Hello

Spring has arrived and with the longer daylight hours hopefully summer is just around the corner. We'd like to say thank you to all who voted online to approve the audited accounts. The online voting is proving popular with partners as it only takes a few moments to complete.

It was pleasing to see New Zealand has ratified the Paris Agreement which has resulted from the UN Climate Change Conference. On October the 5th the threshold of 55 countries accounting for 55% of world emissions was passed, this means the Paris Agreement on Climate Change came into effect on November the 4th.

The key difference to previous agreements is the world's two largest emitters, the USA and China are signatories. New Zealand also signed, thus joining others at COP22 in Morocco this month.

Managed Investment Scheme - We're Licensed!

As you are aware we are required to be licensed by the Financial Market Authority (FMA) to continue managing the forest partnerships. We are very happy to report that we were the first forestry managers to get a license. It has been a huge effort by our office over the last 14 months to achieve the licensed status. The additional layers of compliance monitoring and reporting appear slightly heavy handed for our partnerships, especially when you consider all and any expenditure is pre approved by the partners in the annual budget - a point we pushed strongly with the FMA. However, the law is the law and we are incorporating the new requirements into the daily operations of our business.

We have pushed for exemptions where available and completed as much of the work as possible in house in an effort to keep cost to forest owners to a minimum.


MARKET SERVICE LICENCE

MANAGED INVESTMENT SCHEME MANAGER LICENCE

This is to certify that
ROGER DICKIE (N.Z.) LIMITED
FSP512246

is licensed to provide the following market service:
manager of a registered scheme (other than a restricted scheme)
under Part 6 of the Financial Markets Conduct Act 2013.
The conditions of the licence imposed by the Financial Markets Authority are published on www.fspr.govt.nz

Rob Everett
Chief Executive

Licence effective from
23 September 2016

Licence expires on
23 September 2021

FMA
FINANCIAL MARKETS AUTHORITY

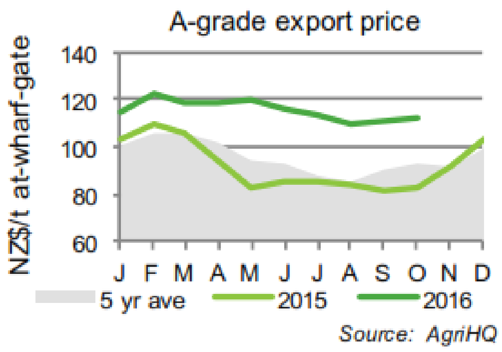
Deed of Participation Update

As advised the original Deed of Participation (DOP) requires updating to comply with the Financial Markets Conduct Act (FMCA). Our lawyers, Kensington Swan, have been working on this in conjunction with the Statutory Supervisor.

We have only made changes as required to comply with the new FMCA - the rest of the DOP remains as it was originally. We will call a meeting to adopt the updated DOP with online voting as per the recent adoption of audited accounts.

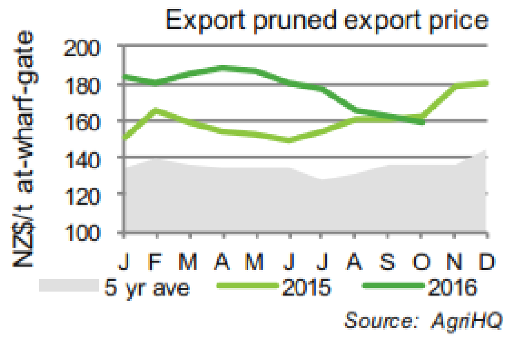
AML Partner IDs

The Anti-Money Laundering and Countering Financing of Terrorism Act 2009 was brought into full force in June 2013, we need to ensure we are taking appropriate measures to be compliant with all the obligations within the AML/CFT Act. The office team are continuing to work their way through the partnerships gathering personal IDs. **It is important that you supply the required information and it is VERIFIED**. Non compliant IDs will be returned.

