

**ANIMAL CONTROL PRODUCTS LIMITED**

**STATEMENT OF CORPORATE INTENT  
(2011 - 2013)**

**JUNE 2010**

**ANIMAL CONTROL PRODUCTS LIMITED  
STATEMENT OF CORPORATE INTENT 2011-2013**

**CONTENTS**

**CATEGORY HEADING**

**Page Number**

|     |   |    |
|-----|---|----|
| 1.  | Preamble  | 1  |
| 2.  | Implications of the 1080 Reassessment Decision  | 1  |
| 3.  | General Statement of Purpose                    | 2  |
| 4.  | Objectives of the Company                       | 2  |
| 5.  | Nature and Scope of Activities                  | 2  |
| 6.  | Business Principles                             | 3  |
| 7.  | Corporate Governance                            | 3  |
| 8.  | Risk Management                                 | 3  |
| 9.  | Corporate Social Responsibility                 | 4  |
| 10. | Accounting Policies                             | 5  |
| 11. | Performance Targets                             | 8  |
| 12. | Capital Structure                               | 10 |
| 13. | Dividend Policy                                 | 11 |
| 14. | Information to be Reported                      | 11 |
| 15. | Procedures for Share Acquisitions               | 12 |
| 16. | Consultation on Sale or Purchase of Assets      | 13 |
| 17. | Activities Involving Non-commercial Public Good | 13 |
| 18. | Value of the Crown's Investment                 | 13 |
| 19. | Borrowing                                       | 14 |

## 1. PREAMBLE

The State-Owned Enterprises Amendment Act 2004 came into force on 25 January 2005. Under this legislation Animal Control Products Limited ceased to be a Crown entity and became a State-owned enterprise.

This Statement of Corporate Intent is submitted by the Board of Directors of Animal Control Products Limited (ACP /the Company) in accordance with section 14 of the State-Owned Enterprises Act 1986. It sets out the Board's overall intentions and objectives for the Company for 2010/2011, 2011/2012 and 2012/2013.

This Statement of Corporate Intent has been prepared on the basis of continuation of the business of Animal Control Products Limited as a stand-alone profitable business expected to continue under the current SOE Government ownership structure.

ACP is wholly-owned on behalf of the Government by the two Shareholding Ministers, the Minister of Agriculture and the Minister of Finance.

ACP is New Zealand's principal manufacturer of 1080 based products which have historically provided the bulk of sales for the Company. Over recent years the Company has diversified its product range and markets to reduce dependency on this toxin. As a result, the Company now holds 31 registrations for a range of toxins. While this strategy has reduced the dependency on 1080 and delivered incremental sales, the Company remains reliant on 1080 based products for approximately 60% of gross revenue.

The main users of 1080 are the Animal Health Board (70%) for the control of vectors of bovine Tb, and DOC (30%) for the protection of native plants and animals. Both agencies continue to stress the importance of 1080 in meeting their respective strategic objectives. With only one proven source of quality 1080 powder in the USA, the Company – and New Zealand – remains vulnerable to the supply of this core raw material. Despite a reassessment of 1080 by ERMA (see below) the use of 1080 remains a polarising issue which continues to generate media attention and protest action.

## 2. IMPLICATIONS OF THE 1080 REASSESSMENT DECISION

In August 2007 The Environmental Risk Management Authority (ERMA) delivered the decision to allow the continued use of 1080. This determination recognised, for the time being, that there is no practical alternative to the continued use of 1080 in areas where the preservation of native bush and agricultural production would otherwise be at serious risk. At the same time, ERMA acknowledged an urgent need for improvements in the way 1080 is used. As a result, there has been a tightening of mandatory controls, and recommendations on research into alternatives to the use of 1080. A 1080 Co-ordinator has been appointed to monitor this evolving environment and prepare an annual report on the impact of all future aerial operations. ERMA have stressed that their decision is not intended to stand for all time and whether or when a further reassessment is undertaken will depend on how well the new management regime is implemented and on the response to recommendations.

