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Exam : CS3

Title : Strategic Case Study Exam 2021

Version : DEMO

1.1. Topic 1, Case Study Wodd

Company background
You are a Senior Finance Manager employed by Wodd.
Wodd is a forestry company that invests in forestry projects and adds value through participation in associated industries, such as the manufacture of paper. The company was formed in 1983, when a large area of forest was sold to a consortium of wealthy individuals who had established a company to undertake the purchase.
Over time, the company grew and the original founders sold their shares. Wodd has been quoted since 2002.
Wodd is based in Marland, a European country whose currency is the M$. Marland is heavily industrialised in the South, but has large uninhabited areas in the North. Its climate is temperate and is well suited to growing timber.

Wodd
Extracts from integrated report for the year ended 30 September 2015 About our report
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).
Wodd's Board is committed to strong corporate governance and leadership as well as transparency in its disclosures. Over the coming years, Wodd will continue to review its reporting approach and routines, to ensure it meets best practice reporting standards, the expectations of its stakeholders and maintains the visibility of how the Group creates sustainable value for the communities it serves.

Strategic report
Wodd operates in the forestry industry. Wodd's activities include forestry management, harvesting timber and project work, such as helping to create amenity woodlands and forests.

Forestry Management
Wodd manages its own forests and also those of its clients. It is accredited by the Forestry Stewardship Council of Marland (FSCM) for managing sustainable forests.
The client management side of the business consists of forestry-related matters such as harvesting trees and replanting. Wodd can sell harvested timber on behalf of clients. Wodd also advises on taxation and grant applications.

Taxation and Grants
There are grants available for planting and fencing forests. Some grants are awarded by the Forestry Authority of Marland and some come from Government.
There are considerable tax benefits from buying and managing a forest in Marland. No income tax is paid when trees are felled and sold. No capital gains tax is paid if the forest is managed and sold in its entirety in the future. Investing in forestry can be extremely tax efficient for wealthy investors. Wodd has considerable expertise in advising on the tax aspects of forestry ownership.

Harvesting
Wodd fells standing timber in its own forests and on behalf of clients. Cutting down trees

and replanting can enhance the health of a forest. Letting light penetrate to the forest floor encourages biodiversity. Removing diseased trees can reduce the risk of problems spreading. Gaps between stands of trees can act as firebreaks.

Wood is also a sustainable crop. The material itself has many uses. Mature trees absorb very little carbon dioxide, whereas freshly planted trees will capture carbon dioxide whilst they are growing.

Wodd has invested in the latest heavy logging machinery that can fell trees and strip their branches. This equipment is suited to clearing areas of trees. Individual trees are still cut down manually with chainsaws.

Forestry work is often carried out in remote areas and can be dangerous.

Projects

Wodd does considerable work with the Forestry Authority of Marland. The Forestry Authority offers substantial grants towards planting and for fencing.

Wodd has undertaken projects on behalf of the Forestry Authority of Marland to create amenity forests. Typically, this involves making picnic areas, footpaths and cycle paths in existing forests in order to encourage the public to use them for leisure and enjoyment.

Chairman's statement

In 2014 the company focused on stabilising its results after a number of difficult years in recession. The company has set its sights on achieving long-term stable returns from its activities with steady improvements in key areas to build a strong future for Wodd.

The company continued to strengthen its position in the markets and regions where it operates. Wodd is gaining an international reputation for excellent forest management which it hopes to enhance in the future.

Volatility in the US Dollar against the $M caused us some problems over the last year. It is hoped that the economic uncertainties that led to this will settle down.

