

**City Forests Limited
Statement of Intent
For the Year Ending 30 June 2018**

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1 INTRODUCTION

A Council-controlled trading organisation (CCTO) is an organisation in which the council controls 50 per cent or more of the votes or has the right to appoint 50 per cent (or more) of the directors or trustees.

Council-controlled trading organisation (CCTO) means a council-controlled organisation that operates a trading undertaking for the purpose of making a profit

City Forests Limited ('the Company') is a CCTO. The Company is a wholly owned subsidiary of Dunedin City Holdings Limited (DCHL) which is wholly owned by the Dunedin City Council.

A CCTO is required by law to produce a Statement of Intent (SOI). A SOI is an annual planning document.

2 PURPOSE OF STATEMENT OF INTENT

The SOI demonstrates the accountability to shareholders and the public by outlining the activities and intentions for the next three financial years. It provides an opportunity for the shareholders to influence the CCTO's direction by commenting on the draft version of the SOI. The SOI provides the basis for the accountability of the directors to their shareholder for the performance of the organisation.

The CCTO is required by law to report in its annual report on its performance targets set in the SOI.

3 OBJECTIVES

As defined in Section 59 of the Local Government Act (LGA), the principal objectives of a council-controlled 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 as per clause 36 of Schedule 7 LGA);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 insist these when able to do so; and
- d) If the council-controlled organisation is a council-controlled trading organisation, conduct its affairs in accordance with sound business practice."

4 PURPOSE FOR WHICH THE COMPANY ESTABLISHED

The Company has been established with the primary purpose of providing a commercial return to its ultimate Shareholder, the Dunedin City Council.

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

These include managing the forest estate in a sustainable way so that the long term productive capacity of the estate is maintained or enhanced, protecting and enhancing environmental values including water quality, flora and fauna, supporting appropriate recreational activities within the estate and supporting local wood processing industries.

5 NATURE AND SCOPE OF ACTIVITIES TO BE UNDERTAKEN

City Forests Limited (the Company) 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.

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 Shareholder.
- 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.

6 CORPORATE GOVERNANCE

a) Local Government Act 2002, Role of Directors

As defined in Section 58 of the LGA:

'The role of a director of a council-controlled organisation is to assist the organisation to meet its objectives and any other requirements in its statement of intent.

This section does not limit or affect the other duties that a director of a council-controlled organisation has.

b) In addition to the obligations of the LGA, the company is also subject to the requirements of The Companies Act 1993.

c) And all other applicable legislative requirements that apply.'

7 PERFORMANCE TARGETS AND OTHER MEASURES

Goals	Objectives	Performance Measures
<p>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.</p> <p>The specific corporate goals of City Forests Limited are:</p>	<p>The implementation of the goals will be facilitated by the adoption of the following specific objectives</p>	<p>The objectives will be met on achievement of the following indicators.</p>
ECONOMIC OBJECTIVES		
Goals	Objectives	Performance Measures
Increase Long Term Profitability of the Company		
<p>To target 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. Particular attention will be given to cash flow performance.</p>	<p>To implement strategic actions which will increase the long term profitability and cash flow generation of the Company.</p>	<p>The Company will achieve a 6% return (or greater) on Shareholders' funds measured on a post-tax 3 year rolling average basis.</p> <p>A comprehensive review of the Company's long term strategic plan will be completed each year which targets a 6% return (or greater) on Shareholders' funds measured on a post-tax 3 year rolling average basis.</p> <p>Opportunities for expanding the Company's scale will continue to be investigated including joint ventures. The company will report annually on the hectares of land acquired / divested including joint ventures.</p>

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Goals	Objectives	Performance Measures
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 realise maximum value from Carbon Trading and environmental benefits of Company activities.</p> <p>To balance exposure to both domestic and export markets</p>	<p>No single customer will have received more than 30% of the Company's annual harvest by volume.</p> <p>The Company will realise financial opportunities from the sales of carbon stored in the Company forests in compliance with its Carbon Policy.</p> <p>The Company will incorporate carbon accounting in the strategic plan in accordance with the requirements of the Emissions Trading Scheme.</p> <p>The Company will balance its exposure to domestic and export revenues taking into account market risk and product margin. The percentage of annual supply to the domestic market by volume will be tracked.</p>
Company Reputation in the Market		
To maintain and enhance the Company's reputation as being one of the preferred forest products producers in both the domestic and export markets.	To ensure that the Company remains one of the preferred suppliers of wood and wood products in the region	<p>The company will meet its annual supply commitment to domestic customers taking into account any mutually agreed variations.</p> <p>The Company will meet its volume commitments to export shipping and export customer contracts. Log quality; log deliveries will be a least 95% within specification 12 month average) measured by log quality audit.</p>
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.	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.	The Company's annual harvest volumes as detailed in the strategic plan will be within 20% of projected long term sustainable yield.

