



FORESTRY INVESTMENTS

DECEMBER 2009

GREENPLAN

FOREST NEWS



John Barton
Director

THE WAY FORWARD

As I write this, the legislation titled the Climate Change Response Act is in fact being amended by the National led coalition government and we are not absolutely sure what the final amended act will be. We have a good feel for it and feel that the grey areas could change for the better rather than worse. Better that is, in respect to Greenplan partners interests!

We would like to get a newsletter out before Christmas so hopefully by the time it goes to print, all the detail in the new amended Climate Change Response Act will be crystal clear and set in stone, so to speak.

That part of the Act to do with Emissions Trading and the Forestry Sector is probably not going to change a lot and the already published Regulations are likely to remain unchanged. Those are the bits that we at Greenplan are most interested in and in respect to our advice to you, our investors and to Perpetual Trust, your Statutory Supervisor, those are the parts of the legislation and associated rules and regulations that we depend on. We believe they are not going to be changed.

Our plans for Greenplan's involvement in the Emission Trading Scheme (the ETS) is becoming crystal clear and by a series of questions and answers I want to explain them to you. So here we go – read on.

Does Greenplan believe our forests should be part of the ETS?

Yes most certainly. In fact whether you want to or not, your forests will be part of the ETS. You see if you don't register your forests, their annual carbon credits then go to the Government by default and the credits go into a national registry to offset the national emissions.

Does the registration of my forest pose any risks?

No, if all you do is register the forest. But it costs to register and there are annual charges for audit and verification of the amount of carbon credits produced annually. These costs if related to say a forest partnership of 150 investors may amount to \$500 with added costs of \$130 per hour if there are complications. So per investor it's not much.

So if you don't sell any carbon credits the only risk is the smallish cost may escalate.

If my forest partnership sells carbon credit is there a risk?

No there is no risk (other than the risk of selling them too cheap) to the partners. But there is a risk to the landowner which is not the partners but in most cases Greenplan Holdings Ltd.

To explain – whatever carbon credits are sold must be repaid if the forest is cut down. That cutting down of course occurs at harvest time but it could also occur in a fire or a cyclone or a volcanic eruption. In other words when the forest is removed for whatever reason the carbon must be accounted for. If the carbon has never been traded or sold then it's deemed not to have existed.

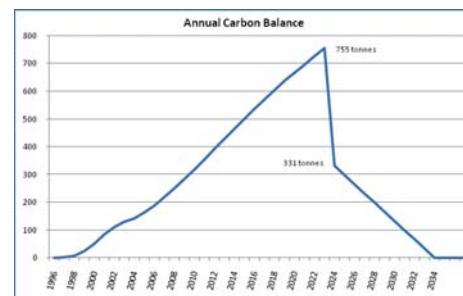
But if it has been sold to say a petrol company, then it must be accounted for. The petrol company is telling the Government that the emissions they have to pay for are covered by these credits they have bought from Greenplan. But Greenplan are saying "oops there was a fire and the carbon credits are no more" so someone has to pay!

Now the Act says that the responsibility (and liability) lies with the Landowner, (Greenplan Holdings) not the forest owner

(Greenplan Forest Partnership).

As we have said in previous newsletters, Greenplan Holdings (and other third party landowners) are not prepared to accept that risk. So we have devised a plan which will allow the Greenplan partnerships to sell carbon without risk to themselves or to the landowner.

So let me attempt to explain a reasonably complicated plan.



This is first in a series of "worm" graphs which will show how it all works. This graph shows the accumulation of Carbon sequestered by forest planted in 1996. For the first 28 years carbon is stored (or taken out of the atmosphere) at the rate of 27 tonnes per hectare per year. At age 28 when there is a total of 755 tonnes of carbon stored, the trees are harvested.

At that point, it is calculated that all but 331 tonnes of carbon are released back into the atmosphere. That is of course rubbish but the Europeans don't think forestry should be part of the fight against climate change and wouldn't accept our Governments arguments unless we agreed to concede that point.

