

**City Forests Limited
Statement of Intent
For the Year Ending 30 June 2020**

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1 INTRODUCTION

City Forests Ltd ("the Company") owns and manages approximately 22,000 hectares of 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.

2 PURPOSE OF STATEMENT OF INTENT

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 form the basis of City Forests' organisational accountability, and will be reported on in City Forests' 2020 Annual Report. This SoI takes shareholder comments into consideration.

3 OVERVIEW OF COMPANY STRATEGY

City Forests primary goal is to maintain and enhance the values of the Forest Estate investment including; economic, social and environmental values.

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 by expanding the forest estate through incremental land and forest acquisition to increase future prosperity and to expand the social and environmental values under management.

4 OBJECTIVES

As defined in Section 59 of the Local Government Act (LGA), the principal objectives of 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 insist these when able to do so; and
- d) conduct its affairs in accordance with sound business practice."

5 NATURE AND SCOPE OF ACTIVITIES TO BE UNDERTAKEN

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 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 added value wood processing in Otago and Southland.
- To optimise the 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

City Forests Limited is governed by a Board of independent Directors, in accordance with the law and best practice. Directors meet regularly to direct and control City Forests' proceedings.

The role of a Director of a CCO is defined in section 58 of the Local Government Act 2002 as "to assist the organisation to meet its objectives and any other requirements in its Statement of Intent."

In addition to the obligations of the Local Government Act, City Forests is also subject to the requirements of the Companies Act 1993, and all other applicable legislative requirements.

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 Shareholder Value 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. 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 review of the Company's long term strategic plan will be completed each year which targets a 6% return (or greater) on Shareholders' funds 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>

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>Export log sales will be conducted through a sales agency with wide market access.</p> <p>To drive sustainable long term value from the Company's carbon generating activities while balancing risk and environmental benefits.</p> <p>To balance exposure to both domestic and export markets</p>	<p>No single domestic customer will have received more than 30% of the Company's annual harvest by volume.</p> <p>The Company's sales agency will diversify export sales by geographic market destination and by customer which will be reported annually.</p> <p>The Company will participate in the New Zealand ETS and realise returns from the sales of carbon stored in the Company forests in compliance with its Carbon Policy.</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> <p>The Company will incorporate carbon accounting in the strategic plan in accordance with the requirements of the Emissions Trading Scheme.</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 and log quality commitments to export shipping and export customer contracts.</p>

Sustainable Yield

<p>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>	<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. 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's annual harvest volumes as detailed in the strategic plan will be within 20% 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 30 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

<p>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.</p>	<p>To have site specific forest management plans that maximise return considering natural competitive advantage.</p>	<p>The Company will have reviewed the best tree species, tree genetic selection and silviculture management plan to apply to the annual operational areas. The Company will report annually on the percentage of species and pruned area by forest.</p>
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Research and Development

<p>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>	<p>To actively participate in value-added research into forest management, tree breeding, wood products, supply chain and environmental management.</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>
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	To leverage collaborative industry research initiatives and implement research results through technology transfer.	The implementation of research outcomes into operational management plans will be tracked.
To support and or participate in 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 supply options.</p> <p>Annual supply volumes to major wood processors (Pan Pac, Craigpine & Niagara) will be tracked and reported.</p> <p>The volume of wood supplied to bio-energy uses will be tracked and reported.</p>

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.	<p>To minimise lost time accidents, injuries and property damage.</p> <p>To maintain FSC certification of the Company's forests.</p> <p>To maintain a sustainability reporting programme to support the Company's FSC certification.</p>	<p>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.</p> <p>The Company will undertake drug and alcohol testing of staff and contract workforce. The number of random tests and percentage of positive random tests will be reported.</p> <p>Forest Stewardship Council Certification of the Forest Estate will be maintained.</p> <p>A current forest management plan will be in place (as required by FSC) which identifies social and environment, as well as economic outputs.</p>
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	To preserve and enhance rare threatened and endangered (RT&E) species on the Company's estate.	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

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.
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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>	To increase the level of training within the Company's staff and contract workforce.	Company and Contract employees will have a training plan in place. 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.
	To maintain an equal employment opportunity policy.	There will be "nil" instances of non-compliance with the Company's EEO policy.

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 maintenance and development of public walking and mountain bike tracks in the Companies forests.</p>
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, actioned and tracked 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.

8 FINANCIAL FORECASTS

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

	Year ending 30/06/2020	Year ending 30/06/2021	Year ending 30/06/2022
Shareholders' Funds to Total Assets	72.1%	72.8%	73.3%

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 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 30/06/2020	Year ending 30/06/2021	Year ending 30/06/2022
Dividend/Subvention Distributions	\$6.5m	\$6.5m	\$6.5m

c. Other Financial Forecasts

	Year ending 30/06/2020	Year ending 30/06/2021	Year ending 30/06/2022
Net Profit before Tax	\$17.2m	\$20.1m	\$19.8m
Net Profit after Tax	\$12.4m	\$13.9m	\$14.2m
Cash Flow from operations	\$10.4m	\$12.2m	\$11.7m
Capital Expenditure	\$4.3m	\$4.2m	\$4.2m
Term Loans	\$14.4m	\$14.0m	\$13.7m

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

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 Company will target an 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.

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.

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.

18 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 the Company, acknowledging appropriate governance practices.

Sponsorship and naming rights: The Company will not accept sponsorship or give naming rights to companies involved in activities deemed to be inconsistent with Council's ethical position. For reference, those activities are: tobacco, armaments, fossil fuel extraction, gambling and pornography.

Living wage: The Company will disclose in its Annual Report the proportion of its workforce receiving the living wage (as calculated by the New Zealand Family Centre Social Policy Unit).

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.
	Inspired connections	Utilising existing networks and fostering new connections to facilitate creativity.
Spatial Plan (2012)	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.