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Opuha Water Limited - Revised DRAFT Enterprise Valuations

Further to our meeting in December and recent discussions this note summarises the revised DRAFT Enterprise Values (EVs) of:

- Opuha Water Limited,
- Level Plains Irrigation Limited,
- Kakahu Irrigation Limited, and
- Totara Valley Irrigation Limited.

As noted previously Enterprise Value estimates the market of the schemes' operations, excluding debt and non-operating assets such as investments in shares. In this exercise Enterprise Value has been estimated as the present value of free cash flow generated by the schemes. Free cash flow is equivalent to post tax operating cash flows excluding interest land after expected capital expenditure.

The four schemes being valued are cooperatives. The usual economic view of the objective of firms that aren't cooperatives is to maximise shareholder wealth through growing the value of firm and distributing profits. Cooperatives have the same objective as corporate businesses but achieve it in an entirely different way. Cooperatives such as the four schemes maximise the utility of members by minimising what the shareholders pay for delivered water. In other words, a fundamental difference between a corporation and a cooperative is the way profits are returned to the firm's owners.

In effect, the value that would normally be captured by a corporation and transferred to shareholders by way of dividends or increased share value is transferred to the cooperative scheme shareholders by way of lower water charges. In turn the value of the lower charges for water are captured by the scheme shareholders and capitalised into land prices.

This difference has a significant impact on the assumptions that are made when forecasting the revenues and therefore operating cash flows that are a significant input into the calculation of free cash flow and ultimately the scheme's EV. The underlying objective of the four schemes is to minimize the cost of delivered water subject to the constraints of being able to repay any debt, and preserve share holders funds by generating break even levels of pre-tax profit, on average. These principles plus the following key assumptions have been applied when generating the free cash flow forecasts used to estimate the EVs.

1. Enterprise Value is estimated using a post tax weighted average cost of capital (WACC) of 6.6% that assumes a level of business risk similar to an electricity transmission business such as TransPower.
2. In general, charges are assumed to increase at around the CPI in the medium term.

3. OWL's electricity generation business has been identified and valued separately from the OWL irrigation business.
4. The values of OWL's resource consents were allocated on the basis of EV.

These assumptions result in the following revised estimates of EV for the four schemes.

TABLE -1 ENTERPRISE VALUE SUMMARY

	Scheme Area Ha	OWL Consents Value $m	Other Intangibles	Enterprise Value $m	Implied Fixed Assets $m	Book Value $m
OWL excl. Generation	7,430	$7.6m		$47.2m	$39.6m	$34.8m
OWL Generation			$8.0m	$19.2m	$11.2m	$11.2m
Total OWL	7,430	$7.6m	$8.0m	$66.5m	$50.8m	$46.1m
Kakahu	3,208	$1.4m		$8.4m	$7.1m	$7.1m
Totara Valley	2,066	$0.1m		$0.6m	$0.5m	$0.8m
Levels Plain	3,296	$0.2m		$1.1m	$1.0m	$1.9m
Total	**16,000**	**$9.3m**	**$8.0m**	**$76.7m**	**$59.4m**	**$55.8m**

Following discussion with you I will provide you with a more detailed report.

Best Regards

Peter Seed