

Transwaste Canterbury Limited

Statement of Intent

For the year ending 30 June 2007



Approved by the Transwaste Canterbury Limited Board

2006.

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1 Introduction

- 1.1 The Statement of Intent process provides a key opportunity for the shareholders and Directors of the Company to define the Company's path for the next three years. It is prepared in accordance with Section 64 of the Local Government Act. A draft statement is required by Section 64 to be submitted no later than 1 March each year, to the Company's shareholders.
- 1.2 The Statement of Intent further defines for the Company the objectives, the nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of the Company may be judged in relation to its objectives amongst other requirements. The process of negotiation and determination of an acceptable Statement of Intent is a public and legislative expression of the accountability relationship between the Company and its shareholders.
- 1.3 The Statement of Intent is prepared annually by the Board and negotiated between the shareholders and covers a three year future period.

2 Corporate Mission

- 2.1 To operate as a successful, competitive commercial landfill business.
- 2.2 To achieve this, the Company intends to:
 - (a) achieve sufficient earnings to support the Company's continued operations and also to return an appropriate risk adjusted return on investment;
 - (b) be market responsive as regarding the demand for its services in terms of the criteria of quantity, quality and price;
 - (c) behave in an environmentally aware manner promoting and maintaining the standards of environmental protection applied by the Resource Management Act 1991 and to minimise the impact of its activities on the environment;
 - (d) act as a good employer;
 - (e) aim to provide customers with a high level of service, a reliable transport system and competitive prices;
 - (f) commit to consult with and be sensitive to the concerns of the landfill host community and Tangata Whenua;
 - (g) promote and maintain standards of health and safety in accordance with all applicable regulations, legislation and including best practice;
 - (h) act as a good corporate citizen with regard to its business dealings and relations.

3 The Board's approach to governance of the organisation

3.1 The directors are responsible to the shareholders for the achievement of the objectives of Transwaste in both the short and the longer term. Their focus is to enhance the commercial interests of shareholders and other key stakeholders and to ensure Transwaste is properly managed. The Board draws on relevant corporate governance best practice principles to assist and contribute to the performance of the Company. The functions of the Board include:

- (a) Review and approval of corporate strategies, the annual budget and financial plans.
- (b) Overseeing and monitoring organisational performance and the achievement of Transwaste's strategic goals and objectives, in particular as outlined in the Statement of Intent.
- (c) Monitoring financial performance including approval of the annual and half-year financial reports and liaison with Transwaste's auditors.
- (d) Ensuring there are effective management processes in place and approving major corporate initiatives.
- (e) Enhancing and protecting the reputation of Transwaste.
- (f) Ensuring the significant risks facing Transwaste and any controlled entities have been identified and appropriate and adequate control, monitoring and reporting mechanisms are in place.
- (g) Reporting to shareholders.
- (h) Developing appropriate policies for the operation of the company including safety, environmental and quality matters.

A description of Transwaste's main corporate governance practices is set out below.

3.2 The Board of Directors

The composition of the Board of Directors, including the appointment of a Chairman, is governed by the Memorandum of Understanding between the shareholders. There are no executive directors.

3.3 Operations

The Board has statutory responsibility for the affairs and activities of the company. All matters relating to the operation of the landfill and the operation of the transport system have been contracted to Canterbury Waste Services Limited (CWS) in accordance with the Memorandum of Understanding and shareholder agreement. CWS reports monthly to the Board on matters including:

- (a) Operations management
- (b) Financial results and budgets
- (c) Compliance with legislation including health and safety regulations and resource consent conditions

The Board receives regular (generally monthly) reporting in respect of each of the above.

3.4 Committees

The Board establishes committees as appropriate to assist in the execution of its duties and to allow detailed consideration of complex issues. There is currently one committee, being an audit committee.

The Audit Committee consists of the following directors:

WG Cox (Chairperson)

GP Pierce

MSP Hope

The Board has identified key business risks and developed policies to manage this risk. The audit committee will monitor progress against an established timetable. In addition, the committee will set the scope and standards with respect to internal controls, accounting policies and the nature, scope, objectives and functions of the external and internal audit. The committee meets as and when required.

All matters determined by committee are submitted to the full Board as recommendations for Board decision.

3.5 Subsidiaries

The Company has one fully owned subsidiary, Tiromoana Station Limited. Board member Mr GH Clemens maintains a supervisory role on behalf of the Board and reports monthly to the Board on operational and strategic matters.

3.6 Commitment

The Board meets for eleven Board meetings each year and other special meetings are convened, as required.

