ROGER DICKIE
NEW ZEALAND

Forest Partnership Report

2nd November 2015

Hello,

Since my last report to you, we have seen a number of events affecting New Zealand. The Rugby World cup has given most of us pleasure, the humble and inclusive culture of the All Blacks makes one proud to be a New Zealander.

On the financial side, the signing of the Trans-Pacific Partnership Agreement (TPPA) will provide benefits for New Zealand forestry.

Tariffs on all forestry exports to TPP countries will be eliminated. While this only represents a $9 million saving on present tariffs the forest industry anticipates there will be bigger prizes arising from the TPP agreement.

The New Zealand Wood Council has commented:-

> "The focus of the TPPA has been on tariff reduction and elimination, but with wood products we suspect that non-tariff barriers are a much greater impediment to trade. Technical barriers that have no scientific justification can prevent the import or use of imported wood products. Subsidies enjoyed by domestic wood processors can also make it impossible for imports to compete fairly.
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> "The TPP creates a special relationship among the participating countries and we are hopeful it will become a permanent forum where other impediments to free trade, such as non-tariff barriers can be overcome."
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> Another positive the Council draws from the TPPA is the potential it creates for exporters of NZ processed wood products to compete in markets where they have until now been excluded by tariffs that escalate rapidly as value is added to a raw material.
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> "These lost opportunities are not included in the $9 million saving, because current tariffs make exports unprofitable," says Mr McCallum.
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> "The Wood Council appreciates the hard work of NZ Government negotiators at the TPP talks. Once the agreement is ratified and becomes law there will be immediate small benefits for the forest and wood processing sector. Longer-term we hope to see much bigger benefits."

As I see it, the TPPA will provide greater opportunities for wood processing in New Zealand, any action that reduces the percentage of our forests being exported as logs is positive for the industry and regional employment.

We have seen extremes in weather from heavy snow around Gisborne and Wairoa hill country, to a very dry winter in the Hawkes Bay and then very heavy rain, that caused flooding in Gisborne.

The Gisborne and Wairoa Forests escaped the worst with snow damage in the main consisting of branch breakages and some limited toppling due to the weight of the snow, combined with very wet ground conditions. Track maintenance will clear up any litter to restore forest access.

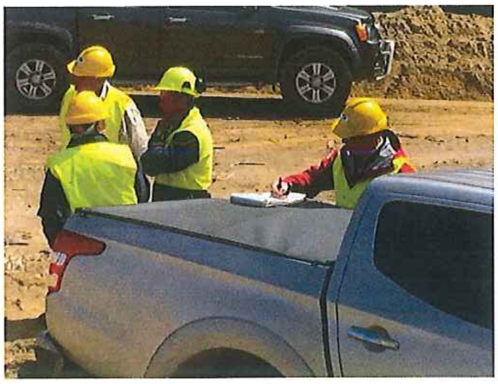
We are all looking forward to some more settled summer weather.

Waikare Forest Harvest

The first loaded logging truck left the Waikare forest (inland from Waverley in Taranaki) in February this year, bound for the New Plymouth port. This marked the start of harvest operations for the Waikare Forest Partnership and is the first Roger Dickie (N.Z.) Ltd forest to be harvested.

It is interesting to note the effect of freight cost on the net return (stumpage) of the Wanganui forests when compared with our East Coast forests. There is a $7,000 to $12,000 saving per ha for those on the East Coast.

The forest manager Steve Bell discussing the main Waikare access road with investors.



Waikare forest partnership investors completing the Health and Safety induction before a tour of the Harvest site.

Waikare forest harvest skid site. To date approximately 15% of the three year harvest plan has been completed.

Harvest Age

When we planted our forests it was forecast to be a 28 year project and that was the normal assumption by all consultants based on the information they had.

However, we planted our forests on predominantly fertile ex farm sites rather than lower grade land. As well, the climate and soils of the East Coast have contributed to produce very high growth rates in almost all cases. The outcome of this is that we can begin harvest on most of our forests at age 26. Because the harvest will be spread over three years the harvest age will be 26 to 29. Interestingly pre harvest inventory is showing that some of our forests will produce the same volume at age 26 as was forecast for age 28.

Because harvest will begin at age 26 in most cases our pre harvest planning and roading will begin from about age 24.5 years.