While the ERMA determination has been generally well received by the industry, the decision has also galvanised an increasingly vocal anti-1080 lobby into nationwide protest actions which have included alleged deliberate dog poisoning and mail abuse. This growing organised opposition to the use of 1080 has caused aerial 1080 operations to be delayed, postponed or modified, or even cancelled.

In December 2009 ERMA released its first complete year's annual report on the aerial use of 1080. This report advises that while it is too early to see trend data emerging, the controls and recommendations put in place by the authority are having a positive effect. This report will provide a baseline for longer term study and the results of the monitoring of operations will inform future decisions on the use of 1080.

ACP relies on 1080 based-products (including non-toxic pre-feed baits) for approximately 60% of gross revenue, and the outcomes and subsequent implications of the 1080 reassessment process are of crucial and ongoing interest to the company. Given ACP's heavy reliance on 1080-based products, any materially adverse impacts which may arise from the implementation of ERMA's recommendations could present severe implications for the company and the industry in general.

The 2010/2011 Business and Strategic Plan assumes the satisfactory adoption of ERMA's recommendations and acceptable reports from the 1080 Coordinator. Given the perceived increase in risks of operational delays and potential cancellations stemming from this evolving environment, the Plan has developed conservative projections for key areas such as sales volumes, profitability, and dividend levels. In the event of materially negative reports from the 1080 Coordinator, the planning documents would require substantial review.

### 3. GENERAL STATEMENT OF PURPOSE

The Company's core business is the manufacture, sale and provision of products and services to maximise the effectiveness of pest management for public and private sector clients, both within New Zealand and offshore. Business activities outside the business plan and core business will not be undertaken without prior consultation with the Shareholding Ministers. The management and Board, however, recognises the company is vulnerable because of its reliance on 1080 for approximately 60% of its income and, within the broad confines of pest control, we continue to explore product diversification and new markets for all of our products.

### 4. OBJECTIVES OF THE COMPANY

The principal objective of the Company is to operate as a successful business. In carrying out its business, the Company's strategic objectives are :

- a) To manufacture and supply pest control products to meet market demand.
- b) To review and hold the appropriate level of 1080 buffer stocks in the national interest.
- c) To achieve a rate of return and a capital structure aligned with sensible commercial best practice.
- d) To maximise dividends to Shareholders within agreed parameters.
- e) To review and protect the ongoing supply of essential raw material ingredients.
- f) To grow and diversify revenue, including export opportunities.
- g) To meet our social, cultural and environmental responsibilities.
- h) To be a responsible employer, meeting all applicable Regulatory requirements.
- i) To act in a manner consistent with the Treaty of Waitangi regarding the aspirations of the Treaty partners as they may relate to the activities of the Company.

### 5. NATURE AND SCOPE OF ACTIVITIES TO BE UNDERTAKEN

To achieve the objectives ACP Ltd will:

- a) Purchase, manufacture and sell animal or insect poisons or other preparations or products to both public and private sector clients. Activities and products will be for internal New Zealand use and for export.
- b) Assume responsibility in the national interest of maintaining a buffer stock of approximately four year's usage of 1080 toxin, regularly review the most appropriate levels to be held, and store 1080 owned by major customers upon their request.

- c) Import raw materials required for the manufacture of products.
- d) Enter into contracts to manufacture poison products on behalf of other organisations, providing such products are not unacceptably dangerous to staff and do not impinge upon products of the Company.
- e) Invest up to 3% of gross sales in research and development related to the manufacture, sale and use of animal control products to enhance the achievement of the Company's objectives.
- f) Maintain and develop capital equipment for the manufacture of pest control products.
- g) Provide services to clients, either directly or indirectly, to maximise effectiveness of pest management activities, both in New Zealand and abroad.

## 6. **BUSINESS PRINCIPLES**

The Company aims to be a good corporate citizen and will conduct its activities in accordance with the requirements of the SOE Act and with due regard to the Statement of Government Expectations of the State Sector. The Company will operate with integrity, responsibility and respect and will strive to improve performance by:

- a) exceeding customer expectations on quality, competence and service.
- b) being competitive on service delivery and cost.
- c) operating with the utmost concern for the safety and health of our employees and associates.
- d) providing systems, structures and processes which encourage our people to perform to their potential.

