

Seventh Forest Partnership

Annual Report & 2010 Budget

31 December 2009
(sent February)

Forest Stand Progress

Chimney Creek ('CC2'). Please find enclosed a report from the Partnership's Independent Forestry Consultant about changing the regime for this forest stand from pruned to unpruned, or 'clearwood' to 'framing'. He recommends this change and we believe his advice should be accepted.

In brief, he concluded that the rate of return on the investment in this stand is now forecast to be about the same for either regime. Therefore the key reason to prune: to raise the rate of return from the investment no longer applies to this stand. Risk also falls a little and there may be more carbon credits too. So on balance, considering markets and the high quality of unpruned logs likely from this stand, his advice is not to prune.

The Partnership and JV Agreement terms require a resolution from the partners for this change, plus the consent of the landowners, which we have asked for. The landowners will be entitled to an increase in their share of the harvest proceeds, as the share split is partly based on the level of investment, which is significantly lower for an unpruned regime. We have calculated that a 5% change is fair and have asked the landowners' for their view. We will let you know their response and call a meeting in due course.

Please note that although less pruning is being done these days due to a change in the markets for logs, the decision to prune or not is site specific. So at Hopefield and Glens of Tekoa pruned regimes there still may be the favoured options. See below.

Hopefield ('HF3') and Glens of Tekoa ('GT14'). Hopefield has been pruned to an average height of 4.14 metres and later in 2010 this may be taken up to a final height of 5.5m before a thinning, probably soon after in 2011. The growth rate on HF3 has been very good, as it has been at Chimney Creek. However density and therefore stiffness is likely to be lower so a pruned regime may still be more profitable. The smaller stand at Tekoa is slower growing and a decision on pruning is due now. We will take advice and let you know.

Budget & Contributions. We did not call for a contribution for 2009 as the Partnership has more than sufficient funds currently in reserve. This may apply in 2010 too but await advice on that for now.

Carbon Credits, at last

The Emissions Trading Scheme ('ETS') is now in law and together with the Landowners, the Partnership can register and claim carbon credits ('NZUs') from most of its forest area for 2008 and 2009. The NZUs can then be sold if there are buyers or kept for later sale. Currently the government has imposed a price cap at \$25. In theory the price will rise over the next few years after the cap is removed.

Before any credits are received we need the Landowners' and Partnership's agreement. An addition to the Joint Venture Agreements to cover carbon credit issues will be needed too. Selling credits can create a liability which a landowner may not want to be left with at harvest, at least not without adequate compensation. However, it is possible to take some credits and not have to return them at harvest, so long as the forest site continues to be forest land. Currently though, landowners can do what they like with the sites after harvest. A flexible term to deal with such issues is needed.

We have begun the quite involved process of registering under the ETS and seeking the views of the Landowners. We will send you a full report from the Forestry Consultant on all this in due course but for now we can say we believe it will be possible to get an agreement with the landowners to allow both parties to gain from the ETS without compromising the long-term viability of their forest investment.

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