3.7 Independent Professional Advice

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at Transwaste's expense, subject to Board approval.

4 Nature & Scope of Activities

4.1 The Company will undertake the following activities:

Landfill and Transport

- (a) The primary activity of the company is to own and operate a non-hazardous regional landfill at Kate Valley in Canterbury, including the haulage of solid wastes from transfer stations throughout the Canterbury region, to at least the standard determined by the regulatory authorities;
- (b) Contract with Canterbury Waste Services Limited (“CWS”) for the provision of services for the operation of the landfill and the haulage of waste from the transfer stations to the landfill, to ensure provision of landfill operations and a solid waste haulage fleet economically and efficiently and in compliance with relevant consents; and
- (c) Offer waste management facilities and solutions at all levels in the Canterbury Region, and beyond, including investment in alternatives to landfilling should those alternatives be more environmentally sustainable and cost effective methods of disposal (in due course).

4.2 **Farming**

The company will operate Tiromoana Station Limited as a farming operation in the most effective and profitable manner in accordance with best practice farming. The farming activities are conducted subject to integration with the operation of the landfill and the real estate plan, which seeks to optimise the value of the property for realisation purposes at the appropriate time.

4.3 **Tiromoana Bush**

The company will liaise with the Tiromoana Bush Advisory group to continue to develop the Tiromoana Bush concept. Tiromoana Bush was opened to the public on 10 April 2006.

5 Objectives and performance targets

Objective in support of Mission Statement		Performance target from objectives
5.1	<p>Shareholder interests To operate a successful business, providing a fair rate of return to its shareholders</p>	<p>(a) To effectively operate a consented regional landfill at Kate Valley.</p> <p>(b) To achieve the specific commercial performance targets outlined in section 5.7</p>
5.2	<p>Healthy environment To ensure that the Company and its associates meet or exceed present and future environmental standards in a manner which is consistent with the preservation of the natural environment and the careful and sustainable management of natural resources.</p>	<p>(a) No breaches of Resource Management Act consents.</p> <p>(b) Maintenance of an appropriate risk funding mechanism to cover environmental risk.</p> <p>(c) Implement the Environmental Policy.</p>
5.3	<p>Corporate citizenship To be a responsible Corporate Citizen by acting lawfully, fairly and honestly and to be sensitive to local issues.</p>	<p>(a) To ensure compliance with any contractual arrangements.</p> <p>(b) To ensure compliance with all relevant legislative and regulatory requirements.</p> <p>(c) To develop a 'Triple Bottom Line' approach in reporting to its shareholders, stakeholders, customers, and the community within which it operates, reporting on social and environmental outcomes as well as its financial performance.</p>
5.4	<p>Customer relations Meet the present and future needs of consumers with high standards of value, quality and service and establish effective relations with customers.</p>	<p>(a) Timely, high quality and reliable transport services.</p> <p>(b) Fair and reasonable gate fee.</p> <p>(c) Reliability of access to the landfill.</p> <p>(d) To establish effective statistical performance measures which the landfill, transport and other operations run by the Company must achieve.</p>

Objective in support of Mission Statement	Performance target from objectives
<p>5.5 Good employer Be a Good Employer.</p> <p>Strive for zero injury accidents in all operations the Company and its main contractor, CWS, will be responsible for, whilst maintaining a high level of service and production.</p> <p>To ensure that CWS adheres to the performance targets set out under this clause.</p>	<p>(a) Adopting objectives and policies that detail the relationship with employees, their remuneration, safety and other issues such as equal opportunity in employment.</p> <p>(b) Ensuring that its employees have secure and rewarding employment which provides the means for personal development.</p> <p>(c) Clearly defining the performance standards expected of all employees and by appropriate action mechanisms ensuring that these standards are met.</p> <p>(d) Ensuring that in all activities the Company and its contractors have Health and Safety Management Plans in place.</p>
<p>5.6 Consultation and community relations Establish and maintain good relations with the local host community of the landfill and consult with that group and other interest groups (including Tangata Whenua) on issues that are likely to affect them.</p>	<p>(a) Establish and maintain a community fund (financed from the gate fee) for the purpose of benefiting the local community immediately affected by the landfill operation.</p> <p>(b) Consult with the host community concerning landfill operations by way of the Community Liaison Group.</p> <p>(c) Consult with interest groups including Tangata Whenua on a regular basis and discuss all issues likely to affect them.</p>

5.7 Financial performance targets

The financial performance targets for the company are set out below.

