



Ngati Hine Forestry Trust

2016 Annual Report

He mihi

Tena koutou katoa, no koutou nga whenua kei raro i te marara o te Ngahere o Ngati Hine me te mihi ki te hunga na ratou te whakaaro kia whakatoopuhia ai nga whenua.

E mihi atu ana ki a koutou e huihui mai nei i raro i te tuanui o tenei whare, a Manu Koroki ki te marae o Motatau.

Na reira, ka mihi tonu ki te iwi kua ngaro atu i te tirohanga kanoahi, kua haere ke i te ara kuiti, e kore ra ko te hoki mai. Haere koutou, haere koutou, haere, oti atu.

Ka hoki ano ki a tatou te hunga ora, e oke tonu nei ki te whakatutuki i nga kaupapa i wawatatia ai e ratou ma, tena ano tatou katoa.

a) Our Strategic Direction

It is a privilege to present this Annual Report to you the beneficial owners at this 2016 Annual General meeting.

The Trustees continue to remain focused on the Trust's strategic plan which concentrates, over time, on becoming 'active' managers of our collective assets instead of being 'passive' custodians as we have been for many years.

Over the past few years, we have progressively moved to implement key changes that would transform our Trust from a passive management regime and into a rejuvenated and active role where we are in much more control of our own destiny.

Some of these key changes have been to:

- i. Develop a new strategic plan and set a new course
- ii. Amend the Trust Deed to be more flexible.
- iii. Appoint a new CEO to implement the new plan.
- iv. Consolidate our financial position.
- v. Diversify our asset portfolio eg manuka honey, kiwi fruit.
- vi. Enter into Joint Ventures partnerships that enable us to progressively move into an active management regime.
- vii. Move from a single, 2nd rotation pine crop and into a new 'mosaic' plantation that will eventually see our lands return to native cover.



Te Pae Tawhiti – Our Vision

‘He Whenua Hua—He Tangata Ora’

Productive lands, People wellbeing, Self-Reliance, Environmental sustainability,

Kaupapa – Our Mission

‘He Ringa Ahuwhenua’ - To Actively Grow our Assets

b) Financial Report

The following is a summary of the 2015/16 financial result:

Income	\$11,585,328.00
Expenditure	(\$ 1,791,229.00)
Income Tax Expense	(\$ 1,362,802.00)
Net Surplus	\$ 8,431,297.00

During 2015/2016 the Trust undertook the stumpage sale of the Ruatangata Forest (discussed later in this report) which provided a significant one-off lump sum of income. Some of the proceeds from this sale were used to pay off all of the remainder of Housing New Zealand debt of \$2,935,770.00 (Housing Portfolio) and all of the Westpac NZ debt (Kiwifruit Orchards) of \$1,440,000.00.

The repayment of the Westpac NZ debt occurred on 1 August 2016 so this transaction is not included in the financial statements to 30 June 2016, although debt repayment is noted within the notes to the financial statements.

All of the Trust's Kiwifruit Orchards and housing portfolio are therefore now mortgage and debt free.

c) Forest Harvesting

The lessee of our lands, TPL 4 (Taumata Plantations Ltd), have, through their agents Hancock Forest Management NZ Ltd (Hancock's) been harvesting their lease area steadily since 2008.

As the TPL 4 forest area is harvested these harvested areas are progressively surrendered back to the Trust with the rental paid by TPL 4 reducing accordingly.

To date a total of 2,155 hectares of productive forest land has been surrendered back to the Trust by TPL 4, of which 565 hectares were handed back during 2016. Hancock's will be harvesting the forest at around 300 to 400 hectares per year to complete harvesting in time for the TPL 4 lease expiry date of the 30th September 2021. Some 1,560 hectares of productive forest land have yet to be harvested.



d) Second Rotation Pine Crop and Planting of Manuka

The Trust, during the winters of 2011 and 2012, re-established some 749.9 hectares of lessee (TPL 4) surrendered land as a commercial second rotation pinus radiata forest. The cost of this re-establishment was \$845,557.00.

This second rotation asset and the cost of establishing the forest does not appear within the financial statements as an asset but is dealt within the notation "Cost of Forest"; sometimes referred to as "Cost of Bush". Essentially a forest is classed as a crop and the value (revenue) is not accounted for until it is harvested.

This means that 16% of the Trust's forest lands have been re-established as a commercial pinus radiata forest crop, 100% owned by you the beneficial owners.

TPL 4 has recently reiterated that they do not wish to re-engage as a second rotation partner with the Trust.

As has been reported on and discussed at previous meetings the long term goal is to transition over time the forest lands from exotic pine to native species using a mosaic approach based on scientific evidence as to optimal land utilisation.

