



**MINUTES OF THE NINETEENTH PUBLIC ANNUAL MEETING OF BENEFICIARIES OF
WAITOMO ENERGY SERVICES CUSTOMER TRUST HELD ON THURSDAY THE 24TH OF SEPTEMBER 2020
AT THE TUATARA ROOM OF THE ŌTOROHANGA KIWI HOUSE, ALEX TELFER DRIVE, ŌTOROHANGA
COMMENCING AT 6.00 pm**

WESCT customers present:

<i>For privacy considerations, the Trust has withheld the names of WESCT customers from the minutes published on the website. However, at Annual Meetings, the minutes that include the names of all WESCT customers will be available.</i>	
NO.	NAME
1	WESCT Customer #1
2	WESCT Customer #2
3	WESCT Customer #3
4	WESCT Customer #4
5	WESCT Customer #5
6	WESCT Customer #6
7	WESCT Customer #7
8	WESCT Customer #8
9	Andrew Johnson (TLC Board)
10	Janette Osborne (WESCT Trustee)
11	William Oliver (WESCT Trustee)
12	WESCT Customer #12
13	WESCT Customer #13
14	Bella Takiari-Brame (TLC Board)
15	Erin Gray (WESCT Trustee, Deputy Chairperson)
16	Cathryn Prendergast (WESCT Trustee)
17	Peter Keeling (WESCT Trustee, Chairperson)
18	Celina Yapp (Minutes)
19	Bob Strawbridge, McKenzie Strawbridge
20	WESCT Customer #20
21	WESCT Customer #21

In attendance: Mark Darrow (TLC Chair), Craig Richardson (TLC Board), Simon Fleisher (TLC Board), Sean Horgan (TLC Chief Executive), Audrey Scheurich (TLC GM Finance), Sue Lomas (TLC GM People & Safety), Mike Ullrich (FCLM Chief Executive), Mike Fox (TLC GM Network), Jo Ireland (TLC GM Service and Communications).

Erin Gray opened the meeting with a karakia.

WELCOME:

Peter Keeling, Chair welcomed all attendees, confirmed the agenda and quorum, and introduced the trustees, TLC Senior Management team and the TLC Board.

APOLOGIES:

Resolved: The meeting accepted apologies from a WESCT Customer. Cathryn Prendergast/ WESCT Customer #4 - AIF

RATIFICATION OF THE 2019 ANNUAL MEETING OF BENEFICIARIES:

The Trust did not publish the notice of the 2019 meeting with 14 days notice. Those present at that meeting agreed that the meeting could continue but would need ratification in 2020.

Resolved: To ratify the 2019 annual meeting of beneficiaries. WESCT Customer #1/ WESCT Customer #21- AIF

MINUTES OF PREVIOUS MEETING:

A written copy of the minutes of the previous meeting was available for all attendees. The Chair gave a summary of the minutes of the 28th of November 2019 meeting.

Resolved: Minutes of the previous meeting are taken as read and adopted as a true and correct record. William Oliver/ WESCT Customer #10 – AIF

MATTERS ARISING FROM PREVIOUS MEETING:

- 1.0. Due to the late notification of the 2019 meeting, the Chair highlighted the process for the 2020 year concerning communication and the timing of the distribution of the annual accounts:
 - 1.1. Notice of annual meeting of beneficiaries. Waitomo News on the 3rd, 10th and 17th September. Te Awamutu Courier on the 10th and 17th September. Taupō Times on the 11th and 18th September.
 - 1.2. Website. The 2020 Consolidated Accounts were available from the 24th of August. The 2020 Annual Report to beneficiaries was available from the 10th of September.
 - 1.3. Reports and accounts were available in Te Kūiti, Ōtorohanga, Te Awamutu and Mangakino libraries from the 10th of September.
- 2.0. Regarding the Trust communicating with the beneficiaries:
 - 2.1. A more user-friendly website was established, which is more modern and easier to keep up to date www.wesct.org.nz.
 - 2.2. The Trust has had several adverts, press releases, and communications in the local papers, mainly in the Waitomo News.
 - 2.3. There was discussion about a 'welcome leaflet' that the real estate agents could give to people that explained the set-up in the area in terms of people getting two bills for their power account. Discussions have taken place with some agents, but there is not yet a formal leaflet they can hand out.

