

Many of you are probably wondering why we have not yet sent you a fat cheque for your carbon credits ('NZUs'). Well, you may not be surprised to hear the process of getting them is not straight forward at all. It will probably be early next year before we do, as explained below.

Trustee Delays. The Partnership's Statutory Supervisor holds the Forestry Rights to your forests and both MAF (who approve ETS registration) and we think it should be the applicant for NZUs and hold and sell them for the Partnership. Perpetual Trust Ltd has at last provisionally agreed after taking lengthy legal advice but we still await formal approval from them to lodge the application with MAF. This wait is frustrating. Their caution is unwarranted in our view but we cannot do anything about it. We could change Statutory Supervisor, which would be a drastic and complex step. That should not be needed and I suppose it is their job to be cautious!

MED Delays. For some bureaucratic reason the Ministry of Economic Development (sic!) will only accept claims for NZUs from January to March each year. So even if we had our registration from MAF now, we would not get credits issued by the MED yet. Ridiculous? Sure.

Landowner Agreements. In a joint venture both parties must agree to the taking of NZUs, or neither gets them. It is the landowner who ultimately has to account for NZUs, as they are a charge on the land. The farms have agreed to getting the JV forests registered under the ETS, as long as their interests are protected, which they will be. Then we will need to agree a new clause for the JV Agreements. Firstly, that should confirm all NZUs the Partnership receives will be redeemed at harvest, if required. MAF now says that is the ETS rule anyway, in most cases. Only forest planted from 2008 on can keep some NZUs at harvest. Secondly, we need to agree a share of the NZUs for the Landowners. Logically that will be the same as for harvest proceeds, as NZUs are entirely a product of the trees grown. However we can only estimate what that share will be, as it is based on a comparison of forestry costs and land value inflation over the entire rotation. We have those figures to date, so calculating it so far will give us a good idea to base an agreed share on.

Is the Price Right? Currently there is only a thin market for NZUs. Some sales of between \$12 and \$19 have been reported. That is not enough in my opinion, particularly as the government is selling them for the capped price of \$25. Obviously we would not want to sell them for a low price and have to buy them back at a high one at harvest, even accounting for the value of money over time. That risk, as with others, cannot be fully avoided. Over the next year or two some NZ industries, like power, fuel and cement will need to buy NZUs, as is the case in Europe. So far they have not bought many and in fact more sales have been to Europe. The market is meant to change in our favour in time. In theory NZUs should approach \$25 by 2012.

Will This Last? Currently we are only dealing with 2008 to 2012 as there is no international agreement beyond yet. No more than about 100 NZUs per hectare will be issued for those years. This is out of about 400 possible by harvest. If we get \$20 per NZU for those five years to 2013, this could result in payment to you of about \$4,900 per unit. We do not know what the rules will be for subsequent periods or if there will even be a carbon credit scheme then, so we can only deal with what is in front of us. It is all very new and uncertain. Several futures are possible: Perhaps the NZUs will become as valuable as the logs at harvest, meaning you will get all your return from them and the sale of logs will pay for repurchase of the NZUs. Perhaps the scheme will only last a few more years and fade away or be cancelled, meaning you will have had a windfall. Perhaps some of your return will be carbon credits and some logs. Whatever it is, we are confident that one way or another, a good return from your investment is most likely.

Do You Have a Say? Yes, it is your money. Enclosed is Notice of the 2010 AGM at which we will seek the three Extraordinary Resolutions listed. You can express a view and vote on these in two ways: If you cannot make it to the AGM, please consider giving me or someone else your proxy, either for or against each Resolution. You can write comments which I will read out.

Charles Etherington