sounds region within this period.

MLL has a significant capital works program in place to further enhance the reliability of the network assets. This includes a tree removal programme at a cost of approximately \$2 million per annum.

Health & Safety is a critical measure in the delivery of MLL services. We are proud to acknowledge MLL's continued achievement of zero serious harm accidents, and certification in both ISO 45001:2018 occupational health & safety and NZS 7901:2014 safety management systems.

As a large employer and a company which is owned (by the Trustees of MEPT) on behalf of the beneficiaries, MLL recognises its social responsibilities and actively supports the Marlborough community. During the past financial year, the company has committed significantly to various community initiatives which members of Marlborough's community benefit from. MLL focuses its sponsorship efforts on youth education and employment, regional events and the environment.

From a shareholder's perspective, the asset backing per share of MLL has increased from \$1.51 per share in 1999, to \$15.95 as at 30 June 2020. The value of net assets of the company attributable to the Trust increased to \$446.6 million, a small increase on last year's value, showing stability in the face of adversity.

That said, there have been low cash returns received from MLL's investments (which are referred to below). As a result, this year the Trustees only requested a small dividend from MLL to fund the Trust's operating costs. Regrettably the Trustees will be unable to pay a distribution to beneficiaries in 2021. MLL does however continue to provide discounts directly to eligible consumers. With COVID-19 potentially impacting businesses and households across Marlborough, MLL bought forward the March 2021 discount payment (partially) to August 2020 with the next payment due in May 2021.

Subsidiary and Investment Performance

MLL continues to own 50% of Nelson Electricity, and 100% of Yealands Wine Group (YWG).

The impacts of COVID-19 have carried through to YWG, suffering in the international market with a reduction in on-premise wine sales. YWG has been impacted by other operational matters including low harvest volumes that have also negatively impacted YWG's financial performance, resulting (as noted) in no dividend being paid from YWG to MLL.

YWG carried debt of \$130.5 million at year end. The Trustees view the debt balance of YWG as high, and not in proportion to the level of earnings it achieves. The Trustees are supportive of the active steps that YWG is taking to reduce its debt balance and improve its liquidity position, including some recently completed vineyard sales.

As trustees we are disappointed with the cash return on investments achieved during the year. We have been kept informed of the issues and continue to seek advice and to monitor the situation. Investment portfolios are often not about an immediate realised cash return, but growth in value over the longer term. It is the role of the Trustees to monitor the directors, and to monitor the risk of its investment, ensuring that both the beneficiaries of today and those of tomorrow are considered.

In the case of YWG, the investment continues to grow from its original acquisition value of \$122 million in 2015, to a net book value of \$205 million in 2020.

In making these comments, the trustees wish to acknowledge the MLL board of directors. The strategic focus and administration of commercial risk during such challenging times is no small feat.

Ian Martella
Chair, Marlborough Electric Power Trust