



**City Forests Limited
Statement of Intent
For the Year Ending 30 June 2024**

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1 INTRODUCTION

City Forests Ltd ("the Company") owns and manages approximately 24,100 hectares of land and commercial forestry estate in the coastal Otago region. It is a Council Controlled Trading Organisation (CCTO) owned wholly by Dunedin City Holdings Ltd, which is wholly owned by Dunedin City Council.

This Statement of Intent (SoI) sets out City Forests' planned activities and financial forecasts for the next three years. It includes performance measures and targets which will be reported on in the City Forests Limited 2024 Annual Report.

2 OBJECTIVES

City Forests' **Purpose** is to "*operate sustainable forests for our future*".

Company **Values**:

- *Protect, respect and invest in **our people**.*
- **Our actions** *Bring mana to our forests, environment and communities to create long term, sustainable wealth.*
- **We act** *with integrity, openness and honesty.*
- **We innovate** *and apply knowledge that strengthen our forests and communities.*

As a DCC Group Company City Forest aims to contribute to the DCC's strategic framework and achievement of city objectives.

City Forests' primary objective is to maintain and enhance the values of the forest estate investment including; economic, social and environmental values, whilst maximising consistent long-term annual dividend returns with an expectation of providing a commercial level of return on investment to its shareholder, appropriate to the sector it operates in.

This is achieved through a strategy of:

- sustainable forest management
- sustainable harvest levels
- fit for purpose asset maintenance
- maintaining a safe and capable workforce of both staff and contract employees
- caring for and enhancing environmental values, particularly carbon sequestration, water quality and rare, threatened and endangered species.

Acknowledging that the Company's success is a result of past investment in land, trees, people and the environment the Company has a strategy of continuing to build shareholder wealth through incremental land and forest acquisition to increase future prosperity and to expand the social and environmental values under management.

As defined in Section 59 of the Local Government Act (LGA), the principal objectives of City Forests Limited as a council-controlled trading organisation are to:

- a) achieve the objective of its shareholders, both commercial and non-commercial, as specified in the statement of intent; and
- b) be a good employer; and
- c) 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
- d) conduct its affairs in accordance with sound business practice.

City Forests has adopted a target to be net zero carbon by 2030, as a contribution to the Council's goal of achieving net carbon neutrality city-wide by 2030. Over the 2024 financial year we will be building on our existing work to develop a roadmap to 2030. We will engage

with our shareholders DCHL and Dunedin City Council regarding non-controllable emissions and the potential cost of offsetting residual emissions. We will also work with the Dunedin City Council to identify alternative or complementary opportunities to contribute to the Dunedin City Council's goal city-wide net zero carbon goal.

3 APPROACH TO GOVERNANCE

City Forests Limited is governed by a Board of independent directors, appointed by the company's shareholders. Directors meet regularly to direct and control City Forests' proceedings.

The role of a Director of a CCO is defined in the Local Government Act as "to assist the organisation to meet its objectives and any other requirements in its Statement of Intent."

The City Forests Limited board operates in accordance with accepted best practice governance.

4 NATURE AND SCOPE OF ACTIVITIES

City Forests Limited is committed to providing sustainable commercial returns to its Shareholder through plantation forest ownership, harvesting and added value activities while maintaining the long-term productive capacity of its land holdings and maximising the environmental and community benefits of Company activities.

The Company's forests are principally located in the Coastal Otago Region while the products from its activities are sold on local and international markets. The Company's scope of activities includes expansion of opportunities in forest ownership and activities across the value chain.

The functions of City Forests Limited are:

- To ensure the safety, health and well-being of staff, contractors and visitors to the forest.
- To own and manage a commercial plantation forest resource.
- To optimise the return from the Company's activities for the long-term benefit of the Company's shareholder and stakeholders.
- To manage the forest asset and other resources in such a way as to ensure their long-term economic, social and environmental sustainability.
- To support added value wood processing in Otago and Southland.

The undertaking by City Forests Limited of any activity of a nature or scope outside of this is subject to the prior approval of the shareholder.

