Minutes of the Annual Reporting Meeting of the
Marlborough Electric Power Trust
Held at 7.00 pm on the 16th December 2021
In the Whitehaven Room, ASB Theatre, Hutcheson St Blenheim

Present: Trustees: Clive Ballett, Cathie Bell, Ian Martella, Domenic Romano and Nicki Stretch

In attendance: Brenda Munro (trust secretary), Alice Stone (minute secretary)
Marlborough Lines Ltd (MLL) representatives: Phil Robinson, Jonathan Ross, Ivan Sutherland, Alexandra Barton, Steven Grant, Deborah Selby, Tim Cosgrove and Gareth Jones
Yealands Wine Group (YWG) representatives: Matt Thomson, Tiffani Graydon, David Dew
37 other beneficiaries in attendance

Nicki Stretch declared the meeting open and spoke to the purpose of the meeting. Trustees, Marlborough Lines and Yealands representatives were introduced.

Apologies: Ross Inder

Minutes of Previous meeting dated 14th December 2020
These minutes were acknowledged having been approved at the trust meeting of the 2nd August 2021.

A beneficiary voiced his concern that the recording of general business in the minutes was too brief and in his opinion it is important that they record a true and accurate representation of what is discussed.
Response - Nicki thanked the beneficiary for his comments and confirmed his concerns would be noted.

Appointment of auditor
It was acknowledged that the appointment of auditor is one of the main orders of business for the meeting. Brenda Munro, trust secretary, reported that she found the audit process effective and efficient. A beneficiary requested that the appointment of auditor be held over until after the general discussion part of the meeting. This was agreed.

Chair's Report
Nicki Stretch acknowledged the valuable contribution of Ian Martella and the many positive changes during his time as chair and spoke to the Chair's report which has been circulated.

Resolved: That the Chairs report be accepted.

Trustee Presentation and Annual Accounts

- Cathie Bell spoke about the up-coming trust elections, the role of a trustee and the importance of having a good understanding of the trust deed.
- Clive Ballett reported on the performance of the company as it pertains to the trust and presented overheads, discussing MLL returns on investment, equity, discounts and MLL dividends to Marlborough Electric Power Trust (MEPT).
- Domenic Romano spoke on the Trust's Parent Financial Reports.

Marlborough Lines Presentation

Chief Executive Tim Cosgrove summarised the Marlborough Lines year as reported in the annual report including the new vision (Energizing Marlborough's Future) and mission for the company, KPI's against the SCI and equity return, SAIDI minutes and Network performance, sponsorship and consumer feedback. The sale of vineyards in Yealands enabling a reduction in bank debt and the opportunity to complete the Maher vineyard development, were also discussed.

Looking ahead, Tim discussed decarbonisation, electrification and the prospective increase in network demand and methods to manage that, and the establishment of Energy Marlborough with the strategic objective of developing 50Mw of renewable energy.

A beneficiary commented that achieving the shift from a peak of 75Mw with the addition of 35Mw would take significant investment and asked who pays for that?
<u>Response from Tim Cosgrove</u> **-** discussed that for some in industry it will be a transition through biomass technology, there is some funding available for those transitioning from coal to electricity and some will be required to be funded by the industry itself.

Yealands Wine Presentation

Chief Executive Tiffani Graydon summarised the past years performance discussed recent challenges and the opportunities to develop their new strategy of premiumisation through branded items.

YWG is a relatively young business, and the first 10 years involved a strategy of volume out into the market. The new strategy is to prioritise high margin premium wines. By FY27 look to have 80% of YWG business branded.

FY21 – pandemic challenges involved the sales channels YWG traditionally sold to and the market mix with the loss of the high value on-premise sales impacting the P & L.

Into FY22 challenges are around supply chain. Global shipping reliability is down at 35%.

Financially in FY21 YWG focused on debt reduction and a large component of that was delivered through the sale of the three vineyard sites to NZ Super Fund. With the earthquake remediation project also near completion, YWG is now well placed to turn their mind to dividend contribution going forward.

