

Agenda

- Welcome and introductions
- Matters impacting the harvest
(specific to your forest and Gisborne operating environment)
- Recommended solution for maximising harvest return
(collaborative harvest)
- Financial status of the investments
- Collective Harvest by Joint Venture
- Harvest reporting and distributions
- Second rotation and exit options
- Process from here

Conclude around 3.30pm

Matters Impacting the Harvest



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Matters Impacting the Harvest

Forest Specific



Gisborne Operating Environment



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Matters Impacting the Harvest

Forest Specific Matters

- Forest specific matters start with a **Harvest Plan**
 - The plan is the infrastructure (roads and landings) currently identified as necessary to most cost-effectively harvest the four forests
 - The plan ignores forest boundaries
 - The plan ignores age classes
- The plan confirms that we should be able to cost-effectively harvest all of each forest
- The plan is dynamic and will change in response to conditions on the ground and issues arising during harvest



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Matters Impacting the Harvest

Forest Specific Matters

- The plan involves building a significant amount of infrastructure
- The plan is to build the infrastructure within the forest (invest in own forest not neighbours)
- The Harvest Plan identifies options and challenges
 - Options are good!
 - Challenges have to be addressed
- The greatest forest-specific challenge for the four forests is the quality (poor) of their public road access
- HOWEVER, the fact that the four forests connect, plus their age class compatibility, is a major opportunity



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Matters Impacting the Harvest

- Having reflected on the Forest Specific Matters impacting on harvest we must then consider the constraints posed by the operating environment in Gisborne—
 1. Regional issues impacting on harvesting
 2. Forest Enterprises' responsibility to all the Gisborne forests we manage

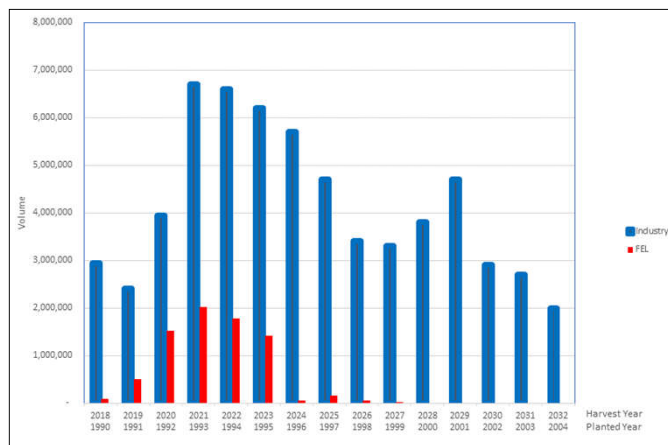


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Matters Impacting the Harvest

- Forests were part of the 1990s planting boom



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Matters Impacting the Harvest

Gisborne Operating Environment

- 1990s boom plantings have to be harvested and sold – and not just Forest Enterprises Investors' trees!
- Where is the increased volume to go?
 1. Local Mills – very little opportunity
 - East Coast Lumber-Wairoa – small quantities
 - CHH Tokoroa
 - Panpac Napier
 - Juken New Zealand seldom buy wood in
 - WET opportunity?
 2. The extra volume will therefore be exported



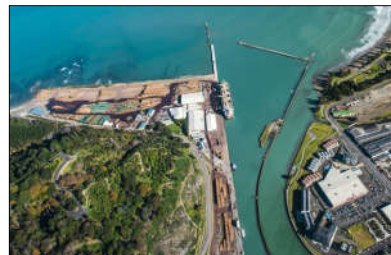
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Matters Impacting the Harvest

Gisborne Operating Environment

- Forest Enterprises is a major customer of our Gisborne export partner, PFP Ltd – currently 9% of Port usage
 - PFP is one of the two largest log export companies in New Zealand
 - Partnership arrangement with the other major log export company (TPT Forests Ltd) for Wellington export
 - Open book agency at fixed fee



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Matters Impacting the Harvest

