MINUTES OF THE STRATEGIC PLANNING SESSION OF OPUHA WATER LIMITED HELD 1.00PM, WEDNESDAY 27th OCTOBER 2010 AT OPUHA HOUSE, AROWHENUA ROAD, PLEASANT POINT

PRESENT: Messrs T Lambie, P Scott, E Sullivan, A Reid, R Wells, D O'Sullivan, N Gormack, T Howey and V Pooch. Mesdames N Hyslop and A Bennett.

APOLOGIES: Nil.
Messrs D O'Sullivan, Mr N Gormack, Mr T Howey (for lateness).

MEETING AGENDA & WELCOME: The meeting was opened by Mr Tom Lambie. Mr Lambie stated that the first strategic planning session held in June 2010 was successful in terms of the Board having a future vision as an infrastructure company and that the proposed capital developments contain complexity that will be required to be managed appropriately.
Mr Lambie advised that there needs to be management and strategies implemented to maximise value to shareholders and take hold of all opportunities going forward.

Mr Vincent Pooch recalled on the previous strategic planning session and commented that the company has moved forward since then showing they are now in a better structural position shareholding wise to tackle these opportunities. Mr Pooch noted that he has met and spoken with Mr Lambie and Mr Scott on a number occasions since the last session and has been kept up to date with the progress of the company.

Mr Pooch suggested that the Board be aware of 'balance'. Successful organisations need to be balanced as the Board cannot be weak and have a strong CEO and vice versa. Mr Pooch detailed that the Board need to think of what is needed within the company now.

Mr Pooch provided an agenda for the meeting:

- Banking Covenant
- Confirmation of Strategy
- Projects and Capital Development
- Role of the Chief Executive Officer
- Skills of the Board of Directors

Mr Pooch asked if there was any additional agenda items that the Board would like to add for discussion. Mr Sullivan suggested that historic issues be added such as resolving Alpine Energy issues and the company shareholding/amalgamation that have not been fully completed.

MATTERS ARISING: **Financial Covenants**

Mr Pooch advised that he is concerned that the financial covenants with ANZ National Bank are in breach. Mr Gormack commented that the covenants with the bank are based on 12 month rolling, calculated on specific six month periods and provided to the ANZ Bank. Mr Gormack noted that he has already spoken to the ANZ Bank about the new electricity prices and that this may cause a breach of the covenant.

Mr Pooch advised that he believes the 2011 financial year budget shows a breach going forward before the new energy prices have even been considered. Mr Gormack advised that the covenants have been based on past performance not the future predictions. Mr Pooch provided a calculation to detail how he sees the company in breach.
Mr Scott commented that not all the budgeted capital expenditure will be spent and when the cash flow budget was prepared it was on a more of a 'wish list' basis.
Mr Lambie stated that the water charges were increased to cover additional capital expenditure and the Totara Valley storage pond development would have separate charges that had not been allowed for in the budget. Mr Gormack added that the budget would change according to the capital items that are spent.
Mr Wells asked whether the financial covenant certificate for 30th June 2010 will need re-tested using the correct debt servicing cost. Miss Bennett confirmed that these will need re-tested and that she would correct if needed.

Action Point: Mr Gormack / Miss Bennett

It was agreed that the financial covenants on the existing budget be re-tested for breach and a reviewed budget be created with the new electricity prices incorporating the covenants and then be circulated to Directors before mid November 2010. Mr Pooch suggested that going forward the board spend more time looking at this aspect.

Action Point: Mr Scott / Mr Gormack / Miss Bennett

Confirmation of Strategy

Mr Pooch asked the Board to confirm that the strategy of the company was still an infrastructure company. Mrs Hyslop advised that she thinks it should also include the term of being a water resource. Mr Gormack added that infrastructure means a long term investment company with long term assets and appropriate asset management.
Mr Sullivan commented that the company is not a co-operative but shows signs of co-operative principles. Mr Gormack advised that OWL currently does not measure return on investment and would like to see this happening. Mr Reid commented that maximum value to shareholders needs to be a long term part of the company strategy. Mr Pooch informed the Board that discussion papers on these issues would have normally been available with a CEO who has more spare time without the issue of a raceman who is unwell.

A discussion was held around what the Directors perceive as the meaning of maximum value and minimum costs.

Mr Gormack advised that he believes the Board is not united as to what the vision of the company is in terms of the market and creating transparency around water value. He hoped these would flow once the Board can agree on the company's vision.
Mr Lambie added that a company that can facilitate trading is what is needed. Mr Pooch commented that facilitating trading means you are adding value to shareholders but you just don't see it within OWL. Mr Lambie advised that profitability changes on farms and a drop in farm prices could result in half the shareholders not being able to pay for their water if OWL requires the $170 a hectare. Mr Reid added that minimum cost is no longer relevant and the company has moved past this as minimum cost takes away the option of strategic choices.

Mr Pooch suggested taking the approach of the company receiving a return on investment and then returning back to shareholders by way of dividend. Mr Sullivan commented that from previous board meetings they indicated that the intention of the Board was not to pay dividends to shareholders with surplus but to reduce water charges. Mr O'Sullivan agreed with this and added that if the Board was aware of the new electricity prices water charges of $170 a hectare would have been set higher.

After discussion, Mr Pooch verified that the company is aiming to be between a minimum cost and maximum value position and should look at reducing debt to a comfortable level.
Mr Gormack advised that the assets at the Dam are underutilised and they have a lot more ability to generate income due to currently not generating 24/7, 365 days a year and Tekapo water may help to solve this problem.
Consensus was achieved that OWL is working to the 'left of the centre' towards maximum value and away from minimum cost.

