



Forest Partnership Report

04 April 2018

Hello,

It's been another busy and successful year for the forestry sector. Demand for New Zealand radiata has remained strong and consistent throughout the year. This has seen continued high prices at wharf gate and local mills. On the growing front, we had a dry start to the summer but plenty of rain in the latter part. FMNZ our forest managers report good growth in all of our forests. The recent rain events on the East Coast did little damage to any of our forests, this contrasted with the substantial slipping and washouts on neighbouring grassland properties.

More information is being dispersed by the Government about their intentions to plant 1 billion trees or 100 million per year (ie 100,000 ha per year). Most of you will have realised that there is quite a bit of political speak in this figure as half of it (50,000 ha per year) is replanting of existing forests, almost all of which would have taken place anyway.

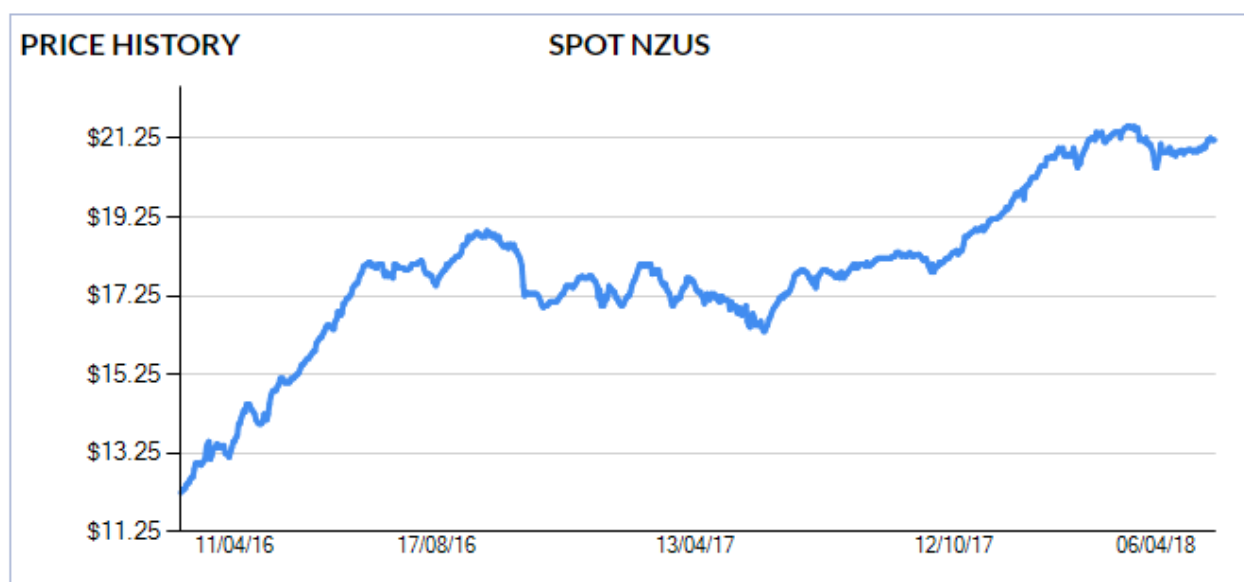
FMNZ have been very busy as more of our forests move into the harvesting phase and a number of our forests have begun road lining (making new roads for harvest) and preparing for their main harvest in a year or two. The growing harvest volumes have put a real strain on forest harvest and transport infrastructure and as you can expect this has unfortunately put upward pressure on forest costs. We know that FMNZ are doing their best to secure the services of good reliable contractors with a credible track record, in return we offer those contractors longevity of work which allows them to stabilise their own crew arrangements.

Carbon Update

You will recall that last year at the AGMs we approved resolutions to sell around 50% of your forests liability free NZU's. The reasoning behind this was to lock in the higher NZU prices that the market has reached and also guarantee funds were in place to finance forests through to harvest. I am happy to report that we have recently completed the sale of these Liability Free NZUs. As discussed the market for these units is very thin, when the Forest Managers sell even small parcels of NZUs (10,000 units) it can cause a fluctuation in the

price. The units were sold in 37 different transactions to seven different buyers over six months. We have been selling into a rising NZU market and achieved an average price of \$18.37 for your units.

The money from the sale of these units is held in the BNZ client funds (where the funds were held that we had been using to pay for our insurance each year) Your budget shows an amount for NZU income coming in in March and out in April. This is 35% of the total sale amount, 33% (the highest tax rate) will be paid out to partners to cover their share of the profit from your partnership this year. It is anticipated that this payment will be paid out to partners in the next few weeks.