	2006/2007	2007/2008	2008/2009
	\$'000	\$'000	\$'000
Total revenue	23,730	26,717	28,565
EBIT	7,494	10,159	11,677

6 Capital structure

6.1 Ratio

The company will endeavour to operate with a ratio of consolidated shareholders' funds to total assets as set out below.

	2006/2007	2007/2008	2008/2009
Shareholders funds to total assets	31%	32%	32%

6.2 Definition

Consolidated shareholders' funds are defined as the sum of the amount of paid up share capital, retained earnings, accumulated losses, revenue and capital reserves. The Total Assets are defined as the sum of the net book values of current assets, investments, fixed assets and intangible assets. The items making up the definitions are as disclosed in the company's statement of financial position prepared on a consolidated basis and in accordance with generally accepted accounting practice.

6.3 No calls on capital from shareholders are anticipated during the next three year period.

7 Statement of accounting policies

- 7.1 The company prepares financial statements in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Local Government Act 2002, which includes compliance with the Financial Reporting Standards (FRSs) issued by the New Zealand Institute of Chartered Accountants as periodically updated and generally accepted accounting practice.

Specific accounting policies

- 7.2 The following specific accounting policies which materially affect the measurement of financial performance and the financial position of the company have been applied:

Revenue

Goods and services

Revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business.

Investment income

Interest income is accounted for as earned.

Principles of Consolidation

The consolidated financial statements are prepared from the financial statements of the parent Company and its subsidiary using the purchase method.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated Statement of Financial Performance from the date of acquisition or up to the date of disposal.

All significant transactions between Group companies are eliminated on consolidation.

Tax

The tax expense recognised for the period is based on the accounting surplus, adjusted for permanent differences between accounting and tax rules.

The company follows the comprehensive basis for the calculation of deferred tax under the liability method.

A deferred tax asset, or the effect of losses carried forward that exceed the deferred tax liability, is recognised in the financial statements only where there is virtual certainty that the benefit of the timing differences, or losses, will be utilised.

Goods and Services Tax (GST)

The statement of financial performance and statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

Property, Plant and Equipment

Initial recording of the cost of purchased property, plant & equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

Capitalised landfill costs include all directly attributable costs incurred to bring an identified site for a landfill to the location and condition necessary for its intended service. Landfill costs include all activities associated with decisions on location, consultation with interested parties, obtaining Resource Management Act consent, preparation and construction of the landfill and net financing costs that are directly attributable to the project. Costs cease to be capitalised as soon as a landfill site is ready for productive use.

Capitalised landfill costs also include any pre-acquisition gains or losses from the farming and forestry operations of the identified landfill site, Tiromoana Station Limited, as they are a consequential function of carrying out Transwaste's primary role of developing a landfill.

Depreciation

Depreciation on property, plant and equipment other than landfill development costs and future landfill site restoration and aftercare costs, is calculated on a straight-line basis to allocate the cost of an asset, less any residual value, over its useful life. The estimated useful lives of property, plant and equipment are as follows:

	Life
Buildings and site improvements	15 – 25 years
Plant and machinery	5 – 15 years
Vehicles and related equipment	3 – 15 years
Office equipment, furniture & fittings	3 – 5 years

The depreciation of the total landfill development costs is based upon the total anticipated waste volume of the landfill. The depreciation amount is calculated on that portion of total landfill costs represented by the waste volume consumed for the financial year as compared to total anticipated waste volume.

Closure and Post-Closure Costs

A provision for future landfill site restoration and aftercare costs is recognised when the activities giving rise to the need for site restoration and aftercare have commenced. The provision is stated at the present value of the future cash outflows expected to be

incurred, which increases each period due to the passage of time. Any increase in the provision due to the change in present value is recognised in the statement of financial performance as a time value adjustment.

Future landfill site restoration and aftercare costs provided for are initially capitalised in the statement of financial position. Any change in the provision for future landfill site restoration and aftercare costs arising from a change in estimate of those costs is also recognised in non current assets in the statement of financial position.

Future landfill site restoration and aftercare costs capitalised in the statement of financial position are depreciated at rates that match the pattern of benefits expected to be derived from the landfill, including power generation using landfill gas.

Impairment

Annually, the directors assess the carrying value of each asset. Where the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down. The impairment loss is recognised in the statement of financial performance.

Leased Assets

Finance charges are apportioned over the terms of the respective leases using the rule of 78 method.

Capitalised leased assets are depreciated over the terms of the respective lives in accordance with rates established for other similar group assets.

Operating leased assets are representative of the pattern of benefits derived from the leased assets and accordingly are charged to the statement of financial performance in the periods in which they are incurred.

Investments

Investments are stated at cost. Dividend income is accounted for on a cash basis. Interest is accounted for as earned.