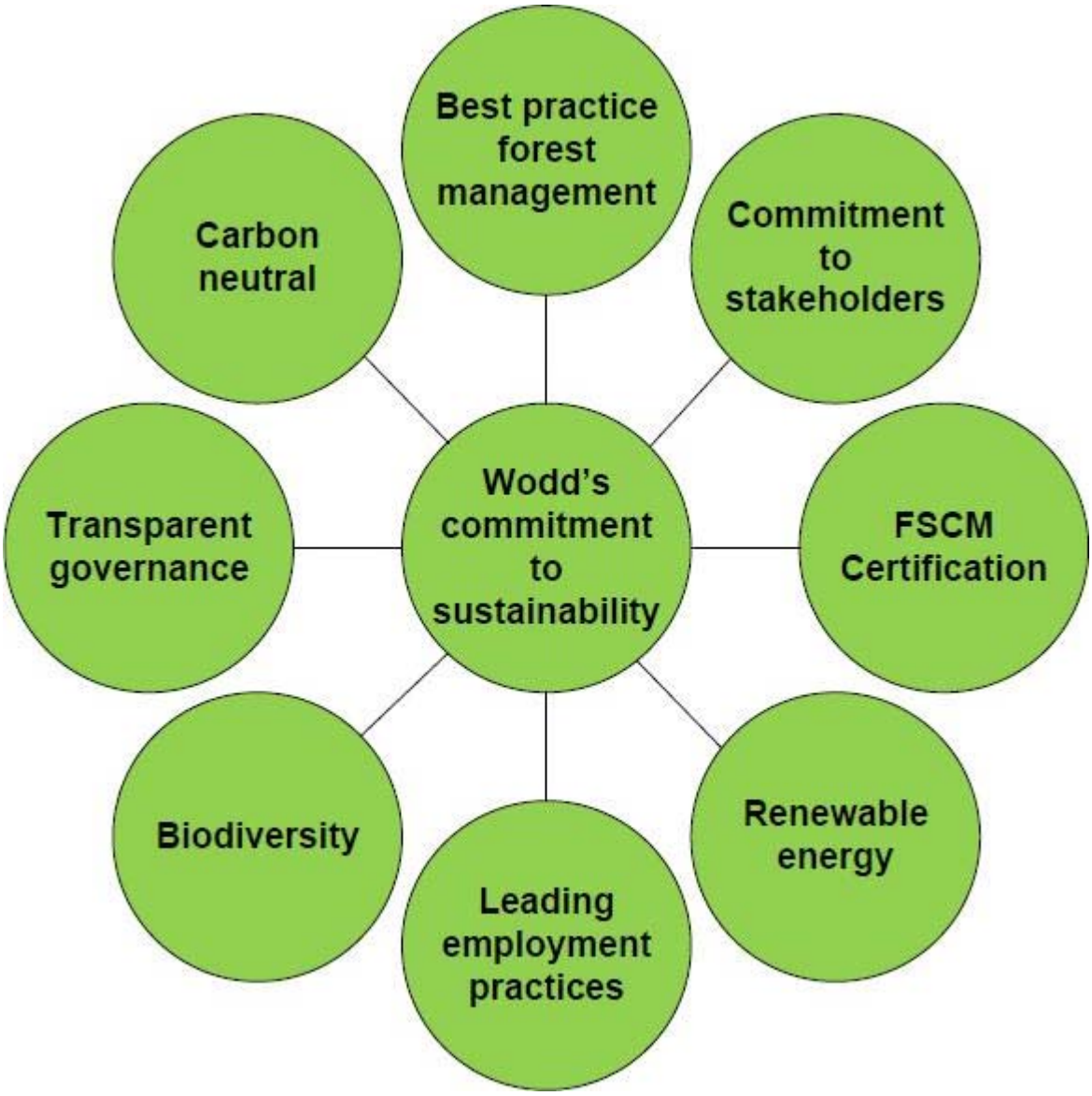
The company has built on its core strengths and has now had the management of all its forests accredited.

Wodd has engaged in some new planting projects over the past year which have all gone well. The more stable weather during the winter meant we did not have much wind-blow and did not have to replant many areas.

The increase in house building and construction has seen an increase in demand for timber and Wodd

has benefitted from this and from the increase in timber prices due to this demand. This has helped to sustain the profits that were so welcome last year.
The Forestry Authority in Marland commended our efforts to increase the sustainability of our forests. By replanting areas we have harvested with fast-growing Sitka Spruce, we have improved our carbon storage by 3% in 2014. This was greater than expected.
We entered into two projects last year assisting the Forestry Authority to improve the amenity forests in the north of Marland. These projects were completed during the year and have resulted in a 40% increase in the visitors to the forests; the cycle tracks and picnic areas have been especially popular.
The last few years have been challenging for Wodd. However, we believe the long-term fundamentals are now in place for Wodd to deliver its goal of steady long-term returns on its investments which it can pass on for the benefit of its shareholders.

Sustainability
Wodd's investment objective is to invest in assets which can be established and managed on an environmentally and socially sustainable basis.
We have invested in forests and have emphasised sustainability in all aspects of their management, including ensuring that the responsible harvesting of trees does not exceed the ability of the land to regenerate itself once replanted.



Social responsibility

Sustainability is a key factor in all investment decisions. We aim to manage our forests to the highest standards. Our expectation is that Wodd will be a net planter of trees, with the number of living trees increasing over time in all of our forests.

We aim:

*to obtain all existing accreditation for responsible and sustainable forest management and always aim to exceed all industry and regulatory standards.

*for a clear and constructive dialogue with local communities and other stakeholders. We are proud of our achievements and are keen to communicate these as widely as possible.

*to combine sound economic stewardship with our stewardship of natural resources. We provide shareholders with sustainable dividends and capital growth while ensuring that we do not do so at a significant environmental cost.

Our strategy and objectives

Our mission is to be the world leader in sustainable forestry management.

Our long-term strategy continues to be to:
1. Provide stable, long-term returns to our investors.
2. Be the preferred supplier of raw wood-based materials to a broad customer base.
3. Be the leading player in the forest industry regarding environmental and social conduct.
4. Expand existing and develop new large-scale projects.
5. Seek new ways of working to improve the sustainability of forests in the future.

Code of conduct

Stakeholders - We work with all of our stakeholders, ensuring woodlands and forests meet the needs of present and future society.
Respect - We value our colleagues and our stakeholders, valuing diversity and treating everyone with consideration.
Professional behaviour - We act with integrity and objectivity to achieve high standards of health and safety, quality and sustainability in everything we do.
Learning and development - We are always learning, developing the skills and knowledge to support the company.
Communication - We are open and honest with colleagues and with our stakeholders.
Environment – We seek to protect the environment for the enjoyment of both people and wildlife in the future.