Log Markets

I think AgriHQ summed up the export market best at the moment, when they stated that 2018 is off to a flying start.

The country shipped a record 18.8 million cubic metres of softwood logs overseas in 2017, up 18 percent on 2016, with exports to China jumping 29 percent and accounting for three-quarters of the total.

This is on the back of the Chinese Government clamping down on harvesting its own forests. It's also good news in India, Japan and South Korea when volumes are also up substantially. This all bodes well for the coming year.

As the ten year combined log indicator graph shows the increased log prices are certainly welcomed as we begin the main thrust of our forest harvest.

Domestically, our local suppliers are coming to terms with the higher log prices, we've seen some mills cut back labour to save costs and other's invest in further automation to remain competitive against the export markets.



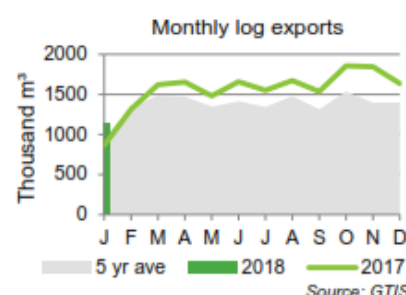
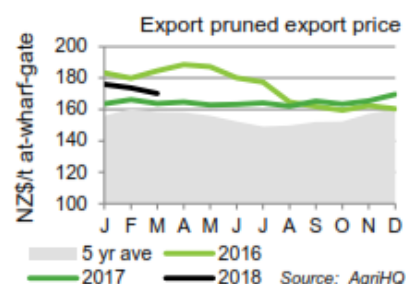
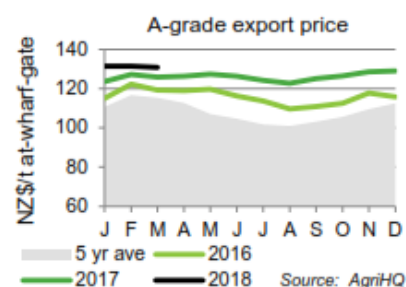
Insurance

As our forests grow in value, so does our insurance premium. We met senior representatives of our forest insurance underwriters from Germany last month. They reported that our track record is reasonable from their point of view and there will not be an increase in the rate of insurance this year. This is on the proviso that we do not have to make any more claims before renewal in September.

As you were aware we had a wind damage claim in our forest when Cyclone Cook came through the East Coast last year. This has all been processed and settled with the Insurer, there was a small amount of timber salvageable and the remaining damaged areas (around 29.5 ha in 11 forests) was paid out in full. The overall wind damage was very minor and Olsens in their valuations commented that it will have no effect on yields of the forests moving forwards.

Fire Levy

From 1st of July 2017 the Government is combining nearly all organisations (about 40 entities) with fire fighting and fire control responsibilities into a single organisation for better efficiencies. This is likely to have an effect for us as foresters. Historically we have paid a small annual fire levy, with the main components of fire fighting cover in our district council rates. Now Fire and Emergency New Zealand (FENZ) is allocating that charge on insured property - i.e. the more you insure the more fire fighting levy you will pay. The forestry sector is contesting these increases and new levies.



Napier-Wairoa Rail line

The line has been unused since storms washed out the section north of Wairoa in 2012. Since 2016 there has been a plan in place to re-establish the railway from Wairoa south - this could be of benefit to our forests in the region if the costs are competitive.

In the middle of February KiwiRail confirmed \$5 million in funding from the regional development announcement. Contractors have now started cutting back overgrown vegetation and will then move on to drains and culverts.

We understand one of our private overseas investors is part of a small consortium planning to operate the line. The first log train is expected to run by the end of the year. At the end of the day price will be the factor that dictates what transport method we use.

Harvesting

It was great to get so many of you to our conference and out to a harvesting site to see firsthand what happens to get your trees from the forest to the end user. Our forest managers (FMNZ) have been working incredibly hard to find and retain good quality harvest contractors to take on our harvest. At the moment we have 11 crews working for our forest managers and more about to start towards the end of winter. Certainly the continuity of work that our group of forest provides is a big carrot to attract the good contractors. I would reiterate here that the Harvest Plan and timing on the harvest is just estimated in your budget. Weather, and a number of other factors, play a big part in determining when the work will start.



Aerial View of Tangoio Forest

Valuations

We have recently received the annual forestry valuations from PF Olsens, once again the news is good. Prices for all log grades in both export and domestic markets have increased over the past year. This coupled with the increase in volume of our trees as they grow has seen the average value across the estate increase by 23.5%. This varies from forest to forest.