Gisborne Operating Environment Matters

- Where are the potential bottlenecks in the logistics chain if all this wood is to be harvested and sold?
 - Logging contractors
 - Trucking contractors
 - Roading contractors
 - Eastland Port (Napier Port not currently a viable option)
 - River Catchment Areas - quotas are being introduced for harvesting in many Gisborne river catchments



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Matters Impacting the Harvest

Infrastructure to address bottlenecks

Logging

- Long term contracts with 3 key **logging contractors**
 - Quality contractors able to scale up for more volume
 - More crews brought on as scale increases

Transportation

- Contract with Williams & Wilshire Transport/Pacific Haulage Ltd



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Matters Impacting the Harvest

Infrastructure to address bottlenecks

Log Storage

- additional storage space at Dunstan Road in Gisborne
 - access to about 4,000 tonnes of storage
 - Additional to share of 30,000+ tonnes of common storage provided by Eastland Port allocated by share of the total volume through the port
 - 17500 m3 storage area allocated to PFP



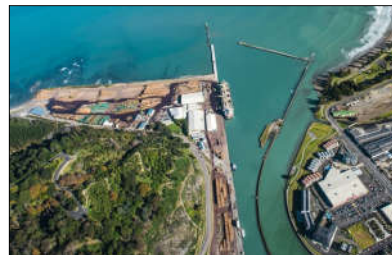
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Matters Impacting the Harvest

Gisborne Operating Environment

- BUT, the greatest bottleneck is the **Eastland Port**
 - Currently, Eastland Port (Gisborne Port) is handling approximately 2.9 million tonnes of logs annually
 - Eastland Port may soon be the second largest log export port in New Zealand
 - Forest Enterprises is currently exporting from Eastland Port at an annual rate of 350,000 tonnes



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Matters Impacting the Harvest

Gisborne Operating Environment Matters

- Capacity of Eastland Port is constrained -
 - Currently limited to loading one log ship at a time
 - Limited on site storage - offsite storage is already required (Dunstan Road)
- Port's objective is to be able to load two ships concurrently, and supply the wood from both on-site and off-site storage
 - The resource consent application has been lodged but progress is slow
- Forest Enterprises is working closely with Eastland Port
 - Providing projected annual woodflows for the next 12yrs



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Matters Impacting the Harvest

Gisborne Operating Environment Matters

- Forest Enterprises Projected Port Volume assuming expansion -
 - Current projection is that Forest Enterprises will be able to secure up to 6-700,000 tonnes per annum of the port capacity
 - 600,000 tonnes per annum is similar to the present capacity of the largest users of the port
 - Forest Enterprises will be a major customer of Eastland Port



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Matters Impacting the Harvest

Gisborne Operating Environment

- As noted at the outset of this section, we cannot plan for the harvest of individual forests without consideration of:

1. Constraints posed by the Gisborne operating environment

AND

2. Forest Enterprises responsibility to all the Gisborne forests we manage



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Recommended Solution to Maximise Harvest Return



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Forest Enterprises Solution for our Managed Forests

- Must have a harvest solution for every forest under management within the constraints posed by the operating environment in Gisborne (and Wairarapa), which also:
 - Maximises the investment return for each forest
 - Minimises the risks for each forest
 - Provides options to address the forest specific matters in each forest (addressed earlier)
- AND**
- Is also logical for the second rotation
 - There will be a second rotation with or without some or all of the existing Investors (to be discussed later)



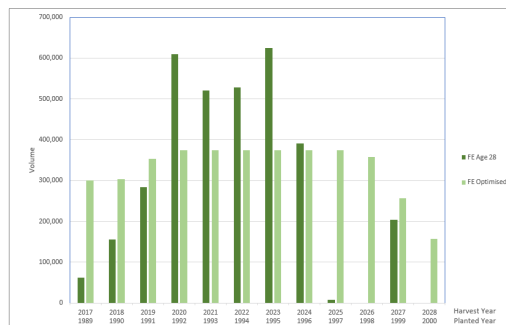
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Forest Enterprises Solution