This year the Trust planted a trial plot of 1.5 hectares of eco sourced manuka plants with the view of extending these plantings over the coming years. This strategy will over time assist with extending and enhancing the native bush areas while also supporting the Trust's manuka honey business.

While the intergenerational strategy is to return as much of the Trust's lands back into a healthy native forest, in the meantime, it will be necessary to return, at least initially, a significant part of the forest into a second rotation pine crop.

The huge cost of such an undertaking by the Trust itself is just not possible and investigations are continuing to find a joint venture partner to assist with undertaking such a project.

The Trustees are mindful of the shareholders views with regards the current Taumata Plantations Limited lease and consequently a more beneficial joint venture arrangement will be sought. This will be a major piece of work for the Trust moving forward.

e) Matawaia Forest

The Matawaia forest has been a distinct forest within the overall lands of the Trust. The harvesting of the 416 hectares of the Matawaia pine forest crop which commenced in December 2013 will be completed by April 2017.

The Matawaia Forest pine crop is owned by Taitokerau Forests Ltd (TFL) which has a forestry right over the trees. This means TFL own the trees. TFL awarded the Harvesting and Marketing contract to the Ngati Hine Forestry Trust and Kiwi Forestry International Ltd 50/50 Joint Venture Partnership Company.



This partnership involves the harvesting and marketing of the Matawaia first rotation crop and for the planting and management for 28 years of the second rotation crop of the Matawaia Forest area.

Planting of a second rotation pine crop commenced in 2015 with 129.7 hectares being planted and a further 155.2 hectares planted in 2016. The balance will be replanted in 2017.

This 50/50 JV partnership has a number of advantages to the beneficial owners, these being:

- The Trust being involved in the harvesting and marketing operation to ensure that employment opportunities for local people and contractors are maximised.
- The cost of planting the second rotation and managing the crop for 28 years will be met largely from income generated by undertaking the harvesting and marketing contract with TFL meaning that no cash is required from the Trust for some years.
- At the time of harvest of the second rotation crop in 28 years the Trust will receive 50% of the harvest proceeds
- The Trust will also receive the Crown grant monies via TFL during the current harvest as provided for in the loan arrangements with the Crown.

f) Ruatangata Forest

This is an area of the forest comprising some 430 hectares of forest crop, which until February 2015 was included in the lease to Taumata Plantations Limited (TPL 4) with the forest crop owned by the lessee TPL 4.

The 1981 Carter Holt lease was based on the Trust receiving an annual rental plus a 9% share of the net stumpage from all of the leased forest. To resolve a dispute about the pruning regime a variation to the lease was signed in 1993 creating the Ruatangata Forest as a separate compartment comprising 9% of the leased area. Pruning was then only undertaken within the Ruatangata Forest with the Trust to receive 100% of the net stumpage from this forest.

The Trustees successfully completed negotiations with the lessee TPL 4 which saw this forest area removed from the lease and the ownership of the pine forest crop transferred to the Trust at no cost.

In March 2015 the Trust appointed Northland Forest Managers (1995) Limited as the Trust's harvesting and marketing contractor to manage the harvest and sale of the pine crop. A blessing ceremony was held on site on 1 December 2015 and initial road lining harvesting and construction of roads and skid sites was undertaken from mid January 2016 to mid May 2016.

In late 2015 the Trustees reconsidered their strategy on how best to gain the maximum value of the forest and on receipt of a stumpage sale offer subsequently entered into a stumpage sale of the tree crop with Aubade New Zealand Limited.



This sale at a price of \$8,486,500.00 (gross) was transacted on 23 May 2016.

The harvesting and marketing contract with Northland Forest Managers (1995) Limited was consequently terminated. Aubade will commence their harvesting operations in Spring 2016 utilising local harvesting contractors.

g) Roading Compensation Payable to TPL 4

The lease to TPL 4 contains a provision whereby at the end of the lease in 2021 the Trust must pay to TPL 4, the lessee, compensation for the permanent roads, estimated at 50 km, established within the forest by the lessee. This compensation amount is calculated as two thirds of the value (not cost) of these roads.

The quantum of this amount has been determined through a valuation process as being \$445,000.00. The Trust has made strong representations to TPL 4 seeking that this amount be written off. At the time of writing this matter had not been concluded.

The \$445,000.00 has however, in the meantime, been included as a non current liability within the financial statements and there is a notation within the financial statements with respect of this future commitment.

h) Emissions Trading Scheme (ETS)

All the first rotation pine plantation of 4,564 hectares situated on the Trust land is pre 1990 forest in terms of the Climate Change Response Act 2002 (Emissions Trading Scheme). This means that the Trust must ensure that this land is returned to a defined forest species after harvest that meets the criteria which is laid down in the Emission Trading Scheme (ETS).