Resolved: That the matters arising are received by the meeting. WESCT Customer #2/Erin Gray – AIF

CHAIR REPORT:

Key points of the Chair report presented in the Waitomo Energy Services Customer Trust 2020 Annual Report, summarised by the Chair:

- 1.0. The Trust Vision. “Growing and enhancing our community asset for the sustainable benefit of the Trust beneficiaries, now and in the future”.
- 2.0. The Ownership Review poll results in today. The result was well in favour of retaining the Trust ownership structure of the Company, 85% to 15%.
- 3.0. Summary of FY20 result:
 - 3.1. Post-tax profit of \$6,729,000 (+ \$8.3M);
 - 3.2. The post-tax profit was after a \$5.6M discount paid to the beneficiaries; and
 - 3.3. There is some business growth outside the WESCT area that Sean Horgan will expand on in his presentation.
- 4.0. “A” Trustee election results. Five candidates stood for three positions. The results are out today and the three people elected are Erin Gray, William Oliver and Janette Osborne from the 1st of October 2020.
- 5.0. The Chair congratulated them and gave recognition to Nigel Chetty and Mark Ammon. He acknowledged and thanked Nigel Chetty, who has remained passionate about the Trust, believes in Trust ownership and put three years of effort into being on the Trust.
- 6.0. The Chair acknowledged the new TLC Directors since the last meeting - Bella Takiari-Brame and Simon Fleisher. They have replaced Roger Sutton, who was offered a CEO job at Electricity Ashburton, and Simon Young, who has just stepped off the Board and given ten years of solid service. The Chair noted that the Trust and the Board acknowledged S Young’s contribution after the TLC AGM.
- 7.0. WESCT finances:
 - 7.1. FY19 – no dividend taken, utilised cash on hand to fund resulting operating deficit of \$163K.
 - 7.2. FY20 - dividend reinstated, a smaller pretax deficit of \$29K.
 - 7.3. Higher operational expenditure of \$61K included a couple of extraordinary items:
 - In Nov/Dec TLC was going through the purchase of the Trustpower metering assets and asked WESCT for their opinion. WESCT felt it prudent to get outside professional advice; and
 - The associated costs of ownership review information gathering and preparation.
- 8.0. WESCT investment in TLC. Past Trustee groups had successfully been able to focus on purchasing more shares in TLC – 100% ownership by 2014. WESCT growth now depends totally on what the Directors are doing with TLC—earning a profit, investment, paying back debt or the assets being more valuable.
- 9.0. Default Price Path (DPP3):
 - 9.1. During the year the Commerce commission rules for regulated electricity network businesses as to how they can operate and charge;
 - 9.2. The new DPP rules mean TLC must charge less for network services - this means in 2020/21 the Company’s revenue from regulated activities, i.e. getting power to houses, goes from \$46.0M to \$42.1M (minus 8%);
 - 9.3. They also put more rules around the reliability KPIs - SAIDI and SAIFI;
 - 9.4. As a customer, this is good, but this means less profit from the regulated part of the business – which means less money to return to the owners of the Company.
 - 9.5. The above need consideration when setting the annual budget seen in the 2020 Statement of Corporate Intent (SCI) document.

- 10.0. The Board also considers the messages that the Trust send and what the Trust would like to see happen - these are mainly long-term considerations but may influence some shorter-term decisions of the Company. Some of the topics covered in the 2020 SCI and WESCT letter of expectation: Network performance; Regulations and laws; Community considerations (including energy hardship); Innovation and cost-efficient; Investments; Prudent debt management; and a safe and healthy workplace.
- 11.0. 2020 SCI – TLC planned outcomes for the year ahead: A \$5.16M after-tax profit; \$3.8M discount to beneficiaries; \$14M asset renewals; Increased profits from outside regulated revenue; Improved SAIDI and SAIFI results; Focus on cost efficiencies; Investment in staff and staff training opportunities; and continued support of local initiatives.
- 12.0. In terms of the discount being lower at \$3.8M, the Company will pay it differently. Before, it was all paid around the December/January accounts, but now beneficiaries will receive 7/12ths in December and 5/12ths in May. The \$3.8M versus the \$5.6M may be contentious for some, but this was after lower charges to all customers of \$4M, of which approximately \$2M related to WESCT customers. So during FY20, WESCT customers were charged \$2M less for power and received a \$3.8M discount compared to FY19, where there was a \$5.6M discount.
- 13.0. The Chair thanked the meeting attendees and the beneficiaries who have continued to support the Company and the Trust. He thanked the whole of the TLC Management teams, the Board and staff, and the Trust team.