- The output from accommodating all of these factors is:
 1. A projected sustainable maximum Gisborne harvest volume per annum (calculated using specialist forestry modelling tool, TigerMoth)

Harvest Year	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Gisborne Total Tonnes	324,000	350,000	357,000	357,000	392,000	402,000	442,000	469,000	468,000	468,000	468,000	468,000	460,000	454,000

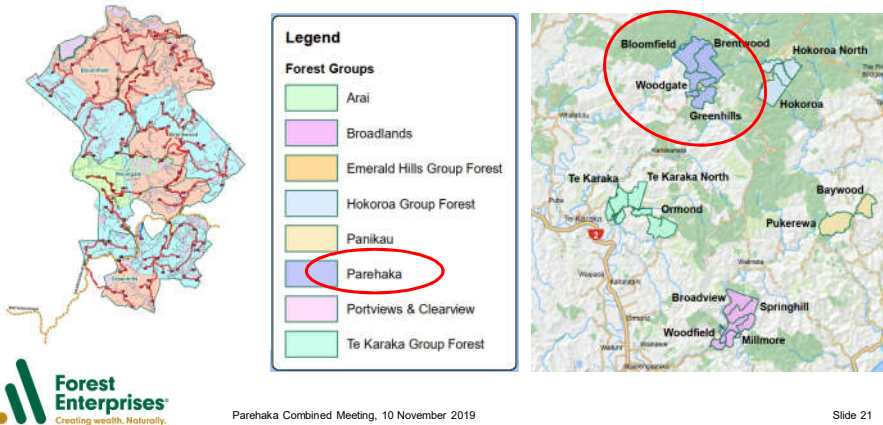


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Forest Enterprises Solution

- The output from accommodating all of these factors is (cont.):
 - A logical reduction in the number of individual Gisborne forests from 28 to 8 (Which results in the logical harvest of all the Gisborne Forests)



Collective Harvest for Parehaka

- Combined harvest profile in tonnes per annum

Harvest Year	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Parehaka	0	0	0	0	136,000	136,000	136,000	136,000	136,000	136,000	136,000	136,000
Balance of FE Gisborne	324,000	350,000	357,000	357,000	256,000	266,000	306,000	333,000	332,000	332,000	332,000	332,000

- Anticipate a continuous harvest program –
 - Indicative harvest timing 2023-2030 (original expectation was 2 years 2024-2025)
 - 8 years in the market so minimising market risk
- Have always reported that there would be a spread
- Projected harvest spread targets an average harvest age of 30 years
 - Younger trees will have less than the average volume therefore return less value
 - BUT, older trees will have higher than the average volume therefore return higher value
 - Spread does have an impact on the timing of income (discussed later)



Collective Harvest for Parehaka

Why does this solution make sense?

- Forests are adjoining with complementary age classes (1995-1996)
 - The Parehaka forests are only separate investments because of legal constraints at the time
- Combined harvest program of 1,512 hectares (great scale for economies and risk mitigation)
- Harvesting as one program solves the early/late harvest issue:
 - Becomes irrelevant where the early and late harvest occurs between the two forests
 - Total harvest aims to achieve an average harvest age for the total program of 30 years
 - Younger trees will have less volume and value - BUT - older trees will have more volume and value



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Collective Harvest for Parehaka

Why does this solution make sense? (cont)

- Harvesting as one program provides more options to help address the issues potentially impacting on each individual forest
- Creates a forest which is logical for the second rotation
- Combined forest will harvest continuously
- Positive outcomes:
 - ~8 years in the market should deliver the long run average log price
 - Early distributions – little and often
 - Projected average crop age at harvest 30 years with volume gains
 - Preserve favourable option for those wishing to exit



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Collective Harvest for Parehaka

Questions



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Financial Status of the Investments



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Financial Status of the Investments