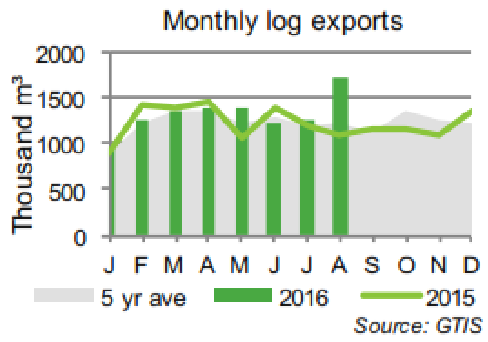


Carbon Markets

Spot NZUs are currently $18.80 per tonne. The market continues to consolidate at present levels and sits near its 5 year high.

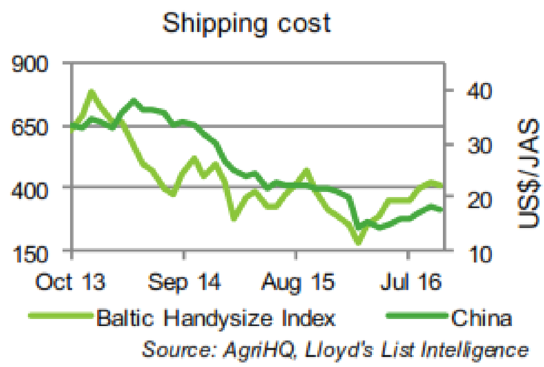


"*It's only a matter of time in our view that $19 will trade as large sellers remain absent and demand is expected to increase over the next two quarters as buyers finalise their 2016 requirements and annual demand increases from Q1 as the one for two unwinds from January next year"*
says Nigel Brunel, OM Financial Limited.



Log Market Update

As Agri HQ stated *"It would be fair to say the log markets as a whole are enjoying a positive period, and it looks set to stay that way for the remainder of the year."*



Demand from the housing construction sector is the driving force behind the current state of the domestic market, and unless there's a significant reversal in new housing projects, structural logs should continue to be met with good prices. Pruned logs are the only grades which are showing any signs of softness, a product of increased supply, as volumes move away from the weaker export market. It appears as though the export vs. domestic supply has come to a balanced level in recent weeks, which should prevent significant downward movement for the short-term. Export markets are in a similarly stable position for now.

Will and Steve are recently back from a trip to Korea to build knowledge of the log market there. See Will's separate report.

Harvesting

Our first forest Waikare, a 441 ha (NSA) forest, near Wanganui has now been harvesting for 20 months. It is pleasing that net returns per ha are tracking 25% above those in the harvest proposal presented to partners prior to harvest, which reflects the recent markets.

Roading work has started at the other Wanganui forest Maxwell and is progressing well with clear-fell commencing earlier in November. Road lining, Harvest planning and pre-harvest work is underway at Glenview, Tangoio, Eskdale, Bayview, Kaheka 1 and 2, and Waipapa. Full details of progress are in the Forest Managers reports for those forests.

First Logs from Maxwell Forest

Power Corridors

As described in the FMNZ report, this is work in progress. In essence, power line companies are trying to charge us for tree damage to lines, even when the trees are planted outside the designated power line corridor. They pay us no rent for the area we cannot plant and we feel they have no rights for areas that are not legislated as non plantable areas.

Napier - Wairoa rail line to reopen

The Wairoa to Napier rail line is back on track following a commercial agreement between KiwiRail and Napier Port. A dedicated log service will run from Wairoa to Napier Port from the end of next year subject to Napier Port approving KiwiRail's updated forecast cost for restoring the line to service.

Part of the operational arrangements is a log hub in Wairoa to store logs as they await transport to the port - great news for all of our forests in the Wairoa region.

Insurance

We recently completed negotiations with our brokers and insurers for our Forest Insurance for the year beginning October 1st 2016.

