

The Treasury

Shareholder Expectations Letters Information Release

Release Document

April 2019

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- [1] 9(2)(b)(i) - to protect trade secrets
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- [3] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [4] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
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Hon Damien O'Connor



MP for West Coast-Tasman

Minister of Agriculture

Minister for Biosecurity

Minister for Food Safety

Minister for Rural Communities

Minister of State for Trade and Export Growth

10 DEC 2018

Mr Terry Murdoch
Chair
Animal Control Products Ltd
Private Bag 3018
WHANGANUI 4540

Dear Mr Murdoch

2019/20 SHAREHOLDER EXPECTATIONS OF ANIMAL CONTROL PRODUCTS LTD

I am writing on behalf of shareholding Ministers to outline the matters that we expect the Board of Animal Control Products Ltd (trading as Orillion) to address in the business planning process for the 2019/20 financial year.

The Government remains committed to resolving key long term challenges facing the country including sustainable economic development, increasing exports, decent jobs paying higher wages, a healthy environment and a fair society and good government.

Ministers expect that the Boards of entities that comprise the Crown's Commercial Portfolio will support the Government to resolve these challenges by continuing to maximise the value of the portfolio through improved financial performance and effective capital management.

This letter contains the following information:

- Ministers' specific expectations for Orillion, and
- General expectations for the Crown's Commercial Portfolio

Although some of the general expectations are highlighted below, the full expectations for the Crown's Commercial Portfolio companies are contained in the Owner's Expectations Manual (OEM). The OEM, and updates, can be found on the Treasury's website <https://treasury.govt.nz/publications/guide/owners-expectations-manual>

Ministers expect that directors and the management of the companies will be familiar with the OEM to ensure shareholder expectations are being met. Attached to this letter is the timeline for the 2019/20 business planning process.

Entity specific expectations

Safety and Security

Ministers acknowledge the high priority the Board has placed on the safety and security of all staff. We expect that safety and security of Orillion's employees and business operations will continue to be a priority for the Board.

Ministers are aware of a vocal minority of people who protest against Orillion and its use of 1080 based products. Ministers are sympathetic to the stresses this places on the Board, management and staff of Orillion and we continue to fully support Orillion as it works towards enabling the Government to achieve its stated goal of being Predator Free by 2050. We encourage Orillion to continue working with its various stakeholders to help Ministers achieve this important goal.

Product Diversity

Ministers encourage Orillion to continue supplying and growing a diverse range of products, including those that do not contain the chemical 1080.

Discipline approach to International operations

Ministers appreciate that due to Orillion's position in the domestic market, growth opportunities are more likely to lie in offshore markets. Nevertheless, investments in international markets entail a higher level of inherent risk. Ministers expect Orillion to continue taking a disciplined approach to international investments and keep the Treasury, as our advisor, fully informed.

General expectations

Expectations for *Significant Capital Investment* and *Board Evaluations*, which were previously included in this letter, have now been included in the OEM update, July 2018.

Dividends

Ministers expect positive business performance to result in dividend payments, and that an appropriate balance is maintained between dividends and reinvestment. Our preference is for dividends over new investment.

A statement of the principles adopted by the Board in determining the annual dividend is required to be disclosed in the Statement of Corporate Intent (SCI).

Shareholding Ministers will be placing a higher level of focus on the principles adopted by the Board to determine the annual dividend; in particular, the relationship between operating cash flow, sustaining capital expenditure, discretionary capital expenditure and dividends paid to shareholders.

Capital structure

Ministers expect that the Board will periodically review the capital structure of the entity to ensure that it is:

- (i) appropriate for the entity; and
- (ii) any borrowing is maintained at a prudent level.

Should you undertake any borrowing, ensure that all lenders are specifically made aware that the borrowing does not represent Crown debt, and accordingly is not guaranteed by the Crown.

Entities are expected to return any surplus capital to the Crown so that it may be used to fund other Crown priorities.

Commercial valuations

Ministers place significant reliance on the Board's estimate of the SOE's commercial value. We expect these valuations to be robust, and either prepared or reviewed independently, where appropriate. The review should include the reviewer's view of key assumptions included in the model. Guidance on the commercial preparation and disclosure is provided in Annex 2 of the OEM.

Diversity

Consistent with government support for increased diversity and gender balance on Boards, entities are encouraged to support diversity and inclusion in the workplace and in leadership.

Engagement

Your Treasury relationship managers will be in contact shortly after you receive this letter to discuss Ministers' expectations in more detail. If you have any questions please contact [31] [31] (on [6]).

Yours sincerely



Hon Damien O'Connor
Minister for Biosecurity
on behalf of shareholding Ministers

cc: Mr William McCook, CEO, Animal Control Products Ltd

Annex 1

Timetable for the Business Planning Process for 2019/20

Table 1: Summary timetable for the Business Planning Process

<i>Due by</i>	<i>Key Action</i>
January / February	The Treasury to discuss the Letter of Expectations with the Chair
Thursday, 28 February	Board sends Strategic Issues letter to Ministers
Thursday, 28 February	Board provides Post Investment Reviews to the Treasury
Tuesday, 30 April	Board submits draft SCI and business plan
Friday, 28 June	Board delivers final SCI to shareholding Ministers
Within 12 days of receipt of the final SCI	Minister to present SCI to the House of Representatives

All entities are expected to provide shareholding Ministers with a **Strategic Issues letter**, by **Thursday, 28 February 2019** in response to the Letter of Expectations. Should your company wish to engage with shareholding Ministers to seek clarification around their expectations, we would ask that you advise the Treasury as early as possible of such intentions.

All SOEs are expected to provide shareholding Ministers with a draft SCI and Business Plan, consistent with the expectations as detailed in this letter, by no later than **Tuesday, 30 April 2019**.

The final SCI should be delivered to shareholding Ministers on or before **Friday, 28 June 2019**.

Shareholding Ministers should be alerted as soon as possible if any of these deadlines cannot be met.