Calls Paid

Investment	Prospectus Contributions	Actual Contributions	Difference
Bloomfield	\$21,336	\$17,389	-\$3,947
Brentwood	\$20,552	\$16,575	-\$3,977
Greenhills	\$19,903	\$16,482	-\$3,421
Woodgate	\$15,043	\$13,455	-\$1,588

- Forest Enterprises has ensured you are in good financial shape in respect of the amount you've invested



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Financial Status of the Investments

Projected Financial Return

Forest	Prospectus Pre-Tax Return	Projected Pre-Tax Return	Actual Investment
Bloomfield	\$199,885	\$131,957	\$17,389
Brentwood	\$184,581	\$117,860	\$16,575
Greenhills	\$181,441	\$115,599	\$16,482
Woodgate	\$113,238	\$48,414	\$13,455

- Projecting a return for your long-term investment
- Woodgate have had distributions totalling \$14,455

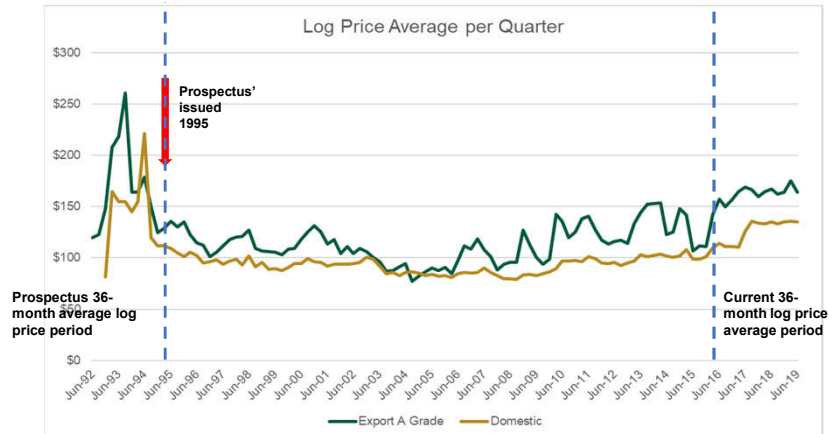


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Financial Status of the Investments

Why the change to projected returns?



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Collective Harvest by Joint Venture



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Collective Harvest of Parehaka

Collective Harvest Objectives

- To ensure the forests of each participant MIS can be harvested
- To maximise the opportunity for a better (more profitable) harvest outcome for each MIS
- To minimise the risks for each MIS including crop, access to domestic markets, access to port
- To aim to achieve an average age at harvest which meets the carbon lease obligation

Maximise Return and Minimise Risk



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Collective Harvest of Parehaka

Collective Harvest Solution

- Proposal is NOT to amalgamate for harvest
 - To do so would create harsh and unacceptable tax consequences
 - A favourable Binding Ruling has been issued by Inland Revenue
- Proposal is to establish a Joint Venture with
 1. Agreed share of the total harvest revenue passing from the Joint Venture to each of the four existing forests
 2. Requirement for a Land LP which owns the aggregated land and second-rotation trees – jointly owned by participant JV investments
 - Fair equitable allocation of shares in both Harvest JV and Land LP
 - Forestry Right required for tree crop in Harvest JV
 - Existing forests continue to operate as stand-alone investments until wound up at the conclusion of harvest

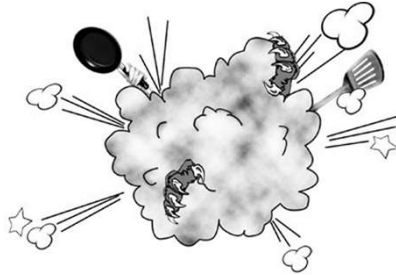


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Collective Harvest of Parehaka

- 'But MY forest is more valuable than YOURS'
 - Yes, the money does matter...
 - But, we do not want a great argument, nor to have to employ a tonne of consultants!