5 PERFORMANCE TARGETS AND OTHER MEASURES

| Goals | Objectives | Performance Measures |
|--|--|--|
| The principal goal of City Forests Limited is to operate a long-term sustainable business and to maintain and enhance the values of the forest estate investment including; economic, social and environmental values. The specific corporate goals of City Forests Limited are: | The implementation of the goals will be facilitated by the adoption of the following specific objectives | The objectives will be met on achievement of the following indicators. |
| ECONOMIC OBJECTIVES | | |
| Goals | Objectives | Performance Measures |
| Increase Long Term Shareholder Value of the Company | | |
| To achieve a long-term after-tax return to Shareholders on their investment in the Company of 6% and to maximise the long term sustainable financial return to Shareholders. Attention will be given to cash flow performance. | To implement strategic actions which will increase the long-term profitability and cash flow generation of the Company. | <p>The Company will achieve a 5.5% return (or greater) on Shareholders' funds measured on a post-tax 3 year rolling average basis.</p> <p>A review of the Company's long term strategic plan will be completed each year, which targets a 5.5% return (or greater) on Shareholders' funds on a post-tax 3 year rolling average basis.</p> |
| Market Diversification | | |
| To develop diversified markets for the Company's products. | <p>To develop a market strategy that optimises returns while managing risk through market diversification.</p> <p>To balance exposure to both domestic and export markets taking into account market risk and product margin.</p> <p>To drive sustainable long-term value from the Company's carbon generating activities while balancing risk and environmental benefits.</p> | <p>No single customer will have received more than 30% of the Company's annual harvest by volume.</p> <p>The percentage of annual supply to the domestic market by volume will be tracked.</p> <p>The Company will participate in the New Zealand ETS and may realise returns from the sales of carbon stored in the Company forests in compliance with its Carbon Policy.</p> |

| Goals | Objectives | Performance Measures |
|--|---|--|
| Sustainable Yield | | |
| To optimise the Net Present Value of the estate in perpetuity with the overall goal of managing the financial returns from the forest on a long-term sustainable basis. | <p>To ensure that the appropriate yield monitoring systems are in place and sufficient forest is available to achieve long term sustainable yield from the forest estate.</p> <p>To ensure that the risk to the forest estate from pests, fire and disease is minimised through appropriate management practices and audit.</p> <p>To respond to and manage legislative and compliance risk to the Company's operations and license to operate.</p> | <p>The Company's annual harvest volumes as detailed in the strategic plan will be within 30% of projected long term sustainable yield.</p> <p>The Company will carry out annual forest inventory to measure and verify forest yield. The number of sample plots measured will be reported.</p> <p>A forest surveillance program will be in place as part of the National surveillance program to assess the forest estate for pests and disease.</p> <p>The annual fire plan will be updated and operational by 1 October for each fire season. The Company will actively participate in regional land use and environmental planning processes.</p> |
| Goals | Objectives | Performance Measures |
| Research and Development | | |
| To support and participate in Research and Development to enable the Company to undertake continuous performance improvement to achieve industry best practice forest management, value recovery and supply chain performance. | <p>To actively participate in value-added research into forest management, tree breeding, wood products, supply chain and environmental management.</p> <p>To leverage collaborative industry research initiatives and implement research results through technology transfer.</p> | <p>The Company will participate in industry research consortia (via the Forest Levy) to ensure research objectives are in line with Company Strategy and to gain financial leverage to achieve research objectives.</p> <p>The implementation of research outcomes into operational management plans will be tracked.</p> |
| To support the sustainable development of added value wood processing in Otago and Southland. | <p>To support integrated wood processing capacity within the Otago and Southland regions, subject to optimising the long-term return from the Company to the Shareholder.</p> <p>The Company will support regional bio-energy initiatives subject to optimising the long-term return from the Company to the Shareholder.</p> | <p>The Company will maintain supply arrangements with Otago and Southland wood processors provided customers match (or better) alternative market options. Annual supply volumes to the three largest wood processors customers will be tracked and reported.</p> <p>The annual volume of wood supplied to bio-energy uses will be tracked and reported.</p> |

| ENVIRONMENTAL AND SOCIAL OBJECTIVES | | |
|-------------------------------------|------------|----------------------|
| Goals | Objectives | Performance Measures |