## 7. **CORPORATE GOVERNANCE**

The Company is committed to the highest standards of corporate governance, with core values of accountability, probity and transparency. The Company has adopted policies and procedures aimed at maintaining the standards endorsed by the Crown and other entities, including the New Zealand Security Commission.

The Company operates within the legal framework governing all companies (for example the Companies Act 1993, Financial Reporting Act 1993, the Commerce Act 1986, the Fair Trading Act 1986 and the Resource Management Act 1991). In addition the Company has obligations arising under the SOE Act, the Hazardous Substances and New Organisms Act 1996, the Agricultural Compound and Veterinary Medicines Act 1997, and other industry specific legislation, regulations and codes of practice.

## 8. **RISK MANAGEMENT**

The Company defines risk as any event which represents a potential threat or obstacle to the achievement of its objectives. The Company has implemented risk management strategies in all areas of its business and recognises the need to proactively manage risk.

One evolving area of risk is the implementation and compliance with ERMA's recommendations which include tightening of mandatory controls, the appointment of a 1080 Coordinator to monitor every 1080 aerial operation, and further research into alternatives to the use of 1080. Any significant shortcomings in these areas could have a material impact on ACP operations.

To mitigate risks in this area, ACP will continue to ensure clients are aware of the new controls and plans to assist with research into improving existing products and processes and examining potential new toxins and control methods.

## **9. CORPORATE SOCIAL RESPONSIBILITY (CSR)**

In accordance with the State-Owned Enterprises Act 1986, ACP exhibits a sense of social responsibility by having regard to the interests of the community in which it operates and endeavours to accommodate or encourage these when able to do so. It is acknowledged that SOEs have CSR obligations that go beyond other companies, and therefore corporate social responsibility values and behaviours are incorporated into the fabric of ACP. This is evidenced in a number of ways.

ACP's corporate governance policies, (which address areas including ethics, business principles, sensitive expenditure and code of conduct), establish the nature and high level of values and expectations for corporate behaviour, and ensure compliance with the extensive body of legislation associated with our industry.

In addition to these general governance components of corporate social responsibility which underpin day-to-day operations, ACP has identified a number of specific interpretations of social responsibility which are commensurate with the scale and nature of our operations. These are implemented in the following areas:

### **9.1 Staff**

Remuneration, working conditions, equal opportunities, and (especially given the nature of our industry), health and safety are key elements that ensure the company can maintain and attract resources to take the company forward. Personnel policies include:

- Frequent regular health checks to ensure staff health is monitored and maintained
- Ongoing internal and external training for safely handling hazardous chemicals, safely operating machinery, and developing product knowledge
- Timely remuneration reviews based on established and current surveys
- Regular employee performance reviews
- Periodic staff surveys
- Regular staff meetings to update on company progress, acknowledge employee contributions and address wider issues of interest, such as retirement planning and work life balance.

### **9.2 Customers**

Our customer base comprises mainly Regional Councils, Department of Conservation and commercially viable private operators. The operational side of mammalian pest control often faces funding challenges, delays due to weather and logistical upheavals. Customer policies for the greater good include:

- Provision of advice and training for emerging commercial private operators
- Technical assistance and discounted products for volunteers groups (such as Bush Park Trust, Pohutakawa Trust)
- Service beyond the usual terms of trade on a case by case basis. This may take the form of storage of customer stock, detailed technical advice and, on rare occasions, extended credit. Tight credit control is exercised by management.
- Ongoing customer satisfaction surveys are conducted
- Regular newsletters to provide assistance and publish items of interest beyond product knowledge.

### **9.3 Community**

In addition to meeting the broader legislative and local body compliance responsibilities, ACP has developed policies with regards to the interests of the community in which it operates:

- Resources are allocated to ensuring the factory premises remain well presented and maintained, and the site is secure
- Any production waste is handled in an environmentally responsible manner
- Suppliers are regularly assessed as part of our ISO accreditation and onsite contractors are trained on acceptable relevant behaviours
- Support is provided to several local charitable organisations, including Epilepsy Foundation, and Rivercity Lions
- Support is provided to industry conference groups such as National Possum Control Agency and New Zealand Biosecurity Institute.

