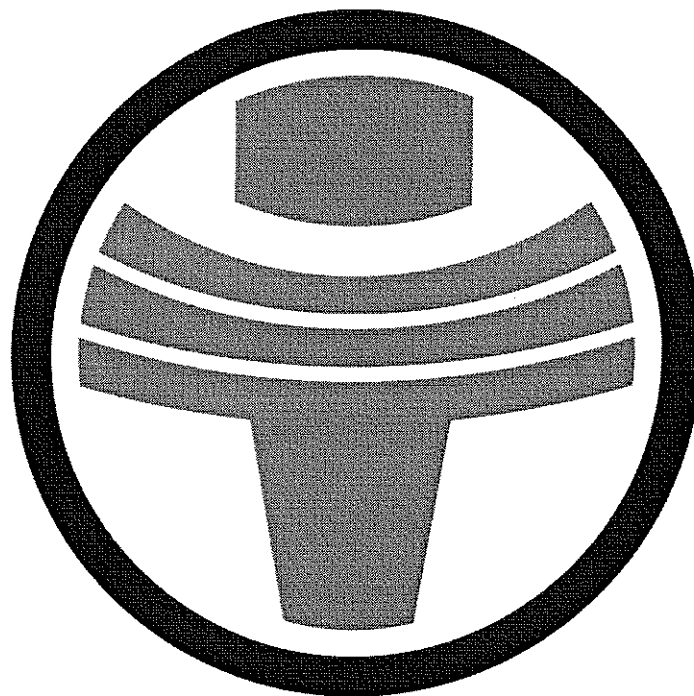


**Statement of Corporate Intent**

**Tauwhareparae Farms Limited**

**For the Three Years Commencing 1 July 2009**



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## INTRODUCTION

Tauwhareparae Farms Limited (Tauwhareparae) is required, pursuant to section 8 of the Port Companies Act 1988 (the Act), to prepare and deliver to its shareholders a Statement of Corporate Intent (SCI) no later than the 31<sup>st</sup> of July in each year.

Under the Act, all decisions relating to the operation of Tauwhareparae must be made pursuant to the authority of the Board in accordance with the Company's SCI.

The SCI is also a public expression, required by the Act, of the accountability relationship between the shareholders and Tauwhareparae. It is the document against which the Board reports to the shareholders during the year and against which the shareholders, and the Auditor-General, hold the Board accountable for its performance. The SCI identifies the nature of Tauwhareparae's business, issues of importance to the Company and the nature and scope of the activities to be undertaken. It sets the performance expectations agreed between Tauwhareparae and its shareholders and records specific objectives and performance targets to be met during the relevant period.

The SCI is an important part of the framework for managing the ownership of Tauwhareparae by the shareholder in contrast to the responsibility the Board has to manage the operations of the Company. The SCI provides an opportunity for the shareholders to satisfy themselves that Tauwhareparae has plans that are consistent with their expectations as owners.

The Board of Directors of Tauwhareparae has approved this SCI after appropriate consultation with the shareholder, prior to finalisation.

## NATURE AND SCOPE OF ACTIVITIES TO BE UNDERTAKEN

### Background

Port Gisborne Limited was incorporated pursuant to the Port Companies Act 1988 on the 14<sup>th</sup> of October 1988, and changed its name to Tauwhareparae Farms Limited on the 3<sup>rd</sup> of March 2003. The Gisborne District Council (the Council) is effectively the sole shareholder through its 100% shareholding in Gisborne Holdings Limited, which in turn has a 100% shareholding in Tauwhareparae's sole shareholder, Tauwhareparae Holdings Limited.

### Principal Activities

Tauwhareparae's principal activities are:

To manage the farm and forestry estate at Tauwhareparae in Tolaga Bay in accordance with best practice; and

To identify any opportunities to profitably extend the Company's activities into areas which are complimentary to and compatible with the Company's core business.

### Governance

Section 6(3) of the Act provides "All decisions relating to the operation of the port company shall be made by or pursuant to the authority of the directorate of the company in accordance with the statement of corporate intent (if any)"

Section 6 confers broad management powers on the directors. Whilst the shareholders can remove the directors, the directors are responsible for the management of the company. The directors must, however, adhere to the objectives and policies set out in the SCI.

The contents of the SCI and the procedure for its completion and modification are governed by sections 9 - 11 of the Act, which allow for considerable input by shareholders. Particular requirements of the Act relevant to the SCI are as follows:

The SCI should provide a broad overview of intended business activities and performance indicators: it is not a day-to-day operations manual;

Shareholders can only make such additions to the content of the SCI as are agreed by the shareholders and the directorate;

The directorate is under a duty to consider, but cannot be bound, by any comments a shareholder makes on a draft SCI;

The directorate is empowered to modify the SCI after appropriate consultation; and

The shareholders can require modification of the SCI (section 11 of the Act) but before giving notice calling for any modification of the SCI, must have regard to sections 5 and 16 of the Act (section 11(3)). Section 5 requires that the principal objective of every port company is to operate as a successful business and section 16 sets out the timing and content of reports and accounts.