Steady vineyard development over the last five years which helps set YWG up for future growth.

Strong demand for Yealands product in market, strong relationships with some of the biggest retailers around the globe.

Community projects – sustainability initiatives investing in FY21 around $50,000 for not-for profit-organisations and the local community here.

For the next few years:

1. Maximise returns from key assets both in terms of grape supply and the critical resource of water.
2. Foster relationships with growers.
3. Brand building – growing profitability through a focus on branded product.
4. Reconnect face-to-face. 85% of YWG business is offshore so being able to get out into the market is critical.
5. Commitment to returning to planned dividend contributions.

Tiffani was thanked for her full summary, providing an understanding of Yealands future plans and the level of investment to date.

General Business and Questions

The floor was opened for questions, answers and discussion with beneficiaries.

A beneficiary noted that over 4 years there has been a decrease of 45% in yield coming from Yealands vineyard and asked why.
<u>Response from Matt Thomson</u> discussed that contract growers are included, so it can't be said it's just off our own vineyards. Other vineyards in the area over the last three years have seen decreased yields because of drought - three droughts in a row. The exposed hillsides do suffer more in terms of yield in dry years but do well in challenging wet years. Go back to 2017-18 those vineyards performed very well. This year is a little damper, so heading into a better space this year.

A beneficiary noted the three new vineyards are mainly in the same area, and asked whether other areas were considered.
<u>Response from Matt Thomson</u> discussed a number of reasons including sub-regional character, logistical benefits of an adjoining block, water storage using natural dams.

A beneficiary asked if irrigation is a constraint with the properties.
R<u>esponse from Matt Thomson</u> advised there is a project starting soon which is a deep dive into the entire irrigation system.

A beneficiary asked if what (Mr Thomson) is saying is that over 4 years a loss in yield of over 45% is essentially industry average for the Awatere Valley?
Response from Matt Thomson advised there are also contract growers and unsure what percentage of contract growers made a loss during that period.

A beneficiary asked what the percentage of contract growers was over the last 4 years.
Response from Matt Thomson and Tiffani Graydon indicated that YWG was about 30% grower and 70% owner supply at present, but unsure what it was four years ago.

A beneficiary commented on YWG profit performance this year, making a net loss of $400,000 after allowing for financial market gains and profit on sale of land. What drove the interest swap gain of $4.1m?
Response from Gareth Jones advised that the gain on interest rate swaps was because the market interest rates fell in that period.

A beneficiary asked how YWG would return a significant benefit over this year's loss when turnover is forecast to drop to $75m from $98m. Also questioned if price increases are locked in.
Response from Tiffani Graydon discussed the significant shift from the bulk end of the market into the branded market so taking increased price from all markets we anticipate improved returns.

A beneficiary asked about the restatement in the accounts. Was the restatement for a period of one year, or more? Concerned that the auditors didn't pick it up over the last 6 years.
Response from Gareth Jones – advised the restatement basically goes back to the start of the Yealands reporting – the way they were accounting. In the accounts the restatement is dealt with just in the prior year. It has accumulated over time as the enterprise has got bigger.
Response from Nicki Stretch (and Gareth) discussed that the restatement came about as a result of a company-led review into winery costing methods etc. Deloitte considered the value in any particular year not to be material enough to require remediation. On review it has now been dealt with by the Boards and a different methodology is in place.

A beneficiary asked what assurance the trust has that that is a genuine error?
Response from Domenic Romano discussed that it's a genuine error and absolutely there is concern, but at the same time this is a large enterprise. We don't believe there are any concerns about it being deliberate. An extensive review was undertaken and robust debate over the treatment undertaken.

A beneficiary noted the company balance sheet still carries $90m debt. Was that issue (winery cost allocation) covered through the due diligence process and was the indication that the level of debt was absolutely carriable?

Response Phil Robinson advised that extensive due diligence was done on purchase. The error we are talking about tonight is relatively small in scale, multiplied by 6 years and we chose to deal with it once and move on.