Corporate Responsibility

| | | |
|---|--|--|
| To be a socially and environmentally responsible corporate citizen and maintain comprehensive environmental and health and safety systems for the Company's forests and operations. | To minimise lost time accidents, injuries and property damage. | Lost time accident rates for staff and contractors will be minimised and not more than 15 lost time accidents per 1,000,000 hours worked. |
| | To develop a People and Culture Strategy, and a Diversity, Equity and Engagement Strategy. | The Company will undertake drug and alcohol testing of its staff and contract workforce. The number of random tests and percentage of positive random tests will be reported. |
| | To maintain Environmental Certification of the Company's forests. (Currently FSC) | The Company will develop and have these strategies in place by June 2024. |
| | To preserve and enhance rare threatened and endangered (RT&E) species on the Company's estate. | Forest Stewardship Council Certification of the Forest Estate will be maintained. |
| | | The Company will have in place an environmental management system which will include procedures for sustainability monitoring. Results of water sampling and reserve area environmental assessments will be publicly available on the Company's website. |
| | | The Company will work with partners Doc, University of Otago & contractors to maintain and enhance RT&E species on and around the Company estate. Sponsorship amounts for these activities will be reported annually. |

| Goals | Objectives | Performance Measures |
|-------|------------|----------------------|
|-------|------------|----------------------|

Skilled Workforce

| | | |
|---|--|--|
| To maintain an experienced, trained for task and reliable staff and contract workforce. | To increase the level of training within the Company's staff and contract workforce. | The company will report on the number of National Certificates achieved by its workforce each year. |
| | To actively encourage "Forestry" as a vocation. | The Company will engage with its contractors to participate in Modern Apprenticeship programs. The number of apprentices working in Company operations will be reported each year. |

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| Goals | Objectives | Performance Measures |
|---|---|---|
| Recreation and Education | | |
| To encourage the use where appropriate, of the Company's forests for recreational and educational purposes by both organised groups and individuals. | To promote and manage community recreation and educational use of the Company's forests. | The Company will maintain a Forest Access permit system, track and report on forest recreational use statistics. |
| Shareholder Outcomes | | |
| To recognise and maintain the vision of our forbearers in creating the Company Forest Estate and to apply the principle of Kaitiakitanga (Guardianship and Protection). | To maintain and grow the forest estate for future generations of Dunedin Ratepayers. | A continued and measured expansion of the forest estate will be part of Company Strategy. The area of acquired land will be reported annually |
| Communicate with the shareholder on a "no surprises" basis | Consult with the shareholder in a timely manner on DCHL Group strategic or operational matters which could compromise the Council's community outcomes. | Any such matters were escalated to the shareholder in a timely manner. |
| | Report to the shareholder within 24 hours of the Board becoming aware of any substantive matter, including any matter likely to generate media coverage. | Any such matters were reported to the shareholder within 24 hours. |
| Living Wage employer | The Company will disclose in its Annual Report the proportion of its workforce (staff) receiving the living wage (as calculated by the New Zealand Family Centre Social Policy Unit). | Ensure that all direct employees are paid at living wage or above. |
| Contribute to Council's Strategic Framework and Climate Change and Carbon Neutrality initiatives | <p>Contribute to Council's Carbon Neutrality initiatives.</p> <p>The Company will develop an emissions reduction strategy and associated targets for the 2023/2024 financial year.</p> <p>The Company will develop a waste reduction strategy and associated targets for the 2024 financial year.</p> | <p>Measure and publicly report our Greenhouse Gas (GHG) emissions, and progress towards our emissions and waste reduction strategies and targets, in our Annual Report</p> <p>Implement City Forests' carbon emissions strategy developed in the 2023 financial year, and achieve our FY2024 targets.</p> <p>Implement City Forests' waste reduction strategy developed in the 2023 financial year, and achieve our FY2024 targets.</p> |

6 FINANCIAL FORECASTS

a. The ratio of Shareholders' Funds to Total Assets and the definition of those terms.

| | Year ending 30/06/2024 | Year ending 30/06/2025 | Year ending 30/06/2026 |
|-------------------------------------|---------------------------|---------------------------|---------------------------|
| Shareholders' Funds to Total Assets | 66.5% | 65.5% | 64.8% |

The Company has adopted a target Shareholder Funds to Total Assets ratio (equity ratio) of between 65%-75%, but expects this ratio will fluctuate depending on a variety of circumstances.

"Shareholders' Funds" are represented by the paid-up capital, reserves created by the revaluation of specific assets, and retained earnings.