#### 9.4 National Good

In the interests of national biosecurity, ACP implements a number of policies for the greater good:

- ACP has agreed to hold reserves of 1080 stocks which exceed normal commercial requirements. As a result, ACP could potentially incur a significant loss should severe restrictions be imposed on future 1080 use and the stocks become valueless.
- The company holds thirty one registrations for vertebrate toxic agents. The cost of maintaining several of these registrations exceeds the sales revenue generated by these products. Nevertheless in the interests of maintaining a comprehensive tool box for controlling sporadic pest incursions and meeting the future environmental priorities, particularly in the nations Conservation Estate, the company maintains these unprofitable registrations.

The performance targets for these social responsibility policies are included in the non financial performance targets section below and are monitored and reported upon throughout the year.

## 10. ACCOUNTING POLICIES

The Company's accounting policies will be consistent with Statements of Standard Accounting Practice and will be based on a financial year ending 30 June.

The Company's accounting policies are:

### 10.1 Reporting Entity

Animal Control Products Ltd is a Company incorporated in New Zealand, registered under the Companies Act 1993.

The Financial Statements of the Company have been prepared in accordance with the Financial Reporting Act 1993, the State-Owned Enterprises Act 1986 and comply with the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") as appropriate for profit oriented entities.

### 10.2 Measurement Base

The accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on a historical cost basis are followed by the Company.

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and therefore also comply with International Financial Reporting Standards.

All information is presented in New Zealand dollars.

### 10.3 Specific Accounting Policies

The following specific accounting policies which materially affect the measurement of profit and financial position have been applied.

#### (a) *Property, Plant and Equipment*

The Company has five classes of property, plant and equipment:

- Freehold land;
- Freehold buildings;
- Plant and equipment;
- Office equipment; and
- Motor vehicles.

All property, plant and equipment is initially recorded at cost.

When an item of property, plant and equipment is disposed of, any gain or loss is recognised in the income statement and is calculated as the difference between the sale price and carrying value of the item.

Depreciation is provided for on a straight line basis on all tangible property, plant and equipment other than freehold land at depreciation rates calculated to allocate the assets' cost less estimated residual value, over their estimated useful lives.

The expected useful lives of the major classes of assets are:

- |                      |                |
|----------------------|----------------|
| ▪ Freehold buildings | 10 to 40 years |
| ▪ Factory Equipment  | 5 to 10 years  |
| ▪ Lab Equipment      | 5 years        |
| ▪ Office equipment   | 5 years        |
| ▪ Motor vehicles     | 5 years        |

#### (b) *Impairment*

The carrying amounts of the company's assets other than inventories are reviewed at each balance date to determine whether there is any indication of impairment. If such indication exists, the assets recoverable amounts are estimated.

If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the Income Statement.

#### (c) *Research and Development Costs*

Research expenditure is recognised in the Income Statement in the period in which it is incurred. Development costs are deferred where future benefits are expected to exceed those costs, otherwise such costs are recognised in the income statement in the period in which they are incurred. Deferred development costs are amortised over future periods (not exceeding 10 years) in relation to expected future revenue in each period. Unamortised costs are reviewed at each balance date to determine the amount (if any) that is no longer recoverable, and any amount so identified is written off.

(d) *Taxation*

The income tax expense charged to the Income Statement includes both the current year's provision and the income tax effect of:

- Taxable temporary differences, except those arising from initial recognition of goodwill and other assets that are not depreciated; and
- Deductible temporary differences to the extent that it is probable that they will be utilised.

Temporary differences arising from transactions affecting neither accounting profit nor taxable profit are ignored.

Tax effect accounting is applied on a comprehensive basis to all timing differences using the liability method. A deferred tax asset is only recognised to the extent that it is probable there will be a future taxable profit to utilise the temporary differences.

(e) *Inventories*

Inventories are recognised at the lower of cost, determined on a first-in first-out basis, and net realisable value.