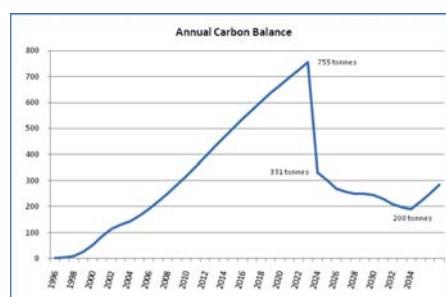
Anyway that aspect could change to our advantage in the Copenhagen round of talks. The 331 tonnes calculated to remain are stumps, branches, roots and general woody litter. But that is going to disappear at the rate of 33.1 tonnes a year, over 10 years until there is nothing left.

That's the carbon curve of a forest over its lifetime if no carbon is sold and the forest is not replanted.

If you don't register this forest and you harvest then you don't have to refund any credits. After all you started with nothing and you ended with nothing – all square.

Graph 2 shows what happens when the forest is replanted at harvest. Almost immediately the worm stops the steep decline, levels and then starts to climb again.

This graph shows the area of what is called "low risk carbon". That is a bit over 200 tonnes or 200 carbon credits per hectare. In other words as long as you replant immediately after harvest, you will never have to repay a carbon deficit if all you ever sell is 200 carbon credits per hectare.



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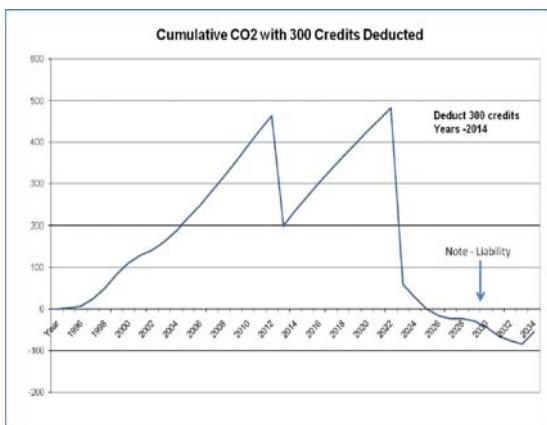
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The next graph shows what happens if you get greedy and sell 300 carbon credits. After harvest, even though you replant, the worm goes below the line and into pay-back territory.

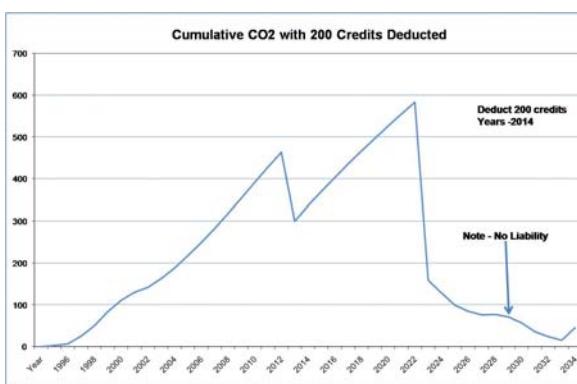
Now you could say "that's nothing I've sold 300 units and only have to pay back 100." True but what if you sold the 300 units for \$25 per unit and have to pay \$100 per unit when you pay them back! That's a possibility! We've seen in Government statements examples using a range of carbon prices from \$15 to \$200.



This shows the correct way to use your low risk carbon. Just take out the 200 credits and sell them. As long as you replant there will be no liability to pay back.

That is as long as:

1. You replant
2. The forest isn't destroyed by fire, wind or volcanic activity (or disease)



But hang on a minute, (I hear you say!) Greenplan didn't tell us we have to replant our forest. We harvest, take out money and leave it – that's the deal. Yes you are right – that's the deal.

So it's Greenplan (or the landowner) that would have to meet the cost of replanting. That brings us around to the question of who gets the benefit of the ETS. When most of you invested in Greenplan the ETS wasn't known about and global warming had just started to become a buzz word. The prospectus didn't mention who would get what if ever we sold carbon credits. In fact carbon credits didn't become common jargon until after the turn of the century.