"Total Assets" means the aggregate amount of all current and non-current assets. Included in Total Assets is the revalued (as 30 June) forest asset.

b. Estimate of the amount or proportion of accumulated profits and capital reserves that is intended to be distributed to the shareholders.

| | Year ending 30/06/2024 | Year ending 30/06/2025 | Year ending 30/06/2026 |
|----------------------|---------------------------|---------------------------|---------------------------|
| Dividend | \$3.0m | \$3.9m | \$6.6m |
| Special Distribution | \$13.5m | \$12.5m | \$4.0m |

c. Other Financial Forecasts

| | Year ending 30/06/2024 | Year ending 30/06/2025 | Year ending 30/06/2026 |
|---------------------------|---------------------------|---------------------------|---------------------------|
| EBITDA | \$8.7m | \$12.8m | \$14.7m |
| Net Profit after Tax | \$4.6m | \$7.2m | \$8.5m |
| Cash Flow from operations | \$8.3m | \$8.1m | \$6.9m |
| Capital Expenditure | \$1.2m | \$6.0m | \$6.4m |
| Term Borrowings | \$47.1m | \$49.1m | \$55.4m |
| Shareholders Funds | \$257.3m | \$259.7m | \$257.5m |

The projections provided have been prepared using the best information available at the time of preparation.

The financial forecasts are driven by log and carbon prices, forest, land and carbon asset values, harvest volumes and carbon available for sale, operating costs, acquisitions and development costs of land parcels, capital expenditure and debt levels.

7 ACCOUNTING POLICIES

a) General Accounting Policies

The accounting policies recognised by the External Reporting Board (XRB) for the measurement and reporting of financial performance and financial position have been applied on a basis consistent with those used in previous years.

b) Particular Accounting Policies

The particular accounting policies which materially affect the measurement and reporting of financial performance and financial position, are consistent across the Dunedin City Holdings Limited group and are fully listed in the Company annual report and website.

8 DIVIDEND POLICY

City Forests Limited will plan for a minimum base annual Ordinary Dividend payment equal to the lesser of; 75% of forecast after tax profit, or 90% of net operating cash flow less capitalised forest costs.

In addition, the Company may make Special Distributions arising from accretion of value from liquid Company assets such as Carbon Credits. It is recognised that the sharing of such gains over time between meeting Company strategic objectives, Shareholder return requirements, and funding future operations/returns, needs to be carefully considered to maintain inter-generational equity. However, the Company has in this SOI noted intended Special Distributions funded from value arising from Carbon Credits as follows:-

| | Year ending 30/06/2024 | Year ending 30/06/2025 | Year ending 30/06/2026 |
|----------------------|---------------------------|---------------------------|---------------------------|
| Special Distribution | \$13.5m | \$12.5m | \$4m |

Ordinary Dividend/Special distribution payments are subject to the Directors' obligations to act in accordance with their statutory duties. The actual level of payments will be determined by Directors each year in light of the circumstances that exist at the time.

In arriving at a Ordinary Distribution/Special Distribution recommendation, Directors will consider:

- risk profile of the Company and its ability to meet other commitments under the SOI;
- the Company's current and expected future financial performance, in particular, the cash flows from operations and the cost of maintaining and sustaining the forest asset;
- asset value gains/losses impacting the Company's financial position, including from any regulatory changes to the ETS;
- the ratio of the Company's shareholders funds to total assets (equity ratio);
- the Company's future investment plans and profitability thereof;
- the Company's ability to raise loans and the terms thereof; and
- the Company's current cost and level of borrowings.

The above assumes a debt facility being in place of \$50m by June 2024 to enable payment of dividends. Additional distributions may be declared on the basis of above plan financial performance or above plan increases in financial position.

Budgeted base dividend payments will be agreed as part of the annual business planning cycle. Any dividend will be paid by 30 June.

9 COMMERCIAL VALUE OF THE SHAREHOLDER'S INVESTMENT

The commercial value of the Shareholder's investment in the City Forests Limited is considered by the Directors to be not less than the Shareholder's funds as disclosed in the Statement of Financial Position published in the last Annual Report.

This will be considered annually when the Statement of Intent is completed.

