

25 March 2019

Collective Harvest by Joint Venture Important Update to Blairlogie & Blairlogie North Forest Investors

Background

On 21-22 April last year there was a combined meeting of the Blairlogie and Blairlogie North Forest Investments. The outcome of the meeting was support in principle from attendees for the proposal of a harvest joint venture.

Forest Enterprises was tasked with developing the proposal and bringing it to a vote by each of the Participant Investments, Blairlogie and Blairlogie North.

In the time since, Forest Enterprises Directors have undertaken extensive consultation with the Supervisor (Trustees Executors Limited), Inland Revenue and the Financial Markets Authority on the Collective Harvest by Joint Venture proposal. We have as a result of this consultation, successfully concluded Collective Harvest by Joint Venture with 3 groups comprising 11 forests. We can now provide you with this comprehensive update and outline our next steps towards your investor vote.

Working Name – Blairlogie Group Forest

The working name *Blairlogie Group Forest* was the obvious choice to simplify reference to the proposed harvest joint venture (and second rotation investment). The proposed collective harvest joint venture will therefore be referred to as the *Blairlogie Group Harvest Joint Venture*.

Important information on the Proposal (Land LP)

The process of drilling into the implementation detail plus consultation with the Supervisor has identified the need for refinement and additional steps relating to the second rotation.

It has been identified that the Participant Investments land should be transferred to a new special purpose limited partnership (referred to as Land LP) which will exist solely for holding the joint venture's land (and the replanted second rotation trees) until the end of the collective harvest.

Your investment in the land (and replanted second rotation trees) will be sold at the end of harvest. This could be a new investment, or a private purchaser. A second rotation investment is still possible as Land LP could ultimately morph into a second rotation investment. Doing so, or not, will be a decision for consideration towards the end of harvest (the correct point in time).

- **No Change in Each Investor's Investment Status** – Investors will continue to hold unchanged their existing shares in their existing investment.

Status of the Collective Harvest by Joint Venture Proposal

- **Plan change supported by Forestry Auditor** – Collective Harvest by Joint Venture is a Plan¹ change as prescribed in the investment documentation. Changes to the Plan can be made, but quite appropriately trigger an approval process. The approval process includes obtaining an opinion in writing from the Forestry Auditor that the variation may be reasonably regarded as being to the commercial advantage of the investment, or reasonably necessary or desirable to protect the interests of the investment. This opinion will be provided to you.
- **Allocation of share of Collective Harvest to each Participant Investment** – *Forest Crop Value* was the allocation methodology discussed at April’s meeting. This methodology has now been refined to include a review of the forestry input assumptions by the Forestry Auditor and a review of the resulting Forest Crop Value calculation by the Financial Auditor. This calculation will be provided to you.
- **Allocation of shares in Land LP to each Participant Investment** – The methodology for the allocation of shares to each Participant Investment in Land LP will be based upon the value of the land as cutover land. The land value inputs will be independently assessed by Mark Morice, a registered valuer with specific expertise in forestry land values.

These refined methodologies have been successfully used, and reviews completed, for the 3 groups that are now undertaking a Collective Harvest by Joint Venture. These calculations and valuations will be provided to you.
- **Binding Ruling** – The rationale for using a joint venture structure was discussed at the April meeting, including an important related tax issue. The issue was sufficiently material to warrant obtaining a Binding Ruling from New Zealand Inland Revenue. Forest Enterprises has since received a favourable outcome from Inland Revenue, confirming that a proposed joint venture is not deemed to be a disposal of timber which is taxable under section CB 24 of the Income Tax Act 2007.

Cost Sharing

Third party professional costs have been incurred relating to the Binding Ruling plus Supervisor review of the Proposal and associated documentation. These costs are relevant to a total of 14 Joint Ventures comprised of 46 investments being proposed by Forest Enterprises. Consequentially, it is equitable that the cost of the relevant work will be shared across all 46 investments.

Investor Approval Process – Next Steps

In addition to any further updates that may be provided, and following the recent Vote 1 on the Harvest Management Fee, the next step is:

- Vote 2 - Collective Harvest by Joint Venture
 - A report to each Participant Investment detailing the *Allocation of Share of Collective Harvest* and the *Allocation of Shares in Land LP* together with the underlying land valuation report from Mark Morice.
 - A copy of the *opinion* obtained from the Forestry Auditor on the underlying Plan change.
 - An *Executive Summary* on the comprehensive report written on the subject entitled Collective Harvest by Joint Venture.
 - A link to our online voting system to cast your vote.
 - A *Cashflow* for each forest investment showing expected future cashflows arising from the share allocation methodologies and other supporting data.

¹ The Plan means the plan for planting, tending, maintaining, managing, and harvesting of trees on the land and carrying away any forest produce as set out in the Prospectus as such plan may be varied from time to time.



The voting process for the Blairlogie Group should be concluded in May 2019. At the time of the vote we will also provide you with a link to a webpage created for the Blairlogie Group where all communications and documents relating to the Collective Harvest by Joint Venture can be sourced.

Secondary Market Suspended

As a result of the detailed information you are about to receive, and also that valuations may change following the investor vote, we have suspended the secondary market. We will advise when this will reopen. Transfers between family members can continue. However, we wish to alert you to section HG5 of the Income Tax Act 2007. This section relates to tax payable upon a transfer of the treecrop component if an interest in a partnership is sold or transferred. Your shares are a partnership interest. The current indicative value of 1 unit (200 shares) exceeds the legislated de-minimis of \$50,000. If you do wish to transfer, please call or email us first to discuss the implication of sHG5 on your investment.

This update covers a lot of information. If you have any queries or concerns at this stage in the process, please contact Customer Services Manager Sean Roberts (+64 6 370 6368, sroberts@forestenterprises.co.nz).

Kind regards,



Graeme Tindall
Managed Investments Director