Resolved: To receive the Chair Report. *Peter Keeling/WESCT Customer #2 – AIF*

- 14.0. The Chair asked for any questions:
 - 14.1. WESCT Customer #2 stated his unhappiness with the level of Company debt at about \$80M. With a \$4M monthly revenue, enough is coming in to do a lot of the work and the Company subsidiaries should start to help the Company along. Cannot see why the Company virtually sells out to Australian banks. Why is the interest expenditure only about \$3M as he thought that commercial rates were still 6.4%?
 - 14.2. The Chair thanked WESCT Customer #2 for his question - he said that without the Trustpower metering business purchase done during this financial year, the debt level would be about \$18M lower. The Chair said that any equity reduction as a result of the DPP3 decision does affect the value that is allowed to be put across the infrastructure. In terms of the acquisition, Sean Horgan will go over in more detail in his presentation, however, is now month by month, putting more profit into the Company than would otherwise be the case. With the Trustpower debt, the Board have said they are paying it off as fast as possible with the money that comes in from that acquisition. There are different attitudes to debt within both the beneficiaries and between the trustees. Some of the trustees share the debt concern, and others are not so worried about it, and some beneficiaries were happy to let the debt increase and there be a higher discount paid out. Irrespective of this the Board are aware that the debt is there and want to reduce the debt level as well.

OVERVIEW OF FINANCIAL ACCOUNTS

Bob Strawbridge provided an overview of the financial statements to the meeting and covered the following points:

Trust Only Income and Expenditure Statement

- 1.0. The revenue of \$284,000 received by the Trust includes:
 - 1.1. \$74,200 interest on the debenture of \$1,000,000 from The Lines Company;
 - 1.2. \$10,576 of interest from the BNZ on balances held. Term deposit interest is down this year as there was no dividend payment last year and the Trust has used up some of those term investment balances over the last two years, and the interest rates are lower too;
 - 1.3. \$200,000 of dividends paid to the Trust from TLC.
- 2.0. The costs of administering the Trust for the year were \$313,686;
- 3.0. The major costs are:
 - 3.1. Trustee fees of \$87,644;
 - 3.2. Secretarial fees of \$76,338;
 - 3.3. Consultancy and legal costs, due to the TLC acquisitions and ownership review; and
 - 3.4. Beneficiary communication costs.
- 4.0. Overall the Trust has made a small loss for the year of \$28,910.
- 5.0. There were tax adjustments for tax including \$77,777 of non-refundable imputation credits, recognised as a Trust asset. The credits represent a future asset of the Trust as one day the credits can be used to offset income. At the moment, with the structure of paying discounts, rather than a higher level of dividends, they carry forward as losses.
- 6.0. After the tax adjustments, there was a surplus of \$22,583.

Trust Only Balance Sheet

- 7.0. The balance sheet of the Trust shows a reduction in the cash term deposits and assets held from \$454K to \$428K;
- 8.0. The long term investments include the Shares in the Company (recorded here based on the historical cost price of about \$58M), plus the \$1M debenture held;
- 9.0. The Creditors include PAYE due on the 20th of April, the audit fee accrual for 2020, secretarial fees and other sundry costs owing.

WESCT Customer #1 raised a question. Have the trustees considered converting some shares into another debenture, with TLC paying interest on the debenture rather than by dividend to avoid non-refundable tax credits? Bob answered "yes" this has been discussed.

Consolidated Statement of Comprehensive Income

- 10.0. Page 1 shows the combined position for the entire group, which includes the Trust itself and the trading results of The Lines Company Ltd and its subsidiaries (subsidiaries noted as FCL Metering, Good Measure Ltd (IoT connectivity solutions) and Speedy's Road Hydro);
- 11.0. Revenue increased by \$8.4M to \$52.5M this year;
- 12.0. The network revenue (after discounts) increased by 9.5% to \$38.25M this year (up about \$3.3M);
- 13.0. The revenue number is after TLC provided the \$5.6M discount back to beneficiaries;
- 14.0. The group had two acquisition transactions during the year:

- 14.1. Firstly, it purchased the intellectual property of Good Measure (to do with connectivity solutions) and all assets from Embrium in October. The group then wound up Embrium;
- 14.2. Secondly, it also purchased 121,000 legacy meters and customer contracts from Trustpower for \$18.1M in November last year;
- 15.0. The purchase of those assets impacted the business by increasing revenue by \$4.8M, the earnings before interest and tax (EBIT) by \$1.07M and the bottom line profit by \$663K;
- 16.0. This year there was a profit before tax of \$8.1M;
- 17.0. The Network Distribution system is valued every 2-3 years. The valuation is a process completed by Deloitte and based on assumptions relating to future events and future earnings;
- 18.0. In 2015 the network valuation was \$202M, in 2018 at \$216M and in 2020 it has been valued at \$220M;
- 19.0. This year saw a further \$10.4m of additions to the network plus \$5.1M of additional Capital Works in Progress. Against that, there was asset depreciation of \$8M allowed for and further impairment of \$14.7M;
- 20.0. Bob Strawbridge discussed the impairment in further detail;
- 21.0. There was also an adjustment relating to the cash flow hedges (fixed interest rate contracts);
- 22.0. After adjustment for the above tax impact against the profit before tax of \$8.1M, the comprehensive loss attributable to the group is \$4.75M.
- 23.0. The Chair asked about this comprehensive loss figure concerning the \$8 million profit, as the profit had sounded positive - which was the most important figure? Bob Strawbridge replied the \$8 million profit was.

Consolidated Statement of Financial Position

- 24.0. The combined balance sheet on page 2 shows total assets of \$297M, an increase of \$15M from last year;
- 25.0. Within that was Property, plant and equipment of \$271M asset, of which the Network assets represent a substantial proportion, and despite further investment in the assets, the value reduced slightly this year from \$227M to \$220M;
- 26.0. With the purchase of the additional meters last year, the meter assets grew by \$10.3M to \$25.0M;
- 27.0. The other major assets were \$10.6M of customer contracts for the legacy metering business, and this intangible asset will be depreciated over seven years.
- 28.0. This year there was a \$22M increase in bank borrowing facilities with \$20M in non-current and \$2M of the borrowing due for repayment within the next 12 months.
- 29.0. The deferred tax liability is a large amount at \$49.0M and has been discussed at prior meetings. This liability is concerning the revaluation of the network completed on a **before tax** assessment of future revenue streams. It, therefore, relates to the tax on those future revenue streams that the network asset will produce.
- 30.0. The other term debt of the group is the \$2M debenture to North King Country Development Trust and the \$800K convertible note (plus \$200K under current debt) to the minority shareholder in Speedy's Road.

Resolved: The meeting approves the YE2020 consolidated financial accounts: *Peter Keeling/ WESCT Customer #8 - AIF*

APPOINTMENT OF AUDITOR

The trustees recommend Baker Tilly Staples Rodway audits the YE2021 accounts. The estimated fee is \$6,100 + GST and disbursements.

Resolved: That Baker Tilly Staples Rodway is appointed as auditor to hold office until the next annual meeting of beneficiaries. WESCT Customer #2/ WESCT Customer #21 - AIF

GENERAL BUSINESS AND QUESTIONS

- 1.0. Geographic Location of Appointed Trustee.
 - 1.1. WESCT Customer #1 asked those present at the meeting, to agree to recommend to the "A" trustees when they look at appointing another trustee, that they consider the geographic area from which they live. Now that Nigel Chetty is no longer a Trustee there is no representation on the Trust from the Ōtorohanga area, which he believes is inappropriate. The Trust Deed provides that the A trustees appoint a trustee based on their commercial expertise but given the expertise within the elected trustees could they please also consider their location?
 - 1.2. Janette Osborne responded that Nigel Chetty did not live in Ōtorohanga for the three years he was a trustee, he lives in Hamilton. The Chair explained the process for those that may not be aware. That of the six trustees, two are B trustees, three are A trustees who were elected today and start on the 1st of October, and the elected three A trustees appoint another trustee. There is wording in the Trust Deed as to what the A trustees should consider. The Chair made a note of WESCT Customer #1's point and asked that if anyone present at the meeting has anyone in mind for the appointed position then to please contact the Trust.
- 2.0. Timing of Voting Papers. A question from the floor as to why they had received two lots of voting papers through, and another of their businesses only received their voting papers the previous day? The Chair responded that all voting papers were posted through Electionz on the 3rd of September and apologised that he could not answer that question. Janette Osborne said that the voting papers were all lodged centrally in Wellington with NZ post on the same date and that it had to be something that happened with NZ Post.

The Chair thanked all those present for attending the annual meeting of beneficiaries.

The formal annual meeting of beneficiaries concluded at 6:57 pm.

A presentation followed the meeting by TLC CEO Sean Horgan, and then a cup of tea and nibbles were available.