This year has seen the first significant increase in premium cost for many years. Our total premium cost has risen by around 38% from $889,000 to $1,222,000.

The reasons for this are:

- The value of our forest estate has risen by 27% in one year to $497 million. This is due to both growth in the volume of the estate and the fact that New Zealand registered forest consultants have changed their discount rate used from 7% to 6.5%, this is based on sale price of forests in recent years.
- The average insurance premium across all of New Zealand has risen by 7%, this is due to both firming in the world insurance market and New Zealand's overall claims history in the past year or two. There have also been a couple of quite big forest fires in the South Island.
- As well, there is a risk rating for various regions and almost all of our forests are in a region that is rated at a high risk rating for wind.

The initial quote we received had an additional 7% higher rating for our forests premium over and above the New Zealand average. However, after firm negotiations we were able to get our additional rating reduced to about 1%.

Our insurance cover is for $50 million of wind damage (maximum $40 million in any one event). We hold the majority of wind cover in New Zealand and our insurance sub-committee, our investors and myself are comfortable with that as we have had claims of between $1 million and $4 million in the past. There are also a range of other benefits in the cover, two of the most useful, in the event of a claim, are fire fighting costs of $2.5 million (helicopters are expensive), and claims preparation expenses of $500,000.

The insurance premium is by far the biggest part of your annual expenses. As we approach harvest and with increased forest value the risk of significant claims from windthrow is increased and the feedback we get from investors is that they are satisfied with our conservative approach to insurance but of course no one is very happy with the new increased rate.

Given the above, this year's cost of insurance will be higher than in each forest partnership individual budgets. In most cases it will still be covered by the individual partnerships share of the Insurance fund.

Secondary Sales

Uptake within partnerships through the pre-emptive rights phase has been positive which has seen fewer opportunities going to the open secondary market. Any securities that have made the secondary market have been taken up by investors from other partnerships or new investors, many from overseas - particularly Europe.

Carlsberg Forest - to be planted 2017 - Note Ridgemount Forest in the background

New Forests

Interest from European families continues to be strong with the challenge being finding suitable properties. We continue to actively monitor the market for forest properties.

New Office Staff

We welcome back Amanda to our Waverley Office. Amanda was with us 12 years ago, before she and her husband moved away dairy farming. They have recently moved back to the area. Amanda will be helping in the administration office with the increased compliance monitoring and reporting requirements on the partnerships.

Please keep an eye out for the online voting to adopt the new DOPs. A prompt online vote would be appreciated.

Enjoy the summer months, and remember you are welcome to visit your forest anytime - you just need to confirm with Forest Management when you would like to visit.

Regards

Roger

FOREST Management NEW ZEALAND LTD

GREENWOOD
Forest Partnership

Forest Managers Report

October 2016

The drifts of yellow pine pollen are over for the season and we are well into what has turned out to be a very warm but wet spring. These are ideal conditions for the spring growth flush which is now very evident throughout the forest.

Forest health is generally excellent with foliage a uniform healthy green. The trees that were planted amongst the kanuka that have been struggling are now starting to emerge from the scrub and are making good growth. It is pleasing to see there is little evidence of red needle cast (RNC) in the forest.

The tracks are in reasonable order however, are suitable only for quads. There is a large poplar tree up one of the gullies that has split in half and blocked the track and this will need to be removed. The tracking maintenance work was budgeted for October however, given the wet conditions, the commencement of our tracking programme has been delayed. It is likely the bulldozer will get to the property early in the new year. If the tracks remain in their present condition, we may choose to forgo the maintenance work until later next year.

The variegated thistles are coming up along the Mullooly boundary and as soon as we get a break in the weather, these will be sprayed. There are a lot less germinating now so our spray programme is making a difference. There are a few scattered patches of blackberry around the property but these are not a concern at this stage.