The cost of work in progress and finished goods includes the cost of direct material, direct labour, and a proportion of the manufacturing overhead, based on the normal capacity of the facilities expended in putting the inventories in their present location and condition.

(f) *Financial Instruments*

Financial instruments are recognised in the balance sheet when the group becomes party to a financial contract. They include cash balances, bank overdrafts, receivables, payables, investments in and loans to others, and term borrowings.

(g) *Receivables and Payables*

Receivables and payables are initially recorded at fair value. Due allowance is made for impaired receivables (doubtful debts). Except for any customers with extended credit terms, the resulting carrying amount for receivables is not materially different from estimated realisable value.

(h) *Borrowings*

Borrowings are initially recorded at fair value net of transaction costs incurred, and subsequently at amortised cost using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction, or production of assets that necessarily take a long time to build and/or prepare for use form part of the cost of that asset. Other borrowing costs are recognised as an expense in the period they are incurred.

(i) *Revenue*

Revenue on sale of goods is recognised when they are delivered and ready for use by the customer.

(j) *Cash Flows*

For the purpose of the cash flow statement, cash includes cash on hand, deposits

held at call with banks, and investments in money market instruments, net of bank overdrafts.

(k) *Employee entitlements*

Liabilities for annual leave, sick leave and long service leave are accrued and recognised in the balance sheet.

Annual leave and sick leave are recorded at the undiscounted amount expected to be paid for the entitlement earner. For sick leave this is based on the unused entitlement accumulated at balance date and expected to be used in the future.

## 11. PERFORMANCE TARGETS

### 11.1 Financial Performance Measures

An extended number of performance measures to be adopted are:

a) Shareholder Returns : measures of performance from a shareholder perspective.

|                            |   |  |
|----------------------------|---|--|
| • Total Shareholder Return | Dividend and investment growth                    | Net Growth in Commercial Value plus Dividends paid / Commercial Value (beg.) |
| • Dividend Yield           | Cash return to the Shareholder                    | Dividends Paid / Average Commercial value                                    |
| • Return on Equity         | Profits generated from Shareholder funds invested | Net Profit after tax /average Shareholders' equity                           |

b) Profitability & Efficiency : generation of profits from sales and assets employed.

|                              |   |                                |
|------------------------------|---|--------------------------------|
| • Net Operating Margin       | Profitability per dollar of revenue                               | EBITDA/Revenue                 |
| • Return on Assets           | Efficiency and profitability of assets utilised                   | EBIT/Average Assets            |
| • Return on Capital Employed | Efficiency and profitability of capital sources (debt and equity) | EBIT/Average Shareholder Funds |

c) Financial Leverage/Solvency : debt levels and debt servicing ability.

|                                    |   |                                    |
|------------------------------------|---|------------------------------------|
| • Gearing Ratio                    | Measure of financial leverage                 | Net Debt/Net Debt plus Equity      |
| • Interest Cover                   | How well earnings can cover Interest exposure | EBITDA/Interest Expense            |
| • Solvency (Working Capital) ratio | Ability to pay its debts as they fall due.    | Current Assets/Current Liabilities |

d) Growth & Investment : rate of expansion and level of capital investment.

|                   |  |  |
|-------------------|--|--|
| • Revenue Growth  | Whether the revenue is growing                       | % change in revenue                      |
| • Earnings Growth | Whether the earnings have grown                      | % change in EBITDA                       |
| • Profit Growth   | Whether the profit has grown                         | % change in NPAT                         |
| • Capital Renewal | Measuring the level of capital investment being made | Capital Expenditure/Depreciation expense |