Stakeholder engagement

The communities in Marland trust us. That is the foundation of our business.
We have built up trust by integrating corporate social responsibility and sustainability into the way we run our company.
We have incorporated ten principles (see page 23) into our working practices. These encourage responsible behaviour in the areas of the environment, anti- corruption, our workforce and human rights.
Our sustainable forestry management practices are long-term investments building value for our company and the society of Marland. We have strict targets that we strive to achieve on carbon storage and are now in surplus when we take into account our harvesting and transportation emissions.
We aim to make our forests and woodlands attractive and healthy places that can be visited and enjoyed. We offer basic facilities such as woodland paths, picnic sites and cycle tracks. We locate these away from areas where timber is being harvested so that visitors are safe at all times.
We actively seek to improve the environment by sustainable planting while improving the return to our shareholders.

Employees

Our employees are our greatest asset. They add a huge amount of value to Wodd. They work together as a team to ensure Wodd runs efficiently and effectively.
We have a diverse group of employees. Some of our best lumberjacks have worked with us for over 30 years. The work is hard, but they enjoy the communal spirit and work ethic encouraged by Wodd.
Lumberjacks work in small groups in remote areas, sometimes camping for several weeks. They are happy to continue this work even though it can be difficult and dangerous.
Wodd encourages safe working practices and training.
We have been improving our gender balance, although there are still too few women working in the

forests. We are pleased that we now have a number of female senior employees and directors.

Customer relevance

Being aware of our customers' needs has played a large part in our steady growth over the last few years. We value our customers and work hard at understanding their needs.

Our customers support sustainable forestry and are proud of our accredited status. We listened to our customers when they said they wanted to protect the environment and they have repaid us with their loyalty. Our customer base has increased over the last few years as they know we work to create value for them. We seek to generate value in all aspects of our business while continuing to offer excellent quality.

Customer care and satisfaction

We opened a customer care department to respond to customer queries and complaints quickly. Its focus is to respond to customer queries and complaints within an agreed time frame which depends on the complexity of the query. We are proud that we responded to 97.5% of queries within the agreed timeframe.

The number of repeat queries has fallen considerably as a result of this initiative.

Risks and uncertainties

Fluctuating demand

Wodd's principal activities rely on demand for timber, which is a basic raw material used in many industries.

Some of our customers operate in volatile or cyclical industries. For example, the building industry buys significant quantities of timber and timber-based products. The building industry can be affected significantly by movements in economic indicators such as interest rates, the availability of credit and the property market.

Selling prices fall in response to declining demand for timber. Wodd can reduce production in response because there is very little point in selling timber when prices are low. However, there are economies of scale associated with operating at higher capacities and so we can suffer increased costs when we manage output in this way.

The company regularly reviews the movement in market prices and seeks to obtain the best value for the company's products from existing and new customers.

International business

Many countries import large quantities of timber and their economies can further affect demand.

Apart from fluctuations in their economies, our ability to export to particular markets can be affected by trade disputes, tariffs, import restrictions and so on.

Exchange rate fluctuations

The company is exposed to foreign exchange risk. Pulpwood is priced in USD which can be volatile against the M$.

Wodd is able to utilise financial instruments to hedge against adverse currency movements; there is no guarantee that it will be possible to hedge against a particular change at an acceptable price, or that any attempt to hedge would be successful.

Employee safety
Forestry workers are highly skilled. Harvesting timber in a safe and efficient manner requires training and experience. Working in forests can be difficult and dangerous and we provide advanced safety training for all our lumberjacks. We make sure we have the most advanced safety equipment available for the workforce.
However, there is the risk that serious accidents can occur in remote areas which could be serious. We are insured fully for accidents.

Labour relations
Our forestry workers are unionised. There is an annual negotiation cycle for determining pay and working conditions. The involvement of the union tends to ensure that all companies in the industry pay broadly similar rates.
Production will be affected in the event that an agreement cannot be reached with union negotiators. It would be difficult to locate suitable temporary staff during a strike and the logistics of timber production would make industrial action, such as picketing vehicle entrances, highly effective.

Physical risks
Wodd may experience the impact of physical risks associated with forest assets such as fire, insect infestation or wind-blow in extreme weather.
Wodd's forests are managed, or insured as appropriate, in a manner to mitigate these.
Advice on insect infestation is taken from the Forestry Authority.

Tax
Changes to tax and grant regimes governing forestry would have an adverse effect on the number of customers interested in investing in forestry and planting.
Changes in certain tax and grant regimes may adversely affect Wodd's financial performance.

Board of Directors
Peter Sorchi, Chief Executive Officer
Peter has had a long and successful career in forestry. He started in the industry 30 years ago and worked in the forests in Scotland for several years before starting his own business managing forests for the UK's Forestry Commission. He became involved in the certification of forests in the UK and regularly inspected woodlands for the Forestry Commission. He left Scotland and moved to Marland where he joined Wodd as a senior manager in charge of certification.
He joined the Board as Forestry Director in 2008 and became CEO in 2012.