There are some legal people we have spoken to who suggest that because the landowner has the ultimate liability to pay the credits back, then the ownership and the benefit of the credits belong to the landowner.

Others suggest, that since the forest produce i.e. timber, is the property of the forest right holder, i.e. you the partners, then you in the absence of anything to the contrary, own the carbon credits. We agree except that the prospectus defines the partners getting 90% of the timber and the landowner 10%.

Accordingly Greenplan Holdings would agree to a 90/10 split of the carbon credits if we were satisfied that there is no risk of being left with a liability to make up the shortfall on harvest. But that's our problem according to the Act. So you have had 90% of the carbon and timber proceeds and at harvest ride off into the sunset and leave us with the problem.

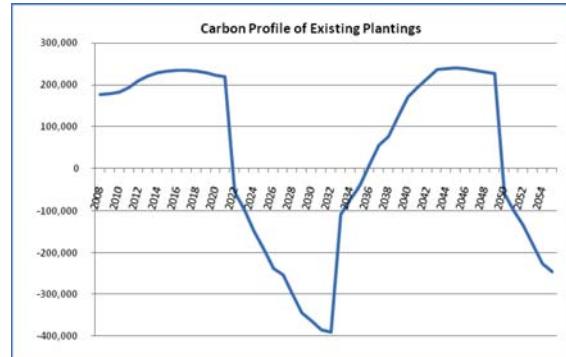
We think there is a way around that to the mutual benefit of not only you and us, but also to the nation and the world. It is almost as though the scheme was designed to achieve this end. That is to use the carbon proceeds firstly to plant more forests for the benefit of the partners, so

that there never ever is a carbon liability that the landowner has to cover. Let me explain.

If we group all Greenplan's forests together the carbon worm looks like this. Remember this does not allow for any carbon sales. It just shows what the collective carbon balance looks like over two cycles.

Each forest performs the same. Remember though this is the graph for 63 forests planted between 1994 and 2004. If the planting had continued over 28 years the graph would have been quite different. It would not have the dramatic plunges into debit. Being a proper multi-aged forest it would never get into debit. Even if there was a fire in one or two of the forests it still wouldn't get into debit.

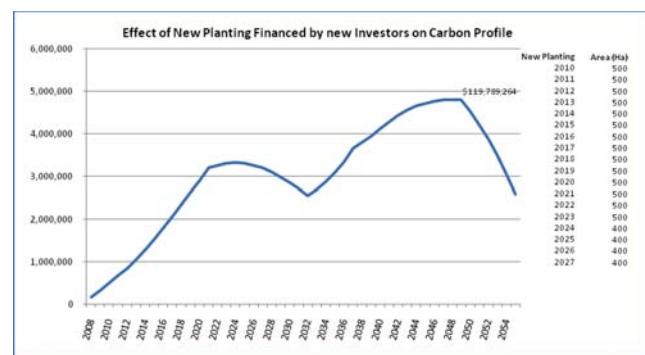
And that's what we think we should do. Use the proceeds of carbon sales to plant more forests at no cost to you the partners. To create a fully multi-aged forest.



An important issue arising here is the timing of any benefits. The aim of planting more forest is not just to cover the landowners post harvest liabilities but equally important, to create more forests that can be harvested for the partners benefit. With a 28 year timeframe before harvest of any new plantings, it is important to consider the attractiveness of that to existing investors.