| <b>Performance Measure</b>                   | <b>Act.<br/>2009</b> | <b>Est.<br/>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> |
|--|----------------------|----------------------|-------------|-------------|-------------|
| <b><i>Shareholder Returns</i></b>            |                      |                      |             |             |             |
| Total Shareholder Return                     | 4.94%                | 7.44%                | 5.02%       | 9.40%       | 15.26%      |
| Dividend Yield                               | 8.47%                | 14.88%               | 11.46%      | 11.74%      | 12.30%      |
| Return on Equity                             | 18.81%               | 13.48%               | 13.52%      | 14.15%      | 15.32%      |
| <b><i>Profitability &amp; Efficiency</i></b> |                      |                      |             |             |             |
| Net Operating Margin                         | 24.92%               | 20.41%               | 20.10%      | 19.74%      | 20.11%      |
| Return on Assets                             | 20.87%               | 15.92%               | 16.88%      | 17.44%      | 19.14%      |
| Return on Capital Employed                   | 26.00%               | 19.21%               | 19.89%      | 20.48%      | 21.95%      |
| <b><i>Financial Leverage/Solvency</i></b>    |                      |                      |             |             |             |
| Gearing Ratio                                | (17.38)%             | (1.24)%              | 0.85%       | (6.05)%     | (8.11)%     |
| Interest Cover                               | -                    | 67.2                 | 32.6        | 61.2        | 128.7       |
| Solvency                                     | 3.42                 | 6.39                 | 4.89        | 5.07        | 5.43        |
| <b><i>Growth &amp; Investment</i></b>        |                      |                      |             |             |             |
| Revenue Growth                               | (9.30)%              | 1.75%                | 1.21%       | 3.33%       | 3.22%       |
| Earnings Growth                              | (17.36)%             | (16.67)%             | (0.33)%     | 1.49%       | 5.15%       |
| Profit Growth                                | (17.31)%             | (27.55)%             | (2.35)%     | 5.10%       | 9.30%       |
| Capital Renewal                              | 11.90                | 3.23                 | 0.60        | 1.00        | 0.80        |

These financial performance measures are those selected as being most appropriate for ACP from the set of measures now applied consistently across the SOE portfolio – for more effective reporting to Ministers and for greater transparency and comparability of performance across the SOE portfolio.

## 11.2 Non-Financial Performance Targets

### a) Product Quality

The target for product quality is for 100% of all products shipped to customers to meet the specifications adopted for ISO 9001:2000 accreditation. This target is monitored by monthly sample and will apply to:

- Size
- Weight
- Strength
- Colour
- Toxic loading

### b) Customer Satisfaction

The target for customer satisfaction is to have 90% of customers rating the Company as satisfactory or better. Customer Surveys in areas of product range, delivery times, product quality, distribution and communication will be used to monitor this target at least once every two years.

Two newsletters are produced each year.

c) Human Resource

Staff turnover will be targeted to be no more than one permanent full-time person per annum.

Pay levels will be reviewed and any changes implemented by July 31 each year.

Ongoing training as required will be conducted for operating machinery, handling hazardous chemicals, first aid and product knowledge.

Periodic staff surveys will be conducted at least once every two years.

Full medical checks will be conducted on an annual basis. In addition, quarterly monitoring will be conducted with the goal of meeting or improving on the established Biological Exposure Index.

d) Safety

The target for safety is to have no work related injuries each year.

e) 1080 stock reserve

The target for 1080 buffer stock is approximately four year's national usage. This is monitored and reported monthly.

f) Community

Sponsorship support will be provided annually to pest control industry conference groups and local charitable organisations on a case by case basis.

A sample of suppliers will be assessed annually as part of the ISO accreditation compliance.

g) Legislative Compliance

The Company will meet all legislative Compliance Requirements in a timely manner. A checklist has been prepared to facilitate this process.

## 12. CAPITAL STRUCTURE

Following a review of capital structure, business risks and the capital expenditure program, and in recognition of the Ministers preference to increase gearing, the Board recently confirmed new funding arrangements. The funding facilities arranged include a table loan of \$400,000 which is to be repaid by monthly instalments of principal and interest over 3 years. In addition the existing overdraft of \$50,000 has been increased to \$100,000. These facilities have been used to fund the construction of a new storage shed and ensured the dividend policy of distributing 100% of NPAT was met for the year ended 30 June 2009.

Relatively minor capital expenditure is projected over the next three years of \$100,000, \$150,000 and \$100,000 respectively. This will cover further improvements sought in the areas of safety, productivity and quality.