Ibrahim Bengassa – Forestry Director
Ibrahim has been Forestry Director since 2013, having previously been the forestry manager in a large plantation in Nigeria.
Ibrahim has had a number of prestigious roles in the forestry trade. As Forestry Director, his role is to manage the forests and look after the investors.

Marcus Svenson – Finance Director

Marcus is a professionally qualified accountant. He also holds a Bachelor of Arts degree in Accounting. He joined Wodd's Board in 2008 after working in a number of senior roles in the timber industry in Sweden.

Sarah Johns – Marketing Director
Sarah has a degree in Marketing and has two prestigious awards for marketing gained when she previously worked for a major US company, rising to a senior managerial position.
She joined the company as Marketing Director in 2014.

Dr Maritza Lenzo – Human Resources Director
Maritza holds a Masters degree in Human Resource Management and she is a Fellow of the Marland Institute of Personnel and Development.
She has served in a variety of different entities. She joined the Wodd Board in 2013.

Dr Anton Carlov– Non-executive Chairman
Anton holds a Doctorate in Forestry Management and he is a Master of Business Administration.
He was a senior manager in a forestry management group in Siberia and became a director of it in 2008.
Anton retired in 2014 and Wodd's Board was delighted to welcome such a prestigious person to serve as non-executive Chairman.
Dr Carlov is a highly respected business person in Marland and wider afield.
He chairs both the Audit and Remuneration committees.

Stuart McLellan – Non-executive director
Stuart has been a non-executive director on Wodd's Board since 2012. He worked in the timber industry in Canada for 15 years before joining Wodd. He worked as a lumberjack and safety officer for most of this time.
Stuart sits on the Health and Safety, Audit and Remuneration committees.

Xai Ling – Non-executive director
Xai was appointed a non-executive director in 2013. He also has experience in the timber trade. He worked in one of China's largest building companys as a timber buyer. He is a member of the Health and Safety committee and the Nomination committee.

Lianne Edwards – Non-executive director
Lianne has been a non-executive member of Wodd's Board since 2012. She is also a non-executive director of a major Croatian sawmill. She has had a long and distinguished association with that company, having served as senior purchasing manager for 15 years. Lianne sits on both the Nomination and Remuneration committees.

Financial statements

Wodd
Statement of profit or loss
for the year ended 30 September

	2015 M$ million	2014 M$ million
Revenue	10,623	11,685
Cost of sales	(3,298)	(3,067)
Gross profit	7,325	8,618
Unrealised gain on biological assets	1,108	752
	8,433	9,370
Operating expenses		
Administrative expenses	(2,481)	(2,307)
Forestry operating expenses	(847)	(822)
Operating profit	5,105	6,241
Interest expense	(635)	(583)
Profit for the year	4,470	5,658

Wodd
Statement of changes in equity
For the year ended 30 September 2015

	Share capital and premium M$ million	Revaluation reserve M$ million	Retained earnings M$ million	Total M$ million
Balance at 30 September 2014	30,000	9,288	2,928	42,216
Revaluation adjustment		559		559
Profit for year			4,470	4,470
Dividend			(3,828)	(3,828)
Balance at 30 September 2015	30,000	9,847	3,570	43,417

Wodd

Statement of financial position
as at 30 September

	2015 M$ million	2014 M$ million
ASSETS		
Non-current assets		
Forest lands		
Land	23,457	22,050
Biological assets	24,899	24,351
Property, plant and equipment	364	306
Total non-current assets	48,720	46,707
Current assets		
Inventory	920	883
Trade receivables	948	1,025
Cash and cash equivalents	1,186	1,275
	3,054	3,183
TOTAL ASSETS	51,774	49,890
EQUITY		
Share capital and premium	30,000	30,000
Revaluation reserve	9,847	9,288
Retained earnings	3,570	2,928
	43,417	42,216
LIABILITIES		
Non-current liabilities		
Loans	7,045	6,480
Current liabilities		
Trade payables	1,312	1,194
TOTAL LIABILITIES	8,357	7,674
EQUITY + LIABILITIES	51,774	49,890

Notes

1 Accounting policy

Land is shown at fair value, as determined by independent valuers.

Standing forests are defined and reported as biological assets. The biological assets are evaluated and reported at fair value after deduction of estimated selling costs by an independent third party expert. Once the plantations have been successfully established, the fair value of standing forests is calculated as the present value of anticipated future cash flows from the assets.

2 Revenue and cost of sales

2015	Standing trees M$ million	Service and consultancy M$ million	Total M$ million
Revenue	8,891	1,732	10,623
Cost of sales	(2,870)	(428)	(3,298)
Gross profit	6,021	1,304	7,325

2014	Standing trees M$ million	Service and consultancy M$ million	Total M$ million
Revenue	10,043	1,642	11,685
Cost of sales	(2,670)	(397)	(3,067)
Gross profit	7,373	1,245	8,618

3 Forest assets at fair value

	Land M$ million	Biological assets M$ million	Total M$ million
As at 30 September 2014	22,050	24,351	46,401
Cost of planting biological assets		976	976
Increase in fair value of biological assets		1,108	1,108
Biological assets harvested		(1,536)	(1,536)
Land purchased	848		848
Surplus on revaluation of planted land	559		559
As at 30 September 2015	23,457	24,899	48,356

Regulatory bodies

The Forestry Authority of Marland

The mission of the Forestry Authority of Marland is to provide an ecological framework for the promotion of a healthy and cleaner environment for future generations by expanding forests and improving sustainable forest management.