## OBJECTIVES OF TAUWHAREPARAE FARMS LIMITED

Tauwhareparae's principal objective is set out in section 5 of the Act as follows:

*"The principal objective of every port company shall be to operate as a successful business"*

- *earn a commercially appropriate return on shareholder's funds, having regard to the risk of the business.*
- *achieve the objectives of its shareholders, both commercial and non-commercial, as specified in the statement of intent; and*
- *be a good employer; and*
- *exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so; and*
- *if the council-controlled organisation is a council-controlled trading organisation, conduct its affairs in accordance with sound business practice"*

More specifically Tauwhareparae will strive to:

- *Improve farm management and performance to optimise existing capabilities at one or more of the on farm stages of the value chain – Genetics, Breeding, Growing and Finishing*
- *TFL will investigate participation in the full value chain. The form of participation appropriate for TFL (ownership, partnership, joint venture, contract) will be determined after further investigation of options and discussions with other parties.*

## GUIDING PRINCIPLES

Tauwhareparae is committed to acting in an ethical and responsible manner and will adhere to the following guiding principles when undertaking its business activities:

*Tauwhareparae will:*

- Provide sustained profitability and provide greater certainty to the business so that sustained returns to the shareholder can be achieved.
- Develop a national and global perspective relating to business opportunities.
- Have regard to environmental protection and efficient and sustainable use of resources.
- Create a work environment that attracts and retains innovative and professional skills and people.
- Consult as is reasonable and appropriate with stakeholders.

## RATIO OF CONSOLIDATED SHAREHOLDER'S FUNDS TO TOTAL ASSETS

Tauwhareparae's long-term goal is to optimise its capital structure, balancing the contributions of the shareholders with the efficient use of debt. Generally the Company aims for a target ratio of consolidated shareholder's funds to total assets of 80%. The ratios expected for the period covered by this SCI are:

Year ended 30 June 2010	91.0%
Year ended 30 June 2011	90.9%
Year ended 30 June 2012	90.7%

*Consolidated shareholder's funds* are defined as the sum of net paid up share capital, retained earnings, accumulated losses, revenue and capital reserves.

*Total assets* are defined as the sum of the net book values of net working capital (current assets less current liabilities), investments, fixed assets and intangible assets as disclosed in the financial statements of the Company prepared in accordance with generally accepted accounting practice.

## ACCOUNTING POLICIES

Tauwhareparae has adopted the New Zealand equivalents to IFRS (NZ IFRS), and other applicable financial reporting standards for the measurement and reporting of profit, cash flow, movements in equity and financial position.

## PERFORMANCE TARGETS

The performance of Tauwhareparae in relation to its objectives should be judged by reference to the following targets for the period covered by this SCI -

### **Farming Operations**

The Company intends to measure its operational performance in undertaking its farming operations by comparing itself to the district averages by reference to the following farm-related parameters with the aim of achieving results comparable to that achieved by the top 20% of the district's farms during the period under review.

<i>Category</i>	<i>Measurement base</i>
<b>Stocking Rate</b>	Su/ha
<b>Fertiliser</b>	
Phosphate	Kg/stock unit
Sulphur	Kg/stock unit
<b>Sheep</b>	
Ewe Lambing	%
Deaths	%
Average Sheep Price	\$/head
Sheep Income	\$/ssu
<b>Wool</b>	
Wool income	\$/ssu
<b>Cattle</b>	
Calving	%
Deaths	%
Average Cattle price	\$/head
Cattle Income	\$/csu
<b>Total Farm Expenditure</b>	
Total Farm Expenditure	Per stock unit
Total Farm Expenditure	Per effective hectare
<b>Economic Farm Surplus</b>	
Economic Farm Surplus (EBIT)	Per stock unit
Economic Farm Surplus (EBIT)	Per effective hectare
<b>Production</b>	Carcass weight & Fibre Per ha

Economic Farm Surplus (EBIT, Earnings before interest and tax) is the return inclusive of all operating and administration expenditure, governance and corporate overheads, and depreciation. It does not include significant capital items, interest and taxation.