The estimated capital structure for the next three years is as follows:

|              | Total Liabilities \$000 | Shareholder Equity \$000 | Total Assets \$000 |
|--------------|-------------------------|--------------------------|--------------------|
| 30 June 2011 | 979                     | 5,226                    | 6,205              |
| 30 June 2012 | 850                     | 5,261                    | 6,111              |
| 30 June 2013 | 700                     | 5,330                    | 6,030              |

The terms used in this table are:

"Shareholders Equity" which includes share capital, capital reserves and retained earnings.

"Total assets," which comprise tangible assets including current assets and fixed assets.

"Total liabilities," which include current and term liabilities.

All such terms are more specifically defined in the Statement of Concepts issued by the Institute of Chartered Accountants of New Zealand.

### 13. DIVIDEND POLICY

The Board intends to distribute to Shareholders all funds that are surplus to the Company's financing, investing and operating requirements. The dividend policy is based on distributing 100% of NPAT but always subject to the existing commercial provisos covered herein:

- In recommending dividends payable to shareholders, the Company will follow the procedures laid down in the Companies Act 1993 and in accordance with sections 13 and 15 of the SOE Act.
- In determining the precise level of interim or final dividends to be proposed to Shareholders at the appropriate time of the year, the Board will take into account the following:
  - a) The liquidity position of the Company and the appropriate level of cash to be retained in the business to meet Working Capital and loan repayment requirements. In order to determine this, the Company will evaluate the Liquidity Ratio appropriate to its business.
  - b) The Company's planned medium term Capital Expenditure programme.
  - c) The appropriate capital structure of the business and the maintaining of a ratio of average consolidated Shareholder Funds to Total Assets of not less than 60:100.
  - d) The Company's research and development and infrastructure development activities.
  - e) Threats to Company's future earning base.

The proposed dividends, subject to Board review, are anticipated as :

|           | NZ\$  |
|-----------|-------|
| 2010/2011 | 706.0 |
| 2011/2012 | 742.0 |
| 2012/2013 | 811.0 |

We expect to pay two dividends per year, an interim and a final dividend. Normally final dividends are paid within six months of the end of the financial year.

### 14. INFORMATION TO BE REPORTED

To enable the Shareholding Ministers to assess the value of their investment in the Company, any information that would normally be supplied to a controlling private shareholder will be made available.

In compliance with the SOE Act and/or requirements of shareholding Ministers, the following information will be provided.

### **Financial Statements**

In accordance with Section 15 of the SOE Act, a fully audited Annual Report will be submitted to the shareholding Ministers by 30 September (3 months after the completion of the financial year - 30 June) in each year.

In accordance with Section 16 of the SOE Act, an unaudited Half Yearly Report will be submitted by 28 February each year (within two months after the end of the first half of each financial year). The half yearly report will include an unaudited Statement of Financial Performance, a Statement of Financial Position, a Statement of Cash Flows, and such details as are necessary to permit an informed assessment of the Company's performance during that reported period.

Quarterly Reports will generally be submitted by the end of the week after the Board Meeting, or, at the latest, by the end of the month in which the Board Meeting was held, following the completion of each quarter. They will contain a Statement of Financial Performance, a Statement of Financial Position, and Cashflow information showing variances against budget with comment for items of material importance.

### **Business Plan and Statement of Corporate Intent**

A Business and Strategic Plan and draft Statement of Corporate Intent will be submitted to the shareholding Ministers not later than 2 months before the commencement of the financial year to which the Business Plan and Statement of Corporate Intent relate.

The Business and Strategic Plan will examine the Company's environment, resources, selected strategies and implementation considerations. It will contain the detailed plans and financial implications for the coming financial year, plus indicative plans and financial implications for the following two years. The Business and Strategic Plan is a confidential document which is not available to the Public.

In accordance with Section 14 of the SOE Act, a finalised Statement of Corporate Intent, covering objectives, nature and scope of activities, financial performance targets, accounting policies, dividend policy and reporting requirements plus general administrative details, will be lodged with the Shareholding Ministers by 30 June each year. It is required to be tabled in the New Zealand House of Representatives within 12 days of receipt by the Shareholding Ministers.