Conference

As I mentioned in my last report, we hosted our 5th Conference on Harvesting and Beyond. The feedback has been very positive. For those that missed the presentations they are all available on our website.

Power Corridors

As previously discussed, Unison Network are seeking to recover the cost of repairing their lines following storm events which blew trees over their lines and caused power outages.

They have now served legal documents to us to recover these costs. We have notified our insurers of their claim. The insurance company are seeking a legal opinion which will enable them to decide whether to pay the damage out under the Public Liability Policy or whether to defend the charges brought against us by Unison.

The legal opinion has recently arrived and while we have not had much opportunity to study the document closely, the opinion is suggesting the case would have a 50/50 chance of success and any decision would most likely set a precedent if it were to go to court. On this basis, the insurance company may well decide the most pragmatic way forward is to pay out the damages.

If they choose to take this course of action, it still leaves the unresolved issues surrounding the powerline corridors and we will continue to work with the Forest Owners Association and Regional Forestry Boards such as Hawkes Bay Forest Group to effect change via Government.

Alternatively, the insurance company may decide to go to court. This would certainly help to clarify the problematic relationship that currently exists between foresters and lines companies. We shall keep you advised.



The faller in Maxwell Forest - he's due for retirement at the end of the month

New Staff

We welcomed two new staff members to our office in recent months. Dot joins us in the farming administration looking after the farms, and Ingrid who is involved directly with the harvesting and administration of your partnerships.

Secondary Market

There are active buyers and sellers in our secondary market. If you are looking to buy or sell, please contact the office to see what is available. There are also shares available in our dairy farms and sheep and beef farm.

Regards

A handwritten signature in black ink, appearing to read 'Roger Dickie', with a stylized flourish at the end.

Roger Dickie

Forest Managers Report March 2018

The past six months has seen a continuation of unpredictable weather patterns. Over the summer months, Taranaki/Whanganui had a drought while Hawkes Bay was the recipient of regular rainfall. January 2018 was the hottest month on record in New Zealand with most areas experiencing higher than usual temperatures over the spring and summer months. Cyclones Fehi, Gita and Hola have crossed the country and fortunately, caused no damage to any of the forests we manage.

The bi-annual forest health inspection, formerly organised by the New Zealand Forest Owners Association, will no longer be continued. The programme, now funded by the Forest Growers Levy, has changed to a risk based focus. For now, this means the majority of the biosecurity monitoring is transferred to urban areas as the model shows it is the urban areas where the main biosecurity risk lies. As the risk model is developed, this approach may be re-evaluated in the future.

Some companies have chosen to continue with the forest health monitoring however, they now bear the full cost of this work. They have decided to continue with the forest inspections to help enable them to meet their obligations under the FSC (Forest Health Stewardship) certification and because they are not convinced the urban based approach is appropriate for their estates.

Given that our staff visit the forest regularly and we are not FSC certified, there is no real need to continue with the surveillance programme. Our staff quickly identify forest health issues and if they are uncertain as to the cause

of ill thrift, send foliage samples away for analysis. From our point of view, it would be difficult to justify the ongoing cost of forest health surveillance.

Forest health at Woodleigh is generally very good. There are some areas of RNC around the forest at present, as is the case in all of the Hawkes Bay forests however, overall, the canopy is green and healthy.

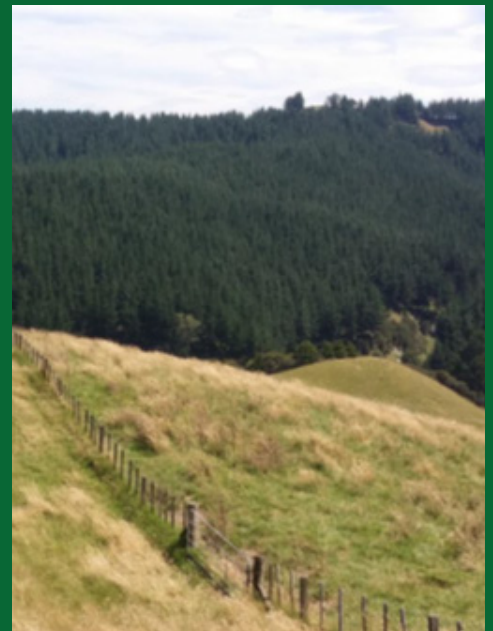
Due to delays in the Lidar data capture last year, the plot imputation was not completed by the end of the financial year as planned and we have had to carry approximately 75% of the amount budgeted for the plot imputation into this financial year. We are hoping the data will be made available to us within the next few weeks. Once the Lidar/plot imputation information becomes available, we have much of the information required to commence harvest planning.