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Collective Harvest of Parehaka

1. Allocation of harvest shares

- There is a common sense allocation measure solution without need for argument, nor consultants
- This is to allocate according to the **Forest Crop Value** methodology in the Annual Financial Statements (page 8)



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Collective Harvest of Parehaka

1. Allocation of harvest shares

- The **Forest Crop Value:**
 - Accommodates differences in:
 - Net stocked area
 - Age classes
 - Forest crop qualities
 - Specific infrastructure for each forest area
 - Harvest costs
 - Assumes theoretical harvest at the same age (currently 28)
 - The harvest of each forest in the theoretical perfect scenario
 - Refer your programme for forest statistics



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Collective Harvest of Parehaka

1. Allocation of harvest shares

- AND the **Forest Crop Value:**
 - Complies with Accounting Standards
 - Complies with NZIF standards
 - Is audited
- The **Forest Crop Value** is an existing and reliable figure

Percentage Shares = The percentage of each Managed Investment Scheme's forest crop value to the total of the forest crop values for all MIS in the joint venture



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Collective Harvest of Parehaka

1. Allocation of harvest shares

- **Indicative calculation** using latest figures

Investment	Forest Crop Value in Annual Financial Statements	Percentage of Total
Bloomfield	\$13,512,738	33.6%
Brentwood	\$11,627,650	28.9%
Greenhills	\$10,776,932	26.8%
Woodgate	\$4,259,577	10.6%

- **NOTE**

- These figures are from the March 2019 Annual Financial Statements, and are indicative only
- We will carefully review the data assumptions and refresh all the inputs
- The indicative percentages seem reasonable given the forest differences (Net Stocked Area, Projected Yield, Crop Age, Cost of Infrastructure)



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Collective Harvest of Parehaka

2. Allocation of shares in Land LP

- Forest Crop Value used for collective harvest shares reflects all variables relevant to the *current crop and its harvest*
- But – the allocation calculation for Land LP must accommodate different variables – need to identify equitable relative value between the two investments in Land LP
- **Land Market Value + Land Expectation Value** combination recommended by Mark Morice, forestry land valuer
 - Using a composite of 80% Market Value + 20% Indicative Land Expectation Value will produce values fit for the unique purpose they are required
- NB: Therefore, allocation % will be different for each participant investment for their share of Harvest JV and for Land LP



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Collective Harvest of Parehaka

2. Allocation of shares in Land LP

Land Market Value 80%

- Proximity to market
- Distance in forest to public road
- Terrain:
 - % hauler vs. ground-based harvesting; and
 - District Scheme classifications relating to erosion susceptibility
- Pre-1990 vs Post-1989 Forest Land
- Site index (300 Index) - measure of forest crop quality and quantity
- Aspect relative to sun and prevailing wind

Indicative Land Expectation Value 20%

A standard discounted cashflow technique used to calculate the value of bare land planted in a forest. The calculated value is the net present value of the cashflow using as the discount rate the targeted return from the forest use of that land.

Percentage Shares =
The percentage of each MIS current land value to the total of the current land values for all MIS in Land LP



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Collective Harvest of Parehaka

Questions



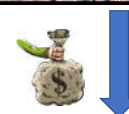
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Harvest Reporting & Distributions

Reporting

- Investors are seeing their returns – we have distributed **\$45.1m** to investors since April 2017
- It's *your* money
- Credited to nominated bank account (no cheques)
- Distributions will be approximately quarterly (not in annual lump sums) so you must manage the total yourself
- Limited surpluses at the beginning of harvest
 - Forward investment in roading
- Funding required for replant (more to come on this later)



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Harvest Reporting & Distributions

Forest Enterprises Harvest Management Fee

- Fee requires investor approval – a formality under the Deed of Scheme Management
- Fee hasn't changed in >10 years
 - \$3/t of logs harvested
 - 2.5% of stumpage (sales less logging and cartage)
- Forest Enterprises Harvest Management Fee has recently undergone an independent review and is in the middle of the market
- Agreeing harvest management fee is independent of any decision around collective harvest
- Vote to conclude before commencement of harvest



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Second Rotation & Exit Options



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Second Rotation and Exit Options

When will replanting for the second rotation occur?