The Company will provide any other information requested by the shareholding Ministers pursuant to Section 18 of the SOE Act.

## **15. PROCEDURES FOR SHARE ACQUISITIONS**

Subscriptions for shares in any Company or interests in any other Organisation will be subject to the approval of the Shareholding Ministers. The procedures for the establishment of subsidiary Companies and the sale of substantial assets in the Company or any of its subsidiaries are set out below.

*The terms "share" and "subsidiary" have the same meanings as in Section 2 of the State Owned Enterprises Act 1986.*

The Company will ensure at all times that:

- a) Control of the affairs of every subsidiary of the Company is exercised by a majority of the Directors of that subsidiary.
- b) A majority of the Directors of every subsidiary of the Company are persons who are also Directors or employees of the Company or have been approved by the

Shareholding Ministers for appointment as Directors of the subsidiary.

Without the prior consent of the Shareholding Ministers, neither the Company nor any subsidiary of the Company will sell or otherwise dispose of, whether by a single transaction or a series of transactions and whether by a sale of assets or shares, the whole or any substantial part of the business or undertaking of the Company and its subsidiaries (taken as a whole).

Where the Company or its subsidiaries hold 20% or more of the shares in any Company or any other Body Corporate (not being a subsidiary of the Company), it will not sell or otherwise dispose of any shares in that Company without first giving written notice to the Shareholding Ministers of the disposition.

**16. CONSULTATION ON SALE AND PURCHASE OF ASSETS**

Without prior consultation with shareholding Ministers the Company will not purchase, sell or otherwise dispose of, whether by a single transaction or a series of transactions, assets or shares of a book value in excess of 10% of the Company's equity in any of the following transactions:

- a) Purchase or sale of capital assets
- b) subscriptions for shares in any company, or interests in any other organisation.
- c) the involvement, sale or disposition of its interest in a joint venture, or of any arrangement in which it has a minority interest.

**17. ACTIVITIES INVOLVING NON-COMMERCIAL PUBLIC GOOD**

Where the Government wishes the Company to undertake activities or assume obligations which will result in a reduction of the Company's profit or net worth, the Board is entitled to seek compensation sufficient to allow the Company's position to be restored pursuant to Section 7 of the SOE Act.

It should be noted that, on an agreed basis, the company holds reserves of 1080 stocks "in the national interests" and exceeding normal commercial requirements. At this time a potential loss could occur should severe restrictions be imposed on future 1080 use and the stocks become valueless.

No requests for compensation are currently under consideration.

**18. VALUATION OF THE CROWN'S INVESTMENT IN THE COMPANY**

The Crown's investment in the Company as at 30 June 2010 is estimated to be:

|                   | NZ\$        |
|-------------------|-------------|
| Company Valuation | \$6,478,000 |

The company valuation is based on the Future Maintainable Earnings method which the Board deems the most appropriate when valuing a total shareholding ownership and where past earnings are stable and predictable of future earnings and forecasts are therefore reliable. The discounted cashflow method is more appropriate where future performance is likely to be significantly different from past performance or where cashflows are expected to fluctuate substantially over time. These conditions do not apply for ACP.

This Company valuation figure is derived from a review of profitability levels and performance, net tangible assets held and an expectation of payback periods. Consideration has been given to the nature of the industry, the risk aspects associated with reliance on 1080, the projected success of the bovine Tb eradication program, and future growth prospects for the Company. Specifically, after first providing for a 15% rate of return expected on the net tangible assets, an assessed EBIT level of profitability has a 2.5 year multiplier applied to determine the value of the Crown's investment.

This estimation exceeds the forecasted Shareholders Funds at 30 June 2010 of \$5,220,000 which is arrived at by subtracting the Company's book values for total Liabilities from total Assets.

The 30 June 2010 valuation compares to \$6.96m for 30 June 2009. The change is due to a reduction in recent revenue as a result of funding restrictions for some of our customers.

#### 19. **BORROWING**

It is acknowledged that the Government does not guarantee any of the borrowing that may be required by the Company and that all loan documents in respect of borrowing by the Company will carry a disclaimer of any Government liability to support financially the Company's borrowings.