





Whāia te iti kahurangi ki tōna tauranga, kia pupū ake ai ko ngā painga katoa, ki a rātou e whai painga ana ki tēnei ngahere.

- Pursue the items of value to their destination so that benefits and goodness arise for the beneficiaries of this forest.

Contents

2-3

**Vision, Mission
and Strategy**

4

**Chairman's
Report**

8

**2020
Highlights**

9-11

**About the Trust
Trustees and Staff;**

12-13

**Owner's
Report**

15

**Charitable
Trust**

16

**Forestry
Highlights**

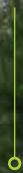
36-37

Financial Report



38-41

Investment Report



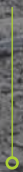
17-33

Forestry Report



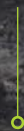
44-51

Summarised Financial Statements



53

The Trust Order



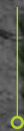
52

Group Directory



54

Land Blocks



OUR VISION

Kia ū ki te whenua Tū tangata ki te ao

To be a diversified and sustainable global land and asset manager centred in Aotearoa, while being a responsible investor for the wellbeing of our people

OUR MISSION

Ki te hoe tonu i te waka moemoeā o rātou kua ngaro, kia whai hua hoki ngā wawata o ngā uri whenua

To realise the dreams of those who have gone before us by fulfilling their expectations to build a competitive business, respect their customary values, and protect their lands and assets in order to deliver real benefits to their descendants



STRATEGY 2018-23

Pou Tikanga

The way we do things is led by our Tūwharetoa tikanga

WE WILL UNDERSTAND OUR TIKANGA
WE WILL LIVE BY OUR TIKANGA

Pou Tangata

Enabling meaningful benefits for our people

ENGAGEMENT WITH OUR PEOPLE
DELIVERY OF BENEFITS
KNOWING OUR PEOPLE

Pou Whenua

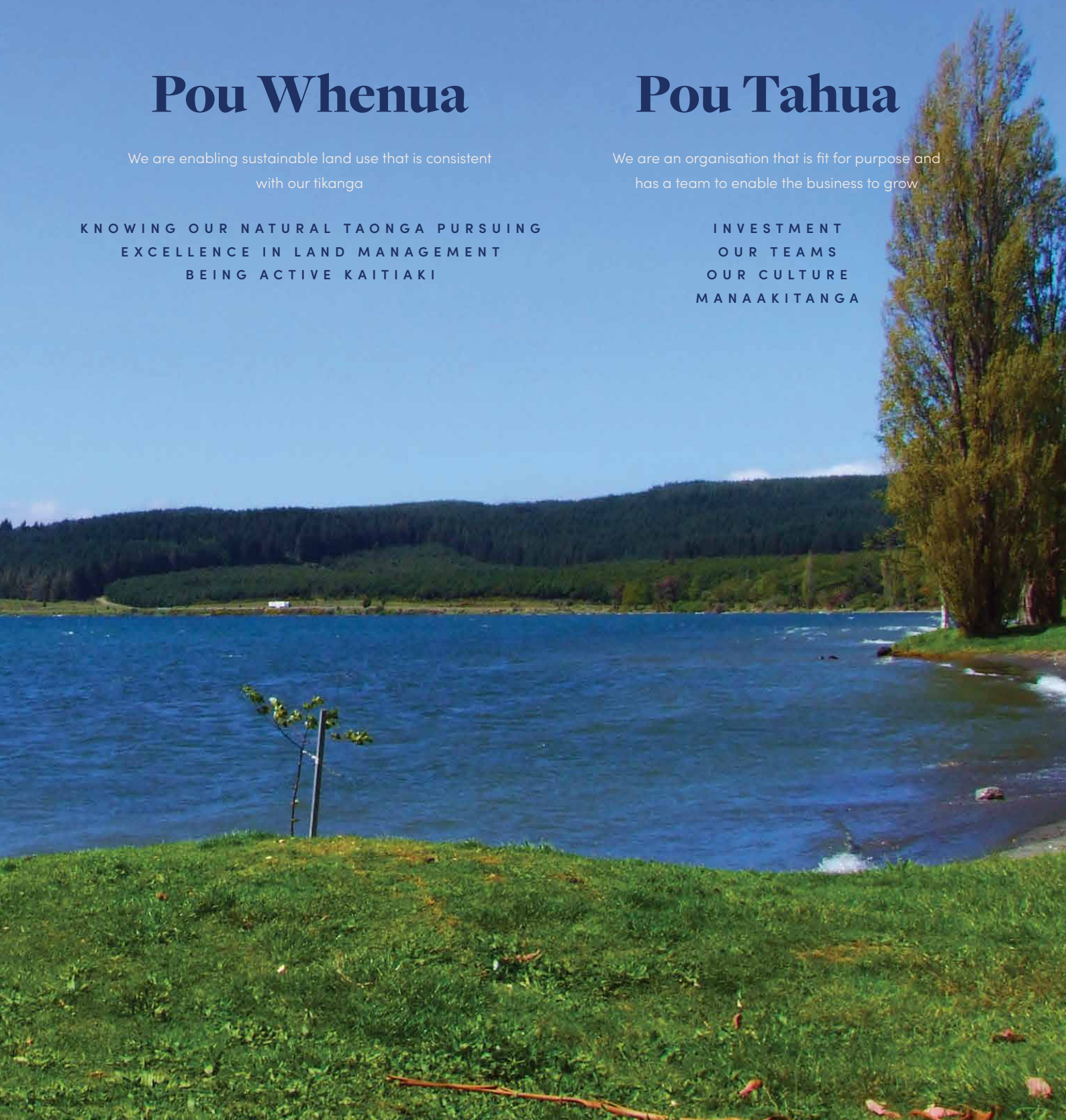
We are enabling sustainable land use that is consistent
with our tikanga

KNOWING OUR NATURAL TAONGA PURSUING
EXCELLENCE IN LAND MANAGEMENT
BEING ACTIVE KAITIAKI

Pou Tahua

We are an organisation that is fit for purpose and
has a team to enable the business to grow

INVESTMENT
OUR TEAMS
OUR CULTURE
MANAAKITANGA



Chairman's Report



The year to 30 June 2020 provided us with a number of challenges, the most significant being the global outbreak of the COVID-19 pandemic. The Level 4 lockdown meant our forests had to close, and the forestry crews and contractors were off work for six or seven weeks, which caused unexpected hardship for whānau and contributed to loss of revenue for the Trust.

During this stressful period, Lake Taupō Forest Trust coordinated with several of our other Tūwharetoa entities including the Tūwharetoa Māori Trust Board, Te Kotahitanga and Tūwharetoa Fisheries as well as many hapū and marae to work hard behind the scenes and ensure that support was available to whānau.

I'd like to thank many of our owners, Trustees and staff who stepped up throughout this time to support our whānau and ensure the health, safety and welfare of others.

During the year, we also welcomed our new Trustees – Ngahere Wall, Kelly Te Heuheu, David O'Rourke and Tangonui Kingi – and we look forward to their valuable contributions.

We have made good progress on beginning to restructure Lake Taupō Forest Trust for our transition to full ownership of our forests.

This involved commencing work to establish our commercial arm – Tupu Angitu Ltd – and appointing directors. We also reviewed the structure of the Trust to provide a clearer focus on delivering benefits to owners. This includes bringing the disbursements of Kaumatua grants by Lake Taupō Charitable Trust back in house and allowing them to focus on developing He Māhuri Toa – the educational support system for our tamariki and rangatahi. There is a summary of their outstanding work later in this Annual Report.

As always, there are several people I would like to acknowledge. Without their dedication, loyalty and support, delivering our long-term vision would be impossible. First, I acknowledge the hard work and support of my fellow Trustees and their unwavering commitment to ensuring we stay focused on the kaupapa ahead.

Thanks to our Chief Executive Officer, John Bishara, Group Manager, Amy Walker, and their team of administrators for their professionalism and dedication.

Thanks also to Lake Rotoaira Forest Trustees for their support as well as Lake Taupō Forest Management Ltd and NZ Forest Managers Ltd for helping us achieve our vision.

Thank you to you, the owners, for your continued support and encouragement.

Finally, I'd like to acknowledge the passing of Mikaere Pitiroi, one of our young Trustees who left us far too early. Moe mai, moe mai, moe mai i roto i te Ariki.

A handwritten signature in black ink, appearing to read 'Binky Ellis'.

BINKY ELLIS
Chairman

**He hōnore he korōria ki te Atua
He maungārongo ki te mata o te whenua
He whakaaro pai ki ngā tāngata katoa
E ngā iwi, arā, koutou katoa e whai pānga
ana ki te ngahere o Taupō Moana
Arā koutou katoa kua tae mai nei ki te
whakarongo ki ngā mahi kua oti nei i tēnei
tau, tēnā koutou katoa
E maumahara ana ki ō tātou mate
Arā, rātou kua huri atu ki tua o te ārai
Haere, moe mai i runga i te rangimārie
Moe mai i roto i te Ariki**

**Nō reira,
Kia ora tātou katoa.**





LTF
K'S

LTF
K'S

LTF
K'S

A stack of cut logs with 'LTF KKS' markings on their ends. The logs are arranged in a pile, showing their circular cross-sections. The wood grain is clearly visible, and the bark is dark and textured. The markings are in a purple or blue ink, appearing as two lines of text: 'LTF' on top and 'KKS' below it. The logs are of varying sizes and are stacked in a somewhat haphazard manner, with some bark still attached to the edges.

LTF
KKS

LTF
KKS

LTF
KKS

2020 HIGHLIGHTS

\$5 million



RETAINED THE ANNUAL DIVIDEND DISTRIBUTION TO OWNERS OF \$5 MILLION

\$57 million increase



IN THE VALUE OF THE WHOLLY OWNED FOREST



39 tertiary grants

3 scholarships awarded



TO SUCCESSFUL RECIPIENTS STUDYING IN A FORESTRY-RELATED PROGRAMME

6 months



RECREATIONAL LAND ACCESS PERMIT PERIOD

Commercial Company

WORK BEGINS ON ESTABLISHING A NEW COMMERCIAL COMPANY TO MANAGE THE TRUST'S COMMERCIAL ASSETS



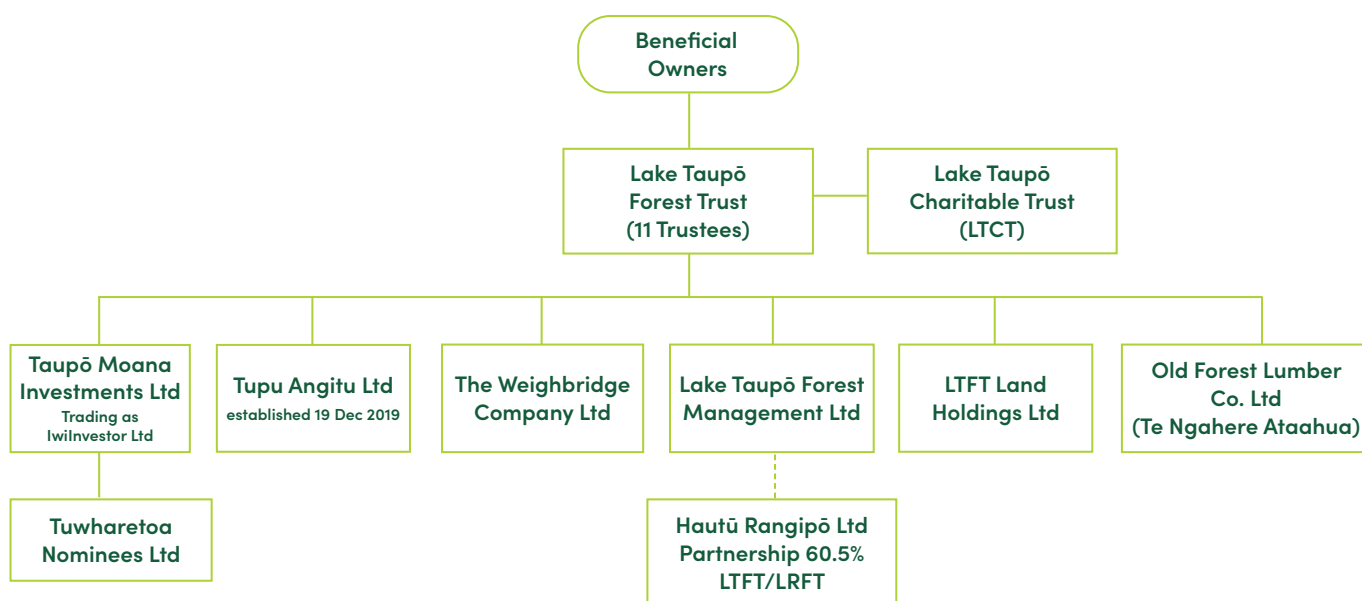
About the Trust

The Lake Taupō Forest Trust (LTFT) was established by Māori Land Court Order in December 1968 to represent the interests of the owners of 58 separate Māori land titles on the eastern shores of Lake Taupō. The Trust now acts on behalf of 13,800 beneficial owners who retain their shares in the lands.

The Trust now administers 68 blocks of Māori freehold land and 13 blocks of general freehold land. The blocks were leased to the Crown and planted in forest, with the stumpage shared between the Trust and the Crown at harvest. The lease is being surrendered progressively by the Crown so that at the end of first rotation harvesting the Trust will own all of the forest.

Education grants and Marae grants started in 1994, and distributions of income have been paid to the beneficial owners of the Trust lands since 1996.

The Trust has established subsidiary companies to deal with specific areas of the Trust's activities. It also established and funds the Lake Taupō Charitable Trust to organise community-purposes funding for education, kaumātua assistance and other projects to benefit owners. The structure of the Trust and its subsidiaries is shown below.



Our Trustees



CLINTON 'BINKY' ELLIS
Chairperson



TINA POROU
Deputy Chairperson



HEMI HENARE BIDDLE
Trustee



HEEMI JAMES BIDDLE
Trustee



JUDY HARRIS
Trustee



TANGONUI KINGI
Trustee



DAVID O'ROURKE
Trustee



KELLY TE HEUHEU
Trustee



JOHN TUPARA
Trustee



NGAHERE WALL
Trustee



TE KANAWA PITIROI
Pou Tikanga

Our People



JOHN BISHARA
Chief Executive Officer



AMY WALKER
Group Manager



MAUREEN SMITH
Trust Accountant



SHANYN WARENA
Team Leader, Owners' Services



RAUKURA DUNSTER
Team Leader, Trust Support Services



SANDY GIBBISON
Executive Assistant to CEO



TARITA KINGI-RIHARI
Assistant Accountant



JARED MATUAUTO
Assistant Accountant



THERESA DERBY-HEMA
Assistant Accountant



LOGAN DAVIS
TSS Administrator



WAIMARINO WARENA
TSS Administrator



GEOFF THORP
Director, Forest Operations Manager



PATRICK NEPIA
Assistant Forest Manager



LANIA HOLT
Researcher

Owners' Report

OWNER STATISTICS

13,924

TOTAL NUMBER OF OWNERS
AT 30 JUNE 2020.