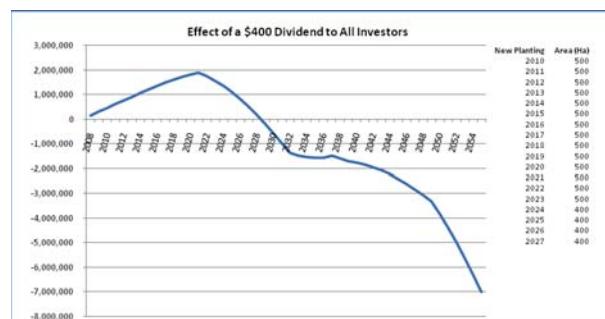
I can honestly say that for me it has little or no appeal. I'm 71 now and I'm optimistic I'll be here for another 13 years when my first forest investment is harvested. But to expect to be around in 2037 when any new plantings are harvested, when I'll be 99, would be unlikely.

So we have to do something better.



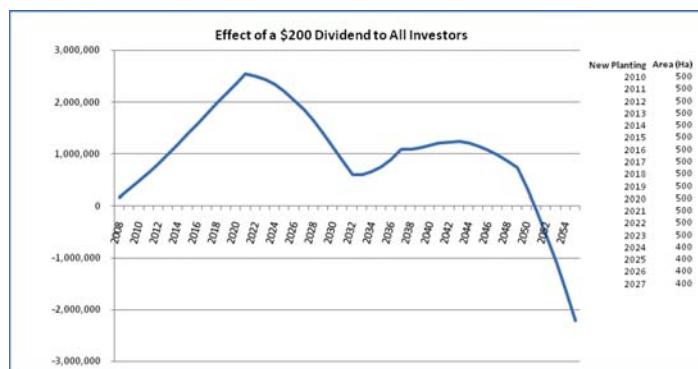
In this graph we explore the effect of using new investors money to plant 500 hectares a year of new forests and grouping the carbon with existing forests.

An impressive result. No deficit and huge credit balance in our carbon account. But no draw downs or dividends to the investors.

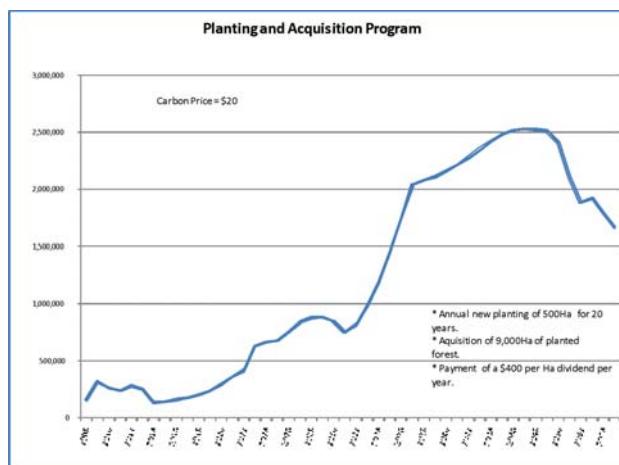


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Next we looked at still using new investors to plant new forests and pay a \$400 annual dividend per hectare per year, funded by carbon sales. As the worm shows it was okay for a start but got into damage territory later on.



In this graph we reduce the dividend to \$200 and that's good for the worm but how attractive is a \$200 dividend on an \$8,000 investment?



This story goes on and on but after many days of putting figures and combinations of figures into the computer we came up with this.

This graph demonstrates a planting and acquisition program incorporating the following:

1. Annual new planting of 500 hectares per year for 20 years. To be financed by new partnerships incorporating traditional Greenplan features.
2. Acquisition of 9,000 hectares of planted forest – to be financed by carbon sales. These forests are not planned to be harvested, but to create carbon credits that can be used to meet harvest obligations on the partnership forests and/or fund dividends to investors.
3. Payment of a \$400 per hectare dividend to existing and new investors in the Greenplan Partnership – this dividend is based on a \$20 carbon price.
4. Existing and new investors are allocated shares in a new company which owns assets acquired and financed by carbon sales.

The resulting worm, based on a carbon price of \$20 per tonne, is promising. A dividend of \$400 per hectare (or per partnership unit) will be well received by existing investors and attractive to new investors.

The key to the success of this strategy is the second highlight – acquisition of planted forests which are not to be harvested.

