

**MINUTES OF MEETING OF THE BOARD OF
OPUHA WATER LIMITED
HELD 8.30AM, TUESDAY 29th SEPTEMBER 2015
AT THE BOARDROOM OF OPUHA HOUSE, PLEASANT POINT**

PRESENT: Tom Lambie (Chair), Milne Horne, Dermott O’Sullivan, Jeremy Boys, Alvin Reid and Nigel Gormack. Also in attendance were Tony McCormick (CEO) and Aimee Bennett (Minutes).

APOLOGIES: Nicky Hyslop.

AGENDA: The meeting agenda was distributed with the October 2015 Management Report.

PREVIOUS MINUTES: *Page 2 of the Minutes ‘Lake and River Water Quality’* - Mr Lambie asked for his comment to be reworded to ‘Mr Lambie questioned the point of excessive testing’.

Page 4 of the Minutes ‘Snow Pack (Storage) Assessment’ - Mr Reid advised that his comments were about reducing email load on Mr McCormick.

Page 5 of the Minutes ‘Sub-Committees’ - Mr Reid noted that his comments were referring to spreading workload between the Board, not necessarily Sub-Committees. Mr Gormack added that he was referring to a Director meeting attendance fee, rather than a Director pool for recognition in sub-committees.

It was **Resolved** that the Minutes of Meeting of the Board on 1st September 2015 be confirmed as a correct record of that meeting, subject to the changes made above. This was moved by Mr Horne and seconded by Mr Boys. The motion was carried.

CONFLICTS OF INTEREST: The following changes were made to the Conflicts of Interest Register:

Mr Gormack requested that his interest in Hunter Downs Irrigation Trust and Hunter Downs Irrigation Limited be removed as he is no longer acting as Secretary for these entities.

MATTERS ARISING (from previous minutes): CEO Performance Review

Mr Lambie met with Mr McCormick last week and they considered a schedule with action points. Mr Lambie and Mrs Hyslop are still to meet to complete the performance review.

Water Policies

Mr McCormick is meeting with Haidee McCabe from Irricon later this week to discuss whether she would be interested in assisting with water policy development. Mr Reid asked whether there is a potential conflict using Irricon as they are working with water users within the Opuha and Opihi catchments and obtaining resource consents outside affiliation. Mr McCormick acknowledged that there was a potential for COI and he and Haidee had discussed this in the past. Mr McCormick felt it would not compromise her ability to contribute positively, given Haidee’s long standing involvement with Opuha Dam and her recognised expertise.

Mr Lambie noted that we also need to think about the development of sub-regional and it would be valuable to have robust policies in place and also additional resource familiar with them to assist us. Mr McCormick commented that Mrs Crossman has indicated her intended return to work after maternity leave however we should still be considering widening our resources.

CHANGES TO SHAREHOLDING: The Changes to Shareholding list was presented for approval by the Board.

The following sale and transfer agreements were recorded:

| Sale From | Sale To | No of Shares |
|-----------------------------|--------------------------|----------------|
| Kay Cee Trust | Julian & Kate Gaffaney | 5 ‘W’, 5 ‘L’ |
| Riverholme Pastures Limited | Onstream Dairies Limited | 60 ‘W’, 60 ‘T’ |
| D G & M M Blakemore | Tregellen Farm Ltd | 80 ‘W’, 80 ‘T’ |
| Muritai Company Farm Ltd | Te Awa Land Co Ltd | 40 ‘W’, 40 ‘K’ |

Mr Reid declared a conflict as an interest party in Riverholme Pastures Ltd.

The following lease arrangements were recorded:

| Lease From | Lease To | No of Shares |
|-----------------|----------------------|--------------|
| E J & R F Esler | Raumea Farms Limited | 16 'W' |
| Chatadi Limited | Raumea Farms Limited | 12 'W' |

Mr McCormick noted a potential lease arrangement with delivery challenges in Kakahu between Stanton Farm Trust and Te Awa Land Co Ltd.

It was **Resolved** that the Changes to Shareholding as listed above be approved, subject to receiving water agreements. This was moved by Gormack and seconded by Mr Horne. The motion was carried.

**BOARD PAPER /
CONFERENCE CALL: 2015 Financial Audit**

The draft financial statements for the year ended 30th June 2015 along with the KPMG audit committee report were provided in the management report. Prior to the conference call with KPMG, the Board discussed the following:

The lake contaminant allegations note under contingent liabilities was considered. Mr McCormick noted that the paragraph was abstracted from the legal representation letter to KPMG from Mr Andrew Leete at Tavendale and Partners. A contingent liability does not need to be quantified or qualified and simply records a possible, but as yet not confirmed, obligation or liability.