59%

are registered

MOST OWNERS ARE RESIDENT
IN NEW ZEALAND, BUT AROUND

4%

are living overseas

MOSTLY IN AUSTRALIA

2020 ANNUAL DISTRIBUTION

As reported in the Finance Report, the Trust declared a distribution of \$5 million. This was a taxable distribution. If you did not provide the Trust with your IRD number, then the Trust was obliged to deduct tax at 33 per cent.

Approximately 56 per cent of the distribution was paid to 4,428 Lake Taupō Forest Trust owners. The unpaid portion of the distribution is left in the Trust's Lake Taupō Income Fund (LTI), more commonly known as the unclaimed distributions fund, until the details of the rightful owners are identified, and the funds are distributed. The interest earned on the LTI is used to fund the Trust's charitable arm, Lake Taupō Charitable Trust, which is responsible for distributing charitable grants to kaumātua and establishing charitable programmes.

PŪTEA AROHA GRANTS

In 2000, the Trust established the Tangihanga Fund. The purpose of the fund is to allow for Tangihanga grants to be paid to whānau of registered owners who have died. The grant is worth \$2,000 and is normally paid to the person who has been nominated by the owner to uplift the grant or to the person responsible for paying the funeral expenses.

This year, the Trust paid \$252,000 to 126 whānau of deceased owners.

We encourage owners to register with the Trust and to complete a nomination form. This helps to administer the grant in a timely and less complicated manner.

UNCLAIMED DISTRIBUTIONS

Owners are reminded to contact us each time they change their address or change their bank account details.

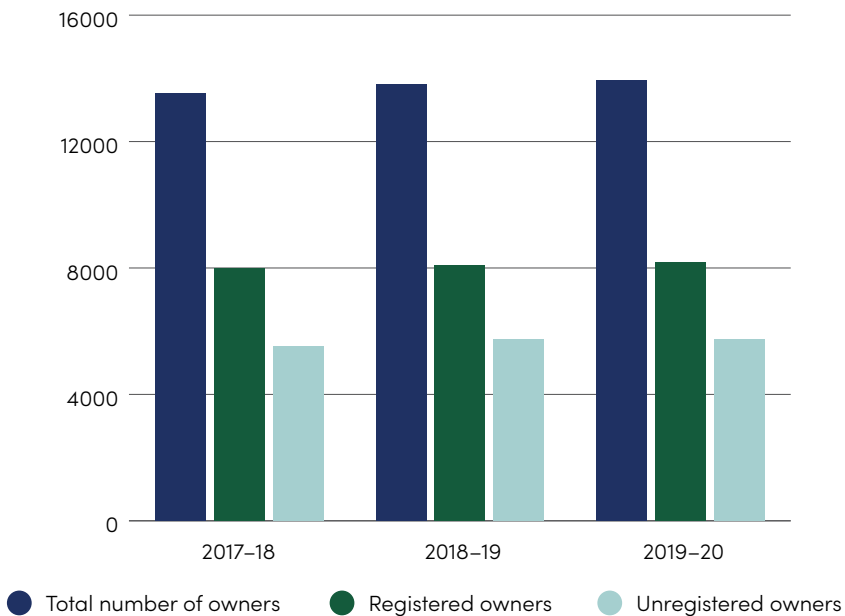
As is the call each year, we are interested in identifying, locating and registering all owners who hold interests in Lake Taupō Forest Trust blocks so that they receive the benefits they are entitled to and we can pay outstanding distributions that are held in our unclaimed distributions fund.

We are particularly interested in identifying the owners listed on the right. The Trust holds substantial funds, and in some cases more than \$20,000, on behalf of these owners. If you know any of these people or their descendants, please have them contact this office so we can arrange registration and payment.

The Trust has a list of all owners for whom unclaimed monies are held. Visit our website www.lfft.co.nz for further details or contact this office.

FIGURE 1.

Registered and Unregistered Owners



OWNERS OF SIGNIFICANT UNCLAIMED FUNDS

Iraia HIHIRA
 Tiringi Hemo PEREKI
 Raurangi Tipu HONA
 Tori PITARA
 Ngawaiata KAHUHUNUI
 Erana RANGIMARAMA
 Pita KOHATU
 Rennie Albert RICHARDSON
 David Raymond Vivan LOCKETT
 Hapainiti RUIHI
 Pare Te Kohera MANUKA
 Te Maki TE KIRIKAU
 Tikawekura MAUI
 Wharehau TE MANAWA
 Martini Otene MEIHANA
 Henry Herewini TE TAHI
 Rangituka MEREANA
 Morihi TOE TOE
 Ngatana NGAHINA
 Te Whiwhi TUMEKE
 Te Miti OTU
 Te Rangi TUROA
 Karo PAPA
 Te Rongomau TUTEKAI
 Kohara PARAPAATA
 Rerekura John WAETFORD
 Heta PAREANAU
 Tamanga WHARETOKORUA



Lake Taupō Charitable Trust

The Lake Taupō Charitable Trust was formed in 1997 by the Lake Taupō Forest Trust to establish health, social, cultural and economic welfare assistance to Lake Taupō Forest Trust owners and their descendants. In 2014, the Trust introduced a Forest Management Programme 'He Māhuri Toa' designed to build capability for Tūwharetoa in preparation for the return of the Lake Taupō and Lake Rotoaira forest estates in 2021 and 2026 respectively.

He Māhuri Toa programme is a long-term support system designed to capture the imagination of tamariki at primary and intermediate level (Te Aratika), provide direction and support for rangatahi at secondary school (He Āwhina) and ensure that tertiary students have access to resources and opportunities to maximise their potential (He Pūtea Mātauranga). Congratulations to all those who

have participated in He Māhuri Toa programme over the last year. At Lake Taupō Charitable Trust, we look forward to your ongoing involvement with this leading-edge programme.

The new year is offering new changes for the Lake Taupō Charitable Trust as the parent company progresses with a restructure. In future, the Kaumātua Assistance Grant and the Paramouncy Grant will now be processed directly by the Lake Taupō Forest Trust Office while the Lake Taupō Charitable Trust focusses directly on developing He Māhuri Toa Forest Management Programme over the next two years.

KEY HIGHLIGHTS FOR THE 2019–2020 PERIOD



The successful completion of our very first New Zealand Certificate in Firstline Management Programme (Level 4) for current forestry employees wanting to advance their management knowledge and skillset within an industry context.



Preparation to support a collective STEM Learning Centre for Ngāti Tūwharetoa that is available as a training facility for our whānau wanting to advance within the forest management sector and other primary industries.



Establishing new relationships with local secondary schools to promote the forestry industry. The Lake Taupō Charitable Trust has placed InZone Career Kiosks in Taumarunui High School and Tauhara College and is working to implement a Level 2 and 3 Forestry Programme as supported at Tongariro School with Competenz. As part of this agreement, a He Māhuri Toa forest industry promotion video was developed and uploaded to InZone careers kiosks throughout New Zealand.

FORESTRY HIGHLIGHTS

22,623 hectares

TRUST WHOLLY OWNED PLANTED AREA

68 Māori Land Blocks

15 Trust Freehold Blocks



51 years

PERIOD OF CROWN LEASE TO DATE

Forestry Report

TRUST RESUMPTION OF CROWN LEASE FOREST CONTINUES

The Lake Taupō Forest Trust controls an area of 33,733 hectares, including 30,804 hectares (93 per cent) originally leased to the Crown for forestry, and a further 2,929 hectares of land that was never part of the Crown lease. The land comprises 68 Māori Land blocks and 15 blocks owned freehold by the Trust.

Of this area, 24,531 hectares (72 per cent) is afforested. The high proportion of unplanted area (28 per cent) reflects the conservation and environmental protection objectives of both the Trust and the Crown at the time of the original lease (1969). Further information on the Trust and its lands can be found at www.lfft.co.nz

In 2000, the Crown and Trust agreed to change the terms of the lease from a 70-year, two-rotation arrangement to a one-rotation lease. As a result, leased land is now returned to the Trust following the harvest of the first rotation crop. Through this process, the Trust now owns 22,623 hectares of plantation, comprising 20,988 hectares of ex-lease (second rotation) forest and 1,635 hectares planted on its other blocks.

Around 98 per cent of the forest is planted in *Pinus radiata*, the remaining 2 per cent being mainly Douglas fir, eucalyptus, cypress and larch. Planting commenced in 1969 and was completed by the late-1980s. Harvesting commenced in 1994, and the harvested areas are being replanted each year, thus creating the second rotation crop.

COVID-19 INTERRUPTIONS

Like much of the country, and indeed the world, the COVID-19 virus had a significant impact on LTFT in the 2019–20 year, both from a business perspective and from an owner-access perspective.

Trustees had to react quickly as the country moved through Levels 2, 3 and then 4 in March. Forest operations were able to continue at Levels 2 and 3, though safe distancing protocols did present challenges. These were particularly relevant in travelling to and from work as the rules at Level 3 limited travel to four in a van or two in a ute. The harvesting crews generally managed well, but silvicultural crews, who normally travel in vans, had to either secure more vehicles or reduce their workforce.

Forestry was not declared to be an essential industry, so it had to completely shut down at Level 4. This not only impacted on harvesting and log sales but also on tree growing operations. The autumn is a particularly important time for us to finalise our plans for the winter planting programme – including completing the necessary land preparation to get the ground ready. Hard work by our managers and contractors after re-opening saw them complete the full programme, though the planting extended later than normal, and we remain at some risk of losing newly planted trees if we have a particularly dry summer.

The shutdown of harvesting operations was particularly challenging for those contractors, who generally have several million dollars of equipment that needs to be kept running to generate income. We understand that banks were generally understanding, and the government wages subsidy was taken up by all crews and was of great assistance.

The ongoing impacts of COVID on the global economies has introduced considerable uncertainty into log markets – ultimately a lot of what we sell is used in building, and if construction activity in New Zealand, Australia and Asia declines, then we can expect log prices will follow. So far (as at early November 2020) prices have held up well, though as is well reported, the world is far from through the COVID virus situation, and economic recessions remain possible.

Owner access to the forest was permitted at Level 3 but not at Level 4. The move through Levels 2 and 3 saw the Trustees keen to make owner access as easy as possible, and hence the decision to extend permits to six months. Lack of clarity from the government (who recommended that all hunting at Levels 2 and 3 was to be 'on foot') led to an interesting discussion as to whether we should allow driving access in the forest. Driving access was ultimately approved, in the knowledge that our owners would ultimately be on foot when they were actually hunting. While the closure of the forest at Level 4 was disappointing to everyone, the general feedback we have received is that it was well supported as part of the national effort to contain the virus.

CROWN GIVEN EXTENSION TO COMPLETE HARVEST

The original Crown lease agreed in 1969 allowed the Crown to use the land for long enough to grow two rotations of trees, but this was abridged to a one-rotation lease in 2000. Under the amended lease, the Crown had until 30 June 2021 to complete the harvest of their trees and exit the lease.

Over the last few years, it became apparent that the Trust would not have enough mature second rotation trees at 30 June 2021 to facilitate continued harvesting at the normal rate of around 500,000 m³/year. If the Crown did exit at 30 June 2021, there would have to be a significant reduction in harvest for several years, and even then we would be harvesting trees at a younger age (around 26 years) than we prefer to do.

Consequently, the Trust approached the Crown and sought agreement for them to slow the harvesting a bit so that they would not complete their total harvest until 30 June 2022. The Crown has agreed to do this, and now expects to still have around 300,000 m³ of wood left in the forest at the original lease expiry date of June 2021. Despite that, the total harvest in the forest in the years 2022 and 2023 is still expected to reduce a bit to around 400,000 m³/annum, before returning to the previous levels of around 500,000 m³. Indeed, due to improved genetics and changes in management, we expect the forest to be able to sustain a harvest of around 600,000 m³/annum by the mid-2030s.

While the lease itself will still expire on 30 June 2021, we are finalising a separate agreement to recognise they will still have trees on the land at that point, and to then harvest them. The Trust will continue to get its 35 per cent share of stumpage from those remaining Crown trees, while also starting to harvest its own trees, from which it will receive 100 per cent of stumpage.

The process of the Crown surrendering land as the trees are harvested, leading toward their exit at the end of the first rotation, continues to progress smoothly. September 2019 saw the nineteenth annual surrender of land from the Crown lease.

The 2019 surrender enabled the planting of **694 hectares** last winter, and brings the Trust's area of ex-lease land to **20,988 hectares** (planted area), which is **94 per cent** of the total planted area of the original lease forest.

Together with the other Trust-owned parts of Lake Taupo Forest (the Te Rangiita Blocks, Te Whenua Block, the Te Whakao 1, 2 and 3 Blocks, the Waitotaka Blocks and the Mangakoura blocks), the Trust now has a total planted area of 22,623 hectares.