Financial Instruments

The Group is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short term deposits, receivables, trade creditors and borrowings. All financial instruments are recognised in the statement of financial position and all revenues and expenses in relation to financial instruments are recognised in the statement of financial performance.

All financial instruments are recognised in the statement of financial position at their estimated fair value.

Statement of Cash Flows

The following are the definitions of the terms used in the statement of cash flows:

- (a) Operating activities include all transactions and other events that are not investing or financing activities.
- (b) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments. Investments can include securities not falling within the definition of cash.
- (c) Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financial activities.
- (d) Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts.

Inventories

Stock on hand is stated at the lower of cost, using first in first out basis, or net realisable value.

Livestock

Livestock is included in the financial statements at fair value.

Accounts Receivable

Accounts receivable are stated at estimated realisable value after providing against debts where collection is doubtful.

8 Dividend policy

- 8.1 Profit retention and the level of dividend to be paid will be recommended from year to year by the Directors in accordance with the results and circumstances prevailing, with the objective of ensuring that the amount of the dividend does not limit the Company's ability to fund future expenditure requirements by itself or with its associates for maintaining and expanding operations in the environmental services business and servicing the Company's resultant debt structure.
- 8.2 Subject to clause 8.1, it is expected that 100% of the Company's net profits, after retention of working capital and/or retention of funds for any other operational needs of the landfill and after tax, in each year will be distributed out of retained earnings unless the Board considers that an investment opportunity in relation to the landfill and transport operations and alternatives to landfilling will provide an appropriate risk adjusted return on investment.

- 8.3 An interim dividend may be paid after the half yearly accounts have been considered by the Directors.
- 8.4 Indicative dividends to Council shareholders follow.

	2006/2007	2007/2008	2008/2009
	\$'000	\$'000	\$'000
Christchurch	1,519	2,189	2,541
Selwyn	120	173	201
Ashburton	120	173	201
Banks Peninsula (Christchurch)	42	60	68
Hurunui	48	69	81
Waimakariri	156	225	262
Total indicative Council dividends	2,005	2,889	3,354

9 Information to be provided to the shareholders

9.1 Statutory information requirements

Annual Statement of Intent

No later than 1 March of each year the Board will provide a draft Statement of Intent in accordance with Section 64 of the Local Government Act. The Directors will consider comments from the shareholders on the draft Sol made within two months and not later than 30 June of each year shall deliver the final Sol to the shareholders.

Half Yearly Accounts

Within two months after the end of the first half of each financial year the Board will deliver an unaudited half-yearly report to the shareholders. The consolidated financial statements will be the same as required under Section 69 for annual financial statements. This will consist of:

- (a) report on the operations of the Company during the financial period;
- (b) financial statements prepared in accordance with generally accepted accounting practice;
- (c) comparison of the performance of the organisation and its subsidiaries with the statement of intent, together with an explanation of any material variations; and
- (d) a dividend recommendation for the period to which the report relates.

Annual Accounts

Within three months after the end of each financial year, the Board will deliver an annual report to the shareholders. The content of the report will be pursuant to Sections 67 to 69 and will consist of:

- (a) report on the operations of the Company during the financial period;
- (b) financial statements prepared in accordance with generally accepted accounting practice;
- (c) comparison of the performance of the organisation and its subsidiaries with the statement of intent together with an explanation of any material variations;
- (d) a dividend recommendation for the period to which the report relates; and
- (e) Auditors' Report on the above financial statements and the performance targets and other measures by which the performance of the Company has been judged in relation to objectives.

9.2 Other information

The Company will disclose as much information on its operations as is practical and consistent with commercial and confidentiality considerations. The Company will endeavour to operate on a "no surprises" basis with regard to all issues of relevance to shareholders.

10 Acquisition of shares in any company or other organisation

- 10.1 All share investment proposals will be considered by the Directors and any decision to invest in or divest in shares in another Company or other organisation will be made by the Directors, in accordance with the Constitution, after discussion with or approval by the shareholders as appropriate.

11 Non-commercial services

- 11.1 At the request of one or more of the shareholders, the Company may undertake activities which are not consistent with normal commercial objectives. A specific subsidy where necessary will be sought to meet the full commercial cost of providing such activities.
- 11.2 No requests for the provision of non-commercial services have been received from the shareholders.

12 Estimate of the commercial value of the company

- 12.1 The directors estimate that the commercial value of the shareholders' investment in the group is at least which is stated as "shareholder equity" in the latest available audited financial statements. This value is reassessed annually as part of the preparation of the audited financial statements.