Mr Gormack noted the future changes to auditor reporting currently being proposed for NZ (based on international experience) whereby auditors will be required or entitled to give their opinion on 'key audit matters' (KAMs). An example of this could be if we were to have a poor year the auditor may report an opinion that we ought write down the value of assets under impairment. These provisions are applicable in the first instance to listed companies but it is anticipated it will eventually apply to issuers like OWL.

This is the first year as a merged entity and we are setting a precedent for future reporting. It was agreed that the sub-scheme summaries should not be included in the statutory accounts and instead presented to shareholders at the AGM. Directors fees in the notes to the financial statements to be changed to remuneration paid to each individual Director.

Mr Peter Taylor, Partner from KPMG joined the meeting by conference phone at 9.20am.

Mr Taylor provided a status of where KPMG are at with the audit. In terms of auditing numbers this is complete subject to the KPMG Treasury team testing the revaluation of interest swaps (Mr Taylor does not expect any issues to arise). The key outstanding is disclosures, primarily the reconciliation of tax and comments around prospectus disclosures.

Mr Taylor worked through the audit committee report with the Board. Key findings, summary of significant matters, key accounting judgements, and early warning on technical developments were covered. The following notes were made:

There was some discussion around the comparability. Mr Taylor commented that since SCFIS did not control the old Opuha, he is comfortable that the comparatives should be that of the stand-alone old SCFIS.

The Board noted they're happy with the cost model for Property, Plant and Equipment (rather than revaluation model). Mr Taylor commented that impairment has not been recognised (on the basis that provided the schemes are operating on a positive cash basis, he doesn't believe there is any impairment - the 'value' of the schemes transfers on-farm).

Discussion was held around 'cutting the clutter' to improve the understanding and make financial reports more user-friendly. It was agreed that Mr McCormick and Ms Bennett work with the audit manager Mr Jason Hamburger and look at removing as much unnecessary material from the disclosures in this financial year.

Mr Taylor advised that the changes to auditor reporting (KAMs) is in an early stage and is being debated, it is more of a heads up which may come in over time. It is being directed at listed entities to pick up international standards in the first stage, with issuers in the second stage.

Mr Taylor commented that there are no audit misstatements or differences.

KPMG will send through representation letters which will need signed and returned prior to the release of the final audit report. The Chairman Report is still to be compiled by Mr Lambie.

The Board asked Mr McCormick and Ms Bennett to vacate the room while Directors interacted with Mr Taylor without management present.

**BOARD
PRESENTATION:**

Downstream Weir Proposal

Mr Tim Anderson joined the meeting at 10.10am to provide an update on the DSW project.

Mr McCormick provided Mr Anderson's proposal for services by email prior to the meeting for an understanding of his previous experience and role on the DSW project.

Mr Anderson and Mr McCormick presented a PowerPoint presentation with an overview of the proposed modifications and the management of key risks - which included flood during works period, availability of suitable constructors, construction costs, engineering scope and cost.

The major flood risk during construction was associated with Gooseberry Stream as it was anticipated that the lake would be well below full during this period. Proprietary gates (ex USA) were being proposed to reduce performance and cost uncertainty.

The key aspects of the current programme are the progress of detailed design to enable Building Consent application prior to Xmas and tenders to be issued in late January; tenders closing late February with construction March through July and commissioning completed by August.

A discussion was held on the scope of Mr Anderson's role as project manager and Tonkin & Taylor (T&T) as designers. T&T need to have an on-site presence as they are responsible for the sign off the PS4 (construction completed in conformance with the Building Consent design)

It was agreed that we should deal with constructors who have the resources to complete the work, rather than those who contract it out and that some pre-selection/registration process should be undertaken to shortlist tenderers.

Project costs are currently estimated at \$1.3m for construction (includes forex risk), \$605k for engineering, \$100k for contingencies - total budget \$2.05m. Tonkin & Taylor costs for design services are estimated at \$450k. This does not include the \$458k spent to date predominantly on the development of the alternative design option. Mr Gormack asked if the economics still work if \$2.5m is spent which includes the \$458k spent to date. Mr McCormick replied that the business case supported up to a \$1.8m spend. Mr Lambie commented that we also need to consider the benefit from improved performance in a drought if we can run the dam at maximum and also the environmental impact of the overflow embankment operating.