In accepting the lease variation in 2000, the Trustees first needed to be confident that their 35 per cent share of stumpage would be sufficient to pay for the replanting and management of the second rotation, and also to pay annual distributions, even if the 'worst case scenario' eventuated. The 'worst case scenario' is a forecast of the lowest income the Trust could reasonably expect to receive if conditions such as log prices, fire and wind damage, disease and costs all conspired to reduce Trust profits. The outcome was agreement that the process was affordable provided sufficient

FIGURE 2.
Lake Taupo Forest – Areas by Age Class
 June 2020

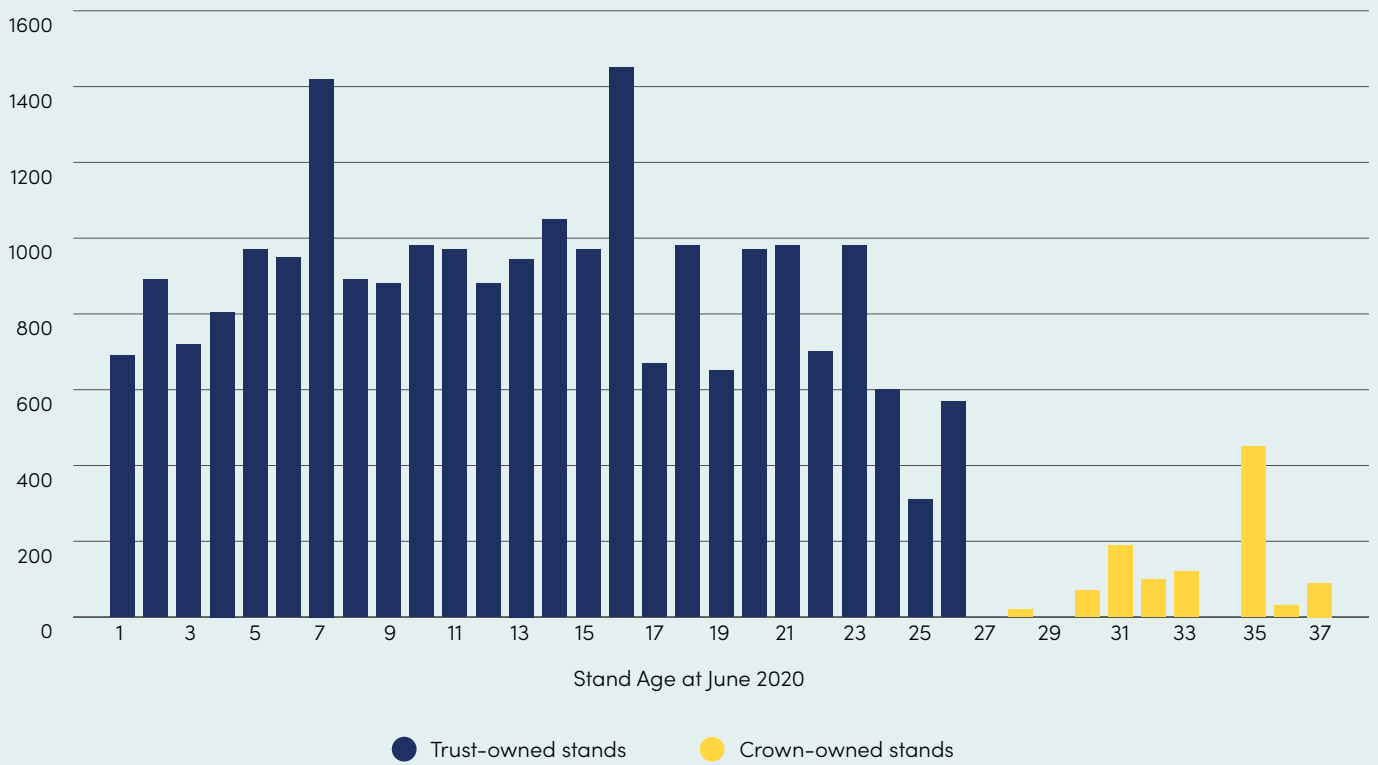
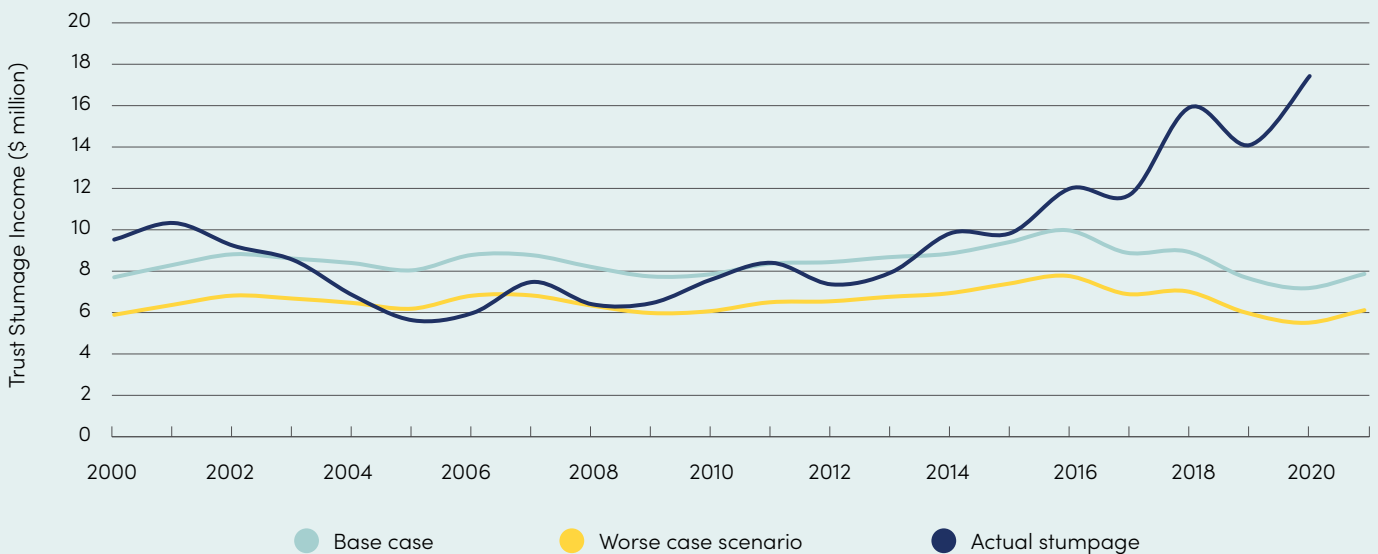


FIGURE 3.
LTFT Early Crown Exit Forecast Stumpage vs Actual Stumpage



funds were invested off-forest to cover any difficult times. A forestry reserve fund was set up with LTF (now Taupo Moana Investments) for this purpose.

It is now 20 years since the Trust started to take over forest ownership. Over the first decade of this period, log markets fluctuated from being considerably higher than budgeted to being worse than at any time in recent decades. As is discussed later, markets gradually recovered and the last five years have seen strong returns from our log sales. As a result, the Trust's stumpage has in recent years been above the 'base case' level projected in 2000. We can expect returns to continue to fluctuate, but we remain satisfied that the 'base case' figures are reasonable longer-term expectations.

A further influence in the 2019–20 year was a significant windthrow event mainly in Te Rangitika area of the Trust-owned forest. This is discussed later, but in summary added around \$5.8 million to the Trust's income, turning what would have been a reasonable year into a record high income year. However, despite the one-off boost to income, the longer-term impact of having these trees blow over before they were fully mature is a negative one for the Trust.

In addition to committing funds to replant and manage the main part of Lake Taupō Forest, the Trust has over the last eight years invested in several new forest opportunities – planting on Waiotaka and Mangakoura Farm Trust lands at the southern end of the forest, and, in joint venture with the Lake Rotoaira Forest Trust, on Opepe Farm Trust lands, on Hautū Rangipō Whenua lands (ex-Corrections lands), and in Taurewa, Waituhi and Pureora South Forests. Typical of forestry investments, these will take 25–30 years before generating income. Despite this, the Trust is confident it can afford these business streams and that they will ensure a very positive financial outlook for the owners in the future.

When the Trustees met with owners in late 2014 to discuss the purchase of the Hautū Rangipō lands, it was explained that even after investing in these lands, the Trust was budgeting on being able

to afford ongoing annual distributions of at least \$3 million through to the end of the Crown Lease term (2021). The Trustees were very pleased to increase this to \$5 million for the 2018–19 year – on the strength of our record high stumpage income, and to repeat that in the 2019–20 year.

To ensure its forest resumption plans remain affordable regardless of annual fluctuations, the Trust has built up a forestry reserve fund. The fund is designed so that the Trust can cope with income persisting at the 'worst case scenario' level shown above. The amount required in the fund has been recalibrated given the purchase of the Hautū Rangipō lands, and the forecast costs of the Trust's new planting and replanting on these lands.

With only two years to go until the Crown exits the forest, we had calculated we needed a minimum of around **\$4.6 million** in the reserve fund at the end of 2019–20 year. Strong log markets in the last four years in particular have helped the Trust's cashflow, and despite ongoing contributions to the other forest investments referred to above, the balance in the forestry reserve fund increased to **\$14.3 million** at year end.

There are two years to go until the Crown departs, and we cannot guarantee log prices will remain as strong over that period as they have in recent years. As we have very limited ability to increase income, we need to ensure efficiency in all expenditure, and all areas – forestry expenditure, Trust overhead costs and distributions



– continue to receive close attention in this regard. However, after taking into account all strands of its income and expenditure, the Trust remains confident that it can afford to continue replanting and managing Lake Taupo Forest, plus its investments in the Opepe Forest, Kaimanawa Forest (the forest being created on the Hautū Rangipō lands is called Kaimanawa Forest), and Taurewa, Waituhi and Pureora South Forests, as well as continuing to declare annual distributions to owners of at least \$3 million per annum.

MANAGING THE SECOND ROTATION FOREST

The Trust's forest is managed under contract by NZ Forest Managers Ltd, whose work is audited on behalf of the Trust by Lake Taupo Forest Management Ltd.

The establishment and management of the second rotation crop is progressing well, and early signs are that this crop will produce considerably higher volumes than the first. This is largely due to the improved quality of planting stock used and also due to advances in forest management learnt by the industry over the last 30 years.

Around 70 per cent of the second rotation crop is managed under a clearwood (pruning) regime, entailing two pruning operations typically between ages five and nine years. We continue to analyse what level of pruning investment is right for us. Several of the larger forest growers in the Central North Island region have stopped pruning altogether, but we do not think this is appropriate for our forest.

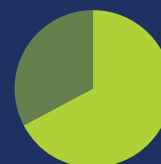
The main reason for investing so much in pruning is the expectation that the investment will be more than paid back when the logs are harvested. For pruning to be profitable the price of pruned logs needs to be substantially higher than that of large unpruned sawlogs. Our analysis of historic log prices indicates that this has not always been the case – though the current high pruned log prices are encouraging. Pruning profitability is also influenced by the growth rates, and we tend not to prune the less productive sites as the slower tree growth reduces the return on the pruning investment. Similarly the stands on some sites have a history of wind damage – which is influenced by their specific geography. We can reasonably expect more such wind events over time, and so generally do not invest in pruning these areas. Instead, these sites are managed on a framing (i.e., non-pruning) regime.

In addition to the straight financial analysis of whether to prune, we are acutely aware of the social implications of reducing this work, knowing that most of the people working in the pruning crews are our owners. We are also aware that these same crews also undertake our planting work in the winter months. If we significantly reduced our pruning programme we would need to find workers for four months to do the planting – which we know would be challenging.

The Trust spent \$12.5 million (including \$7.6 million in salvaging the windthrow in Te Rangiita) on developing and managing its forests during the year. The Forest growing investment was slightly lower than average for the last three years, in part assisted by the COVID-forced cessation of all work. Areas treated in the 2019–20 year are shown in Figure 4 – note that the planting areas do not match the full 2019 winter planted area of 694 hectares, as the planting season typically crosses the financial year end.

FIGURE 4.

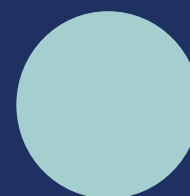
Lake Taupō Forest – Areas Treated



PLANTING

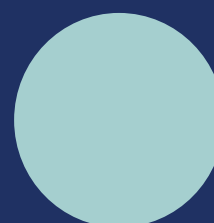
414 hectares

– 279 hectares in the winter of 2019, and 135 hectares in the winter of 2020



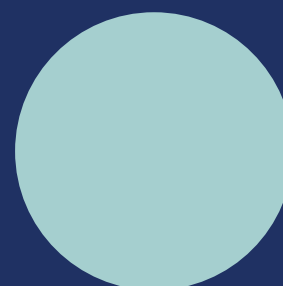
FIRST PRUNE

614 hectares



SECOND PRUNE

642 hectares



THIRD PRUNE

811 hectares

The Trust continues to have a good relationship with its forest managers, NZ Forest Managers Ltd (NZFM). This company has a strong and stable workforce and frequently goes beyond the terms of its contract with the Trust to ensure that our interests are recognised, including protecting the health and safety of both the workforce and the recreational land users, lobbying on such things as regional and district plans. NZFM's respect for and strict operational practices around wahi tapu also give confidence to the Trustees. Many of their staff have a long history of working in the forest, which proves very useful in both bigger picture matters and in specific issues that require institutional memory.

HARVEST UPDATE

The logs harvested in Lake Taupō Forest come from the Crown lease parts of the forest – the Trust's own trees will not be ready for harvesting until late 2021. As discussed below, windthrow in some Trust-owned trees this year also resulted in them having to be salvaged and sold. NZ Forest Managers are responsible for the sales and marketing of the harvested logs.

Log sales from the Crown forest in the year to June 2020 totalled 476,447 m³ – about 5 per cent below the budgeted 500,000 m³, caused by the four-week COVID-19 shut-down (effectively five weeks by the time operations were fully running again). Pre-harvest inventories are continuing to show there is more wood remaining in the Crown forest than previously estimated, which is good both to assist the Crown extension discussed earlier and because it will ultimately mean more income for both the Trust and Crown.

Harvesting was generally concentrated in the northern portion of the forest.

The total stumpage income from the harvesting in the Crown lease part of Lake Taupō Forest in the 2019–20 year was **\$34.8 million**. As prescribed in the lease, the Lake Taupō Forest Trust received a 35 per cent share of this income, and thus received **\$12.18 million**.

While considerably lower than in the previous two years, it was still a good return by historic standards. We do not expect our returns will be as high over the remaining two years of the Crown lease – the market has softened in the July–September 2020 quarter, and we have budgeted to receive \$11.6 million in stumpage income in the 2020–21 year this year.

WINDTHROW IN LAKE TAUPŌ FOREST

In a series of wind events in late 2019 and early 2020, an estimated area of 300 hectares of Trust-owned forest has been damaged to a level at which it is written off. A further 150 hectares had to be felled in the squaring up exercise (to create sensible replanting boundaries) – meaning around 450 hectares was affected. The vast majority of the damage was on forest on the old Te Rangiaita Farm – land that came into the Trust in 1996 and was mainly planted

in 1996 and 1997 (so were aged 22 and 23). About 10 per cent of the damaged trees were in younger (15–20-year-old stands) areas of ex-Crown lease forest that the Trust had replanted. Fortunately, these trees were old enough to be salvaged and sold – albeit at reduced prices compared with what more mature wood gets.

Salvage operations were virtually completed by June 2020, though small amounts of tidying up continued into the 2020–21 year. As at 30 June 2020, 142,000 m³ of logs had been salvaged/harvested in this exercise.

LiDAR terrain maps show that most of the area that was windthrown is land at or below the historic lake level. In these areas the terrain is particularly flat, and it appears the soil has little structure – essentially sandy/silty. The water table is possibly quite high over much of the affected area too. This may explain why despite the ground having been ripped before planting, many of the trees do not appear to have put down deep roots.