The boundary fence repairs carried out on the Mullooly boundary last year are holding up well however, the stock is now starting to put more pressure on the section of fence that is awaiting repair. We have allowed $2,000 for the repairs but are not sure when the work will be done as it needs to be very dry just to get the materials on site. We have also allowed $1,500 for repairs to the Moore boundary. We understand the neighbour is trying to find a fencer to do the work.

Due to the wet spring weather, the possum control work has also been delayed. This work is budgeted for this month however, it will be closer to the end of the year before we get to the property. There is no point putting the bait bags out in very wet conditions as it reduces the lifespan and effectiveness of the Feratox, an encapsulated cyanide, as well as the lure which attracts the possums to the bait bags. Once we start getting some decent spells of fine weather we will reschedule this work.

There is a dam on a ridge top that is filled by rainfall and has no waterways running into it. When we planted the property, we noted how muddy the water looked and assumed this was due to the relatively recent earthworks that created the dam. The water has not become any cleaner since and the explanation offered by one of the neighbours was that it was full of eels. During a recent visit to the property we took the heart and liver out of one of the goats we shot, took it to the dam, tied a rope on and threw the offal into the dam. Within seconds there was a tug on the rope and then the whole dam started to move like Rotorua mud so it is full of eels. We cannot help but wonder what happens when it gets dry?

Eastland Community Trust Joint Venture

In 2015, the Eastland Community Trust (ECT) purchased Prime Sawmill, just south of Gisborne. The site contained a modern, fully operational sawmill including a green mill, capable of processing 500 cu metres of timber in 10 hours and a dry mill which dresses timber for export. The facility also includes an export shed, log storage and debarking, cutting, kiln drying facilities. At the time of purchase, the mill was not operational.

ECT have recently announced a joint venture agreement with Wood Engineering Technology Limited. The partners are investing $4.7 million each and intend is to operate the site as a high tech wood processing plant which will turn lower grade logs into high value structural timber.

With the increasing volume of wood being produced from the greater Gisborne district, this initiative is an excellent alternative to exporting logs and an opportunity to add value and create local jobs. We welcome this venture as until now, there has been a very limited domestic market for logs in Gisborne.

Fire and Emergency New Zealand (Fenz)

We recently attended a seminar on the establishment of Fire and Emergency New Zealand (Fenz), an amalgamation of the New Zealand Fire Service, the National Rural Fire Authority, 12 enlarged rural fire districts and 26 territorial authority rural fire authorities. The intention is to set up a single integrated organisation from 1 July 2017 with the aim of building a modern nationwide service from the present separate urban, rural, volunteer and paid firefighting forces.

This raises several questions on the effect this amalgamation will have on the existing forestry fire fighting brigades such as Bay Forests, Eastland etc. It seems there is a lot of work to be done before clarity can be provided around the role of these entities in the new Fenz organisation. There is also a great deal of uncertainty around what will be funded by Fenz and what the forest owners will need to fund to continue to maintain adequate fire protection in our forests.

The amalgamation will be a multi-year project. In order to create one unified organisation, there is still a huge amount of consultation and discussion required at a local and national level. It is the intention to establish local committees in each area to link Fenz with the various community and industry groups it needs to serve and protect.

Steve Bell
Forest Manager

Korea Visit with YSI Log Exporters

I have just returned from a visit to South Korea with Steve Bell, on a log sales trip for the last 4 days. This was a timely visit, as we begin the road lining and harvest of our partnership forests.

We were hosted in Seoul and Incheon by YSI Managing Director Mr. K. Kim and General Manager David Moon. YSI is a New Zealand based company, established by Mr. Kim in 1998 exporting Radiata Pine into South Korea.

Mr. Kim, pictured right, has been in the timber trading industry for over 40 years now, starting in the Hyundai Timber division in Korea where he met and developed relationships with a majority of the long-standing Korean Sawmills. YSI was the first company to export New Zealand logs into Korea. It became very evident to both Steve and myself that selling into an established market such as Korea relies heavily on relationships - more on this later.