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	<p>To undertake performance improvement activities to sustainably lift yield.</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 will carry out annual forest inventory to measure and verify forest yield. The number of sample plots measured will be reported.</p> <p>An annual forest surveillance program will be in place to assess the forest estate for pests and disease. Note: Part of National surveillance program.</p> <p>The annual fire plan will be updated and operational in September for each fire season.</p> <p>The Company will actively participate in regional land use and environmental planning processes.</p>
Goals	Objectives	Performance Measures

Leverage of Competitive Advantage

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.	To have site specific species establishment and forest tending plans that maximise return considering natural competitive advantage.	The Company will have reviewed the best species and silviculture management plan to apply to the annual operational areas. The company will report annually on the percentage of pruned area by forest.
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Research and Development

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.	<p>To actively participate in value-added research into forest management, tree breeding, wood product, 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>At least one new forest management technique will be introduced each year as a result of research findings.</p> <p>The Company will participate in environmental research to minimise the use of chemicals in compliance with FSC standards and requirements.</p>
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To support and or participate in the sustainable development of added value wood processing in Otago and Southland.	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.	The Company will maintain supply arrangements with Otago and Southland wood processors provided customers match (or better) alternative supply options.
	The Company will support regional bio-energy initiatives subject to optimising the long-term return from the Company to the Shareholder.	Annual supply volumes to major wood processors (Pan Pac, Cragpine, Niagara & Dongwah) will be tracked and reported. The volume of wood supplied to bio-energy uses will be reported annually.

ENVIRONMENTAL AND SOCIAL OBJECTIVES

Goals	Objectives	Performance Measures
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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 25 lost time accidents per 1,000,000 hours worked.
	To maintain FSC certification of the Company's forests.	The Company will carry out pre-employment, just cause and monthly random drug and alcohol testing of staff and contract workforce. The number of random tests and percentage of positive random tests will be reported.
	To maintain a sustainability reporting programme to support the Company's FSC certification.	Forest Stewardship Council Certification of the Forest Estate will be maintained.
	To preserve and enhance rare threatened and endangered (RT&E) species on the Company's estate.	A current forest management plan will be in place (as required by FSC) which identifies social and environment, as well as economic outputs.
		The company will work with partners (Doc, University of Otago etc) to maintain and enhance RT&E species on and around the Company estate. Sponsorship amounts for these activities will be reported annually.

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Goals	Objectives	Performance Measures
Sustainability Reporting		
		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 publically available on the Company's website.
Skilled Workforce		
<p>To maintain an experienced, trained for task and reliable staff and contract workforce.</p> <p>To operate a personnel policy that complies with and adopts the principle of being a good employer.</p>	<p>To increase the level of training within the Company's staff and contract workforce.</p> <p>To actively encourage "Forestry" as a vocation.</p> <p>To maintain an equal employment opportunity policy.</p>	<p>Every staff member will have a training plan in place.</p> <p>Harvesting and silviculture contractors will be required to have training plans in place for their employees. The company will report on the number of National Certificates achieved by its workforce each year.</p> <p>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.</p> <p>Each harvesting crew will have and utilise trained "Tree Feller's, Breaker Outs and Log makers".</p> <p>There will be "nil" instances of non-compliance with the Company's EEO policy.</p>

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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.	<p>The Company's forest management plan will have a section allocated to Recreation and Educational use of the forests.</p> <p>The Company will maintain a Forest Access permit system, track and report on forest recreational use statistics.</p> <p>The Company will track and report on the distance of public walking and mountain bike tracks in the Companies forests.</p>
Dunedin City Council Community Outcomes		
To contribute to, or assist where possible, with the Dunedin City Council community outcomes (as listed in the Annual Plan).	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.
To recognise and maintain the vision of our forbearers in creating the CFL Estate and to apply the principle of Kaitiakitangi (Guardianship and Protection).	To maintain and grow the forest estate for future generations of Dunedin Ratepayers.	Purchase green fields and / or established forest as economic conditions allow.

8 FINANCIAL FORECASTS

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

	Year ending 30/06/2018	Year ending 30/06/2019	Year ending 30/06/2020
Shareholders' Funds to Total Assets	66.6%	67.9%	68.3%

The Company has adopted a target Shareholder Funds to Total Assets ratio (equity ratio) of between 70-75%, 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 re-values (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 30/06/2018	Year ending 30/06/2019	Year ending 30/06/2020
Dividend/Subvention Distributions	\$5.0m	\$5.0m	\$5.5m

c. Other Financial Forecasts

	Year ending 30/06/2018 \$'000	Year ending 30/06/2019 \$'000	Year ending 30/06/2020 \$'000
EBITDA	\$15.1m	\$13.4m	\$14.1m
Net Profit after Tax	\$10.0m	\$8.7m	\$9.9m
Cash Flow from operations	\$7.3	\$7.3	\$7.5
Capital Expenditure	\$2.7m	\$3.0m	\$1.6m
Term Loans	\$21,507	\$20,842	\$20,842

The projections provided have been prepared using the most recent Company budget information and incorporate a number of assumptions about the future metric's 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.

9 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.

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

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

11 DIVIDEND POLICY

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

- 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. Target a annual dividend payment equal to 75% of forecast 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.

12 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 or its subsidiaries should acquire assets, they will obtain prior approval of the Shareholder where an investment into the new assets exceeds \$5 million.

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 \$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.

13 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.