- The second rotation forest will be planted progressively during harvest because:
 - Replanting is a condition of the resource consents required for harvesting
- Areas harvested by Christmas will typically be replanted the following winter
- Replanted trees are owned with the land by Land LP ready for second rotation investment



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Second Rotation and Exit Options

When will replanting occur?

- Replanting as soon as possible maximises the future value of the second rotation.

This is important regardless of whether:

- You (or your family) are planning to continue for a second rotation
- You (or your family) are planning to cash up and exit at the conclusion of harvest
- Replanting has a consequential impact on distributions as some of the harvest cash (approximately \$1,750 per hectare) will be used to fund the replant



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Second Rotation and Exit Options

Investors retain the option to exit

- Your investment was for 1 crop rotation, therefore you must be able to exit around the conclusion of harvest
- Forest Enterprises' responsibility is to meet the expectations of all investors, including those who want to retain the value invested by the first rotation for future generations



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Second Rotation and Exit Options

Investors retain the option to exit

Options to exit:

- **Plan A:** Replanted trees, in a new LP, are promoted as a new investment
- **Plan B:** Sell the second rotation's land and replanted trees
 - The same factors which make the replanted forest an attractive investment, make it attractive to parties wishing to buy the underlying land and trees



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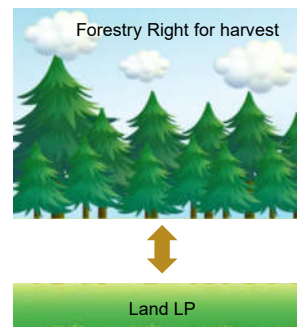
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Second Rotation and Exit Options

Mechanics of setting up the second rotation investment

We 'separate' the land and trees:

1. Each investment grants itself a Forestry Right
 - Forestry Right is over the mature trees being harvested under the Joint Venture which remain the property of each existing investment (subject to the Joint Venture)
2. Each investment transfers its land (subject to the Forestry Right) to Land LP in preparation for the second rotation investment
3. The investments will own shares in the Land LP, ready for selling as a new investment when harvest is near completion



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Second Rotation and Exit Options

Mechanics of setting up the second rotation investment

4. Around the conclusion of harvest, a Product Disclosure Statement is issued and the second rotation shares received by each Investment for the sale of the Land LP
 - Are then allocated to each Investor (or whomever they nominate)
 - Could be family members or trust
 - Allocation is in proportion to share allocation in Land LP



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Second Rotation and Exit Options

Exit option is to sell the second rotation shares

- At the conclusion of harvest, the Bloomfield, Brentwood, Greenhills and Woodgate investments will conclude
- If you are planning to exit (i.e. not continue for the second rotation), you will plan to sell some or all of your shares in the second rotation investment
 - Sale of these shares releases the cash for -
 - Your share of the value of the land
 - Your share of the investment made in the second rotation crop (planted as harvest has occurred)



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Second Rotation and Exit Options

Questions



Process from Here

Process and Decision Making

- Decision-making to be completed in time for harvest commencement
 - A formal decision is required by each investment
- 3 logical communication steps as follows:
 - Vote 1 – Vote to approve Harvest Management Fee (ordinary resolution)
 - Vote 2 – Vote on the Collective Harvest Joint Venture Proposal with remaining supporting information (special resolution)
- Work yet to be done to finalise the proposal for investors' consideration, including updated cashflow projections
- Each forest group has some unique characteristics – we have similar processes underway for many other investments we manage



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Any other matters and final questions



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Straw Poll

It would be helpful to your fellow investors not here today to gain an indication of your support or not in principle for

the proposed joint venture (of Bloomfield, Brentwood, Greenhills and Woodgate) **for collective harvest**

which will require formal decision by investor vote



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Thank you!

Wishing a safe return home to the
many of you from out of town



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