



Invercargill City Forests Ltd

INVERCARGILL CITY FORESTS LIMITED

STATEMENT OF INTENT FOR THE FINANCIAL YEAR ENDING 2019

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INTRODUCTION

This Statement of Intent is presented by the Directors pursuant to the requirements of the Local Government Act and sets out the Board's overall intentions and objectives for the Company for the financial year ended 30 June 2019 and the two succeeding financial years.

CORE BUSINESS

The company is primarily involved in forestry activity through the ownership, harvesting and trading in forests throughout New Zealand.

COMMERCIAL OBJECTIVES

The company intends to:

1. Manage its operations in a progressive and commercial manner.
2. Provide returns to its shareholder Invercargill City Holdings Limited consistent with forecasts having regard to the business operating environment.
3. Keep Invercargill City Holdings Limited informed of matters of substance affecting the group.
4. Ensure regular reporting of results to Invercargill City Holdings Limited.
5. Act generally as a responsible corporate citizen.
6. Ensure that Health and Safety Policies are developed in line with best practice and adhered to.

NATURE AND SCOPE OF ACTIVITIES

The nature of Invercargill City Forests Limited activities are those of a forestry operation namely undertaking forestry acquisitions, sales, planting, silviculture, harvesting and marketing.

PERFORMANCE TARGETS

OUTLOOK 2018/19

Invercargill City Forests Limited has planned for a sustainable harvest operation of 50,000 tonne per annum. This plan is based on the age of the forests and the best time to harvest.

A full silviculture program is allowed for which ensures that all trees are presented in the optimum condition to maximise their harvest potential.

The Directors of Invercargill City Forests Limited are constantly looking at new opportunities within the forestry sector, but are mindful that these need to be profitable and beneficial to the current estate.

FINANCIAL

Listed below are the company's forecast returns.

EBIT% - Percentage Earnings before Tax and interest on Assets Employed

	2019 (\$'000)	2020 (\$'000)	2021 (\$'000)
Net Profit before Tax	596	636	636
Interest	951	1,048	1,145
Net Profit before Interest and Taxation	1,547	1,684	1,781
Total Assets	31,833	33,869	35,904
EBIT%	4.86%	4.97%	4.96%

Percentage of Equity to Total Assets

	2019 (\$'000)	2020 (\$'000)	2021 (\$'000)
Equity	9,746	9,782	9,817
Total Assets	31,833	33,869	35,904
% Equity/Total Assets	30.62%	28.88%	27.34%

NON-FINANCIAL

Listed below are the company's non financial performance targets

- Tree mortality rates are below 10%
- No notifiable environmental incidents
- Net stocked area remains above 80% of productive area
- All silviculture is completed as per agreed work plan

PROPOSED DISTRIBUTIONS

The company's policy is to return a dividend between 5% and 10% of equity to the shareholders each year. The company is proposing to provide the shareholder with a dividend of \$600,000 in 2018/19, 2019/20 and 2020/21. This is 6.12% of equity for the 2018/19 year.

INFORMATION TO BE REPORTED

The following information will be available to the shareholder based on an annual balance date of 30 June.

DRAFT STATEMENT OF INTENT

On or before 1 March each year the Directors will deliver to the shareholder a Draft Statement of Intent that fulfils the requirements of Section 64 of the Local Government Act 2002.

COMPLETED STATEMENT OF INTENT

On or before 30 June each year the Directors shall deliver to the shareholder a completed Statement of Intent which fulfils the requirements of Section 64 of the Local Government Act 2002.

HALF YEARLY REPORT

Within two months after the end of the first half of each financial year the Directors shall deliver to the shareholders an unaudited report containing the following information as a minimum in respect of the half-year under review:

- a) A revenue statement disclosing actual revenue and expenditure with comparative figures from the previous half yearly report.
- b) A statement of financial position at the end of the half year.
- c) A statement of cash flows.
- d) A commentary on the results for the first six months together with a report on the outlook for the second six months with reference to any significant factors that are likely to have an effect on Invercargill City Forests Limited performance including an estimate of the financial result for the year based on that outlook.