Earlier income will of course improve the return of the investment. Our present calculations show that Waikare forest will return around 7% and we would expect most of our East Coast forests to have Internal Rates of Return (IRR) in excess of this.

Forest Insurance

PF Olsen Limited has provided the annual Tree Crop Insured valuation as at 30 September 2015 for the RDNZ forests. They have assessed the value to be $389 million, an increase on last year of $6 million.

We went to the market for two quotes and we have rolled over the forest insurance under the same terms and conditions. We have increased the claims preparation sum insured from $250,000 to $500,000 based on anticipated professional fees and other expenses incurred managing a loss and preparing a claim agreed by the insurer following the loss or damage to the forestry area.

In general there has been a 5% increase in Forestry Insurance premiums, and with the increased sum insured, we have managed a 3% increase.

Our insurance costs per ha are higher than some other New Zealand forest owners. This is because almost all forest insurance works on a first loss basis where only a percentage of the total crop is insured. We are told our first loss cover of $40 million is the highest in New Zealand, the outcome of this is that in a catastrophic (Cyclone Bola or worse) event we would receive significantly more.

At the 2014 AGM's it was resolved to *'utilise the Partnership's share of the insurance fund to pay the wind and fire insurance premium until those funds are exhausted'*. After payment of this year's premium, the insurance fund has a value of $1.960 million. I estimate this should cover the premiums for the next two years, based on the current premium.

We have also rolled over the public liability insurance with Aon. The premiums have increased on average $15 per forest.

Liability free NZU's

We are selling the Forest Partnerships liability free NZU's progressively as required to pay the forest expenses. A recent sale of NZU's saw a price of $6.55 each. Prices have been over $7.10 and are anticipated to continue rising.

Financial Markets Conduct Act 2013

We continue to make changes to our business to meet the Financial Markets Conduct Act (FMCA).

There has also been a change with our Statutory Supervisor. The shareholding in Foundation Corporate Trust has changed and the new ultimate owner is called Complectus Ltd. Complectus Ltd also owns Guardian Trust and Covenant Trustees Ltd.

We are told that the ultimate intention is to amalgamate Covenant Trustees Ltd and Foundation Corporate Trust. For the time being Foundation Corporate Trust continues as a stand-alone entity and our obligations and contractual arrangements remain in place.

Apart from death, there is only one thing we can be sure of in this world and that is change.

Foundation Corporate Trust are pushing an initiative to seek an exemption from complying with the FMCA for closed forestry partnerships. We are uncertain about this, but will monitor progress with interest.

We continue to be aware of compliance costs and managing those costs.

Anti Money Laundering and Countering Financing of Terrorism Act 2009

As part of our compliance with this Act, we will continue to ask for your Identity to be verified with Photo ID, proof of address and your bank account details. This will become particularly important when:

- a forest is being harvested and before distribution of income is made, or
- you have sold your participatory securities in a forest partnership and before settlement can be made.

Log Markets

Domestic: The domestic log market is expected to remain firm based on steady New Zealand economic growth, a strong housing market and increased residential and commercial construction activity.

Export: The 10 year trend shows steadily increasing China log import volumes from their major supply sources, such as USA, Canada and New Zealand. This has been assisted by decreases in domestic harvesting in China, as environment initiatives lockup timberland.

Log Price Outlook: With continued drops in log inventory in China, prices are expected to continue to firm. Since the beginning of October the NZ$ has strengthened against the US$ which has effectively offset any price increases.

Stocks in China are reported to be dropping by 100,000 m3 per week, and are expected to be below 3 million m3 by the end of October.

source: Wood Matters, issue 80, October 2015.

Secondary Market

If a partner wishes to sell their participatory securities, under the rules the securities must in the first instance be offered to the other partners under the pre-emptive rights clause.

History shows that they generally get taken up to varying degrees within that forum. Any residual securities can then be offered outside the partnership on the secondary market.

If you are interested in securing an investment in another partnership, you can view the current listings we have on the website or please contact Richard Bourne in our office or email richardb@rogerdickie.co.nz

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Forest Visits

You are always welcome to visit your forest at any time, however FMNZ run a permit system and need to keep track at all times, when anyone is in the forests. If you wish to visit your forest, please telephone the FMNZ office in Napier on 06 843 3770. Your co-operation is appreciated.

Staff Changes

We welcome Abbey Luff into the office as Forest Administrator. You will hear from Abbey more as we get closer to the AGM's.

Regards

Roger Dickie