The Authority offers partnership opportunities for forestry companies to create amenity woodlands for Marland, so that everyone can enjoy the benefits of the outdoors.

The Authority encourages forestry management companies to become accredited by the Forestry Stewardship Council of Marland (FSCM).

The Authority offers grants for planting and fencing forestry plantations and also offers assistance in applying for government forestry grants.

It offers advice on insect infestation in forests and other matters of sound stewardship of forests.

The Forestry Stewardship Council of Marland

The Forest Stewardship Council of Marland (FSCM) exists to support the responsible management of Marland's forests. We are a non-profit making and independent organisation.
FSCM publishes standards that promote environmentally sound and socially responsible development of forest lands. Companies who adhere to our standards are eligible to use our logo on their promotional materials and to display it on their products.
Consumers are increasingly concerned with the safe and responsible sourcing of timber-based products. The FSCM logo reassures customers that they are not contributing to the irresponsible destruction of forest lands, with associated harm to the environment and natural habitats.
The FSCM's has developed ten principles, which form the basis for our standard setting programme.

These principles are listed below:
Principle 1 – Compliance with laws and FSCM Principles
Those responsible for forestry management shall respect all applicable laws of the country in which they operate and shall comply with all FSCM Principles and Criteria.
Principle 2 – Rights and responsibilities
The right to exploit land and any associated forestry resources shall be formally documented so that the legal right to conduct operations can be demonstrated.
Principle 3 – Respect for indigenous peoples
Those responsible for forestry management shall recognise and respect the legal and customary rights of indigenous peoples to own, use and manage their lands and other resources.
Principle 4 – Respect for employees and local communities

The social and economic wellbeing of forestry workers and of local communities shall be preserved.

Principle 5 – Good use of available resources

Those responsible for forestry management shall identify the various resources that can be found in the forest, with a view to maximising environmental and social benefits.

Principle 6 – Environmental impact

Those responsible for forestry management shall maintain biological diversity and shall preserve resources such as water, soil and other ecological resources.

Principle 7 – Management plan

Forestry lands shall be managed in accordance with a specific management plan that states the long-term objectives of management and the means by which they will be achieved. The plan will be tailored to the land and the nature and scale of operations.

Principle 8 – Monitoring and assessment

Those responsible for forestry management shall monitor operations so that the economic and environmental effects of operations are kept under review.

Principle 9 – Sensitive locations

Particular care will be taken in the management of activities in forests that have a high conservation value. Those responsible will pay particular attention to maintaining and enhancing the factors that create that high value.

Principle 10 – Plantations

Principles 1 to 9 apply equally to plantations. In addition, those responsible for the creation and management of plantations shall aim to complement the value of natural forests.

Press clippings

TIMBER TRADE NEWS

Interview with Peter Sorchi CEO of Wodd

Why is investment in forestry so tax efficient?

There is no income tax on harvested timber and no capital taxes on the growth in the value of the tree crop. An investment will also qualify for relief against inheritance tax after two years of ownership. So if taxation is managed properly there is no tax payable on the investment or the income from felling the trees.

What are the main markets for timber?

Forest owners can benefit from a variety of markets. There are several main markets: construction, packaging, pallets, fencing, panel board, paper and biomass for energy and heat – this last market has led to new competition for the least valuable part of the tree and therefore increased the value of the whole tree to timber purchasers.

The World Timber Index indicates that timber prices are volatile. Is this an issue in considering an investment in forestry?

The benefit of forestry is that when prices drop there is no need to harvest. Value is stored in the trees while they mature and the trees continue to grow both in volume and value. There is generally a window of five to fifteen years in which a crop can be harvested, which means that the volatility in timber prices can be exploited to the landowner's advantage.

Is an investment liquid?

There is an active market for forest properties which sees good properties sold quickly. Having said that, forestry is the same as any other property, it is potentially illiquid as there is no perfect, established market. The trees continue to grow in volume, should a property remain unsold.

Who manages the forestry?

Experienced local managers. They provide ongoing budgets for the development of the forest, which are reviewed by Marland and amended as necessary in order to ensure that the investment achieves the best possible return. It is important that the forest is managed with trees being thinned out and dangerous trees removed, replanting also must be planned to maintain a sustainable forest.

How is the forestry asset valued?

By taking into account location, the age and quality of the crop and the state of the infrastructure, in particular the access to the forest. Value can be ascertained by market evidence and calculated on a discounted cash flow basis.

Why is forestry regarded as an inflation hedge?