Mr Kim (front left) and David Moon (middle left) host us with their clients in South Korea

The Korean Log Market - Some Background.

The Korean market consumes between 8-9 million cubic meters (m3) of logs (not timber) per annum. Between 45 and 50% of this volume is imported with the rest sourced locally.

New Zealand supplies between 2.3 and 2.6 million m3 of logs per annum. This makes South Korea the second largest market for our logs (behind China whose annual imports are around 11 million m3) The Korean log market is described as well established. That is most of the importers are end users rather than traders, hence there is very little volatility/speculation in annual log consumption.

The logs are mainly used for construction in temporary form work for concrete. It is also used in packaging and pallets and the remainder for MDF board.

Steve Bell inspecting Radiata from New Zealand

Site Visits

On the first day of mill visits, we went to medium sized sawmills with monthly consumption between 3-12,000 M3 of logs. Fumigation of the logs happens in the yard at the mill (All other countries require fumigation to be done on the ship before leaving New Zealand). The processing is all done using various forms of automation. The sorting of the boards coming out of the bandsaw is still a manual process. The level of health and safety varies from mill to mill. Only some staff choose to wear hearing protection. There is no hi-vis or hard hats, and the machines have very little in the way of safety barriers. When asked about lost time incidents, they said there were very few - One mill recalled only 1 broken limb in 20 years!

One of the mills, Foresco, has developed a process where they make colored MDF - one of only 3 mills in the world with this capability. The fiber board is used for decorative purposes only. Interestingly, all the mills that saw logs, but do not have facilities to make MDF or use the offcuts, package and send all the offtakes to mills like Foresco that can use them.

Foresco Colored MDF- It is very difficult to tell the difference between sawn wood and this MDF product.

On the second day, we visited a number of other sawmills including Sunchang Corporation - the largest sawmill in Korea. Sunchang Corporation saw between 50- 60,000 m3 of timber per month in one location - this is a 23-hectare sawmill! They make lumber, plywood, and MDF.

Sunchang already own forests in New Zealand - 4000ha in Marlborough which they are actively harvesting and exporting through YSI. Their sawmill is based in Incheon alongside the port. The logs are offloaded at one of the 75 berths at the port and then barged across the port inlet 2km to their mill. This is more cost effective than loading them on trucks for the 20km trip around the perimeter of the port.

Sunchang Corporation - the mill occupies 23hectares and processes 50-60,000 cubic meters per month

The tide in Incheon moves a massive 10 meters and meant they can only reach the barges to offload the logs when the tide is higher than 6.5 meters. The rise and fall of the tide was very impressive.

Grade Mix and Korean Pine.

The demand for New Zealand Radiata is strong. Korean Pine does not grow merchantable saw logs (Korean pine pic) so it is only used in MDF. They, therefore, require other timber sources for use in their construction and packaging industries. Unfortunately, because it is only used in construction and packaging there is not a lot of demand for our higher grade logs. They are predominantly after A and K grades to meet their requirements.

When we asked about timber use in buildings (like we do here in New Zealand) they commented that the perception of New Zealand Radiata is that it is a lower grade log. All building over there is predominantly done with Hemlock from North America. The structural properties of these 2 logs are similar, it is just a matter of educating the Korean market of this. Perhaps some more of our national harvest levy could be directed this way?

Will beside a load of Korean pine for chipping. Note the logs are stacked across the truck - less tha 2.4m long.

Relationships

I think the thing that became clear to Steve and myself is how much the Korean log market relies on relationships. All of the end users have been in the game a long time, they value honesty and integrity very highly. It was evident that the relationships Mr. Kim and David had with all the operations we visited was very well respected. They are all very interested in growing relationships in the New Zealand market.

We thank David and Mr. Kim for their most generous hospitality and look forward to a successful relationship for our forest partnerships moving forward.

Regards,

Will Dickie