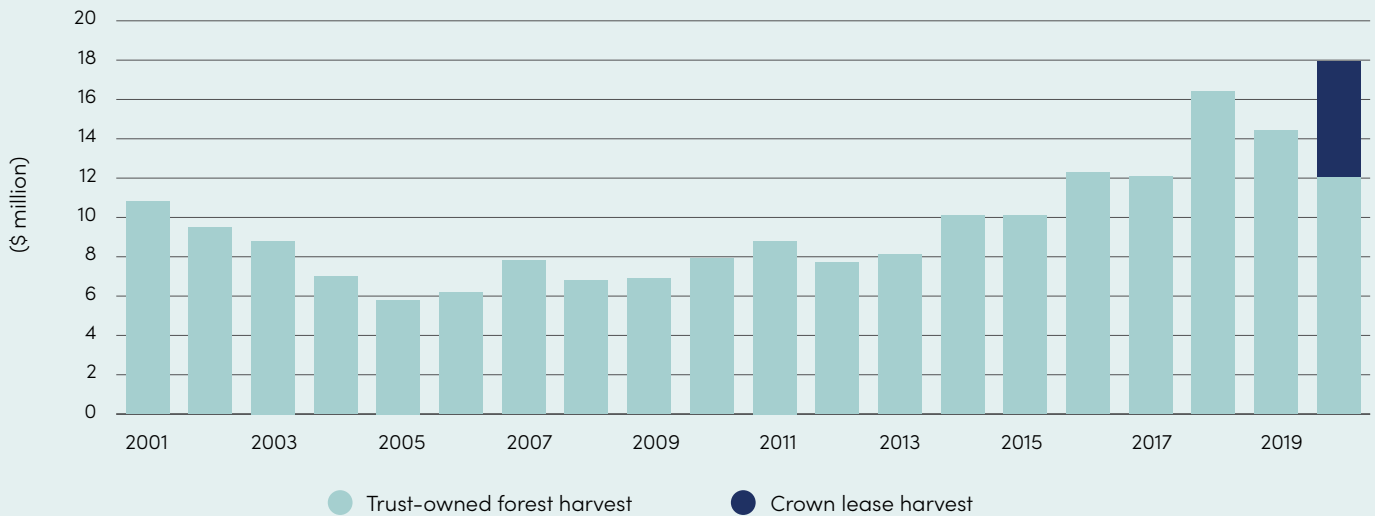
We are still working through the optimal plans to replant these areas. Some areas were close to the highway (windthrow blocked SH1 at one point), and we do not want to have that risk again. In the areas closest to the highway, we have already replanted in kānuka – not so much a commercial crop but one that may in time provide wood for hāngī. Most of the area will not be replanted until the winter of 2021. While we are likely to stick with radiata on most of the remaining area, it would be unlikely that we would invest in pruning in this land again as the soils indicate the ground presents a higher risk of windthrow than other parts of our forest.

The following table summarises the sales income, production costs and stumpage income for the 2019/20 year.

	MAIN HARVEST		SALVAGE HARVEST	
	(\$/m ³)	(\$ million)	(\$/m ³)	(\$ million)
Gross log income	129.89	61.89	114.25	14.70
Less:				
Harvesting costs	22.53	10.73	28.88	3.72
Transport costs	23.98	11.28	28.52	3.67
Export costs	4.73	5.12	7.09	0.91
Temporary access roads	0.38	0.18	0.71	0.09
Other associated costs			3.87	0.50
Net stumpage income	73.06	34.81	45.18	5.81
Trust's stumpage share	25.57	12.18	45.18	5.81

FIGURE 5.

Lake Taupō Forest Trust – Stumpage Income



Harvesting in Lake Taupō and Lake Rotoaira Forests is done by a contingent of seven harvesting gangs, five of which are run by owners in the forest. The actual work is contracted out by NZ Forest Managers, who in turn are contracted by the Crown to harvest their (first rotation) trees. The Trusts have no direct role in the harvesting of the first rotation crop, but are nevertheless keen to have owner-contractors involved as much as possible, providing they are up to standard.

Harvesting work is steadily becoming more mechanised, improving both productivity and health and safety. Today, most trees are felled by a machine rather than a person with a chainsaw, and much of the log-making (cutting the full stems into individual log grades for sale) is also done this way.

A MIXED YEAR IN LOG MARKETS

The 2019–20 year saw a range of factors influencing the returns we got from the logs we sold. Ultimately, our net returns – around \$73/m³, were high by historic standards.

Again, it has been China that has dominated the market demand for New Zealand radiata. Around half of all logs harvested in New Zealand are exported in log form to China. While the Trust sells very few logs into China (only some Douglas fir, which is very much a minor species for us), the prices paid by Chinese customers largely dictated the prices paid in other markets – including the domestic NZ market – for most unpruned log grades (which comprise around 65 per cent of our logs).

China's demand for wood started the financial year strongly, attracting softwood logs from many parts of the globe. While New Zealand continues to be the largest single exporter of softwood logs to China, the year saw a new major supply source – spruce logs from Europe. Warm winters in several European countries, particularly

Germany, Czech Republic and Austria, have resulted in prolific growth of spruce beetle populations, and these are damaging and killing very large areas of spruce forests in the region. The forest owners – often governments – have a limited time to harvest these damaged trees before the wood is no longer marketable. From exporting virtually no logs to China in 2018, these countries are on track to export nearly 20 per cent of China's softwood log imports in 2020–21 – close to New Zealand's projected 26 per cent.

It is forecast that this situation is likely to persist for at least a further five years, and while New Zealand's export volumes to China are likely to remain around current levels, the extra supply looks highly likely to have a dampening effect on prices in this and other markets for that period.

China was already showing signs of over-supply by December 2019, and it was expected that prices would have to fall in response. The combination of the Chinese New Year in late January and the onset of the COVID outbreak, saw all New Zealand exports shut down for around two months. There was significant uncertainty as to both when the markets would reopen and what demand would be when they did. Ultimately, exports resumed to China and to our main markets of Korea and Japan in late May, though our other export market of India remained closed for several more months.

Upon reopening, both the domestic and export markets showed strong demand and prices – though this was more about refilling the supply chain rather than particularly strong underlying demand. It did however mean that we were able to end the 2019–20 year close to budget.

Returns were further assisted by the relatively low New Zealand dollar against the United States dollar (USD), which averaged around \$0.64 for the year. As export sales are traded in USD, this was a positive impact on the returns we received, as was the fairly low ocean-freight rates.

ALMOST

45%

of the logs sold from Lake Taupō Forest in 2019–20 were exported

– considerably higher than the normal 35–40 per cent. There were several factors influencing this – the high volume of Douglas fir harvested – for which there are limited domestic sales options; the closure (Tregoweths in Te Kuiti) and receivership (Claymark Sawmills in Rotorua, Katikati and Thames) of a few customers; and the inability of domestic mills to absorb the volumes that local forest owners were pushing to sell after the COVID lockdown. This last point was further exacerbated by the wood that had been harvested just prior to lockdown but had not been sold – by the time it was able to be picked up it was in many cases not fresh enough for domestic mills to accept, and so was exported – where the markets are generally less demanding on this aspect.

However, despite a total of 55 per cent of logs being sold domestically, the prices we receive are largely determined by international market factors. This reflects the fact that logs are an international commodity, and although some distance away from our main competitors, we are certainly not operating in isolation from their influence. Further, most of the product sold to New Zealand sawmills will eventually end up being exported in one form or other and must also compete on the international market.

South Korea is our largest export market. We sell wood into Korea through DK Korea, their largest importer, with whom we have been trading for over 20 years. Japan also continues to be a steady buyer of New Zealand radiata logs, and we have a long and strong relationship with the country's largest radiata buyer – Orvis.

The demand in India for radiata logs has not increased as fast as had been expected, though it is the third largest export market for New Zealand logs. This market can be fickle, with the buyers very much driven by price rather than quality. We have been selling logs into India for eight years now, and still consider that the market has good potential. Our sales into India, which are CIF sales and thus require us to deliver the logs to the Indian port, are made through a joint arrangement with the large forest owner Rayonier-Matariki, which is working well.

Most logs from Lake Taupō Forest are sold within New Zealand, and while lower than in the last three years, prices paid by our domestic customers were nevertheless generally high by historic standards.

Figure 6 presents the average price received for all Lake Taupō Forest log sales (domestic and export) since 2002, with the 2019–20 year shown in the blue band. Note the graph does not include the windthrow logs, which were younger and sold at an average \$15/m³ discount to the those from the main harvest.

The 2019–20 year was the fourth year in a row that pruned log prices have stayed at historically high levels. We sell virtually all our pruned

logs to domestic sawmills, and most of the clearwood products made in these mills is exported to the United States. This market was also strong throughout the year, with most of the products made from our pruned logs used in new house construction or house renovation. From 2009 to 2013, new housing starts in the United States ranged from 0.6 million/year to 0.8 million/year – well below the traditional levels of around 1.6 million/year. These have gradually increased since then and reached around 1.36 million in 2018, providing good sales demand for the New Zealand processors. A further positive sign for New Zealand's pruned log market is the increased demand from China for these logs as they start to explore the potential to use pruned logs in furniture manufacture.



A reasonable proportion of our unpruned sawlogs sold to New Zealand mills gets processed into structural timber for the New Zealand and Australian markets. There has been steady demand for structural timber in NZ, particularly in Auckland and Christchurch, while activity in Australia was relatively low. The CNI region's largest mill producing this wood – Red Stag mill in Rotorua – has recently completed a major upgrade, which has seen its log demand almost double to over 1 million m³/year, attracting logs away from export markets. Red Stag is also now constructing a Laminated Veneer Lumber (LVL) plant, which will produce engineered lumber to introduce a new range of wooden building products. A second large structural mill, Carter Holt Harvey's Kawerau sawmill, is progressing with a similar upgrade and will, within a year, be seeking similar volumes.

The demand for pulp logs, which mainly go into the production of pulp and paper, remained fairly steady through the year, though prices remain disappointingly low – indeed we have seen little movement in pulp log prices for over 20 years.

Log prices in the first few months of the (2020–21) financial year have fallen by around \$10–15/m³ on average. While there are influences such as the supply of spruce logs from Europe, the main overall influence is the uncertainty introduced into the market by COVID – as was discussed earlier.

Another key factor influencing our returns is our own production cost. Harvesting the northern parts of Lake Taupō Forest presents a mixture of easy and steep terrain, while the old age of the stands being harvested (average around 34 years) is resulting in large trees that are relatively efficient to harvest. Overall production costs have held flat for six years now – this has been assisted by increased mechanisation and a shorter cart distance to most of our markets compared to areas in the middle or southern end of the forest. The recent fall in market prices means that the 2020–21 stumpage income is predicted to be a bit lower than that achieved in the previous four years.

Wood from Lake Taupō Forest must also compete with other growers in the Central North Island region. While we have no concerns about competing on quality – indeed our wood has a very good reputation in this regard – the sheer volume of wood in the region makes competition strong. Over the last few decades, the region’s increase in annual harvest volume has been larger than its increase in wood processing capacity, which has in turn led to increased log exports.

The Trust is continually trying to encourage new players to enter the processing industry in this region. While there have not been any new mills built recently, we are aware of a few proposals being considered, and there have also been a few significant upgrades underway or completed – including a new cross-laminated timber plant at the Red Stag Mill in Rotorua and a major expansion at Carter Holt Harvey in Kawerau.

Like the other major forest owners, we like to maintain some tension between the export and domestic markets, as we see this as the best way to maximise returns for our logs. If either market dominated too heavily then forest growers such as the Trust would be in a weak position when negotiating log sales prices.

The significant drop in harvest in many Asian countries, coupled with the steady increase in wealth (and wood consumption) of those countries, are very positive signals for our future markets. The responsible and sustainable management of forests such as Lake Taupō Forest is increasingly being recognised as an important factor in the marketability of our produce, with more and more buyers demanding FSC certified wood. Similarly, there is a gradual recognition of the environmentally friendly characteristics of wood as a building material compared to most alternatives such as concrete and steel. This is leading to increased interest in building multistory buildings from wood, mainly using engineered wood products such as cross-laminated timber, and it was further boosted recently when the government agreed a wood-first policy for its own building projects. These are all very positive signals for the forestry industry – albeit they are medium- to long-term trend outlooks and unlikely to lead to dramatic increases in prices in the short term.

FIGURE 6.

Average Mill Door Log Price July 2002 – July 2020

3-month rolling average sales price – all logs



Of course, not all signs are positive. The competition from plantations in South America will continue to influence our markets, particularly in North America. The supply into Asia of beetle-damaged wood from Europe, discussed earlier, is likely to have a limiting effect on prices for the next five years or longer – though may in fact improve prices beyond that. Gradual increases in all sorts of regulation in New Zealand impact on our costs, and our whole production and supply chain is quite sensitive to oil prices. Log exports from New Zealand are facing increasing regulatory challenges, particularly around the ability to use the chemicals commonly used to fumigate the logs to kill any insects they may harbour.

Climate change introduces more uncertainty – increased temperatures and more frequent rainfall may actually improve our growth rates in the Central North Island, but potentially countering this may be the negative impacts of more storms and higher fire risk.

As always, the business of forestry remains somewhat an act of faith, and one in that requires a long-term outlook. Land needs to be committed and money spent around 30 years before the time of sale. It is impossible to predict accurately how markets will look at such a time. The Trustees continue to look closely at the current situation and appraise future signals, and remain confident both that the long-term outlook for forestry is positive, and that plantations are the best use for most of the Trust lands. Overall, plantation forestry as practiced by Lake Taupō Forest Trust is considered to be a safe and steady investment, which will produce good returns for its owners.

FOREST VALUATION

The Trust is required to assess the value of its forest each year. This year's valuation was again undertaken by Indufor Asia Pacific Ltd, an international forest consulting company with an office in Auckland. The valuation modelled the long term management and harvesting plans to determine future cash flows, and extracted from that the current value of the Trust's share of the Crown lease forest and the value of the Trust's wholly owned forest.

These forest values are required for accounting purposes only ('book values'); more important to the Trust's business is the annual cash flow, which mainly depends on the state of the log markets during any given year. The valuation represents the amount an independent buyer would pay to purchase our forests – not a situation that we envisage happening.

The valuation methodology for the forest generally remained the same as in the previous year, though the discount rate applied to the future cash flows reduced from 8.0 per cent to 7.5 per cent – done primarily in recognition of the strong demand and high prices being paid in the market for forests in recent years.

