

DRAFT

City Forests Limited

Statement of Intent

For the Year Ending 30 June 2016

1.0	Mission Statement.....	2
2.0	Nature and Scope of Activities.....	2
3.0	Corporate Governance Statement.....	2
4.0	Corporate Goals.....	3
5.0	Specific Objectives For The Year Ending 30 June 2016	4
6.0	Performance Measures for the Year Ending 30 June 2016.....	6
7.0	Financial Projections.....	8
8.0	The Ratio of Shareholder's Equity to Total Assets.....	8
9.0	Purpose for which the Company Established.....	9
10.0	Dividend Policy.....	9
11.0	Reporting to the Shareholder	9
12.0	Accounting Policies	10
13.0	Acquisition of Shares or Assets in any Company or Organisation	10
14.0	Transactions with Related Parties	11
15.0	Group Facility Use.....	11
16.0	Other Matters Agreed as between the Directorate and the Shareholder.....	12
17.0	Estimate Of Commercial Value Of Investment	12
18.0	Use of Otago Manufactured Goods and Services.....	12
19.0	Compensation Sought	

1.0 Mission Statement

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

2.0 Nature and Scope of Activities

City Forests Limited forests are principally located in the Coastal Otago Region while the products produced 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 own and manage a plantation forest resource. To support and or participate in added value wood processing in Otago and Southland.
- To optimise the economic return from the Company's activities for the long-term benefit of the Company's Shareholders.
- To manage the forest asset and other resources in such a way as to ensure their long-term economic, social and environmental sustainability.
- To ensure the safety, health and well-being of staff, contractors and visitors to the forest.

3.0 Corporate Governance Statement

City Forests Limited is a Council Controlled Trading Organisation (CCTO). The Directors' role is defined in Section 58 of the Local Government Act 2002. This section states that all decisions relating to the operation of the CCTO shall be made pursuant to the authority of the directorate of the CCTO and its Statement of Intent. The Board is responsible for the preparation of the Statement of Intent which is provided to the Company's Shareholder, Dunedin City Holdings Limited and the Dunedin City Council. In addition to the obligations of the Local Government Act City Forests Limited is also covered by the Companies Act 1993 and governed by Directors as any company should be by law and best practice.

City Forests Limited has its own Board of Directors that meets on a regular basis to direct and control the Company's activities. Directors are appointed following approval by the Dunedin City Council, using procedures set out by Council as the ultimate Shareholder.

The Board accepts that it is responsible for the overall control systems operating within the Company but recognises that no cost effective internal control systems will permanently preclude all errors or irregularities. The control systems operating within the Company reflect the specific risks associated with the business of the Company concerned.

The Shareholder reviews and approves the Statement of Intent and the three-year financial plan. Annual and 6 monthly reports on financial and operational performance are provided to the Shareholders. Monthly financial and operating performance is reported to Dunedin City Holdings Limited.

4.0 Corporate Goals

The principal goal of City Forests Limited is to operate as a successful long-term business with the prime objective of managing the company's assets on an economic, environmental and socially sustainable basis.

The specific corporate goals of City Forests Limited are:

Economic Goals

- 4.1. To provide a long term after tax return to Shareholders on their investment in the Company of at least 7% and to maximise the long term sustainable financial return to Shareholders. Particular attention will be given to cash flow performance.
- 4.2. To develop diversified markets for the Company's products.
- 4.3. To maintain and enhance the Company's reputation as being one of the preferred forest products producers in both the domestic and the export markets.
- 4.4. 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.
- 4.5. To leverage the region's competitive advantage of producing high quality forest through the application of industry best practice forest management plans that optimise site productivity and return on Shareholder's investment.
- 4.6. To support and participate in Research and Development to enable the Company to achieve industry best practice forest management, value recovery and supply chain performance.
- 4.7. To support and or participate in the sustainable development of added value wood processing in Otago and Southland.