Mr Boys asked whether we should be considering other engineers as T&T also do the review work - it was noted every 5 years an independent review is completed. The Board asked Mr Anderson to explore Beca and Rileys. Mr McCormick commented that he does not feel the change of designer is a good idea at this stage as we don't want to re-design all again. Given the knowledge T&T have there is as much risk of changing engineer and it is a big job for someone to walk in and take on the project.

It was **Resolved** that Mr Tim Anderson be appointed as the DSW project manager and be given approval to look at alternate designers and challenge T&T on their costings. Mr Anderson was given authority to move the project forward subject to the ratification of a final budget (noting that tender price for construction will not be known until the end of February 2016). This was moved by Mr Boys and seconded by Mr O'Sullivan. The motion was carried.

The presentation ended at 11.30am and Mr Anderson left the meeting.

CEO REPORT:

The CEO Report was circulated to Directors before the meeting in the management report.

The report was taken as Read and general discussions on the following were noted:

Financials

The reports were based on the month of August 2015. The overall position for the first two months is close to budget with both income and expenditure slightly above budget.

Cash Holdings

There has been a tight cash position over the last month - the maximum overdraft level was \$56k at the start of the month and was cleared on 20th September. It is expected to draw again on the facility at the start of October when the monthly interest payment is withdrawn.

Operations

Lake Levels and Storage

There have been no high flow conditions suitable to release a flushing flow as proposed under the OEFrag regime. It is still desirable to have a flush opportunity prior to irrigation from an operational viewpoint, especially at Kakahu.

At the last OEFrag meeting on 22nd September the outcome was a reduced minimum flow for October of 6 cumecs (instead of 8.5 cumecs) and a 50% restriction for irrigation. This continues to be a self-managed regime rather than being prescribed under the WSDs.

Lake and River Quality

The sediment samples taken by divers in late August are currently at three different laboratories for analysis. Our own regime of regular water sampling at the downstream weir has continued and results to date have shown no detectable levels of pesticides. Fishing season begins on Saturday 3rd October, fish sampling has been completed, no results as yet.

Mr Boys commented that OCEPS may have early results from undertaking their own laboratory testing and asked how the communication process will be handled, considering Mr McCormick is away on annual leave in the second week of October. Mr McCormick replied that he has asked for all results to go to Mr Grant Northcott for interpretation and there is an agreed protocol and process for the management of results and that no individual party is to go to the media. It was agreed in Mr McCormick's absence that all correspondence should go to Mrs Crossman for circulation to the full Board, legal and PR team.

Mr Lambie asked who the spokesperson is for the company in Mr McCormick's absence. As a general rule (even with Mr McCormick present, there would be no verbal statements and all external communication through written statements from the Board (Tracey Chambers to assist).

Mr McCormick is to leave instructions with the Risk Committee on the communication process.

Mr Boys left the meeting at 11.53am.

Management Reporting

Health & Safety Systems - Audit

The ACC audit date has been confirmed for 4th November.

Staff

Mr Pagan has advised of his intention to finish with the company at the end of the year to run the family farm. Mr McCormick has initiated a recruitment process through Personnel Placements. Applications close on Friday 9th October 2015.

Strategic Water Projects

New Water

Beca is underway with reviewing Tekapo transfer options and a field visit is taking place today.

FINANCIAL STATEMENTS:

August 2015 Financial Statements

The Financial Statements for the month ended 31st August 2015 were taken as Read.

GENERAL BUSINESS:

Orari-Geraldine Catchment Group

Mr Horne advised that the Orari-Geraldine catchment group met last week. Mr Gary Rooney indicated there may be up to 3,000 ha of surplus water in the Rangitata South scheme which could reach Geraldine. Mr Rooney believes if the scheme is sold to the farmer irrigators this surplus water would no longer be available. Mr Horne commented that the Orari-Geraldine catchment has a demand for 3,000-4,000 ha of water however this is yet to be confirmed until

results are collated from the survey currently in progress.

Mr Gormack commented that the catchment group needs to meet with Rangitata South shareholders. Mr Gormack noted that the storage ponds are still leaking and understands that there was an agreement between Mr Rooney and shareholders that reliability must be proven before further demand areas were explored. The next Rangitata South meeting is scheduled for 12th October and Mr Horne could contact Mr Ian Morten regarding attending.

There being no further business, the meeting closed at 12.07pm.

Chairman

Date