14 COMMERCIAL VALUE OF SHAREHOLDER'S INVESTMENT

The commercial value of the Shareholder's investment in the Company 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.

15 OTHER MATTERS AS AGREED BY THE SHAREHOLDERS AND THE BOARD

- a) The undertaking by the Company 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.
- b) The approval of the Shareholder is also required before the Company 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 12 above.
- c) The Company 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.

16 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 and Dunedin Stadium Property Limited.

Dunedin City Holdings Limited owns 72.03% of Taieri Gorge Railway Limited and 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

17 GROUP FACILITY USE

The Company will undertake 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.

APPENDIX 1: DUNEDIN CITY COUNCIL VISION: DUNEDIN IS ONE OF THE WORLD'S GREAT SMALL CITIES

The vision of the Dunedin City Council Long Term Plan is to make Dunedin an attractive place to work, live, study and visit.

This is achieved by the following Strategic Framework.



APPENDIX 2: STRATEGIC FRAMEWORK

Strategy	Priority	Explanation
Social Wellbeing Strategy (2013)	Connected people	Making people feel connected and involved in community and city affairs.
	Vibrant and cohesive communities	Building better communities both at a local/geographic level and communities of interest.
	Healthy and safe people	Promoting good health and ensuring people feel safe, and are safe.
	Standard of living	Promoting a good work/ life balance and full employment.
	Affordable and healthy homes	People are living in warm and healthy homes and affordable housing options are available to all.
Economic Development Strategy (2012)	Business vitality	Improving the ease of doing business. Growing the value of exports.
	Alliances for innovation	Improving linkages between industry and research. Increasing scale in innovative and tradable sectors.
	A hub for skills and talent	Increasing the retention of graduates. Building the skills base. Growing migrant numbers.
	Linkages beyond our borders	Increasing international investment. Establishing strategic projects with other cities.
	A compelling destination	Marketing Dunedin and exporting education uplift.
Te Ao Tūroa - Environment Strategy (early draft themes)	Connecting people with the environment	Dunedin's community enjoys and is connected with the natural environment.
	Guardianship of the environment	Dunedin's community actively works together to understand, enhance and celebrate the values of the natural environment.
	Protecting and enhancing the environment	Dunedin protects, restores and enhances its natural heritage, biodiversity, landscapes and ecosystems.
	Responding to environmental changes	Dunedin limits its impact on, and adapts to, environmental changes, including climate change.
	Sustainable resource use	Dunedin reduces reliance on non-renewable resources, minimises waste and uses water responsibly
Ara Toi – Arts & Culture Strategy	Identity Pride	Building unity and community pride by celebrating the city's character, diversity and individuality through arts and culture.
	Access and inclusion	Enabling self-expression and sharing of ideas to connect diverse people.
	Creative economy	Capitalising on the economic growth of the arts and culture sector.
Spatial Plan (2012)	Inspired connections	Utilising existing networks and fostering new connections to facilitate creativity.
	A liveable city	A healthy and safe environment; quality air and water; a connected community; recreation, leisure & learning, opportunities; healthcare, and warm housing.
	An environmentally sustainable and resilient city	Resilient ecosystems and communities; actively responding to climate change; reducing dependence on non-renewable resources; seismic-strengthened heritage buildings.
	A memorable and distinctive city	Protecting significant landscapes; quality architecture and urban design; memorable and engaging public art; celebrating Tangata Whenua and European heritage; actively re-using built heritage.
	A city that enables a prosperous and diverse economy	Maintaining and growing our rural economy, industrial base and world class communications; attracting and retaining internationally-focused people; supporting and benefiting from the tertiary education sector.
	An accessible and connected city	An urban form that supports accessibility from a range of modes and sustainable transport choices; a safe and efficient road network; affordable and convenient public transport; it is safe and pleasant to walk and cycle.
	A vibrant and exciting city	A successful arts and culture scene, vibrant central city and local centres.
Parks & Recreation Strategy (early draft themes)	Well-connected open spaces	Managing green and open spaces to provide for social interaction and physical health and wellbeing.
	Accessible recreational facilities	Making recreational open spaces and facilities accessible to all.
	Collaborate to provide and protect	Working collaboratively to improve recreation and environmental outcomes.
Integrated Transport Strategy (2013)	Safety	Prioritising safety improvements according to risk.
	Travel choices	Prioritising investment and space to improve the provision of active modes and public transport.
	Connectivity of centres	Improving connections within and between centres and the central city for public transport and active modes.
	Freight	Efficiently and effectively moving freight.
	Resilient network	Integrating land use and transport to reduce demand for vehicle travel and increasing the resilience of the transport network.
Three Waters Strategy (2010)	Meeting water needs	Meeting the safe and quality water needs of the city for the next 50 years from existing water sources.
	Adaptable supply	Being able to adapt our water supply to a variety of future climate change and population scenarios.
	Environmental protection	Improving the quality of our discharges to minimise the impact on the environment.
	Maintaining service levels	Ensuring that, as a minimum, key service levels are maintained into the future.
	Kaitiakitaka	Adopting an integrated approach to management of the three waters and embrace the concept of kaitiakitaka.