The Trust's wholly owned forest, with a total planted area of 22,623 hectares, was valued at \$312.3 million at 30 June 2020. This was a \$56 million (23 per cent) increase on the value at June 2019. The rise in value was primarily a result of the lower discount rate and the proof that the trees are growing faster than previously estimated. NZFM have undertaken detailed update the growth rate forecasts, and these show that the previous yield tables were under-predicting how fast most stands are growing. Also influencing the value was that the area of wholly owned forest increased by

\$312.3 million

VALUE OF THE TRUST'S WHOLLY OWNED FOREST AS AT 30 JUNE 2020

23% increase

IN VALUE FROM 30 JUNE 2019 (\$56 MILLION)

2,668

permits

WERE ISSUED TO OWNERS DURING 2019/20

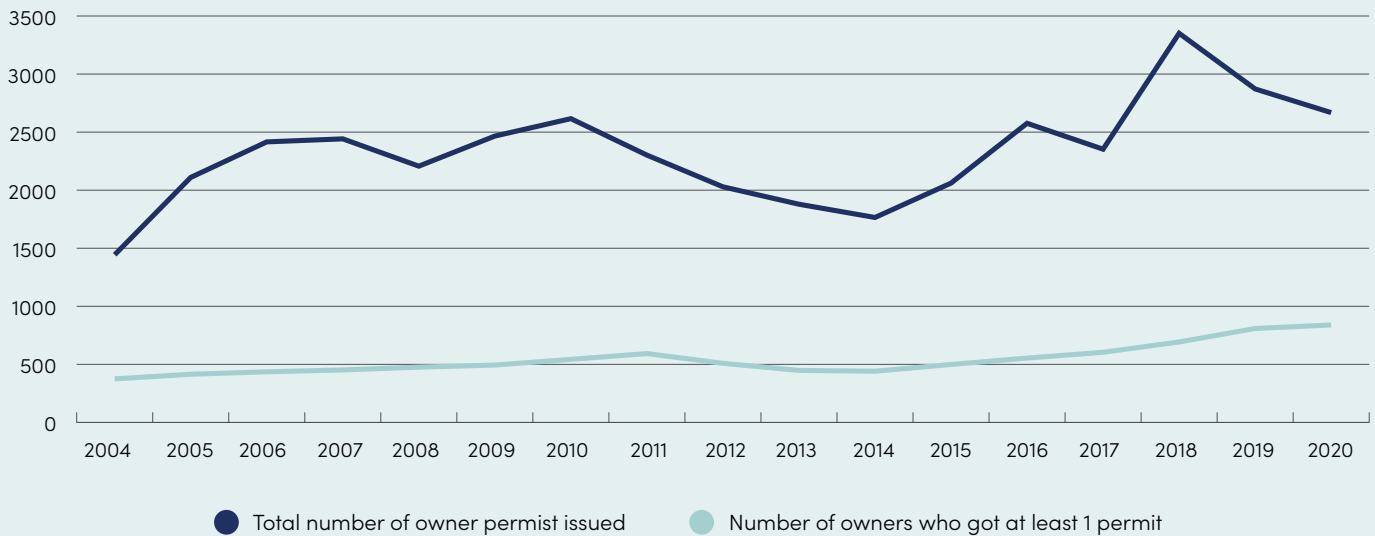
839

different people

OBTAINED OWNER ACCESS PERMITS TO LAKE TAUPŌ FOREST LANDS

FIGURE 7.

Recreational Permits Issued for Lake Taupō Forest 2004 – 2020



240 hectares, being the area replanted during the winter of 2019, minus the area lost to windthrow as discussed earlier. The rest of the forest grew one year older, thus one year closer to harvest, and this also increases its value. The considerable sum spent on the forest this year also contributes to its higher value. Conversely, uncertainties around post-COVID markets meant the valuers are assuming lower prices over the next few years and hence the slightly dampening impact on the near-term cash flows.

The value of the Trust's share of the remaining Crown lease forest at 30 June 2020 was \$18.9 million, some \$5.4 million (22 per cent) lower than at 30 June 2019. We generally can expect this value to decrease each year as the remaining lease forest is steadily harvested through to (now) 2022, meaning there is less forest each year to be valued.

The combined value of the Trust's Lake Taupō Forest assets at 30 June 2020 is \$331.26 million – up \$50 million (19 per cent) on a year earlier. This value excludes the value of the land on which the trees are growing.

RECREATIONAL USE OF TRUST LANDS

A total of 2,668 permits were issued to owners or descendants of owners during the 2019–20 year, a decrease of about 200 on last year, which is related to the closure of the forest during the COVID lockdown and change introduced at the same time to extend the permit period from two months to six months. Despite these changes, the number of permits is still considerably higher than in pre-2017 years, and this is a consequence of the new access policy and the introduction of fob keys for access.

Owner access permits to Lake Taupo Forest lands were obtained by 839 individuals during the year – similar to the previous year but a significant increase on earlier years. This too reflects the new access

arrangements. While half of these people obtained only one, two or three permits during the year, 186 people received six or more permits in the 12-month period. Pig and deer hunting continues to be the most common activity for which owners request permits. The Trustees are pleased to see that access onto the lands continues to be important to so many owners and that strong connections with the whenua are being maintained. Trustees are also pleased that the move to six-month permits reduces the hurdles faced by our owners in getting access to their lands.

ENVIRONMENTAL PROTECTION

While the Trust is responsible for significant commercial forestry activities on our lands, there is also a strong recognition of the need to protect and enhance the taonga tuku iho, and indeed the Trust Order and the Crown lease also emphasises these imperatives. The Trustees want to ensure that the land, and everything on it – including those who work and play on it – is managed in a sustainable way consistent with the principles of kaitiakitanga. Like much of the country, our land and forests are impacted by pests – particularly possums, stoats and rats – and invasive weed species. The Trust is working to reduce the damage caused by these, and some of these initiatives are outlined below.

Lake Taupō and Lake Rotoaira Forests received Forest Stewardship Council (FSC) certification in 2002. This is a voluntary initiative under which independent auditors assess our forests and their management against a set of environmental, economic, social and cultural criteria. As well as providing independent confirmation that our forest and lands are being managed in a sustainable manner, FSC certification is increasingly being requested in the markets where wood products made from our logs are ultimately sold – particularly in the United States and Europe. FSC certified

wood is increasingly being demanded in Asia also – though generally because it is intended for making products that are then re-exported to the United States and Europe.

Several initiatives are being undertaken to better understand our environment, and information on our forest and associated ecosystems is steadily building. Together these all help to ascertain and confirm the sustainability of our land, forest and ecosystem management. Many of these initiatives started prior to FSC certification, and many are also simply part of the day-to-day management of the forest, and it is thus difficult to be definitive on whether the work is specifically a result of our being FSC certified. Work over the last year has included the following.

WATER QUALITY MONITORING

NZFM carry out a regular water quality monitoring programme within Lake Taupō Forest. The objective of this study is to assess whether forest harvesting operations are affecting the water quality of two streams within Lake Taupō Forest, the Waimarino River and the Mangakowhitiwhiti stream (a tributary of the Tauranga Taupō River), both of which drain into Lake Taupō. The catchment areas for the Waimarino and Mangakowhitiwhiti are 8,477 hectares and 2,452 hectares respectively. The headwaters of each catchment are in indigenous forest and approximately 39 per cent and 56 per cent respectively of each catchment is planted in *Pinus radiata* forest.

River monitoring commenced in 1994 for the Waimarino River and 1996 for the Mangakowhitiwhiti Stream. The potential impacts of

harvesting are determined by measuring suspended sediment, nitrogen and phosphorus concentrations and water clarity at three sites. The monitoring sites cover the native forest catchment only (upstream of plantation forest); mid-point in the plantation forest; and as the stream exits the plantation forest. Rainfall and stream-flow data is also collected.

Harvesting and replanting occurred in the three catchments at various times in the 1990s and early 2000s, with more area in the Waimarino catchment harvested in 2017.

The most recent results (2019 report) for the water monitoring in Lake Taupō Forest were either within the normal range for the catchment or were similar to the long-term averages. The 2019 report concludes:

This long-term data set shows that both river systems have high water quality and this assessment is supported by the presence of trout, a fish species requiring good water quality, and that is sensitive to water pollution. While there were short-term effects of harvesting on water quality at the sub-catchment scale, the spatial and temporal pattern of harvesting in these catchments, along with the presence of protective riparian margins, has resulted in no discernible effects of harvesting on water quality in the main river systems.



FIGURE 8.

Workforce Survey 2019

126

workers
surveyed

73%

Māori
IN THE WORKFORCE

24%

WITH
Pacific Island
whakapapa

19%

WORKERS WITH
beneficial
ownership rights

37%

WORKERS WHO
AFFILIATE TO
Ngāti
Tūwharetoa

42%

WORKERS WITH
>20 years'
experience
IN FOREST INDUSTRY

21%

WORKERS WHO HAVE BEEN
WITH THEIR EMPLOYER
> 10 years

19%

50+ years
MOST COMMON AGE
BRACKET

178

children/
dependants
SUPPORTED BY WORKFORCE

NZFM ANNUAL WORKFORCE SURVEY

The NZFM workforce survey is completed annually with the workforce within Lake Taupō and Rotoaira Forests. Data is collected on a number of topics and various trends are analysed, such as local employment rates, crew turnover rates, the number of dependants supported from the forest, other uses of the forest, training courses completed and qualifications held.

The number of people who returned the 2019 survey (126) was well down on the 200+ who respond in most years. This does not reflect a reduction in the number of people employed in the forests, so the

results are probably a less reliable picture of the situation than in other years. The number of workers with ownership links to the lands is down on previous years – though this too may be a reflection of the low response level. The Trust is happy with the picture shown in most categories – though we are always keen to get an even greater proportion of our own working in the forests. The high proportion of workers aged over 50 years is a concern, and in response to this the Trust is working to encourage more rangatahi to get involved in the business at all levels, including providing scholarships and offering internships to owners who want to study forestry at Canterbury University or Toi Ohomai.

WAIMARINO RIVER WHIO PROTECTION PROJECT

This project to protect whio on the Waimarino River is supported by Lake Taupō Forest Trust, Crown Forestry and NZFM, with additional support through funding grants from the Central North Island Blue Duck Charitable Trust, Waikato Catchment Ecological Enhancement Fund and Waikato Regional Council's Environmental Initiatives fund. The original five-year project came to an end in 2019, since which time NZFM have been investigating options to ensure that environmental gains made by the project are maintained.

The primary objective of the project is to restore whio to the lower Waimarino River within Lake Taupō Forest, mainly through predator trapping and by releases of juvenile ducks. Several Lake Taupō Forest Trustees have witnessed the local extinction of whio from the lower reaches of the Waimarino River during their lives and are keen to see them return.

One of the puzzling findings from the project is that while there has been great success in increasing whio numbers in the upper river, no whio have established territories below the waterfall (which is close to the boundary of LTFT lands and the Kaimanawa Forest Park). In December 2019 staff from the Department of Conservation assessed the habitat below the waterfall on the Waimarino River, looking at the:

- presence and abundance of invertebrates (stoneflies, mayflies, caddisflies);
- structure of the river/stream in terms of rapids, riffles and pools and gradient;
- presence and abundance of sedimentation as an indication of bank stability;
- periphyton (moss) on rocks as an indication of river stability (in terms of floods);
- amount of vegetation along the riparian margins.

They concluded that there was no clear habitat reason why whio did not establish in the lower reaches, as both the upper and lower sections of the river had food and high water quality. There may be some subtle habitat factors (e.g., fewer larger invertebrates, lower river gradient, smaller cobble size) that make the lower reaches less preferable, but this is not known with any certainty.

The presence of trout below the waterfall was considered a potential factor in making the lower reaches less desirable to whio. Trout are a competitor with whio for invertebrate food, but whio are known to co-exist with trout in many other rivers – such as the Tongariro Forest River. The authors did not consider trout a key reason but thought it may be a contributing factor.

It is still hoped that whio may establish in the lower reaches over time as the population in the upper reaches approach carrying capacity, which has been observed on the Whanganui River. It was recommended that protection continue at least on the stretch of river immediately downstream of the current population to allow for population growth when it occurs. Following the recommendation, NZFM have engaged two contractors to undertake the whio protection programme for the 2020–21 season.

FROST FLAT INDIGENOUS VEGETATION HABITAT

In 2019 NZFM engaged Wildlands to undertake the annual assessment of the frost flat areas in Lake Taupō Forest and develop a 10-year management plan for these areas. Five main areas of frost flats were identified, all along LTF's eastern boundary close to the Kaimanawa Forest Park, with more area identified as potential frost flat habitat.

Ongoing monitoring will involve the use of aerial imagery, establishment of photo points, and the establishment of permanent sample plots. These will be periodically revisited and rephotographed to monitor change and assess the risk of disturbance.



Wildlands is confident that the management plan will ensure the long-term protection of the frost flat habitats. A combination of monitoring, the management of threats such as pest plants and specific threatened-plant management will ensure that these critically threatened habitats are maintained and enhanced in the future.

INDIGENOUS FOREST HEALTH ASSESSMENT

Indigenous forest health assessments are undertaken every two years in Lake Taupō and Rotoaira forests. In 2019 the assessments in Lake Taupō Forest comprised measuring 25 plots covering six vegetation types.

The primary objectives of the forest health assessment are to monitor the condition of important vegetation types and tree species over time, and to identify any significant threats to the integrity of these forests so that management action can be considered. Key findings were:

- There was a general trend of plot health stabilising but plot vitality was often declining.
- Plots with poor health and vitality are found most often in the regenerating hardwood forest type, and this can be attributed to natural successional processes, strong weather events and heavy browsing on regeneration.
- Browsing animals were still having significant impact on overall regeneration and associated plot vitality scores, consistent with damage in previous years.

The key recommendation from the report was that animal control measures should be considered to reduce deer and pig impact on plot vitality.

2020 FSC SURVEILLANCE

The NZFM FSC surveillance for 2020 was undertaken in two parts, due to the COVID-19 lockdown restrictions. The first part involved a document review of the standards and criteria, which occurred in June 2020, and was followed by a field visit component in late July. Carlos Pastor from SGS spent two days in the field with NZFM staff looking at forest operations, including planting, thinning and harvesting.

There were no Corrective Action Requests (CARs) issued during the surveillance, however two observations were made by the auditor. These involved ensuring a consistent understanding and use amongst contractors of the correct road closed banner communications and making sure all planting crew employees had an active training plan in place.