There is a limited supply which is constrained by the fixed area of productive forests in Europe. There is a diverse spectrum of wood-based products that permeate the global economy and ensure that demand is robust.

What type of tree is best to invest in?

Sitka spruce produces the greatest volume of timber in the shortest time in Europe (it has a 30-45 year rotation) and has the greatest diversity of end uses. Once established, Sitka spruce grows at about 6% per annum.

What are the main risks of an investment into forestry?

The main risks are fire and wind-blow. These are insured against. There is currently no insurance cover for pests and disease, but trees with a relatively short rotation, such as Sitka spruce, are less vulnerable to pests and disease than trees with a lifespan of more years. The forestry authority offers excellent advice on pests and diseases and their treatment.

What are the environmental benefits to owning forestry?

All our properties have full Forest Stewardship Council of Marland (FSCM) certification. This means that all harvested areas are replanted, ensuring that the forests are sustainable. Furthermore, the forests are managed in an environmentally friendly manner which encourages biodiversity. Forests are in the frontline in the battle to restrict CO_2 emissions. They also encourage wildlife.

Forestry Monthly

No. 515 M$3.20

Sustaining a Future for Forestry.

Editorial

Forestry companies that recognise the importance of the industry for growing a sustainable economy will thrive in the future. It's not just about maintaining growing forests and selling timber but also in providing services.

The successful forest companies of the future will recognise this opportunity, use it to advance their own bottom line, and help ensure that forests survive and thrive.

Climate change, growing populations, huge increasing demand for food, water and energy are changing the way the world values forests. This vision is being advanced by new markets that are emerging for forest services such as carbon storage, wildlife preservation and recreational facilities. This trend is creating huge opportunities for forest companies with the foresight to reinvent themselves and look beyond the traditional role of timber felling and planting.

Forest companies of the future will expand their business model beyond delivering products to providing a variety of services to local communities. Timber revenue will still be important, but successful companies will have new sources of revenue to consider.

In order to meet these increasing roles, forests companies must be able to move from harvesting and planting to a service focused business.

Scanda, Scandinavia's largest forest company, is doing exactly that. Approximately 20% of annual revenue sales comes from biomass for energy and non-timber services such as wind farm leases and hunting and fishing licences. In addition, Scanda is managing a quarter of its land for conservation and promotion of biodiversity. The company is also experimenting with ways to maximise carbon uptake through different forest management measures and plans to sell the additional uptake to carbon markets.

Other large organisations are shifting focus to incorporate services. Many have proportions of their forest land under revenue-generating conservation and wildlife protection agreements.

Some large paper and packaging companies are branching out into the market for biomass and ecotourism.

Climate Change: Trees not only capture and store carbon while they are growing, they also produce fossil fuel substitutes (such as biomass) and provide flood control and regulate water flowing down hillsides all helping to reduce the impacts of climate change.

Increasing demand for renewable energy and materials: Limited supply and rising prices of fossil fuels are increasing demand for renewable timber-based energy and materials. The European Union has pledged to boost biomass energy consumption which will increase demand for timber.

Restoring nature's services: There is an increasing requirement for increases in funding to restore the ecosystems created by forests in order to reduce flooding and prevent reservoirs becoming blocked with silt washed down from the hills.

Increasingly people are keen to enjoy nature: With so many of us living in large cities there is an increasing interest in escaping to the countryside with fresher air and good views in the evenings and at weekends. Urban forests could improve air quality, reduce noise and provide a healthy clean environment for city dwellers.

Extract from Darrell's financial statements

Darrell is one of Wodd's major competitors. It is based in Marland.

Darrell
Statement of profit or loss
for the year ended 30 September

	2015 M$ million	2014 M$ million
Revenue	16,842	18,095
Cost of sales	(9,263)	(9,409)
Gross profit	7,579	8,686
Unrealised gain on biological assets	1,009	1,241
	8,588	9,927
Operating expenses		
Administrative expenses	(3,066)	(3,279)
Forestry operating expenses	(940)	(1,014)
Operating profit	4,582	5,634
Interest expense	(545)	(720)
Profit for the year	4,037	4,914

Darrell
Statement of financial position
as at 30 September

	2015 M$ million	2014 M$ million
ASSETS		
Non-current assets		
Forest lands		
Land	26,486	24,249
Biological assets	21,598	20,734
Property, plant and equipment	5,374	3,869
Total non-current assets	53,458	48,852
Current assets		
Inventory	1,500	1,215
Trade receivables	1,063	1,224
Cash and cash equivalents	931	4,875
	3,494	7,314
TOTAL ASSETS	56,952	56,166

EQUITY		
Share capital and premium	28,000	28,000
Revaluation reserve	4,417	4,265
Retained earnings	16,661	13,297
	49,078	45,562
LIABILITIES		
Non-current liabilities		
Loans	6,000	9,000
Current liabilities		
Trade payables	1,874	1,604
TOTAL LIABILITIES	7,874	10,604
EQUITY + LIABILITIES	56,952	56,166

CORRECT TEXT

Reference Material:

Business Weekly

US President refuses to be drawn on weak USD

The USD remains weak after a succession of disappointing economic indicators, with leading economists warning that a further decline may be on the way.