Consolidated accounting return on shareholder's funds (defined as being earnings before interest and tax divided by average shareholder's funds employed) of 1.9% (2010), 1.6% (2011) and 1.6% (2012);

Consolidated ratio of net debt to net debt plus equity of no more than 11.2% (2010), 11.4% (2011) and 11.5% (2012)

The company also intends to provide the following financial ratios:

Current Ratio	Current Assets (including livestock)/Current Liabilities
Return on Equity	Net Income after Tax plus Property Revaluations/Shareholders Funds
Return on Assets	Net Income after Tax plus Property Revaluations/Total Assets
Gearing	Debt/Shareholders Equity

## DIVIDEND POLICY

It is intended that funds surplus to Tauwhareparae's investment and operating requirements will be distributed annually to the shareholder.

The Directors will determine the level of surplus funds each year by reference to:

- Tauwhareparae's medium term capital expenditure programme;
- A sustainable financial structure for the Company having regard to predictions of short and medium term economic conditions;
- The Company's working capital requirements; and
- Agreement with the Gisborne District Council.

Tauwhareparae's financial projections covering the period of this SCI allow for dividend payments of \$1.0 million to be declared for payment annually. The shareholder has advised that the dividend policy relating to a percentage of an agreed surplus could be considered.

## INFORMATION TO BE PROVIDED TO SHAREHOLDERS

Tauwhareparae will meet the requirements of the Port Companies Act 1988, the Companies Act 1993, the Financial Reporting Act 1993 and the reasonable requirements of the shareholder. Tauwhareparae will provide to its shareholder the following information:

### *Annual Report*

Tauwhareparae will, no later than the 1<sup>st</sup> day of October of each financial year, provide its shareholder with an annual report for the most recently completed financial year including the following:

- Directors' Report – a review of Tauwhareparae's performance over the full year including a comparison of performance against objectives and key performance measures;
- An overview of the general business situation of Tauwhareparae;
- Statement of Financial Position;
- Statement of Financial Performance;
- Statement of Cash Flows;
- Statement of Movements in Equity;
- Notes to the Financial Statements; and
- Auditor's Report on the above Financial Statements.

### *Half Yearly Report*

Tauwhareparae will provide no later than the 1<sup>st</sup> day of March of each year an interim report including:

- Directors' Report – a review of the Company's performance over the half year;
- An overview of the general business situation of the Company;
- Statement of Financial Position;
- Statement of Financial Performance;
- Statement of Cash Flows;
- Statement of Movements in Equity; and
- Notes to the Financial Statements

### *Quarterly Briefing*

Tauwhareparae will brief its shareholder no later than the 1<sup>st</sup> day of May and November of each year on the activities carried out by the Company since the last Annual or Half Yearly Report as the case may be.

### *Future Projections*

Tauwhareparae will provide to its shareholder no later than the 1<sup>st</sup> day of October of each financial year:

- A projected Statement of Financial Performance for the next year ending 30 June and the four subsequent years;
- Cash Flow Projection for the next year to 30 June and the four subsequent years,
- Projected Capital Expenditure for the next year to 30 June and the four subsequent years;
- Projected Statement of Financial Position for the next year ending 30 June and the four subsequent years; and
- Projected Key Performance Indicators for the next year to 30 June and the four subsequent years.

## **OTHER MATTERS AGREED BY THE SHAREHOLDER AND THE BOARD**

### **Major Transactions**

The Company will seek approval, by Gisborne District Council resolution, for any major transaction involving the acquisition or disposal of fixed assets, the value of which exceeds 10% of the total value of the Company's assets as determined by reference to the most recent financial statements prepared in terms of this SCI.

### **Approval of Statement of Corporate Intent**

The Board shall deliver to the Gisborne District Council a draft SCI by the 1st day of July in each year which shall comply in all respects with section 9 of the Port Companies Act 1988.

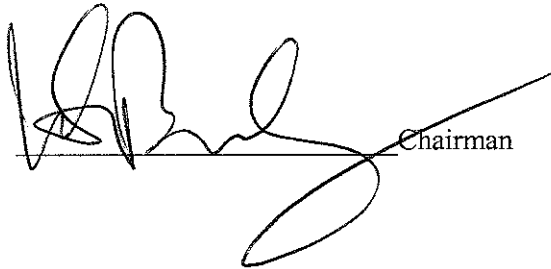
## **PROCEDURES FOR SHARE SUBSCRIPTIONS OR PURCHASES**

No shares in any other company or organisation will be purchased or disposed of without the Gisborne District Council's prior written consent.

**COMMERCIAL VALUE OF THE SHAREHOLDER'S INVESTMENT**

The Directorate estimates the commercial value of the shareholder's investment in the Company to be no less than shareholder's funds as determined annually by reference to the Company's audited financial statements.

Signed for and on behalf of the Board  
on the 30th day of September 2009 by:

  
Chairman