Our annual tracking maintenance scheduled for November has not been completed, largely due to weather conditions. The tracks are in need of repair with slips, scouring, dropouts and an inaccessible creek crossing impeding access around the forest. We had hoped to get the work completed prior to the end of the financial year however have been unable to achieve this. The repairs may have to wait until after the winter.

We have made allowance for the re-measurement of the five permanent sample plots in February 2019. This will most likely be the last time they are measured before we commence harvest activities in the forest so will remove the tags from the trees at the time of measurement.



Wairoa/Napier rail line



North eastern boundary

We did not carry out the weed control work as budgeted however, have included \$1,200 in this years' budget for weed control as the blackberry will require attention at some point.

The possum control work budgeted for May has not been completed. There is no sign of possum damage in the forest at present so we have carried the \$2,000 over into this years' budget.

At the beginning of September 2017, NZUs were worth \$18.25. By the end of the month they had fallen below \$18. The price steadily increased and by mid February 2018, the market recorded a new record high of \$21.55. At the end of February, the NZU price was \$20.90.

We have now completed the sell down of 50% of the liability free NZUs. The total number of these units sold on behalf of Woodleigh Forest was 16,841. The average price achieved was \$18.65 and post commission \$18.37.

This leaves Woodleigh Forest holding 16,842 liability free units.

The change of government has brought good news for the future of the Napier/Wairoa rail. Shane Jones has committed \$5 million from the Regional Development/Provincial Growth Fund to be spent on reinstatement and maintenance of the line. Kiwirail expect to be able to open the line before Christmas this year.

Initially the service being offered will be a weekend service from Wairoa to Napier Port comprising of four trains, each carrying 500 tonnes which gives an annual capacity of around 90,000 tonnes per annum. If the service is well supported it is likely that additional rolling stock will be purchased to increase train movements to the port.

HBRC (Hawkes Bay Regional Council) and Napier Port will be involved in selling the service to forest owners as well as managing the discharge of the trains at the port. If they are able to get uptake from the forest owners, the service will initially take 3,200 logging trucks off the road each year. Uptake from forest owners will largely depend upon the cost of the service in comparison to the cost of trucking the logs to port. The shortfall in logging trucks may also prove to be a factor as the rail will give the ability for a quick turnaround of logs from the skid sites.

The Provincial growth Fund has also committed \$2.3 million to the redevelopment of the Gisborne inner harbour to facilitate the expansion of Eastland Port. With 2.9m tonnes of logs per annum currently being shipped through Eastland, in order to cope with the 5m tonnes forecast by



2024, they need to be able to load two ships at the same time. The grant from the Fund will allow them to reclaim approximately 1.5 hectares of land between the wharf and the seawall which will provide the additional space required to load two vessels at once.

In the wake of the news about JNL in Gisborne laying 97 staff off work at their plywood plant, it was good news to hear the Prime Sawmill in Gisborne has now been sold and will be re-opened. The purchaser is Far East Sawmills (FES) who initially plan to process 60,000 cu metres of timber per annum and employ 50 to 60 staff.

It is the intention to invest a further \$9 million in the mill to upgrade the ageing technology and improve efficiencies. FES aim to run multiple shifts and eventually employ up to 100 staff. The company owns the Tregoweth Sawmill in Te Kuiti and intend to produce the same product mix at the Prime site which is high value, appearance grade lumber for the European and US market. The company is also looking to partner with secondary processors who can incorporate their operations into or adjacent to the mill site.

There is already a small wood engineering business operating from the site which currently employs 15 staff, who is looking to increase production. The Eastland Community Trust who retain ownership of the site are working with Activate Tairāwhiti, a community group who are looking to establish the site as a wood processing centre of excellence.

The FES operation is scheduled to get underway in April. It will be good to have a domestic mill operating in Gisborne again.

Steve Bell
Forest Manager

20 March 2018

Silks Audit Chartered Accountants
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Wanganui 4541

Woodleigh Forest - Tree crop valuation

As requested, we have assessed the fair value of the tree crop assets at Woodleigh forest owned by Woodleigh Forest Limited. The purpose of this valuation is for reporting in the owner's annual accounts. This valuation of the tree crop meets the NZ IAS 41 accounting standard.