At a press conference yesterday, the US President claimed that there was no cause for alarm and that the US economy remains fundamentally strong.

The President refused to indicate whether the US Government would act to sustain the USD, stating that any such action would be premature.

You have received the following email from Marcus Svenson, Finance Director:

From: Marcus Svenson, Finance Director

To: Senior Finance Manager

FW: Pricing

Hi,

I am forwarding an email from Sarah Johns.

Sarah has not been with us for very long and this is her first experience of dealing with a currency price movement.

I am really busy, so I need you to respond to her requests. Please email her as soon as possible.

Marcus

From: Sarah Johns, Marketing Director

To: Marcus Svenson, Finance Director

Subject: USD movement

Hi Marcus,

A lot of our biggest customers are threatening to cancel orders unless we reduce our selling prices. Timber and associated products are commodity items that are priced in USD, so I thought that our prices would automatically remain competitive regardless of what happened to the USD. I am particularly confused over domestic sales, because many of the customers who have threatened to cancel are based in this country and we invoice them in M$.
Please help me to understand why the M$/USD exchange rate can affect our competitive position in this way.
I also wish to know why you have chosen to do nothing to hedge against this risk. If you look at the attached article you will see that the USD is an issue in the business news.
Sarah
Answer: Complete your answer and submit.

2.CORRECT TEXT
You have received the following email from Marcus Svenson, Finance Director:
From: Marcus Svenson, Finance Director
To: Senior Finance Manager
Subject: Investment opportunity
Hi,
The Board is considering an investment opportunity to buy a forest in Bravador, a country in South America. This will be a major expansion and will also enable us to diversify into new lines. For example, the forest contains lots of hardwood varieties that we could sell to companies in the double glazing industry or to furniture manufacturers. I downloaded the attached extract from an online encyclopaedia for your information.
The forest that we are planning to buy has not been used for commercial purposes until now. The land belonged to the Government for many years and it has been left to grow naturally. The Government is now keen to sell the land and has agreed that it may be used for commercial forestry purposes.
This investment will enable us to increase our output of softwoods by up to 20% per year, in addition to enabling us to enter the hardwood market.
I need two things from you. I need you to recommend a suitable approach to managing our relationship with the Bravadorian Government. I also need you to identify and explain the political risks that will remain even if we succeed in creating a sound relationship with the Government.
Marcus
Reference Material:

Encyclopaedia of Trees (extract)

Hardwood

Hardwood is derived from trees that reproduce from flowers and have broad leaves.

The wood from these trees tends to be harder than from softwood varieties although this is not always the case, with hardness varying considerably between species.

Commercially, hardwood is used in a variety of applications including boat building, furniture making and flooring. Hardwood tends to cost more than softwood. Some species of hardwood trees are becoming scarce because of over-exploitation.

Softwood

Softwood trees develop seeds on the surface of scales or leaves, often in the form of cones.

Softwood trees tend to grow much more quickly than hardwood and are generally better suited to commercial forestry applications.

The wood is generally less expensive. It is often used for construction, either as planks or beams or pulped and reconstituted as medium density fibreboard (MDF) or chipped and pressed into chipboard.

Pulp from softwood trees is also used in the manufacture of paper.

Answer: Complete your answer and submit.

3.CORRECT TEXT

Two months have passed since the threatened disruption of the building work on the biomass power station. The threat has been resolved and work is again under way on the development.

You have received the following email from Peter Sorchi, CEO:

From: Peter Sorchi, Chief Executive Officer
To: Senior Finance Manager
Subject: Wildlife survey
Hi,
I tried to obtain some trustworthy advice from your boss this afternoon, but have come away feeling quite unsure that we are on the same wavelength.
As you know, the law in Marland is very clear concerning the protection of rare species of wildlife. Before building work commences on our new power station the Government will send a survey team to check for the presence of protected species. The attached article shows how sensitive an issue this can be.
As part of our corporate social responsibility, every one of Wodd's forestry teams has a small team of wildlife officers, whose job is to survey the forest and to identify all natural habitats. Trees can grow undisturbed for many years in a commercial forest before they are harvested and so natural habitats can become well established. Our wildlife surveys enable us to limit the harm done when trees are felled.
One of Wodd's wildlife officers in the North Forest has submitted a report on the sighting of a rare species of bat in the area that will be cleared for the power station. The report states that these creatures tend to be difficult to observe because they only come out very late at night and tend to roost in dense forest. This could, potentially, delay the start of work for six months while the bats are captured and relocated. Relocating the bats will also be expensive.
The Finance Director's advice was to ask the wildlife officer to change the report, stating that the original version was submitted in error and that the sighting occurred in a completely different part of the forest, well away from the planned construction site. There is only a small possibility that the Government inspectors will find the bats during their own inspection. In the event that they do then Wodd can claim that it was unaware of the bats' presence.
This whole exchange raises a number of issues for me.
Should we spend shareholder money on protecting wildlife in our forests?
What are the implications for our internal control system of the Finance Director asking for this report to be changed?
What are the difficulties in motivating our wildlife officers and how might we overcome these?
The Chairman is always complaining about how the executive directors are too aggressive when it comes to making a profit.
How might I address that concern?
I would appreciate your response on each of the above issues.
Peter

Daily Gazette

Newt delays building project

There could only be one winner in the battle between a ten tonne bulldozer and a two centimetre amphibian. It was, of course, the amphibian who triumphed.

