

Pukekōwhai Forest Proposal

1 - Summary

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Suite of Documents

This document is one of three documents which report all relevant information in respect of the Pukekōwhai Forest Proposal. This document is the first in the suite and sets out the the Overview of the Proposal on the Pukekōwhai Proposal. The other two documents are -

2 – Pukekōwhai Forest Investment Supporting Financial and Other Related Information

This document sets out the details of the contributed value and share allocation of each participating forest partnership and partner in the Pukekōwhai Forest Proposal.

3 – Pukekōwhai Forest Investment Key Financial Details

This document sets out the key financial details on the Pukekōwhai Forest Investment, the investment which continues for the second rotation.

Forest Enterprises

16 April 2021

Pukekōwhai Forest Proposal Key Drivers

The key drivers for the Pukekōwhai Forest Proposal are -

1. To capture the advantages for the second rotation of the proposed enlarged Forest which will maximise the potential profitability of the investment and as a result -
 - a. Make it the most attractive investment possible for those Partners (and/or their family members) wishing to continue for a second rotation; and
 - b. As the most attractive investment possible, maximise the value of the existing Partners interest in the land and second rotation trees.
2. To preserve the current harvest programs for each of the Participant Forests.
3. To provide a guaranteed exit option (option to fully cash up) by the completion of each Partnership's current harvest program.

Most importantly the Proposal accommodates the post-harvest expectations of all Partners, whereas -

1. A second rotation of each existing Participant Forest as a standalone investment is not as profitable for those wishing to continue¹, nor does it provide an exit option for those Partners wishing to exit; and
2. The sale of each Participant Forest denies those Partners (and/or their family members) the opportunity to continue their forestry investment for a second rotation.

The Proposal Overview

Implementing the Proposal will comprise the following transactions -

1. **Each Participant Forest Partnership will Sell -**
 - a. Its land (subject to a forestry right) to the Pukekōwhai Forest for current land valuation.
 - b. Its replanted second rotation forest -
 - i. The existing replanted second rotation trees (replanted from 2011 to 2015) will be transferred based on the valuation methodology applied by the independent valuer, Mark Morice of Morice Limited. This is based on using a discounted cashflow analysis using a 7.75% pre-tax discount rate to determine the value.
 - ii. The younger existing replanted second rotation trees (replanted in the years 2016 up to and including 2020) will be sold for a value determined on the basis of actual cost of establishment (bills paid to date), plus interest compounded at 2% per annum.
2. **Each Participant Forest Partnership will receive -**
 - a. Shares in the Pukekōwhai Forest Investment equal to the Participant Forest's proportionate share of the total value of the Pukekōwhai Forest Investment.
3. **Each Partner will -**
 - a. Consequentially receive an allocation of Shares in the Pukekōwhai Forest Investment equal to their proportionate shareholding in the existing Partnership.
 - b. Receive an **Assignment Option** (an option to sell at an agreed price on a specific date) their shares in the Pukekōwhai Forest Investment. Forest Enterprises will be the purchasing party.

¹ The fixed compliance costs now payable by investment schemes means that none of the Participant Forests is large enough to carry these costs as a standalone investment without compromising profitability. This compromise in profitability is in addition to the lost benefits of forest scale.



Status of Each Participant Forest (Post Settlement)

Post settlement of the Proposal, each Participant Forest will -

1. Hold a Forestry Right in respect of their remaining first rotation trees.
2. Continue with their scheduled harvest program until completed.
3. Continue distributions to Partners of surplus cash from harvest.
4. Pay a market rental to the Pukekōwhai Forest Investment for the use of the land area still to be harvested (diminishing each year to reflect diminishing area of first rotation trees).
5. At some juncture before the end of harvest, sell any remaining New Zealand Units (NZUs) held which were received as compensation for their Pre-1990 Forest Areas under the Emissions Trading Scheme (ETS).
6. Wind up and distribute the remaining cash balance to Partners.

Status of a Partner (Post Settlement and at Conclusion of Harvest)

Post settlement of the Proposal, each Partner will -

1. Continue to hold their original shares in the existing Participant Forest Partnership.
2. Continue to receive distributions arising from the scheduled harvest program for their forest.
3. Hold shares in the Pukekōwhai Forest Investment, the second rotation forest, with no Calls payable until 2022, by which time the opportunity to exit via their Assignment Option will have occurred.
4. Hold the Assignment Option (an option to sell at an agreed price on a specific date).

At the conclusion of harvest, each Partner -

1. Will have been paid out in full their share of the harvest proceeds and other assets held by the existing Partnership.
2. Will no longer hold shares in the existing Partnership once it is wound up.
3. May still hold shares in the Pukekōwhai Forest Investment (and/or family interest), depending upon their future forestry investment plans.

Partner Continuation and Exit Options

The winding up of the existing Partnership concludes a Partner's investment in that Partnership. The continuation or exit decision is therefore in respect of the shares held in the Pukekōwhai Forest Investment (the second rotation forest).

Partners will have the following Continuation Options -

1. Continue to personally hold some or all of their shares in the Pukekōwhai Forest Investment (the second rotation forest).
2. Transfer some or all of their shares in the Pukekōwhai Forest Investment to family members (or family interest). The Pukekōwhai Forest shares can be put directly into the names of family members (or family interest) at the time of allocation.

Partners will have the following Exit Options -

1. Arrange a personal sale of some (or all) of their Pukekōwhai Forest Investment shares at any time.
2. Exercise the Forest Enterprises Assignment Option in respect of some (or all) of their Pukekōwhai Forest Investment shares.
3. Plan to sell some or all of their Pukekōwhai Forest Investment shares via Forest Enterprises' secondary market from 2023 or when the offer has been fully populated and closed. Forest Enterprises' secondary market is not available for the sale of Pukekōwhai Forest Investment



shares until the company has had an opportunity itself to sell the shares it has been required to purchase under the Assignment Option.

Supporting Financial and Other Related Information

The financial analysis arising from the implementation of this Proposal, at the Partnership and Partner level, are set out in document **2 - *Pukekōwhai Forest Investment Supporting Financial and Other Related Information***, and other financial details relating to ***Pukekōwhai Forest Investment*** are set out in document **3 - *Pukekōwhai Forest Investment Key Financial Details***.

Other Details

Opportunity to Purchase Additional Shares

Partners will have the opportunity on the Assignment Option Date to purchase additional shares at the Assignment Option Exercise Price.

When can the Proposal be Implemented?

All financial calculations have been completed based upon the assumption that the Proposal will be implemented by 30 June 2021.

This implementation date accommodates the timetable for the approval process by each of the Participant Forests, plus preparation and completion of the implementation documentation including a Product Disclosure Statement for the second rotation investment.

Cost of Implementation of the Proposal

The cost of implementation has been fixed by Forest Enterprises at a total of \$75,000. This is less than the cumulative standard Real Estate commissions, were each forest to be sold separately at the conclusion of harvest.