Summary of Vision:
OWL is a growth company wanting to take on new opportunities and maintain infrastructure development, set water charges mindful of customer value they create so the company is sustainable and can thrive across the cycle. Charges will be set that provide a fair return on equity to shareholders.

Projects & Capital Development

The Board highlighted the following issues, projects and development that are in progress and other future plans of the company.

* Replacement of Mr Snow Gardner, Operations Manager
* Water reliability strategy
* Stage One – Totara Valley Storage Pond and Distribution
* Stage Two – Sutherlands Pipeline
* Stage Three – Colletts Pond
* Contact Energy electricity and management contract
* Audited Self Management
* Tekapo Water – positioning in Canterbury water
* Dam management
* Purchase of other schemes – purchasing scheme infrastructure under OWL including Levels Plain Irrigation and Kakahu Irrigation
* 10 year business plan
* Alpine Energy
* Restructure of ownership and the general company structure

A discussion was held around the projects underway and the Board placed each of the above on a graph in terms of strategic importance and the risk associated.

Mr Pooch advised that he believes the company has a large list of projects and development but has insufficient resourcing to complete these and in people terms and Mr Gardner's sickness has caused a real issue in the management team.
Mr Reid noted that Mr Scott has organised a replacement for Mr Gardner under a contract until May 2011 and the Board has been advised of this.
Mr Scott commented that Dam Management under Contact Energy is of high importance and high risk and added that the energy contract has been renewed for 6 months ending 31st March 2011 and the company could lose the management contract if the energy is taken away. Mr Pooch advised that the Board should be working with the CEO on these large strategic issues to help make a better decision for the company and sees the Board as currently not well enough engaged.

Chief Executive Officer

Mr Scott advised that his role as the CEO of the company has been based on a contracted term and no employment agreement.

Mr Scott added the position has changed substantially since he took it on and has grown a lot more than was intended at the start. Mr Scott advised that he is worn out and does not have the time to spend on the company any longer. Mr Scott noted that he intends to stay with the company until May 2011, however would be able to leave earlier than this date if another CEO was found. Mr Howey commented that there may be a need for double up for a short period so the new CEO can gain some knowledge from Mr Scott before his departure.
The Board discussed the role of the CEO and the qualifications and qualities that one should contain.

* Reasonable farming and engineering understanding
* Financial understanding
* Hydrological and water understanding
* Can lead and represent a project and contractors
* Business and commercially aware, can run a business, RMA familiarity
* Strategic thinker with people skills and can relate to farmers
* Risk management understanding
* Understanding of electricity and generation

Mr Sullivan advised the there needs to be full control at Opuha House. Mr Gormack agreed and commented that the CEO requires operational resourcing in order to run the business properly and the company should build a team and operations base.
Mr Wells asked what an in house cost would be with a structure at Opuha House. Mr Scott noted that a suitable structure would include a CEO, Operations Manager, Raceman, Sub Contractors, Administration, Dam Manager and Water Operations and that these roles and costs could not be determined at this time.

Mr Pooch advised that the Board should be aware that such a role should pay around $225k p/a and suggested that a consultant such as Graeme Ewing in Christchurch be approached. Mr Pooch also suggested that Mr Scott be included in the search for finding someone suitable for this role.

It was agreed that the Chairman be authorised to look into and investigate the appointment of a new CEO and come back to the Board with a proposal. This was moved by Mr Sullivan and seconded by Mr Howey. The motion was carried.

Action Point: Chairman

Board of Directors

Mr Pooch suggested that the Board should be made up of 5 Directors in total: 3 shareholders and 2 independent and added that he believes that there needs to be more engagement between the Directors and the CEO. Mr Pooch commented that the CEO duties and responsibilities need to be well supported by the Board of Directors.

Mr Pooch commented that gaining consensus with a board of 8 Directors can be hard for the CEO and from experience a large group of board members is very challenging for a Chairman. The company needs to think of a 'skills based' board rather than a 'representative' board. Mr Scott added that he believes the Board skills need to be lifted for fresh ideas. Mr Reid commented that elected Directors on a board will turn out reasonably similar and the skills base may need to be based on the independent directors. Mr Lambie noted that the company needs to decide what skills the independent directors would need such as financial and engineering backgrounds.

Mr Sullivan stated that the information Mr Scott picked up from Alpine Energy when the Dam was purchased was excellent and the slop water study has been Mr Scott's 'baby' and believes it would be extremely hard for a new CEO to pick this up and carry it on.

Mr Sullivan commented that the last three years board minutes indicate good progress and it has put a lot of responsibility on the existing Board and they now need to work how to move the company forward by implementing such projects. Mr Sullivan added that the Board would not be having this strategic meeting if it wasn't for Mr Scott.

Mr Pooch advised that the Chairman would normally be an independent Director on a Board so this is their only interest within the company. The skills they bring along should take the company to the next level. Mr Pooch added that a Director who does not live locally can be useful for an objective perspective and would only occur some additional travel costs. Mr Pooch suggested that the Board should be considering $20 - $25k per director.

The Board considered the skills that Directors should bring to the company which included:

* Financial
* Engineering and hydrological understanding
* Commercial – situational awareness, networking and government contacts
* Strategic

It was agreed that copies of draft minutes be sent to Mr Pooch before being distributed to Directors.

There being no further business, the meeting closed at 4.15pm.

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Chairman

_____
Date