The ETS criterion states that at four years after harvest the land must either have 500 stems per hectare of exotic forest species (e.g. pine) or be regenerating predominantly in indigenous species (e.g. manuka) which is growing in a manner that is likely to become forest land ten years after the harvest and that at twenty years there is crown cover of at least 30% from trees that have reached 5 metres in height.

Any lands that end up not meeting this ETS criterion will be deemed to be "deforested" and the Trust would then have to return 750 NZU's (New Zealand Units) per hectare to the Crown. The risk of the Trust having to compensate for de-afforested land at some future time is considered to be low.

The Trust still holds 171,172 NZU's which had a tradable value as at 30 June 2016 of \$17.85 per NZU = \$3,055,421.00.



In August 2013 the Trust lodged with the Waitangi Tribunal a contemporary claim against the imposition by the Crown of the ETS upon the Trust's forest lands. This claim is registered as Wai 2397. The Trustees are in the process of progressing this claim.

i) Manuka Honey

During 2013 the Trust entered the manuka honey business with a small trial joint venture. During 2015/2016 the Trust continued with its two manuka honey 50/50 joint ventures; Puawai Honey Limited with Tai Taitokerau Honey Limited (Rob Murray) and with Nga Bush Honey Limited (Jim Ngawati).

The total number of bee hives operated within both of these joint ventures as at 30 June 2016 was 972.

The Trust has this year reviewed the Trust's Manuka Honey activity with the aim of strengthening the business model to one that can support the significant expansion of the business and enabling the Trust to be in direct control. Essentially this will mean that over time the Trust will move from being 50% shareholders in joint ventures to a situation whereby the Trust 100% owns and operates its manuka honey business.

The Trust has secured access for its bee hives to lands owned by Top Energy and Hancock's to support the expansion of hive numbers.

The Trust has become a shareholder along with other Maori land owning groups in Taitokerau Miere Limited. The purpose of this company is to establish a collective of Taitokerau Maori Landowners for honey, nutraceuticals and other associated products that will create greater critical mass and stronger leverage in the honey value chain to ultimately benefit local communities through equitable wealth sharing and job creation. This collective model is still at the early stages of formation.

We have also begun investigating into the nutraceutical area and new initiatives that will enhance our mosaic approach. Nutraceuticals is a broad umbrella term that is used to describe any product derived from food sources with extra health benefits in addition to the basic nutritional value found in foods.

To this effect, we have completed a land use study that will enable us as Trustees to determine what might be grown on different areas of the Trusts lands.

In addition the Trust has recently facilitated discussions with other Ngati Hine land owning entities and individuals with the view to seeing if a Ngati Hine collective approach to the manuka honey business can be established. Again the purpose being to create scale and leverage to maximise returns and to retain those benefits within Ngati Hine. These discussions are ongoing.



j) Kiwifruit Orchards - Paparata, Te Tara Kowhai, Te Ara Kopeka and Ahuareka

The beneficial owners own four kiwifruit orchards in Kerikeri comprising in total some 35.75 hectares (88 acres) of land. Upon these orchards there are 24.17 canopy hectares of kiwifruit.

Paparata, Te Tara Kowhai and Te Ara Kopeka were purchased in June 2004 and then leased to Kerifresh (Turners and Growers Horticulture Ltd) for a term of fifteen years to then expire in June 2019. These three leases are profit sharing arrangements.

The Trust's fourth orchard Ahuareka was purchased in December 2006 and it is also leased to Kerifresh on a 80%/20% profit share arrangement. The current lease expires on 30 June 2021.

As you will be aware Psa V arrived in Kerikeri three years ago with around 77 orchards out of 108 being identified as having Psa V to date. Most of these orchards have been or will be converted to newer more resilient varieties.

During the winter of 2014 Te Tara Kowhai was converted from Hayward Green, Hort 16 A and Gold 9 to ENZA A19 a Turners and Growers Gold variety. The significant capital cost of this conversion was borne by Kerifresh and in return the net profit share arrangement was changed from 70%:30% to 37.20%:62.80% in favour of Kerifresh for a period of ten years. At the end of this ten year period the profit share will revert back to 70%:30% in favour of the Trust with the lease extending a further ten years to expire in June 2034. This conversion will not see a full crop being produced until 2017.