The tree crop market value is estimated as at 28 February 2018 at:

\$5,867, 000 plus GST (if any)

The current productive net stocked area is estimated at 384. hectares.

This value estimate excludes the value of the land and the improvements thereon, other than the trees. The value estimate does not include the contingent tax liability on the income arising from the sale of the trees, or the logs at maturity. Also excluded are costs and revenues associated with subsequent crops.

Valuation methodology

The market value of the tree crop is assessed by discounting a prospective purchaser's future costs and revenues at a discount rate of 6.5%. The discount rate is based on analyses of recent transactions in New Zealand, and therefore reflects the recent market for forests. Future costs and revenues are expressed in real (2018) NZ dollar terms, exclusive of GST.

The methodology adopted is described in the New Zealand Institute of Forestry (NZIF) Forest Valuation Standards (May 1999). The valuation report presented here is a brief outline of the method adopted and the assumptions made. It does not comply with all disclosure requirements contained in these standards. The reader is referred to the full valuation report entitled "Roger Dickie (NZ) Ltd – Tree Crop Valuation – March 2018" for a complete description of the methodology and assumptions.

Key inputs

Net stocked areas and forest condition are based on current best estimates as provided by the forest manager, Forest Management NZ Ltd (FMNZ). PF Olsen inspected a selection of forests and found that the forest information provided by FMNZ gave a fair representation of the tree crop growing in these forests.

Future yields are projected assuming current best practice management. Projected yields are based on measured starting points where data allows. Measurement data has been supplied by FMNZ. These data have been collected using industry standard methods and protocols.

Future operational costs are based on current industry standards, and have been benchmarked against contract rates prevalent over the past year. Log prices are based on the average of the most recent three years to February 2018, as achieved at the ports in Gisborne, Napier, Wellington and Port Chalmers. No real price increase is assumed.

Tree crop value change analysis

As part of this valuation, we have examined the impact of changes in the forest description and valuation assumptions used to assess the tree crop value relative to the value estimated last year. This is accomplished by calculating the marginal contribution to the total change in tree crop value from updating each of the key factors in sequence.

Table 1: Tree crop value changes since last year

Change item	Tree Crop Value (000's)
Tree crop value last year	4,490
Update area	4,490
Advance date one year	4,936
Update yields	4,936
Update costs	4,158
Update log prices	5,867
Update discount rate	5,867
Tree crop value this year	5,867

Area changes, if any, are mainly the result of harvesting and minor remapping of the stocked area during the year, as advised by FMNZ.

Table 2: Reasons for area change since last year

Area change (ha)	Reason
0.0	No change

Adding one year to the valuation date adds physical growth, and moves the forest one year closer to maturity.

Yield changes, if any, are the result of new measurement data collected during the past year.

The costs for administration and insurance have risen this year. The harvest-related costs of logging and road construction have increased over the past year, as the costs of labour and capital have gone up. In addition, demand for harvesting services has increased.

Prices for all radiata sawlogs have increased this year, while prices for pulp grades have remained relatively flat.

The discount rate applied in this valuation is unchanged from last year. Evidence from recent forest transactions suggest that purchasers are continuing to apply similar discount rates in deriving tree crop values.

Harvest revenue

Based on the assumptions adopted for the purpose of this valuation, the owner of Woodleigh forest is projected to receive a total net stumpage revenue of approximately \$ 11,198,000 in year 2024.

This projected stumpage revenue is expressed in 2018 NZ dollar terms, and based on the projected yields, costs and log prices assumed in this valuation. The harvest year is based on a weighted average date of maturity for the forest. Harvest operations may commence sooner than, and last beyond, the year shown above.

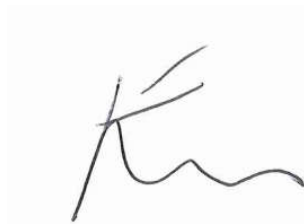
Yours sincerely

PF OLSEN LIMITED



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Disclaimer

This valuation was commissioned by Roger Dickie (NZ) Ltd for the purpose of reporting in the individual partnership, or owner, accounts. The valuation is not suitable for sale and purchase.

The tree crop values calculated within this report are based on our assessment of current costs and future revenues. This assessment of costs and revenues is not a promise or guarantee by PF Olsen Limited that these will be realised. No promise or warranty is given pertaining to the accuracy or completeness of information supplied by Roger Dickie (NZ) Ltd, Forest Management NZ Ltd, or by third parties, except to the extent that this has been validated by PF Olsen Limited.

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