Work was just about to commence on the foundations for a new shopping mall on the outskirts of Capital City when an official conducting a wildlife survey discovered that a pond in the middle of the site was home to a colony of rare newts. This brought work to a halt until immature animals had reached a stage where they could be safely captured and moved to a safe location. This delayed work by more than two weeks and cost the developers a great deal of money.

Answer: Complete your answer and submit.

4.CORRECT TEXT

Two weeks have passed since the article about Wodd's role in tax avoidance was published. Thankfully, the initial reaction was to condemn the celebrities who invest in tax avoidance and little was said about Wodd's role in facilitating tax-efficient investments.

You have received the following email from Sarah Johns, Marketing Director:

From: Sarah Johns, Marketing Director

To: Senior Finance Manager

Subject: Forestry certification

Hi,

I am told that you would be a good person to talk to concerning the practical implications of a new venture that has been proposed.

I have attached a sales brochure that I downloaded from Tabel's website. Tabel is a competing forestry company that has similar interests to our own. It has recently launched the certification scheme that it has

described in its brochure. It has no competition for this certification in Marland because no other company has sought the qualifications required to offer an accredited Forest Certification Service.
Wodd has the necessary skills to offer a credible Forest Certification Service. Our forestry managers already aim to exceed all of the requirements set out by the global body. We also have a well-resourced internal audit department. I believe that we could transfer either forestry managers or internal auditors to a new external certification department. The transferred staff would complete the training required by the global body and would sit the associated examinations. We could then compete with Tabel's service.
I need your advice on the following:
Could you explain how you imagine that a typical certification investigation would work and the skills that it would require? That will help us to decide whether to approach forestry managers or internal auditors and will also enable us to describe the work that they would be doing if they agreed to be transferred.
What are the challenges associated with motivating and evaluating the investigators in the certification service and how might we address these?
Sarah
Reference Material:

Forest certification services

Sustainable forest management requires an informed and responsible attitude. The growth cycle can mean that it may take decades for the results of decisions to become apparent.

There is now a global demand for the certification of forests as sustainable and for the timber harvested from sustainable forests to be identified as such.

Certification reassures the communities who live in or near to forests, manufacturers who buy timber and timber products and consumers who buy the finished goods.

A sustainable forest management policy will ensure the following:

- Saplings are planted whenever trees are felled, usually in a ratio of at least two new trees for every felled tree.
- Harvesting allows for the risk of soil erosion, with sufficient trees left standing to guarantee that soil will not be stripped by wind or rain.
- Chemical pesticides are avoided as far as possible, with natural alternatives used whenever possible.
- Biodiversity is maintained for both animals and plants.
- Workers have safe and secure working environments.
- The rights and interests of local communities are respected.
- All relevant laws and codes of practice are adhered to.

TABEL

Tabel is presently the only forestry company to offer an accredited Forest Certification Service in Marland. Our inspectors have been trained in accordance with the requirements laid out by the global body for forestry certification.

Our service involves an annual investigation, which leads to the award of a certificate to state that all relevant standards have been met. Certificate holders can then market their products on the basis that they have been certified as sustainable. They are also entitled to display the logo of the global accreditation body on their letterheads, websites and any other documentation.

Answer: Complete your answer and submit.

5.CORRECT TEXT

Peter Sorchi, Wodd's Chief Executive has stopped you in the corridor:

"We signed a memorandum of understanding with the Bravadorian Government last night. Effectively, we are now the new owners of a forest in a new continent for us. It has already made it onto the business pages in the press.

Once the formalities are completed, we will be entering into new commercial territory. Our surveyors have looked at the first area that we intend to develop and there is a lot more hardwood than we first expected. That is good news in a way because it can be sold at a premium, but we don't have any experience of

selling hardwood and we are hardly going to pulp it for MDF or paper. I need you to identify the changes that we will have to make and to recommend how best to manage them.
The funding arrangements are still being worked out. Bravador's banks are not in a position to fund a transaction of this size and none of the other banks that we have approached are prepared to lend to us. We will need to raise additional equity. I realise that we would normally make a rights issue, but I think that it would be simpler and cheaper to suspend the dividend for a year, which would cover most of the purchase price in itself. Please advise me on the advantages and disadvantages of doing that.
It would be ideal if you could let me have a briefing paper on both of these matters urgently."
Reference Material:

Business Weekly

Wodd's jungle adventure

Wodd announced the purchase of a major forest in South America. This will further consolidate the company's position in the market for wood pulp. It will also create some interesting new opportunities because the forest contains significant untapped hardwood resources.

It will be interesting to see how Wodd responds to the challenges associated with this investment. There are significant profits to be made, but there are also significant pitfalls to be avoided.

Answer: Complete your answer and submit.