10 TRANSACTIONS WITH RELATED PARTIES

Dunedin City Council is the sole Shareholder in Dunedin City Holdings Limited, Dunedin City Holdings Limited is the sole Shareholder in Aurora Energy Limited, City Forests Limited, Delta Utility Services Limited, Dunedin City Treasury Limited, Dunedin Venues Management Limited, Dunedin Stadium Property Limited and Dunedin Railways Limited.

Dunedin City Holdings Limited owns 50% of Dunedin International Airport Limited.

Transactions between the Companies, Dunedin City Council and other Dunedin City Council controlled enterprises will be on a wholly commercial basis.

Charges from Dunedin City Council and its other entities and charges to Dunedin City Council and its other entities will be made for goods and services provided as part of the normal trading activities of each Company.

Related Party Transactions

| | |
|--------------------------------|---|
| Dunedin City Council | Council rates for properties owned by the Company |
| | Lease of Council owned land |
| Dunedin City Treasury Limited | Provision of debt funding to the Company generating interest payments |
| | Management of foreign exchange |
| Delta Utility Services Limited | Maintenance and construction of forest roads and infrastructure |
| Dunedin City Holdings Limited | Management services provided to the Company |

Dunedin City Holdings Limited and its subsidiaries will undertake to obtain all debt funding from Dunedin City Treasury Limited, with exceptions as agreed with the Board of Dunedin City Holdings Limited.

11 INFORMATION TO BE PROVIDED TO THE SHAREHOLDERS IN THE FINANCIAL REPORTS

| | Quarterly | Half Yearly | Annual |
|--|-----------|-------------|--------------------------------|
| Key Financial Performance Indicators | X | X | X |
| Statement of Financial Performance | | X | X |
| Statement of Financial Position | | X | X |
| Statement of Cash Flows | | X | X |
| Statement of Movement in Equity | | X | X |
| Notes to the Financial Statements | | X | X |
| Statement of Service Performance against SOI targets | | X | X |
| Directors' Report | | X | X |
| Auditors Report | | | X |
| Statement of Intent (Draft) | | | Prior to 1 March |
| Statement of Intent (Final) | | | Prior to 30 th June |

12 OTHER MATTERS AS AGREED BY THE SHAREHOLDER AND THE BOARD

Working with the shareholder

The Company will undertake to keep the shareholder informed of all substantive matters, as set out in the performance targets above. The Company will work to build a culture of accountability and constructive working practices between the Company and the shareholder. It is expected that any conflicts that may arise between the Company and the shareholder will be resolved directly between the shareholder and the Company, in accordance with appropriate governance practices.

Acquisition/Divestment of Shares or Assets in any Company or Organisation

The Company will only invest in the shares of another company or invest in an entity if the investment is considered to be likely to produce added value to the Company. In order to maximise benefit to the Shareholder, shares or assets may also be sold in response to, or in anticipation of, on-going changes in the marketplace.

If the Directors intend that the Company should acquire assets, they will obtain prior approval of the Shareholder where an investment into the new assets exceeds \$5 million. For the purpose of this section, "asset(s)" includes a group of assets similar in type, cost and useful life that are purchased together and can be identified and maintained as one asset or group of assets following purchase.

If the Directors intend that the Company should subscribe for or otherwise acquire issued capital or an interest in any company or organisation (other than minimum holdings in listed companies in related industries) exceeding a total investment of \$5 million they will obtain prior approval of the Shareholder.

The approval of the Shareholder is required before disposal by the Company of any segment of its business or shares in a subsidiary or associate company where the value of the asset to be disposed of exceeds the investment delegated authority of \$5 million.

Compensation Sought

At the request of the Shareholder, the Company may undertake activities that are not consistent with its normal commercial objectives. Specific financial arrangements will be entered into to meet the full commercial cost of undertaking such activities. At present, the Company does not have any activities in respect of which its Board wishes to seek compensation from any local authority.

Group facility use

City Forests Limited will undertake "Group" purchasing of goods and services, unless it is demonstrated conclusively to the Shareholder that the total combined cost of such Group purchasing to the Group and Dunedin City Council (including the costs of ceasing any such Group purchasing), is greater than any alternative identified.

Other agreements

City Forests Limited will not give sponsorship to, accept sponsorship from or give naming rights to companies involved in activities deemed to be inconsistent with Dunedin City Council's ethical position.