As mentioned, many of the environmental initiatives are managed by our managers (NZ Forest Managers Ltd), and a large part of the certification workload falls also on them. Their website nzfm.co.nz outlines all NZFM operations and is useful to check progress on our FSC initiatives

HAUTŪ RANGIPŌ LANDS INVESTMENT

It is now five years since the two forest trusts invested in Hautū Rangipō Whenua Ltd (HRWL) – the company that purchased the Corrections lands near Tūrangi and the neighbouring Mangamawhitiwhiti Farm. The Lake Taupō Forest Trust (LTFT) has a 42.3 per cent share of HRWL, and the Lake Rotoaira Forest Trust (LRFT) 18.2 per cent. These two shareholdings are managed through the two Trusts' subsidiary company Lake Taupō Forest Management Ltd (LTFM). The other HRWL shareholders are the Tūwharetoa Settlement Trust (19.7 per cent), and three farm trusts – Waihi Pukawa, Puketapu 3A and Oraukura 3 – with 6.6 per cent each. The purchase secured the lands back into Tūwharetoa ownership, and this was a key consideration for all the investors.

In addition, the purchase will in time increase the scale and efficiency of the Trusts' forestry businesses, and it also opens up the ability to take advantage of other synergies between the two Trusts.

HRWL continues to operate successfully, adhering to the general approach of being passive a land owner that leases the lands out to other users. Of the total approximate 9,000 hectare estate:

- 750 hectares, mainly farmland, are under a permanent lease to the Corrections Department, which continues to operate a prison and farm in the northern (Hautū) part of the land;
- 3,500 hectares of forested land are leased to forestry investor New Forests – who through its local off-shoot Taupō Estates Ltd has a one-rotation lease and will gradually harvest the trees over 30 years;
- 900 hectares of farmland are leased to Tuatahi Farming – a subsidiary company of Puketapu 3A and Oraukura 3;
- 2,000 hectares are leased to LTFM – who initially planted some of the pasture land as part of HRWL's arrangement to reduce nitrogen emissions and are now replanting land after New Forests do their harvesting.

The remaining lands are non-productive, though they do generate income through beekeeping leases.

As part of the purchase, HRWL inherited four very run down 60-bed prison units, plus associated buildings. We have not been able to identify any productive or viable use for these, but we have split up one of the units and relocated the cells, at cost, to hapū members and are doing the same with a second unit.

The Lake Taupō and Lake Rotoaira forest trusts effectively have two components to their investment:

- their combined 60.5 per cent shareholding in HRWL – from which they will get an ongoing share of annual distributions:
 - » LTFM received \$504,000 in distributions from HRWL in 2019/20. LTFT itself gets a 70 per cent share of this (\$353,000), with LRFT receiving the remaining 30 per cent share; and
- the lease by the Trusts' subsidiary LTFM of land for forestry. The forest that is being created through this process is called Kaimanawa Forest, and it is discussed in the next section.

With agreement from local hapū, the HRWL Board allows teams to access the land to hunt for kai for tangihanga – an arrangement that requires case-by-case requests from relevant marae. These arrangements are working well, with access being required on average once every two or three weeks and the teams reporting good hunting success.

KAIMANAWA FOREST

Kaimanawa Forest is the name given to the forest that Lake Taupō Forest Management Ltd (LTFM), on behalf of its parent entities LTFT and LRFT, is creating on the Hautū Rangipō Whenua Ltd land. The investment is funded 70 per cent by LTFT and 30 per cent by LRFT and is formalised through a Forestry Right Agreement held by LTFM. LTFM pays an annual rental to HRWL for the use of the land for this forest – though of course through their ownership of a significant shareholding in HRWL, the forest trusts effectively get a good portion of this rent back.

At present Kaimanawa Forest has a planted area of 2,074 hectares, comprising around 1,440 hectares of land that was previously in pasture but has now been afforested, plus around 630 hectares of forest harvested by previous owner New Forests Ltd and since replanted by LTFM.

The 1,440 hectare planting into pasture programme was completed in the winter of 2018 while the replanting of the existing forest will take around 30 years to complete and will by then total around 4,100 hectares. Thus, the eventual area of Kaimanawa Forest will be around 5,500 hectares – adding around 17 per cent to the combined LRFT and LTFT forest area.

The two Trusts invested \$1,010,000 (including rent) on developing Kaimanawa Forest in the 2019/20 year. LTFT's share of these costs was around \$707,000. Kaimanawa Forest was valued at \$4.55 million at 30 June 2020. LTFT's 70 per cent share of this value is around \$3.19 million.

FOREST INVESTMENT ON OPEPE FARM TRUST LANDS

The joint forestry investment on Opepe Farm Trust lands by the Lake Taupō and Lake Rotoaira Forest Trusts is progressing well. This investment is funded 70 per cent by LTFT and 30 per cent by LRFT and is formalised through a Forestry Right Agreement held by LTFM.

The project commenced in 2012, and has involved the Forest Trusts purchasing 250 hectares of young trees from Opepe Farm Trust, and over the next three years replanting 650 hectares of harvested forest and undertaking new planting of around 500 hectares of pasture land. The forest has a total area of around 1,400 hectares.

During the 2019–20 year, the LTFM invested a total of \$771,000 in Opepe Forest, mainly on pruning, thinning and rent. LTFT's share of these costs was around \$539,000. Harvesting is scheduled to start in 2038 and should be complete by around 2045.

The Opepe Forest was valued at \$7.61 million at 30 June 2020. LTFT's 70 per cent share of this value is around \$5.33 million.

INVESTMENT IN TAUREWA, WAITUHI AND PUREORA SOUTH FORESTS

It is now two years since the Trusts purchased the second rotation stands in Taurewa, Waituhi and Pureora South Forests. The land under these forests came back in the Central North Island Forests Iwi Collective Deed of Settlement and since then the Tūwharetoa Settlement Trust (TST) replanted around 1,700 hectares – following their harvest by the previous treeowner.

After discussion with TST, and with the forest hapū clusters who have mana whenua over the lands, all parties approved the proposal that the forest trusts, through their subsidiary LTFM, would purchase the plantations, thus ensuring their ownership remained within Tūwharetoa.

LTFM entered into a one-rotation Forestry Right (effectively a lease) over the lands. We do not control owner access to these lands – this matter continues to be negotiated by the forest hapū clusters and CNI Iwi Holdings Ltd. We pay rent annually to CNI Iwi Holdings Ltd, money which is passed back via TST to the forest hapū clusters.

Since purchasing the trees, LTFM has replanted around 100 hectares, while a further 1,100 hectares of first rotation crop, owned by an off-shore forestry company, remain across the three forests. LTFM will replant these as and when they are harvested.

During the 2019–20 year, LTFM invested a total of \$434,000 in these three forests, mainly on general maintenance, *Dothistroma* control, rent, and, in Pureora South Forest, land preparation and planting. LTFT's share of these costs was around \$304,000. All the stands in these forests are aged seven years or younger, so harvesting is not scheduled to commence until around 2040.

The three TST Forests were valued at \$6.53 million at 30 June 2020. LTFT's 70 per cent share of this value is around \$4.57 million.

EMISSIONS TRADING SCHEME (ETS)

The Emissions Trading Scheme (ETS) is the New Zealand Government's response to global climate change. It is a scheme under which industries that emit greenhouse gases – such as those providing oil and power, and most industries – have to offset their emissions through buying carbon credits. Forests absorb greenhouse gases out of the atmosphere and thus help reduce the impact of climate change. The world wants more forests, leading our government to introduce rules that ensure that forest area is not reduced and that encourage more forests to be established.

The ETS as it relates to plantation forestry divides plantations into two categories – pre-1990 forests and post-1989 forests. Most of Lake Taupō Forest was established before 1990, so it qualifies as pre-1990 forests, though it also has 510 hectares of post-1989 forest registered.

The ETS locks pre-1990 forest land into forestry by requiring payment of a deforestation tax if the land is not replanted after harvest. As partial compensation, owners of these lands were awarded carbon credits, which they can sell to industries that emit greenhouse gases. The Trust has around 23,700 hectares of pre-1990 forest registered under the ETS, and in return the Trust received 1,430,000 carbon credits (known as New Zealand Units, or NZUs).

The allocation of NZUs to the Trust's pre-1990 forests was a one-off event, and they can be sold only once, so when and how many to sell are therefore key decisions. After a period of low prices, a strengthening of the government's commitment to fighting climate change saw NZUs returned to over \$20 in late 2018. Prices have risen considerably during 2020, getting to around \$30/NZU by the end of the financial year and up to \$35/NZU in late October as this is being written.

In 2018, the Trustees undertook in-depth strategising on what to do with their NZUs, including getting advice from a number of experts in the field. The outcome was a decision to sell around 50 per cent of the units over the next two years and hold the rest. By 30 June 2020 the Trust had sold 460,000 NZUs (30 per cent of their holdings), of which 410,000 were sold in the 2019–20 year. The Trust received \$10.59 million (average \$25.84/NZU) for the 410,000 NZUs it sold in the 2019–20 year. The buyers for these units are entities that have large emissions that they are required to offset – such as power and oil companies.

In 2009, the Trust registered around 600 hectares of post-1989 forest, being the forests planted in the mid-1990s on what were Te Rangiita farm blocks. The Trust then claimed 105,000 NZUs for the carbon stored in these trees as they grew during the years of the first commitment period of 2008–2012. We freed up those units by taking the forest out of the ETS, meaning LTFT had around 1.5 million NZUs.

The Trust subsequently re-registered its post-1989 forest in the ETS, but as reported earlier nearly all this forest blew over in the 2019–20 year. In response to this, we will have to return the 112,000 NZUs we have been allocated for growth in the forest during the 2012–2017 commitment period (these NZUs are not included in the 1.5 million NZUs reported above). We then intend to deregister the area from the ETS as we do not foresee any opportunity to generate more income from claiming NZUs on this land.

Many commentators believe that the value of NZUs will continue to climb in forthcoming years – though we also recognise that the government has some level of influence over that price through its ETS policies – which are periodically reviewed. Looking ahead, there are uncertainties about the market, both in our government's domestic trading rules and internationally in terms of whether and which other international carbon credit units may be allowed to be traded here. Despite these uncertainties, the general consensus is that prices are likely to rise further.

Shortly after the financial year end, the Trustees reassessed their NZU sales policy. They concluded that the continued positive outlook for NZU prices, coupled with the lack of immediate need for bringing in more cash, meant that they were comfortable to put all NZU sales on hold. They have undertaken to review their position every six months, or earlier if significant changes in the market (up or down) occur.

\$353,000

RECEIVED IN DISTRIBUTIONS
FROM HRWL

\$3.19m

THE TRUST'S SHARE OF THE
KAIMANAWA FOREST VALUATION

\$5.33m

THE TRUST'S SHARE OF THE OPEPE
FOREST VALUATION 2019-20

\$4.57m

THE TRUST'S SHARE OF THE
TAUREWA, WAITUHI AND PUREORA
SOUTH FORESTS VALUATION





Financial Report

The Trust's financial performance for the year ended 30 June 2020 is provided in the summarised financial statements on page 46.

The Trust generated a profit before tax and revaluations of \$11 million from revenue of \$30 million less expenses of \$19 million dollars.

REVENUE

2019–20 operating revenue of the Lake Taupō Forest Trust Group is high at **\$30.1 million**.

This is due to the early harvest of the Trust owned land at Te Rangiitā block, which resulted in forest sales of \$12.0 million. However, this needs to be balanced against \$7 million of forest costs for that block, which came out at net return of \$5 million. The Trust has produced a healthy profit despite the impact of COVID-19 on New Zealand.

This year was the second year of trading in NZUs under the Emissions Trading Scheme. Pricing was very strong and Trustees supported the active sale of a portion of our NZU portfolio. In total, 410,000 units were sold and realised \$11 million to the Trust.

The 2020 Revenue illustration shows that 83.5 per cent of the Trust revenue was for forest stumping and log sales for Te Rangiitā. Full details are provided in the Forestry report.

Investment income from dividends, interest and changes in market valuation generated \$0.8 million in income to the Trust, which was down compared to 2019; this reflects the low interest rates in the investment markets. This is closely monitored by our investment advisors at Iwi Investor.

The Weighbridge Company Limited is jointly owned with Lake Rotoaira Forest Trust and commenced operations in April 2005. Lake Taupō Forest Trust owns a 75 per cent share in the Weighbridge. This year the Weighbridge generated \$0.117 million.

EXPENDITURE

Total operating expenses of \$18.7 million were 59 per cent up on the prior year. As discussed, Te Rangiitā was harvested and cleared following the two windthrow events in 2019. This along with the usual Crown lease blocks cost the Trust \$12.5 million this year – 67 per cent of total expenditure. The remaining expenses relate to Trust operating costs. An overview of the forest costs and performance is provided in the Forestry report.

NET SURPLUS AFTER TAX

The Trust finished the 2020 financial year with a net after tax profit of **\$55.9 million**.

This year has seen another profitable year for the Trust and is reflected in the valuation and improved profit. The forest valuation was undertaken by Indufor Asia Pacific Ltd.

DISTRIBUTIONS AND GRANTS

The Trust declared a gross taxable distribution to owners of \$5 million, which was paid to owners in April 2020.

GRANTS

For the year ended June 2020 Pūtea Aroha (Tangihanga) grant payments of \$0.252 million were made to owners. See full details in the Ownership Services report.

A total of \$0.17 million was paid as Marae grants to the 10 Marae listed in the Third Schedule of the Trust Order.

The community purposes grant of \$0.18 million was paid to the Lake Taupō Charitable Trust to help achieve its strategic objectives for beneficiaries of Lake Taupō Forest Trust. The Charitable Trust distributed a total of \$0.257 million in Kaumātua and Paramouty grants, with a further \$0.232 million on the forestry education programme. See the Lake Taupō Charitable Trust report for further information on their grants this year.

TRUST ASSETS

The Trust Group's total assets were valued at **\$525 million** at 30 June 2020.

The 20 per cent increase relates mainly to the increase in the forest valuation, carbon recognition and 2020 new land valuations, which totalled \$82 million.

