



29 August 2011

Mr Tony McCormick  
Chief executive  
Opuha Water Limited  
PO Box 27  
Pleasant Point 7947  
TIMARU

Dear Tony,

### **OPUHA WATER LIMITED – FACILITY AGREEMENT**

Further to our recent discussions we have completed our Annual Review and we are pleased to now provide our updated Facility Agreement. We have outlined the terms of this Agreement and other matters covered in recent discussions.

#### **Facility Agreement**

The attached Facility Agreement is in line with previous years. The only changes are:

- 1) Addition of the Flexible Credit Facility ("FCF") (\$2,000,000) and;
- 2) Amendment to the definition of the Debt Service Cover ratio.

The FCF is available for Capital Expenditure as agreed with the Bank. Initially this is available to cover the costs of the Totara Valley Ponds and Sutherland Project. This limit will then provide head room for other projects as agreed. If this headroom is not required we can reduce the limit to a suitable level. Draw downs on this facility can be made by emailing / phoning Andrea Meier.

The advantage of the FCF is the facility can be repaid and redrawn. This helps reduce funding costs while ensuring funds are available at a later date to help with cash flow.

The Adjusted Debt Service cover ratio ("ADSCR") (section 2.1.1) is the original ratio, now adjusted so that capital expenditure funded through either cash on deposit or bank funding (FCF) is excluded. This enables the Company to build up cash reserves for projects while not impacting on this ratio. As discussed, we would expect maintenance capital expenditure is not excluded.

Please arrange for the Facility to be accepted by executing pages 4-6 (two directors are required to sign for each company) and the Directors Certificate pages 22-25 by crossing out the appropriate clauses and signing page 25. If you require a copy signed by the Bank please let us know.

#### **Commercial Banking**

ANZ Building, Level 2, Cnr Hereford & Colombo Streets, Christchurch, New Zealand  
PO Box 220 Christchurch 8140, New Zealand | Phone: (03) 368 2406 | Fax: (03) 368 2433 | Cell: 027 248 0885  
Email: [chris.broughton@anz.com](mailto:chris.broughton@anz.com) | Website: [www.anz.co.nz](http://www.anz.co.nz)

## Capital Expenditure

We envisage each year we agree the level of capital expenditure to be funded from the FCF. This can help with clarifying the amounts to be included for testing the ADSCR.

## Financial Covenant

As currently defined in the existing Facility Agreement, the Debt Service Cover ratio ("DSCR") is to be no less than 1.05x calculated as;

$$DSCR = \frac{\text{EBITDA less capital expenditure}}{\text{Gross interest expense}}$$

We have tested the covenant as follows:

<b>Covenant Compliance</b>	<b>Actual Year End 30/06/10</b>	<b>Mgmt 6 mths 31/12/10</b>	<b>Mgmt 8 mths 28/02/11</b>
<b>Debt Service Cover</b>	1.32	0.35	0.40
Covenant (no less than)	1.05	1.05	1.05
<i>Breach / Comply</i>	<i>Comply</i>	<i>Breach</i>	<i>Not a test date</i>

The Company breached the DSCR as at 31/12/10 (6 months test date). This reflects a lower level of electricity revenue and increased level of capital expenditure. Although a breach occurred, the cash position of the company remained strong with surpluses built up from previous years. With this background we will waive this breach with no action to be taken.

To assist moving forward, we have amended the definition to exclude capital expenditure that is either funded from available cash on deposit or bank debt funding. The amounts are to be agreed with the Bank when budgets completed.

We are due to test this covenant again with Year End Audited Accounts (30/6/11) and then 6 monthly (30/12/11 and 30/6/12).

As discussed, it is important the Board and Management take into account this ratio when setting the water charges and managing the cash position. This will ensure there is sufficient cash available for debt servicing. We note the Company is increasing water charges by 10% this year to help build reserves and restore the debt servicing.

## Pricing

The current pricing for the Company remains unchanged. Over recent years the bank has made incremental increases to pricing to cover a rise in bank funding costs. This season we have not made any change as bank funding costs have stabilised. However, our current pricing (1.65% pa) is well below our minimum threshold for "return on capital" and we expect a further review will be required prior to the 2012/13 irrigation season. We will work with you to help minimise the impact of any margin increase required.

## Opuha Structure

Edward Sullivan (RSM Law Ltd) recently provided an update on the Group structure. He advised the structure has not yet been finalised. Once various matters are concluded the

consolidation previously talked about will take place. Please keep us up to date with any changes.

**Electricity Pricing**

We look forward to receiving an update on any decisions regarding electricity supply contracts. Please advise if there is any change to the current position.

**Summary**

We look forward to working with you over the coming year and helping with new projects and opportunities.

The open discussions and collaborative approach developed with you and the Directors is valued by us and we trust this will continue to enhance the Company's success in the future.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Chris Broughton', is written over a faint, light blue circular watermark or background.

Chris Broughton  
Relationship Manager