As you would have seen in Graph 1, it is the harvesting and the need to cover harvest liabilities that are so demanding. The new partnerships to be created are essential to create the multi-aged forest referred to in Graphs 5 and 6.

They are essential to cover the harvest liabilities in the existing 63 forests in the period 2022 to 2031.

But a disadvantage of more forest partnerships is that there is a promise of a harvest. That is logical because it is after all an investment in a harvest of timber. So investors in existing and new partnerships will get their payout for the timber as and when promised.

We felt that what we needed was a mass of forest which just never got harvested. So we formulated the idea of buying existing forest planted since 1989 and which would qualify for carbon credits.

It doesn't matter if they haven't been pruned or they are in inaccessible places, it's their carbon we are interested in. There are quite a lot of these forests around and we believe they can be acquired advantageously.

What is meant by "grouping"

Grouping in the Climate Change Response Amendment Act 2008 is the name given to consolidating forest blocks into one entity. This allows the entity to achieve partially or completely, a multi-aged forest status. This is what Greenplan is aiming to do.

The definition of grouping is in the Financial Reporting Act 1993. It is quite restrictive!

For example two individuals can't group their forest nor can two partnerships. But the Statutory Supervisor of the partnerships can group the partnerships but may be reluctant to do so because any liabilities, such as a demand to pay back carbon, becomes their liability as a last resort.

As this newsletter goes to print, we know of no Statutory Supervisor (or Trustee) having given their permission to group forest partnerships.

So how does Greenplan succeed in grouping?

We can do this because Greenplan Holdings Ltd, is the landowner in most of our forest partnerships. That means Greenplan is the reporting entity under the Financial Reporting Act 1993.

We still have to have the partners or the Statutory Supervisors written permission to trade carbon credits but if we have that we can group all your forests and trade carbon on your behalf, invest the proceeds to produce the carbon required to meet future liabilities and repatriate any surplus by way of dividends.

The benefit of having a common landowner means Greenplan partnerships are able to achieve a multi-aged status which is hugely advantageous to all parties. This wasn't something envisioned when the Greenplan structure was conceived but is certainly most beneficial now.

Look-up Tables

This name, Look-up Tables, is the name given to the tables contained in the Climate Change (Forestry Sector) Regulations 2008.

They are tables setting out how much carbon is sequestered each year in both pre-1990 and post 1989 forest for Radiata, Douglas Fir and other exotic softwoods and hardwoods and indigenous forest.

There are also tables specifying the carbon left after harvest in the form of stumps, slash and below ground roots.

The tables are further divided between regions and as an example we show the following.

Region	Auckland	Waikato/ Taupo	Gisborne	Cant/ Westland	South- land
Species	Radiata	Radiata	Radiata	Radiata	Radiata
Age 24	685	636	692	408	571
Age 25	715	666	722	435	604
Annual Growth	30	30	30	27	33

At the same age, Douglas Fir is sequestering at the rate of 27 tonnes of carbon per hectare per year; Eucalyptus 17 tonnes and Indigenous Forest at just 3 tonnes.

Note also that radiata is sequestering a similar annual rate of 30 tonnes per year, but look at the total sequestration. In the Waikato/Taupo area (our area) a 25 year old forest is given 666 tonnes of carbon, behind Gisborne on 722 tonne but well in front of Canterbury/Westland on 435 tonnes.

It is generally accepted that these tables are a conservative approximation only. There is a lot of scientific work being done to achieve more accuracy and over time we can expect more accurate tables. Given that, it is comforting at this stage to accept that there could be a surprising amount of up-side still to be credited to forest owners when research is complete.