INVESTMENT PORTFOLIOS

The Trust's investment portfolios are managed by Iwi Investor and are made up of four portfolios. The Lake Taupō Growth Fund (LTG), LTG Managed Cash (LTGMC), and Lake Taupō Income Fund (LTI) and a new fund in 2019 (NZU) being the income received from the sale of NZUs. The LTG fund (also referred to as the forest contingency fund) has a long-term focus and is designed to offset forestry risk. During the year, the only withdrawal was to pay the annual distribution to owners of \$5 million and Marae grants of \$0.17 million. The Growth fund was valued at \$14.67 million at 30 June 2020. The LTGMC fund holds the shorter-term money market deposits in order to facilitate the annual distribution to owners. The value of the LTGMC is \$0.02 million.

The Trust holds unclaimed distributions in the Lake Taupō Income (LTI) Fund. This fund was valued at \$18.16 million at 30 June 2020. LTI is a low risk defensive fund designed to generate income, the interest of which is then used to fund the Lake Taupō Charitable Trust. The new NZU Fund contains the income from the sales of NZUs and was valued at \$10.45 million. The combined balance of the four funds (LTI, LTG, LTGMC and NZU) at 30 June was \$43.3 million.

TRUST EQUITY

This year, equity in the Trust Group increased by 20 per cent from \$364 million to **\$441 million**.

Equity represents the remaining funds after deducting all liabilities from the assets. This year the change in equity reflects the increase in forest and land valuation and a moderate profit resulting from strong income from stumpsage and forest log sales.

The equity graph shows the movements in equity since 2016. Details of the Trust's equity and the distribution to owners for the year ended 30 June 2020 are shown in the Statement of Changes in Equity in the summarised financial statements.

FIGURE 9.

Revenue
\$30.1 million

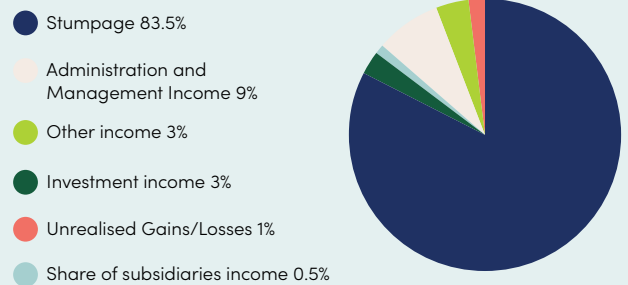


FIGURE 10.

Trust Assets
\$525 million

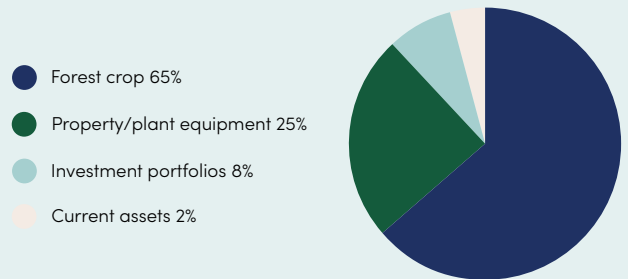


FIGURE 11.

Expenditure
\$18.7 million

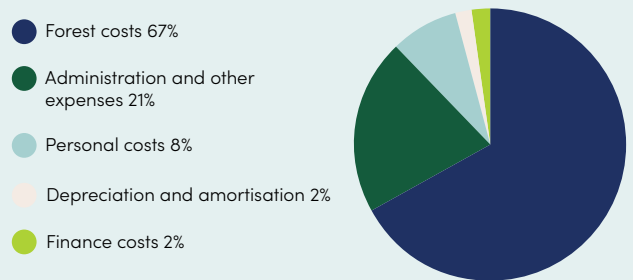
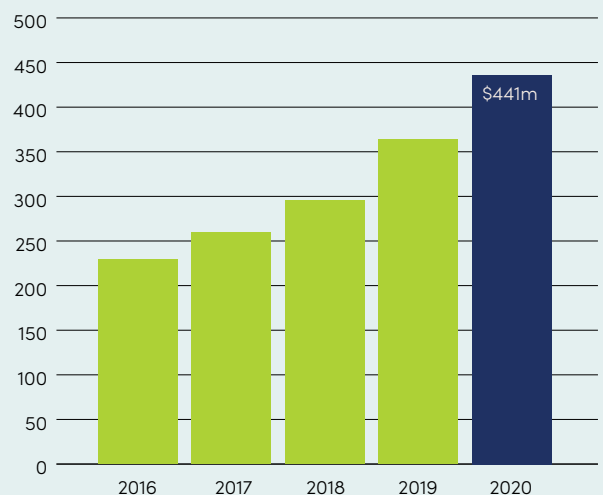


FIGURE 12.

Equity
\$441 million



Investment Report

LAKE TAUPŌ FOREST TRUST – INVESTMENT PORTFOLIOS: ANNUAL REPORT TO JUNE 2020

Lake Taupō Forest Trust has four investment accounts that have distinctly different objectives. The Growth portfolio is required to cover operating costs and replanting in the event of reduced income from forestry operations. The Income portfolio purpose is to hold unclaimed dividends and provide income to support the activities of the Charitable Trust. There are two cash portfolios, one to support the cash flow requirements of the Trust as well as building up cash for the annual dividend payment and the second holds the proceeds from the sale of New Zealand Units (NZUs, also referred to as carbon credits) for potential reinvestment. The cash accounts have the benefit of lower fees and access to wholesale term deposit rates.

Lake Taupō Forest Trust Statement of Investment Parameters and Objectives (SIPO) for the Growth and Income Portfolios have identified your strategies within your accepted risk tolerance and capacity.

The IWIinvestor Investment Committee and management team ensure that your portfolios contain quality investment funds. These portfolios are diversified across equities and fixed interest as well as domestic and offshore, enabling steady gains and minimising risk.



FIGURE 13.

Lake Taupō Forest Trust – Growth

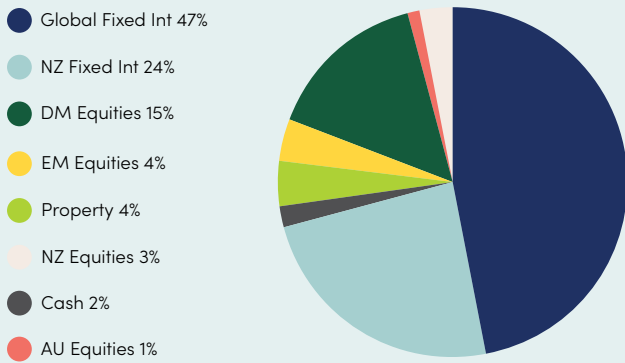


FIGURE 14.

Lake Taupō Forest Trust – Income

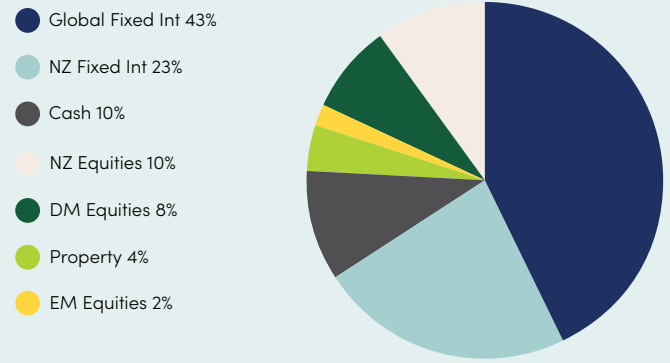


FIGURE 10.

Growth Portfolio

Asset Class	Value	Actual	Target
Cash	\$324,719	2%	2%
NZ Fixed Int	\$3,480,912	24%	23%
Global Fixed Int	\$6,833,246	47%	46%
Defensive Assets		73%	70%
NZ&AU Equities	\$690,744	4.7%	5%
DM Equities	\$2,203,572	15%	16%
EM Equities	\$543,510	4%	4%
Property	\$584,282	4%	5%
Growth Assets		27%	30%
Total Assets	\$14,660,985	100.0%	100.0%

FIGURE 11.

Income Portfolio

Asset Class	Value	Actual	Target
Cash	\$1,786,798	10%	5%
NZ Fixed Int	\$4,136,467	23%	23%
Global Fixed Int	\$7,916,845	44%	47%
Defensive Assets		76%	75%
NZ&AU Equities	\$1,817,495	10%	10%
DM Equities	\$1,429,500	8%	8%
EM Equities	\$333,530	2%	2%
Property	\$747,851	4%	5%
Growth Assets		24%	25%
Total Assets	\$18,168,486	100.0%	100.0%

FIGURE 12.

MC Cash Portfolio

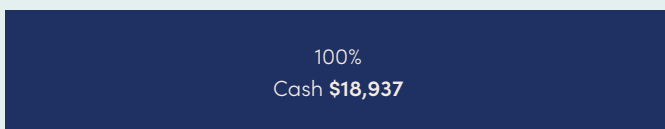


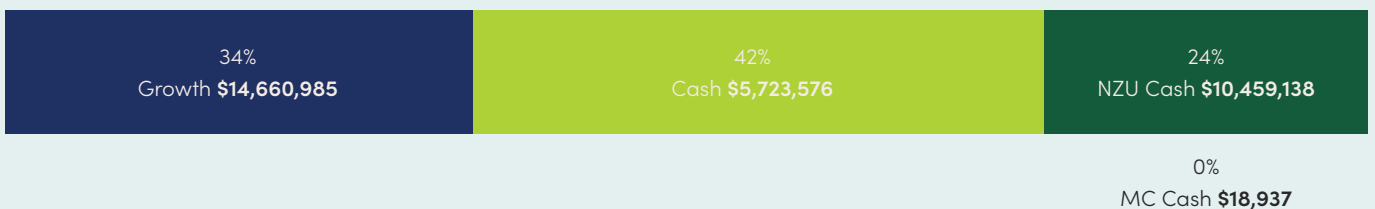
FIGURE 13.

NZU Cash Portfolio



FIGURE 14.

Total Assets Invested





PORTFOLIO REVIEW SUMMARY

GROWTH PORTFOLIO

The Growth portfolio has a conservative risk profile. Its primary function is long-term growth while mitigating any forestry risk. The portfolio showed a return on investment of 2.7 per cent after fees and taxes for the 2019–20 financial year. The portfolio has averaged 5.3 per cent net per year since inception.

INCOME PORTFOLIO

The Income portfolio has a defensive high-yield risk profile. This portfolio captures all unclaimed dividends. The portfolio showed a return on investment of 1.9 per cent after fees and taxes for the 2019–20 financial year. The portfolio has averaged 6.4 per cent net per year since inception.

INVESTMENT OUTLOOK

Global lockdown measures to combat the spread of COVID-19 plunged an already slowing economy into a recession. Despite extraordinary financial support from both governments and central banks to minimise the adverse impact on employment, businesses and the financial system, the global failure to control the virus, suggest that the economy will not be out of the woods for a long time. In the meantime, most governments have accumulated enormous levels of debt and the risk is that that will increase further.

While we have seen some improvement in the global economy in the September quarter, it is well below pre-COVID level and remains on government support. That support is likely to persist until the emergence of vaccines to combat the virus. When such vaccines will emerge remains to be seen. However most countries, including New Zealand, have ordered for delivery in 2021.

The financial markets' response to the global pandemic has been based around the government's and central bank's response.

The global share market has recovered from the February/March plunge as investors perceive that the longer it takes for the economy to recover, the more financial support will be provided, which in the medium term and the emergence of a vaccine, will eventually lead to a stronger economy.

The fixed-interest market is focused on the short term and reflects weakness in the economy and measures taken by central banks to keep interest rates low for much longer. Further, any improvement in the economy will not lead to central banks abandoning their stance as higher interest rates would place increasing pressure on governments' funding costs.

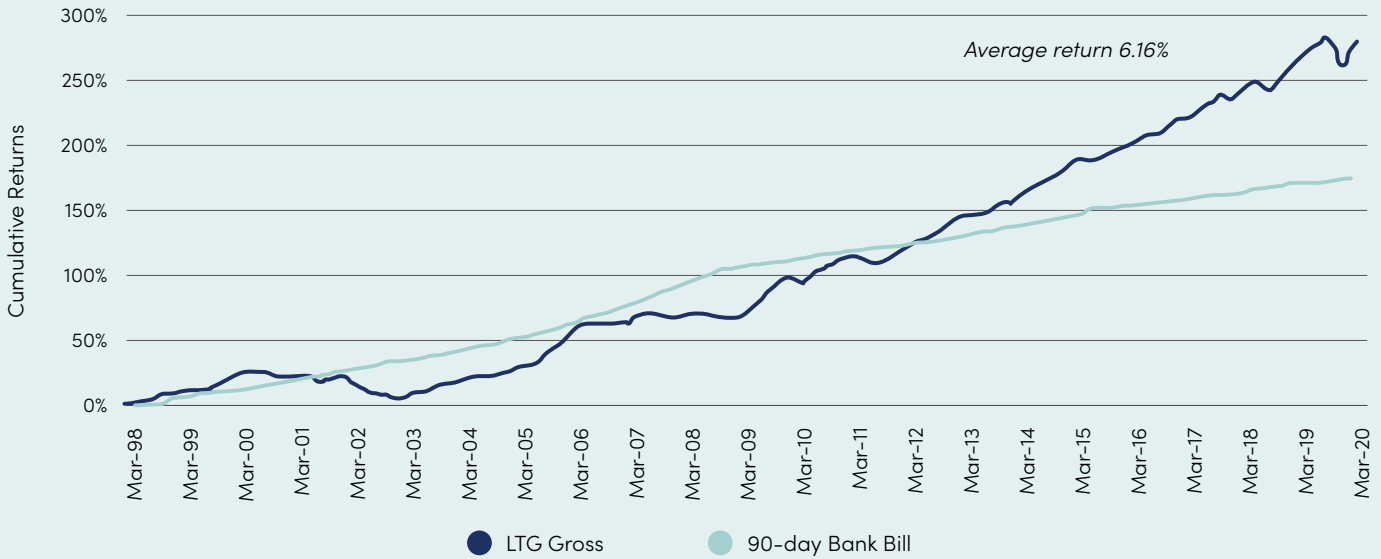
As the global economic downturn was not influenced by an economic event but a health issue and as its impact decreases in intensity, particularly following a vaccine, we are likely to see a slowly improving economy. In that environment, we regard these financial market trends will continue. Share markets should move higher as it is likely to provide a positive return (both dividend and capital value) while fixed interest is likely to provide nominal return as interest rates remain low.

There is also the potential for political risk to subside (de-escalation of trade tension and greater co-operation amongst major western countries) depending on the outcome of the United States election in near term.

IWI investor maintain a long-term focus despite the inevitable volatility that will continue to persist in an uncertain political and investment landscape. Our investment philosophy is to remain fully invested consistent with your risk profile.

FIGURE 15.