Environmental and Social Goals

- 4.8. 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.
- 4.9. To maintain an experienced, trained for task and reliable workforce.
- 4.10. To encourage the use where appropriate, of the Company's forests for recreational and educational purposes by both organised groups and individuals.
- 4.11. To operate a personnel policy that complies with and adopts the principle of being a good employer.
- 4.12. To contribute to, or assist where possible, with the Dunedin City Council community outcomes (as listed in the Annual Plan)
- 4.13. To bring to the attention of the Shareholder any strategic or operational matters where there may be a conflict between the Dunedin City Council's community outcomes (as listed in the Annual Plan) and those of the Company and to seek the Shareholders view on these. The Company will be mindful that the ultimate Shareholder is the custodian of the community's interest and accepts that this may create a greater need for consultation with the ultimate Shareholder than what might be required in a normal commercial situation.

5.0 Specific Objectives for the Year Ending 30 June 2016

The implementation of the goals in *Section 4.0* will be facilitated by the adoption of the following specific objectives

Economic Objectives

5.1. For Goal 4.1 – Increase Long Term Profitability of the Company

- To implement strategic actions which will increase the long term profitability and cash flow generation of the Company.

5.2. For Goal 4.2 - Market Diversification

- To develop a market strategy that optimises returns while managing risk through market diversification.
- To derive maximum value from Carbon Trading and environmental benefits of Company activities.
- To balance exposure to both domestic and export markets.

5.3 For Goal 4.3 - Company Reputation in the Market

- To ensure that the Company remains one of the preferred suppliers of wood and wood products in the region.

5.4 For Goal 4.4 - Sustainable Yield

- To ensure that the appropriate yield monitoring systems are in place and sufficient forest is available to achieve the long term sustainable yield from the forest estate.
- To ensure that the risk to the forest estate from pests, fire and disease is minimised through appropriate management practice.
- To respond to and manage legislative and compliance risk to the Company's operations and license to operate.

5.5. For Goal 4.5 – Leverage of Competitive Advantage

- To have site specific species establishment and forest tending plans that maximise return considering natural competitive advantage.

5.6. For Goal 4.6 – Research and Development

- To actively participate in value-added research into forest management, tree breeding, wood product, supply chain and environmental management.
- To leverage collaborative industry research initiatives and implement research results through technology transfer.

5.7. For Goal 4.7 – Support and or Develop Regional Wood Processing Capacity

- To support and or develop integrated wood processing capacity within the Otago and Southland regions, subject to optimising the long-term return from the Company to the Shareholder.

Environmental and Social Objectives

5.8. For Goal 4.8 - Corporate Responsibility

- To minimise lost time accidents, injuries and property damage
- To maintain FSC certification of the Company's forests.
- To maintain a sustainability reporting programme to support the Company's FSC certification.

5.9. For Goal 4.9 – Skilled Workforce

- To increase the level of training within the Company's workforce.
- To actively encourage "Forestry" as a vocation.
- To maintain an equal employment opportunity policy.

5.10. For Goal 4.10 – Recreation

- To promote and manage community recreation and educational use of the Company's forests.

6.0 Performance Measures for the Year Ending 30 June 2016

The objectives in *Section 5.0* will be met on achievement of the following indicators.

Economic Performance Measures

6.1 For Objective 5.1 – Increase Long Term Profitability of the Company

- A comprehensive review of the Company's long-term strategic plan will have been completed which meets the objective of a 7% return on Shareholders funds. Measured on a post tax 3 year rolling average basis.
- Opportunities for expanding the Company's scale will continue to be investigated including joint ventures.
-

6.2 For Objective 5.2 - Market Diversification

- A market strategy balancing the Company's exposure to domestic and export revenues taking into account market risk and product margin factors will have been implemented.
- No single customer will have received more than 30% of the Company's annual harvest by volume.
- The Company will maximise financial opportunities from the sales of carbon stored in the Company forests.

6.3 For Objective 5.3 - Company Reputation in the Market

- Contracted monthly log delivery requirements for key customers will be met within plus or minus 10% - 80% of the time.
- Log quality; Log deliveries will be at least 95% within specification measured by log quality audit.

6.4 For Objective 5.4 - Sustainable Yield

- The Company's annual harvest volumes as detailed in the strategic plan will be within 20% of projected long term sustainable yield.
- An annual forest health report will have been completed by 30th June 2016.
- The annual fire plan will be updated and operational.
- The Company will actively participate in regional land use planning processes.

6.5 For Objective 5.5 – Leverage of Competitive Advantage

- The Company will have reviewed the best species and silvicultural management plan to apply to the annual operational areas.

