

Non-Compliant Shareholder Policy

1. Purpose

For the MHV scheme to operate effectively and ensure fair and timely delivery to all, shareholders are required to adhere to all Company Policies and contractual obligations under the Water Supply Agreement (WSA). The purpose of this policy is to define MHV's approach to managing shareholder non-compliance, and to outline the consequences of a breach of Company Policy, Environmental Management Strategy (previously Scheme Management Plan) or WSA.

2. Scope

This policy applies to all MHV shareholders, and to MHV Management and Board in the implementation of sanctions where necessary.

3. Policy Details

3.1 Approach to Compliance

MHV Water believes that a successful compliance model is fair, reasonable, consistent and transparent in the process, and that where it is appropriately implemented, Shareholders are more likely to make the permanent changes required to consistently perform at a higher standard.

We aim to support shareholders by providing the information, resources and knowledge needed to ensure voluntary compliance with the terms of their WSA, the EMS and other Company Policies.

3.2 Breach of Water Supply Agreement

There may be instances where shareholders fail to take the steps necessary to meet the requirements of their WSA, the EMS or other Company Policies, which may result in a breach of the Terms of Water Supply or WSA and jeopardise the secure delivery of water.

Where a breach has been identified, Clause 23 of the Terms of Water Supply can be initiated, permitting MHV Water to temporarily reduce the amount of water provided, prohibit a take or forfeit a shareholder's shares.

Educational processes and support will be undertaken prior to the initiation of any formal response to a breach of the WSA.

3.3 Charges Incurred

Where MHV takes action as a result of a breach to the WSA, the shareholder is still liable for all charges in accordance with Clause 23.1 of the Terms of Water Supply.

3.4 Consideration of Historical Breaches of Water Agreement

In determining whether to take any action under this Policy, MHV will take into account any notice of a breach of the WSA within the preceding three years, unless the property has been sold during this time and is under new management (subject to section 3.5 below).

3.5 Changes in Property Ownership

Non-compliant shareholders actions are likely to be material information on sale and purchase of land and should be disclosed by the vendor to the purchaser as part of the purchaser's due diligence and failure to do may breach warranties provided under the sale and purchase agreement. Due to privacy issues, MHV Water is generally unable to disclose this information to third-parties without the existing shareholders permission.

Where land that is currently subject to non-compliant shareholder actions has been sold or transferred to another entity the new owners of the shareholding will be advised of any historical breaches of the WSA and are expected to address the issues within the timeframes set out in any existing FEP, FEP Audit or any Corrective Action Request issued to the property. Where MHV identifies the new owner subsequently breaching the WSA, MHV Water may use its discretion in its enforcement decisions under this policy to have regard to the history of the property.

3.6 Offence Levels and Repeated Offences

MHV Water have created eight possible levels of actions for breaches of the WSA, which the consequences of these breaches ranging from a verbal warning (Level 1) to cancellation of the WSA and forfeiture of shares (Level 8). These levels of breaches are set out in the Schedule of Offences.

The principle behind the different levels of offences is to ensure the response to a breach of the WSA is proportional to the significance of the breach. Repeated minor breaches of the WSA will result in an escalation of consequences over time. Major first breaches of the WSA will be assigned higher level consequences, as indicated by the Schedule of Breaches.

All formal written warnings issued to reduce or cease water must provide at least 20 working days (unless MHV has been issued with a shorter notice period by a regulator) before the notice takes effect (*Notice Period*). If the actions required by the notice are resolved to MHV's satisfaction within the Notice Period, MHV Water will not take any further action under clause 23.1 (a), (b) or (c) of the Terms of Water Supply.

The Board of MHV Water will be advised of all warnings, and they are responsible for any escalation as per the Schedule of Breaches.

3.6.1 Verbal Warning – Level 1

Prior to any formal action being taken against a shareholder for failing to meet their obligations, they will be verbally advised by MHV Water staff of their requirements, when these requirements are expected to be completed and potential consequences should any timeframes fail to be met.

Records of all verbal warnings will be held on the shareholder's file and referred to if further action is deemed necessary.

3.6.2 Formal Written Warning – Level 2

A formal written warning will be issued for Level 2 offences and will provide 20 working days' notice to remedy the breach.

In each case the shareholder will be advised of the actions they must take and a reasonable timeframe for completion. Each formal warning will detail steps MHV Water will take if the issue is not rectified within the specified timeframes.

3.6.3 Cease Water Notice – Levels 3-7

A Cease Water Notice will take effect if the shareholder remains in breach 20 working days (or such shorter time as may be imposed on MHV by a regulatory body) after being served written notice of the breach. A Cease Water Notice may apply for different periods of time depending on the seriousness of the offence requiring action by MHV Water. The Levels and amount of time for which water supply will cease are:

- Level 3: 24 hours
- Level 4: 7 days
- Level 5: 14 days
- Level 6: 30 days
- Level 7: Remainder of irrigation season

Where a Cease Water Notice comes into effect during total low flow restrictions, the cease water notice takes effect on the first day low flow restrictions are lifted and the shareholder is able to take water.

If the breach occurs during the winter season the water will be turned off for the time specified in the Cease Water Notice at the commencement of the following season (provided that the shareholder has first had twenty working days' notice to remedy the breach).

When a shareholder is issued a Level 6 or Level 7 offence notice, they will be required to explain the reasons for the breach(s) and their proposed actions to rectify the issue to the MHV Board.

3.6.4 Share Forfeiture – Level 8

If the MHV Water management team determines the continued breaches of the Water Supply Agreement cannot be remedied, and such breaches have continued for at least 60 working days after the shareholder was first served written notice of a breach, it will be recommended to the Board of MHV that the shareholder's WSA is cancelled, and shares surrendered at nominal value.

If a shareholder is excluded from the scheme, MHV Water will formally notify the Environment Canterbury Monitoring and Compliance Manager within 20 working days of the exclusion taking effect.

3.6.5 Farm Enterprise Properties

Farm Enterprise Properties, not currently irrigated by MHV Water and located within the Hinds Plains Zone, may choose to join the MHV Audited Self Management (ASM) programme which is a component of the EMS.

Where any breach of the EMS is identified on an associated Farm Enterprise property, the following procedure will apply:

- Offence 1: Formal Warning
- Offence 2: Meet with Board to explain
- Offence 3: Expulsion of property from EMS programme

If a shareholder is excluded from the scheme for any issues relating to nutrient management, MHV Water will formally notify the Environment Canterbury Monitoring and Compliance Manager within 20 working days of the exclusion taking effect.

3.7 Exceptional Circumstances

In the event a shareholder notifies MHV of exceptional circumstances which have led to a breach of the WSA, MHV Water may use its discretion when deciding whether to issue any of the above notices or follow any of the procedures described in this policy. Exceptional circumstances may include, but are not limited to:

- Death of a shareholder or a member of a shareholder’s family
- Hospitalisation of a shareholder or a member of a shareholder’s family
- Significant personal events
- Issuance of a notice of direction or restriction of movement notice from Ministry of Primary Industries
- Other relevant events

MHV Water will keep a record where exceptions have been made and relevant actions taken. Such application of exceptional circumstances shall not be considered to set a precedent for other shareholders.

4. Review and Sign Off

Revision No.	Status	Date	Prepared by	Checked	Approved
00	Draft – from draft EMS	May 2018	FM	Oct 18 MB	
00	Approved	Nov 18		Legal (TP), Board	Board Nov 2018

5. Related Documents

- MHV Environmental Management Strategy
- MHV Schedule of Breaches