A beneficiary asked Trustees about the due diligence process at the time Yealands was purchased by MLL, including debt levels and expectation of dividend.
Response Ian Martella advised he was not sure (trustees) were expecting an immediate dividend stream for consumers. Due diligence was carried out by professional firms and is commercially sensitive so cannot comment further.
Response from Domenic Romano discussed that anyone making a commercial investment would have a basis of what that investment is going to look like – not every business will perform to initial expectations. Clearly the investment has not performed to initial expectations and we want to see a better cash return.

A beneficiary asked how long we wait to see this turn around.
Response from Phil Robinson advised that Yealands Management and Board has presented MLL with a five-year plan which has been robustly discussed and MLL look forward to the execution of that plan.

A beneficiary asked what the net profits percentage return to turnover will be in 5 years' time.
Response Phil Robinson – Phil stated that was commercially sensitive information.

A beneficiary asked about the review of ownership (of MLL, as per the trust deed), what is the state of that?
Response from Nicki Stretch (and Clive Ballett) advised that the Trust Deed was revised a few years ago and now requires something like 20% [*actually 10%]* of ICP's to request a review or trustees could decide to undertake one. It is no longer a five yearly requirement. Changes to the deed were notified to beneficiaries through the public consultative procedure, public meeting and notices in the paper etc.

A beneficiary stated that the vineyards were undervalued compared to other increases in the same market and queries whether the assets were deliberately undervalued.
Response from Matt Thomson –indicated the valuation was conservative when undertaken and the market has moved upward substantially since then. If we were to have another valuation it would show those increases. YWG revalues every two years. If we believed the vineyards had decreased in value then we would have been obliged to revalue, but not because of an increase.

A beneficiary commented that we need this asset to start performing.
Response Matt Thomson – indicated the long-term nature of the investment. YWG was purchased at a very good price for the hard assets, but was the brand where it needed to be? No, it wasn't. Was the water supply perfect, was everything exactly how we want it? No, there has been significant investment to improve the infrastructures, so we have a much more robust

entity. Mr Thomson invited beneficiaries to tour the site - anyone who is interested to contact the trust or Mr Thomson.

A beneficiary asked if any more vineyards have been sold since the balance date.
Response from Matt Thomson –indicated YWG is comfortable with the debt level at present, and to sell more where supply is clearly at a premium and vineyard prices are improving would be a mistake.

A beneficiary asked about the debt of $85m to ASB that is going to be coming up for renewal. Will Marlborough Lines be encumbered in any way by that debt or does that debt stay with YWG?
Response Phil Robinson discussed that the debt is due to roll over and we haven't engaged in that at this stage. Marlborough Lines does not have guarantees for this debt at this point.

Several beneficiaries raised questions regarding construction of some of the dams on the Seaview properties and issues pertaining to the consent of, and use of those dams, particularly with regard to YWG sustainability ethos.
Responses from David Dew, Tiffani Graydon and others discussed that the Dodson's dams are fully consented. The unconsented dam (referred to as the duck pond) is on land held in trust for Peter Yealands (by YWG). Neither YWG nor the trustees are liable for that land. The Marfells dam is in hibernation while long-term water requirements are assessed. There are costs that remain to go through that completion, and YWG had other priorities at the time until the review is completed.

Given the nature of discussions, beneficiaries were invited to email questions through to the trustees for consideration.

A beneficiary commented on the performance of Yealands since purchase and asked how long we endure the pain of carrying a company that's not performing to expectations. The beneficiary commented that MLL deserves to excel at what they do, so please get rid of that asset and we want something that is going to give us the dividend that we were promised.

A beneficiary asked if any Yealands staff had been paid performance bonuses recently.
Response Matt Thomson – indicated no performance bonus was paid for that financial year. There was a one-off payment for extraordinary work.

Appointment of Auditor

Resolved: That Deloitte Limited be appointed as auditor for the Marlborough Electric Power Trust and hold office until the next public reporting meeting as described in clause 12.6 of the Trust Deed.

The meeting closed at 9.05 pm.