6.6 For Objective 5.6 – Research and Development

- The Company will participate in industry research consortia to gain financial leverage to achieve research objectives.
- At least one new forest management technique will be introduced as a result of research findings.

6.7 For Objective 5.7 – Support and or Develop Regional Wood Processing Capacity

- Strategic marketing plan will support the regional wood processing industry.

Environmental and Social Performance Measures

6.8 For Objective 5.8 - Corporate Responsibility

- Forest Stewardship Council Certification will be maintained for Forest Operations.
- Lost time accident rates for staff and contractors will be minimised and not more than 25 lost time accidents per 1,000,000 hours worked
- A current forest management plan will be in place which identifies social and environment, as well as economic outputs.

6.9 For Objective 5.9 – Sustainability Reporting

- The Company will have in place an environmental management system which will include procedures for sustainability monitoring. Results will be publically available.
- The Company will incorporate carbon accounting in the strategic plan through the Emissions Trading Scheme

6.10 For Objective 5.10 – Skilled Workforce

- Every staff member will have a personal development plan in place.
- Harvesting and silviculture contractors will be required to have training plans in place for their employees.
- Each harvesting crew will have and utilise trained "Tree Feller's, Breaker Outs and Log makers".
- There will be "nil" instances of non-compliance with the Company's EEO policy

6.11 For Objective 5.11 – Recreation and Education

- The Company's forest management plan will have a section allocated to Recreation and Educational use of the forests.

7.0 Financial Projections

The projections provided in Sections 7 and 8 of this document have been prepared using the most recent Company Budget information and incorporate a number of assumptions about the future metrics of key business profitability drivers. In deriving these projections advice and judgement has been applied to predict the future state of the commercial market environment in which the Company operates.

	<u>Year Ending</u> <u>30/6/2016</u>	<u>Year Ending</u> <u>30/6/2017</u>	<u>Year Ending</u> <u>30/6/2018</u>
	<u>\$000's</u>	<u>\$000's</u>	<u>\$000's</u>
Profit before Income Tax	6,689	6,823	7,543
Profit after Income Tax	4,809	4,905	5,424
Shareholder's Equity	100,051	101,256	102,780
Normal Dividend	3,000	3,200	3,400
Special Dividend	500	500	500
Operating Cash flow (1)	5,742	5,848	5,326
Capex (2)	686	642	285
Term Debt (3)	22,849	21,740	20,347

Note 1: Operating Cash flow is Operating Cash flow less Capitalised Forest Growing Costs (Cost of Bush).

Note 2: Capex excludes Capitalised Forest Growing Costs.

Note 3: Includes Dunedin City Treasury Limited & MoF Forestry Encouragement Loans

8.0 The Ratio of Shareholder's Equity to Total Assets

	<u>Year Ending</u> <u>30/6/2016</u>	<u>Year Ending</u> <u>30/6/2017</u>	<u>Year Ending</u> <u>30/6/2018</u>
Shareholder's Equity to Total Assets	63.90%	64.44%	65.34%

Shareholder's Equity to Total Assets Target:-

The Company is working towards a Shareholder's Equity to Total Assets ratio of between 70 – 75%.

Shareholder's Equity:-

is represented by 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 re-valued (at 30 June) forest asset.

9.0 Purpose for which the Company Established

The Company has been established with the primary purpose of providing a commercial return to its Shareholder, the Dunedin City Council, through plantation forest ownership, management, harvesting and processing.

The Company recognises that it has social and environmental responsibilities to take account of in meeting its long-term commercial objectives.

10.0 Dividend Policy

The Directors will apply the following principles when approving dividend amounts for payment:

- Borrowing to pay dividends should be avoided.
- Individual company policy may be based either on a proportion of net operating cash flow or after tax profit
- Asset realisation amounts are to be considered for distribution where re-investment is not required
- The maintenance of agreed gearing ratios as a minimum position. It will be expected that the annual dividend payments will equate to 75% of after tax profit or net operating cash flow less capitalised forest costs. Budgeted dividend levels between DCHL and its subsidiaries will be agreed as part of the annual business planning cycle. Any surplus cash generated will be expected to be passed to DCHL and not retained in the subsidiaries.
- Interim dividends will be paid by 31 December and final dividend by 30 June.