ANNUAL REPORT

Within three months after the end of each financial year the Directors shall deliver to the shareholders an annual report and audited financial statements in respect of that financial year containing the following information as a minimum:

- a) A Directors report including a summary of the financial results, a review of operations, a comparison of performance in relation to objectives and any recommendation as to dividend.
- b) A revenue statement disclosing actual revenue and expenditure and comparative figures.
- c) A statement of financial position at the end of the year.
- d) A statement of cash flows.
- e) An Auditors report on the above statements and on the measurement of performance in relation to objectives.

BOARD'S ESTIMATE OF THE VALUE OF SHAREHOLDER'S FUNDS

The Directors estimate the commercial value of the shareholder's investment in the group to be at least the value of the shareholder's equity reported in the financial statement and Statement of Intent.

Each year as part of the financial reporting process the Board considers its investments for signs of impairment. Presently there are no signs of impairment.

GOVERNANCE

The Directors of Invercargill City Forests Limited are appointed by Invercargill City Holdings Limited to oversee the governance of the company and will act in accordance with the guidelines set by the Shareholder.

The day to day management of the company is delegated to the management team and the forestry consultant. The Chief Executive Officer of the company is also the Chief Executive Officer of the parent company, Invercargill City Holdings Limited.

The directors are responsible for the governance practices of Invercargill City Forests Limited. This statement sets out the main practices that were in operation throughout the financial year, except where otherwise indicated.

BOARD OF DIRECTORS

The board carries out its responsibilities according to the following mandate:

- The number of directors on the board should be no fewer than two and no more than four.
- Directors should possess a broad range of skills, qualifications and experience.
- The board meets regularly.
- All available information relating to items to be discussed at a meeting of the board is provided to each non-conflicted director prior to that meeting.

The board consists of four directors. The chief executive officer attends all board and committee meetings except where specifically exempted during “board only” board meeting sessions.

The primary responsibilities of the board include:

- Ensuring preparation of the annual and half-year financial statements.
- Establishing the long-term goals of Invercargill City Forests Limited and strategic plans to achieve those goals.
- Reviewing and adopting annual budgets for the financial performance of Invercargill City Forests Limited and monitoring results on a monthly basis.
- Ensuring that Health and Safety Policies are adopted that reflect best practice.
- Managing risk by ensuring that Invercargill City Forests Limited has implemented adequate systems of internal controls together with appropriate monitoring of compliance activities, and
- Working with management to create shareholder value.

Invercargill City Forests Limited has a commitment to the highest standards of behaviour and accountability in carrying out its duties and responsibilities, including:

- Responsibilities to shareholder.
- Relations with customers and suppliers.
- Employment practices, and
- Responsibilities to the community.

INDEPENDENT PROFESSIONAL ADVICE

With the prior approval of the chair, each director has the right to seek independent legal and other professional advice at Invercargill City Forests Limited’s expense concerning any aspect of Invercargill City Forests Limited’s operations or undertakings to assist in fulfilling his or her duties and responsibilities as director. Circumstances that dictate this necessity are rare and must be justifiable, if called for, to the board.

HEALTH AND SAFETY AND RISK MANAGEMENT

The board is responsible for Invercargill City Forests Limited's system of internal controls. The board constantly monitors the operational, health and safety and financial aspects of Invercargill City Forests Limited's activities, the board considers the recommendations and advice of external auditors and other external advisers on the operational, health and safety and financial risks that face Invercargill City Forests Limited.

The board ensures that recommendations made by the auditors and other external advisers are investigated and, where considered necessary, appropriate action is taken to ensure that Invercargill City Forests Limited has an appropriate internal control environment in place to manage the key risks identified.

In addition, the board investigates ways of enhancing existing risk management strategies, including appropriate segregation of duties, the employment and training of suitably qualified and experienced personnel.

<h3>STATEMENT OF ACCOUNTING POLICIES</h3>
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Invercargill City Forests Limited's accounting policies are consistent with the accounting policies recognised by the External Reporting Board ('XRB').

The accounting policies which materially affect the measurement and reporting of financial performance and financial position have been applied on a basis consistent with those used in previous years.

The accounting policies are listed in full in in our most recent annual report.