MISSING PERSONS

Does anybody know the whereabouts of these people? If so please contact the Greenplan office on 0800 800 154

INVESTOR	AREA LAST RECORDED	INVESTOR	AREA LAST RECORDED
Ralf Borchart	Central Hong Kong	Katrina Hansen	Silverdale
Alfred & Gillian Berliner	Opunaki	Richard Werner	Epsom, Auckland
Neil Brown	Fitzroy, New Plymouth	Jacqueline Matheson	Christchurch
Graeme Field	Kowloon, Hong Kong	Helen McDonald	Hibiscus Coast, Orewa
Grant & Eija Hall	Glenfield, Auckland	Cindy McGowan	Levin

ARRIVALS – DEPARTURES

During August we were sad to say goodbye to Rachel Barton who has been a valued team member over the past few years. We welcomed the arrival of Hayley Pendergrast in August. Hayley is responsible for the accounts and other financial aspects of Greenplan. Since commencing Hayley has proven to be a valuable and very capable addition to the team. Next time you call or visit please say hi and make yourself known.

VISITORS

Early in December we had the privilege to host Greenplan's Statutory Supervisors to discuss the Emissions Trading Scheme and other aspects of Greenplan. The meeting went well and we will in the near future be updating you on the progress made.



Matt Barton with Perpetual Trust (Statutory Supervisor) visitors Matt Lancaster, Louise Edwards, and Michael Styant.
Photo taken looking down the Mapara South Valley with Arapito Forests in the background.



*Wishing you a very merry Christmas
and a safe and happy New Year
From the Greenplan team*

Check out your forest at www.greenplan.co.nz

FOREST MANAGEMENT DIARY

NOVEMBER 2009

Our schedule for 2009 was approximately 895 hectares of pruning and 500 hectares of thinning. At present all operations remain on schedule, regular site assessments by Greenplan staff have ensured that all operations, health/safety and forest health standards continue to be maintained.

In March, First Lift pruning began in the Scotts Bush Forest No 63. Pre-assessment data was collected in 2008 to ensure priority was given to areas containing the largest trees. Our aim for the First Lift in Scotts Bush was an average pruned height of 3.5 metres with a minimum Green Crown of 3.5 metres remaining; we also target 350 sph on average. Field data collected show excellent results and will be available in the next forest report.

Second Lift pruning has recently been completed in the 2003 Forest Partnership No's 59 White Cliffs, 60 and 61 Pinegrove. Approximately 108 hectares of second lift is now completed in Greatwood 57, we anticipate the completion of second lift in No 57 for late November 2009. Second lift pruning has recently begun in Partnership 62 Wayleggo. We are pleased to report that field data collected to date show very positive results.

In February of this year area's containing small trees in Partnerships 44 Millenium and 46 Tunnel Rock had third lift pruning completed. With thinning also completed in all forests planted in the year 2000 we now await final audits by P F Olsen & Company Ltd. At the completion of all thinning operations P.F Olsen Ltd will carry out final audits to ensure all management requirements have been achieved.

Third Lift pruning is now complete in the forests planted in the year 2001, all forests will have their final prune to an average height of 6.5 metres and then be thinned out to an average stocking of 350 sph. Recently third lift pruning began in the forests planted in the year 2002, thinning is scheduled to commence in the up coming months.

Pest control is conducted regularly by GFM Staff and Ranginui Hunting. Pest Controllers are occasionally employed mainly to target possum. Periodically they trap and lay poison in and around our forests. At present there are a number of controlled operations involving Environment Waikato and private contractors. Neighbouring properties including some Greenplan forests can assist by allowing access for operational purposes and continued monitoring once the operations are completed. Good communication between landowners, Environment Waikato/Horizons and contractors will reduce the risk of this pest becoming established within our forests.

INDICATIVE NEW ZEALAND RADIATA PINE LOG PRICES

Returns to small growers may be lower than those recorded here owing to scale and buyers' margins. These log prices are historical and indicative only and may not correspond to actual prices paid, or grades used, in market transactions. A "best fit" is applied by survey respondents to align company log grade specification with the generic specifications. Direct comparisons with actual market prices may not apply, due to differences between the specification sets.

The prices are subject to changes when further data become available. The sources for this information are Ministry of Agriculture and Forestry industry contacts.