11.0 Reporting to the Shareholder

- 11.1 ANNUAL (Prior to 1 December)
- (i) Draft Statement of Intent

- ANNUAL (Prior to 30 June)
- (i) Statement of Intent

- 11.2 MONTHLY
- (i) Statement of Financial Performance
 - (ii) Statement of Financial Position
 - (iii) Statement of Cash Flows

- 11.3 HALF YEARLY (Within six weeks of the End of the Six Month Period)
- (i) Directors' Report – a review of the Company's and the group's performance over the half year.
 - (ii) Statement of Financial Performance
 - (iii) Statement of Movements in Equity
 - (iv) Statement of Financial Position

- (v) Statement of Cash Flows
- (vi) Notes to the Financial Statements

11.4 ANNUAL (Within Three Months of the End of the Financial Year)

- (i) Directors' Report - a review of the Company's performance over the full year, including a comparison of performance against objectives and key performance measures.
- (ii) Statement of Financial Performance
- (iii) Statement of Movements in Equity
- (iv) Statement of Financial Position
- (v) Statement of Cash Flows
- (vi) Statement of Service performance
- (vi) Notes to the Financial Statements
- (vi) Auditors Report on the above Financial Statements

12.0 Accounting Policies

12.1 General Accounting Policies

The financial statements have been prepared in accordance with NZ IFRS and NZ GAAP. The adoption of these standards materially affected the reporting of the Company's financial performance and financial position from 1 July 2005 when the NZ IFRS standards were adopted.

12.2 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.

13.0 Acquisition of Shares or Assets in any Company or Organisation

The Company will only invest in the shares of another company or organisation if the shares are 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 or its subsidiaries should acquire assets , they will obtain prior approval of the Shareholder where an investment into the new assets exceeds \$5m.

If the Directors intend that the Company or its subsidiaries 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 \$5m they will obtain prior approval of the Shareholder.

14.0 Transactions with Related Parties

14.1 Dunedin City Council

Dunedin City Council is the sole Shareholder in Dunedin City Holdings Limited, Dunedin City Holdings Limited is the sole Shareholder in City Forests Limited. Transactions between City Forests Limited, 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 City Forests Limited.

Related Party Transactions

Dunedin City Council	Council rates for properties owned by City Forests Limited. Lease of Council owned land. Provision of Financial Services.
Dunedin City Treasury Limited	Specific Treasury Functions.
Delta Utility Services Limited	Maintenance of grounds. Maintenance and construction of forest roads and infrastructure
Dunedin City Holdings Limited	Functions appropriate between parent company and subsidiaries.

14.2 Associated Company

City Forests Limited has a 49.99% interest in Otago Chipmill Limited.

City Forests Limited trades with Otago Chipmill Limited on a wholly commercial basis in the provision of management services and the sale of forest produce.

15.0 Group Facility Use

- 15.1 City Forests Limited undertakes to operate "group" purchasing of goods and services unless it is demonstrated conclusively to the Shareholder that the total combined cost to the Group and Dunedin City Council of such Group purchasing is greater than the total combined cost to the Group and Dunedin City Council of ceasing to purchase such goods and services as a Group including the cost to the Group and Dunedin City Council of ceasing any such group purchasing.

16.0 Other Matters Agreed as between the Directorate and the Shareholder

- 16.1. The undertaking by City Forests Limited of any activity of a nature or scope not provided for in the Company's mission or goals would be subject to the prior approval of the Shareholder.
- 16.2. The approval of the Shareholder is also required before City Forests Limited could dispose of any segment of its business or shares in a subsidiary or associated company where the value of the asset to be disposed of exceeds the investment delegated authority set out in Section 13 above.
- 16.3 City Forests Limited has entered into a Deed of Understanding between itself, the Dunedin City Council, Dunedin City Holdings Limited and members of the Group, imposing upon the Company certain restrictions, requirements and obligations as set out in the Deed.

17.0 Estimate of Commercial Value Of Investment

The commercial value of the Shareholder's investment in City Forests Limited is considered by the Directors to be not less than the Shareholder's funds of the company as disclosed in the last published statement of financial position..

18.0 Use of Otago Manufactured Goods and Services

"City Forests Limited will endeavour to use Otago manufactured goods and services subject to price, quality and strategic considerations being met."

19.0 Compensation Sought

City Forests Limited does not have any activities in respect of which its Board wishes to seek compensation from any local authority