In July 2015 Ahuareka orchard was converted from Gold Hort 16 A to Zespri Gold 3. The capital cost of this conversion, including obtaining Zespri Gold 3 licence, at a special Hort 16 A to G3 concessional licence fee, has been fully funded by the Trust. The net profit share arrangement for this orchard therefore remains 80%:20% in favour of the Trust. Zespri will not be marketing Hort 16 A from 2018 and this was another reason for the Trust having to now convert its Ahuareka Hort 16 A orchard to Gold 3.

The timing of the conversion of the remaining two Hayward Green orchards Paparata and Te Ara Kopeka will be considered in early 2017, along with options as to how these conversions will be funded. The cultivar types to be converted to will also be considered. The expense of purchasing G 3 Zespri licences to replace Hayward Green combined with conversion costs would result in outgoings of \$900,000.00 per orchard. Coupled with the loss of income for two years, means that the pay back on such an investment would take 7 years, which will require alternative less expensive cultivar varieties to be considered.

While these conversions of cultivar are taking place there is a loss of production for two years which will result in a significant decline in income until such time as the



new growth cultivar variety comes into production. This revenue "hole" is in part being compensated by the one off revenue stream received from the stumpage sale of the Ruatangata Forest. Once all four orchards are converted and back in full production it is anticipated that the level of income to be achieved in five to seven years time will be significantly greater than what has been achieved to date, potentially in the \$1 million net plus per annum.

The cost of purchasing the Trust's four kiwifruit orchards and subsequent capital improvements has been \$4,801,708.00. The current capital value of these orchards is estimated at around \$10 million.

The Trust has also been in discussions with Turners and Growers in order to build our own capacity and capability in the Kiwi fruit industry. To this effect, we are looking to put in place cadetships and a scholarship that will encourage our young people into the industry.

k) Housing Portfolio

The beneficial owners own twenty two homes, of which twenty one are located in Kaikohe, Kawakawa and Moerewa and are leased to Housing New Zealand. The other home is located on the Ahuareka Orchard, Kerikeri.

The twenty one homes (11 purchased 2006 and 10 new builds in 2010) were funded by the Crown. These Housing NZ loans, which were interest free for the first ten years, have, as previously stated been completely repaid from some of the proceeds from the stumpage sale of the Ruatangata Forest. All of these houses are now mortgage free. The Trustees are now looking to sell some of the housing portfolio on the open market. The Trust will involve sitting tenants in this process.

l) Review of Te Ture Whenua Maori Act 1993

There is proposed legislation "Te Ture Whenua Maori Bill" currently being considered by the Maori Affairs Select Committee. This bill is to restate and reform the law relating to Maori land. This bill is complex and large at some 431 pages. The Trust along with some other 127 organisations lodged submissions as part of this Select committee process.

Full details can be obtained from the Parliament web site www.parliament.nz

m) Dividends

As reported at past Annual General Meetings, the payout of any dividends cannot be contemplated in the immediate future.

The Trust reviews its position in regard to dividends at regular intervals which includes any new Trustees constantly looking at our position.



The stumpage sale of the Ruatangata Forest has provided a significant cash injection, however, after tax and paying off all of the Trust's debts the remainder is to be used to expand the Trust's manuka honey business and to compensate for the loss of income from the kiwifruit orchards during the cultivar conversion process. The reducing rentals received from the Trust's forest estate is also a factor to be compensated for, together with, the increasing costs of maintaining more and more of the forest estate as TPL 4 surrender land back to the Trust.

Once the kiwifruit conversions have been completed and full production is achieved then this income together with the expected significant income from the manuka honey business in around five years time may potentially provide a return to the beneficial owners for the Trustees to consider.

n) Summary

Over the past year the Trust has converted the Ahuareka Kiwifruit orchard to Zespri G3, undertaken the stumpage sale of the Ruatangata Forest, repaid all of the Trust's debts, commenced a programme of planting manuka, reviewed the operation of the Trust's manuka honey business model with the view to significant expansion, participated in forums to create some form of manuka honey collective(s), continued the second rotation planting programme at Matawaia with the Trust's JV partner, undertaken further work with respect of land use options (including a pine second rotation) for the lands being harvested by TPL 4 and have engaged with TPL 4 with regards the roading compensation lease provision.

The main emphasis this coming year is to lock in the future land management plans for the forest estate, including second rotation pine options, the further planting of manuka and the expansion of the Trust's exposure within the Manuka honey industry.

We will also be looking to continually review our structure and staffing as we move forward to ensure that we are 'fit for purpose' and can respond to the changing environment that we find ourselves in.

Na reira, kua mutu enei korero ki konei.

Tena ra koutou katoa.

A handwritten signature in black ink, appearing to read "Pita Tipene".

Pita Tipene
Chairman
Ngati Hine Forestry Trust