Source: www.maf.govt.nz



Smiths No. 25 peacefully growing pine trees.

3rd Quarter and 12-Quarter Average

As at: September 2009

Generic Log Type & Pricing Point	Sep-09 Quarter	12-quarter average
EXPORT (NZ\$ per JAS m³ f.o.b.)		
Pruned	125 - 175	155
Unpruned A Grade	91 - 97	104
Unpruned J Grade	87	96
Unpruned K Grade	85 - 102	91
Pulp	75 - 77	69
DOMESTIC (NZ\$ per tonne delivered at mill)		
P1	120 - 139	128
P2	93 - 111	101
S1	84 - 92	87
S2	80 - 85	82
L1 and L2	65 - 76	71
S3 and L3	64 - 75	66
Pulp	40 - 49	48

SECONDARY MARKET UNITS FOR SALE

SECONDARY MARKET

The following units are for sale. Units with asterisk (*) are subject to the clause two procedure, whereby partners in that partnership have a 28 day period first option in which to apply. The units not marked are available for sale to anyone. Please contact Deb (invest@greenplan.co.nz) at Greenplan for more details.

Partnership Name	Partnership No	Units	Price	Year Planted
Aratoro Partnership	13	OM	1	\$11,200
Aratoro Partnership	13	OM	1	\$11,400
Aratoro Partnership	14	OM	1	\$11,500
Awakino River Partnership	16	PER	1	\$9,800
Awakino River Partnership	16	OM	1	\$11,600
Awakino River Partnership	17	OM	1	\$11,000
Awakino River Partnership	19	OM	1	\$9,500
Aratoro Partnership	20	RESERVED	1	\$10,500
Slab Hut Partnership	22	OM	1	\$9,000
Slab Hut Partnership	22	OM	1	\$9,700
Brakeside Partnership	23	OM	1	\$10,300
Tin Whare Partnership	26	OM	1	\$10,000
Rhodes Partnership	29	OM	1	\$9,500
Rhodes Partnership	29	OM	1	\$9,700
Rim Rock Partnership	33	OM	3	\$5,000 (1/2 Ha)
Pig and Whistle Partnership	34	OM	1	\$5,000 ONO (1/2 Ha)
Cattle Stop Partnership	35	OM	1	\$5,000 (1/2 Ha)
Squires Creek Partnership	38	OM	1	\$4,500 (1/2 Ha)
Huntaway Partnership	40	OM	1	\$8,500
Tunnel Rock Partnership	46	OM	2	\$7,000 each
Tunnel Rock Partnership	46	OM	1	\$7,750
Dunmore North Partnership	48	OM	1	\$7,000
Jubilee Partnership	50	OM	2	\$7,300 each
Twin Rivers Partnership	51	OM	1	\$7,000
Twin Rivers Partnership	51	OM	2	\$7,500 each
Ducksfield Partnership	53	OM	5	\$7,000 each
Ducksfield Partnership	53	OM	4	\$7,300 each
Glen Afton Partnership	54	OM	6	\$8,000 each
Big Valley Partnership	55	OM	10	\$8,000 each
Hidden Valley Partnership	56	OM	1	\$7,300
Greatwood Partnership	57	OM	1	\$6,597
Greatwood Partnership	57	OM	1	\$6,900
Greatwood Partnership	57	OM	2	\$7,000 each
Greatwood Partnership	57	OM	1	\$8,000
Woodview Partnership	58	OM	1	\$6,500
Woodview Partnership	58	OM	1	\$7,100
Whitecliffs Partnership	59	OM	2	\$6,500
Whitecliffs Partnership	59	OM	1	\$8,000
Pinegrove Partnership	60	OM	1	\$7,300
Pinegrove Partnership	61	OM	1	\$6,800
Pinegrove Partnership	61	OM	1	\$7,150
Pinegrove Partnership	61	OM	1	\$7,300
Wayleggo Partnership	62	OM	1	\$7,000
Wayleggo Partnership	62	OM	1	\$7,300

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