LTI Gross Performance since Inception



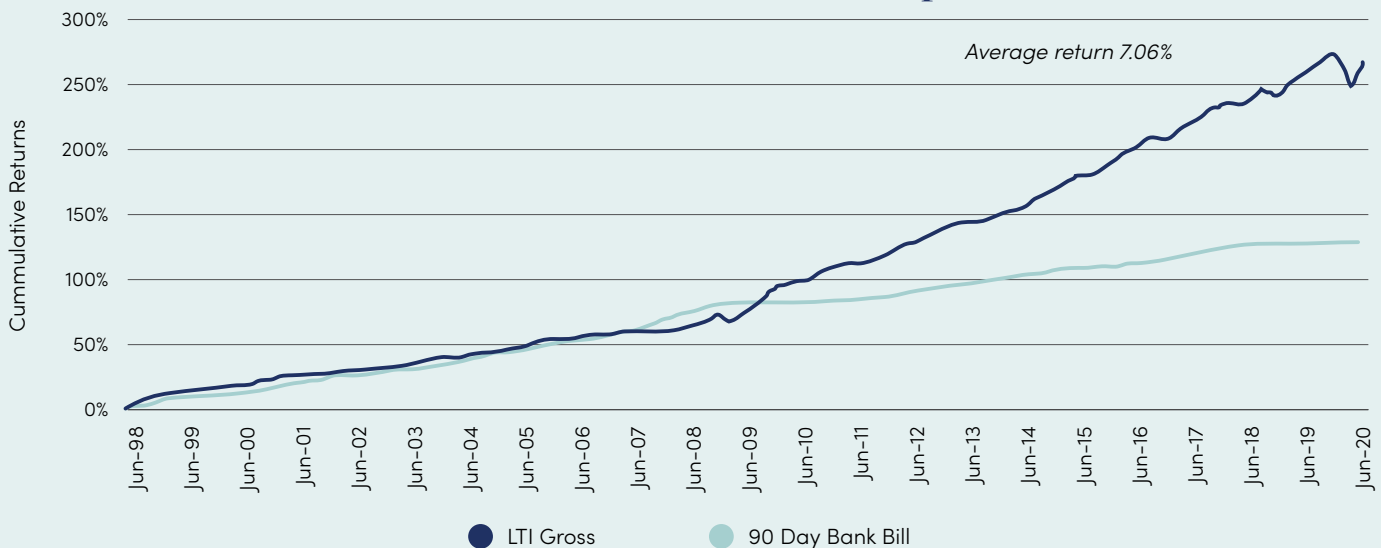
The following represents Lake Taupō Forest Trust's gross returns to 30 June 2020 since inception. We have compared it to gross 90-day bank bill.

30 June 2020	Gross Return	Net Return
1 year	3.3%	2.7%
3 years	6.0%	5.4%
7 years	6.4%	5.7%
Inception	6.2%	5.3%

Performance since Inception:
 Average Gross Return: **6.2 per cent**
 Long-term Expected Return for a
 Conservative Portfolio **5.7 per cent**

FIGURE 15.

LTI Gross Performance since Inception



30 June 2020	Gross Return	Net Return
1 year	2.5%	1.9%
3 years	5.3%	4.6%
7 years	6.8%	5.8%
Inception	7.1%	6.4%

Performance since Inception:
 Annualised Gross Return: **7.1 per cent**
 Long-term Expected Return
 for a Defensive High-yield Portfolio
5.4 per cent





LAKE TAUPO FOREST TRUST AND SUBSIDIARIES

Summarised Financial Statements

46

SUMMARISED
STATEMENT OF
**Comprehensive
Income**

47

SUMMARISED
STATEMENT OF
Changes in Equity

48

SUMMARISED
Balance Sheet

48

SUMMARISED
STATEMENT OF
Cash Flows

49

NOTES TO THE
**Financial
Statements**

The Trustees are pleased to present the Summarised Financial Statements of the Lake Taupō Forest Trust for the 12 months ended 30 June 2020.

Authorised for and on behalf of the Board of Trustees on 18 December 2020.



BINKY ELLIS
Chairman



JUDY HARRIS
Deputy Chairperson



**Independent auditor's report to the Beneficiaries of Lake Taupō Forest Trust
Report on the Summary Financial Statements**

O P I N I O N

The summary financial statements on pages 46 to 51, which comprise the summary consolidated balance sheet as at 30 June 2020, the summary consolidated statement of comprehensive income, summary consolidated statement of changes in equity and summary consolidated statement of cash flows for the year then ended, and related notes, are derived from the audited financial statements of Lake Taupo Forest Trust ("the Trust") and its subsidiaries (together "the Group") for the year ended 30 June 2020.

In our opinion, the accompanying summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with FRS-43: Summary Financial Statements issued by the New Zealand Accounting Standards Board.

S U M M A R Y F I N A N C I A L S T A T E M E N T S

The summary financial statements do not contain all the disclosures required for full financial statements under generally accepted accounting practice in New Zealand. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon. The summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial statements.

T H E A U D I T E D F I N A N C I A L S T A T E M E N T S A N D O U R R E P O R T T H E R E O N

We expressed a qualified audit opinion on the audited financial statements in our report dated 22 December 2020. As explained in note 10 of the audited financial statements, the Group's land and land improvements with a carrying value of \$84.7m are stated at the most recent Government Valuations. This may be a departure from New Zealand Equivalent to International Accounting Standard 16 (NZ IAS 16) which, when property, plant and equipment assets are subject to revaluations, requires such assets to be revalued to fair value. We have been unable to satisfy ourselves regarding the fair value of the land and land improvements and therefore are unable to quantify the effect of this possible departure from generally accepted accounting practice on the financial performance and financial position of the Group. This matter has no impact on the reported cash flows of the Group. This matter is also disclosed in Note 1 of the summary financial statements.

**T H O S E C H A R G E D W I T H G O V E R N A N C E R E S P O N S I B I L I T I E S F O R T H E
S U M M A R Y F I N A N C I A L S T A T E M E N T S**

Those charged with governance are responsible on behalf of the entity for the preparation of the summary financial statements in accordance with FRS-43: Summary Financial Statements.

A U D I T O R ' S R E S P O N S I B I L I T Y

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (New Zealand) (ISA (NZ)) 810 (Revised): Engagements to Report on Summary Financial Statements.

Ernst & Young provides taxation advice and financial statement compilation services to the Group. We have no other relationship with, or interest in, the Group. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group.

Chartered Accountants
Wellington
22 December 2020

Summarised Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2020

	Group 2020 \$	Group 2019 \$
Revenue	29,853,712	18,863,961
Total operating revenue	29,853,712	18,863,961
Other income	262,445	1,033,666
Interest expense	(363,404)	(137,813)
Other expenses	(18,265,855)	(11,599,506)
Total operating expenses	(18,629,259)	(11,737,319)
Profit before forest crop revaluation and taxation	11,486,898	8,160,308
Forest crop revaluation	54,858,804	38,203,610
Profit before income tax	66,345,702	46,363,918
Income tax expense	(10,376,905)	(8,138,025)
Net profit for the period	55,968,797	38,225,893
Other comprehensive income		
Intangible carbon asset revaluation	14,054,110	35,590,292
Land revaluation	12,212,106	-
Financial assets at fair value through other comprehensive income	(13,534)	48,331
Other comprehensive income for the period	26,252,682	35,638,623
Total comprehensive income for the period	82,221,479	73,864,516
<i>Profit for the period is attributable to:</i>		
Non-controlling interest	863,901	975,237
Owners of the Parent	55,104,896	37,250,656
	55,968,797	38,225,893
<i>Total comprehensive income for the period is attributable to:</i>		
Non-controlling interest	1,138,863	975,237
Owners of the Parent	81,082,616	72,889,279
	82,221,479	73,864,516

The above summarised statement of comprehensive income should be read in conjunction with the accompanying notes.

Summarised Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2020

	Land revaluation reserve \$	Carbon revaluation reserve \$	Financial assets at fair value reserve \$	Retained earnings \$	Owners of the Parent \$	Non- controlling interest \$	Total \$
Balance at 1 July 2019	8,810,004	35,590,292	48,331	306,341,025	350,789,652	13,046,252	363,835,904
Profit for the period	-	-	-	55,104,896	55,104,896	863,901	55,968,797
Other comprehensive income	11,937,144	14,054,110	(13,534)	-	25,977,720	274,962	26,252,682
Total comprehensive income for the period	11,937,144	14,054,110	(13,534)	55,104,896	81,082,616	1,138,863	82,221,479
Transactions with owners							
Distributions	-	-	-	(5,000,000)	(5,000,000)	(295,254)	(5,295,254)
Balance at 30 June 2020	20,747,148	49,644,402	34,797	356,445,921	426,872,268	13,889,861	440,762,129

	Land revaluation reserve \$	Carbon revaluation reserve \$	Financial assets at fair value reserve \$	Retained earnings \$	Owners of the Parent \$	Non- controlling interest \$	Total \$
Balance at 1 July 2018	8,810,004	-	-	274,241,432	283,051,436	12,382,353	295,433,789
Profit for the period	-	-	-	37,250,656	37,250,656	975,237	38,225,893
Other comprehensive income	-	35,590,292	48,331	-	35,638,623	-	35,638,623
Total comprehensive income for the period	-	35,590,292	48,331	37,250,656	72,889,279	975,237	73,864,516
Transactions with owners							
Distributions	-	-	-	(5,151,063)	(5,151,063)	(311,338)	(5,462,401)
Balance at 30 June 2019	8,810,004	35,590,292	48,331	306,341,025	350,789,652	13,046,252	363,835,904

The above summarised statement of changes in equity should be read in conjunction with the accompanying notes.

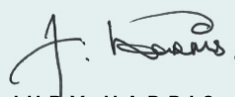
Summarised Balance Sheet

AS AT 30 JUNE 2020

	Group 2020 \$	Group 2019 \$
Current assets	22,035,059	11,129,740
Current liabilities	(22,722,225)	(18,757,248)
Net current assets/(liabilities)	(687,166)	(7,627,508)
Non-current assets	503,420,690	416,689,220
Non-current liabilities	(61,971,395)	(45,225,808)
Total net assets	440,762,129	363,835,904
FUNDS ATTRIBUTABLE TO BENEFICIARIES		
Retained earnings	356,445,921	306,341,025
Financial assets at fair value reserve	34,797	48,331
Land revaluation reserve	20,747,148	8,810,004
Carbon revaluation reserve	49,644,402	35,590,292
Beneficiaries' interests	426,872,268	350,789,652
Non-controlling interests	13,889,861	13,046,252
TOTAL EQUITY	440,762,129	363,835,904

For and on behalf of the Board of Trustees, who authorised the issue of these summarised financial statements on 22 December 2020. The summarised group financial statements have been extracted from the full audited group financial statements of the Trust for the year to 30 June 2020.


BINKY ELLIS
 Chairman
 18 December 2020


JUDY HARRIS
 Chairperson Audit Committee
 18 December 2020

The above summarised balance sheet should be read in conjunction with the accompanying notes.

Summarised Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2020

	Group 2020 \$	Group 2019 \$
Cash flows from operating activities		
Net cash inflow from operating activities	13,364,323	6,237,515
Cash flows from investing activities		
Net cash outflow applied to investing activities	(4,564,570)	(3,899,774)
Cash flows from financing activities		
Net cash outflow applied to financing activities	(4,528,739)	(5,062,171)
Net increase/(decrease) in cash held	4,271,014	(2,724,430)
Balance 1 July	3,285,425	6,009,855
Balance as at 30 June	7,556,439	3,285,425

The above summarised statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

1. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The summary financial statements of Lake Taupo Forest Trust and its subsidiaries (the "Group") have been prepared in accordance with Financial Reporting Standard 43: Summary Financial Statements. The full financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities except for the Group's land and land improvements with a carrying value of \$84.7 million are stated at the most recent Government Valuations which are values based on vacant possession of the land. This is a departure from New Zealand Equivalent to International Accounting Standard 16 (NZ IAS 16) which, when property, plant and equipment assets are subject to revaluations, requires such assets to be revalued to fair value.

For the purposes of complying with NZ GAAP, the Group is eligible to apply Tier 2 For-Profit Accounting Standards (New Zealand equivalents to International Financial Reporting Standards – Reduced Disclosure Regime ("NZ IFRS RDR")) on the basis that it does not have public accountability and is not a large for-profit public sector entity. The Group has elected to report in accordance with NZ IFRS RDR and has applied disclosure concessions.

The full financial statements comply with NZ IFRS RDR except that land leased to the Ministry for Primary Industries and other land (primarily related to trust land used in the Trust's own forestry operation) is carried at Government Valuation rather than fair value as required by NZ IAS 16. The Group has not made an explicit and unreserved statement of compliance with IFRS in its full financial statements.

The summary financial statements are presented in New Zealand Dollars and all values are rounded to the nearest dollar. The summary financial statements are prepared on the historical cost basis, except for forestry assets, intangible carbon assets and certain financial assets which are carried at fair value. The specific disclosures included in these summary financial statements have been extracted from the full financial statements. No information extracted from the full financial statements has been restated or reclassified.

2. SUMMARY FINANCIAL STATEMENTS

The full financial statements, which were authorised for issue on 18 December 2020, have been subject to audit by Ernst & Young and a qualified audit report was issued dated 22 December 2020. The summary financial statements have been examined by the auditor for consistency with the full financial statements. The audit report qualification relating to the full financial statements was in respect of non-compliance with NZ IAS 16, whereby land owned by the Trust is included in the financial statements at Government Valuation which is not fair value as required by NZ IAS 16.

The summary financial statements cannot be expected to provide as complete an understanding as that provided by the full financial statements.

The full financial statements can be obtained from the office of Lake Taupo Forest Trust, Box 102, Turangi on request.

3. CARBON INTANGIBLE ASSETS

The Trust has registered its 23,774 ha of pre-1990 forest land and has received its full allocation of 1.376m carbon credits relating to that land. During 2013/14 the Trust de-registered approximately 600 ha of post-1989 forests from the Ministry for Primary Industries Emissions Trading Scheme. Through this de-registration process the Trust secured net 106,186 carbon credits.

The fair value of the Group's carbon intangible assets recognised as at 30 June 2020 is \$37.8 million (2019: \$34.3 million).

4. FORESTRY ASSET

	Group 2020 \$	Group 2019 \$
Forest crop – Trust’s share of joint venture forest		
<i>Asset at 1 July</i>	24,337,700	36,426,950
Harvest	(12,182,804)	(14,573,035)
Current year increase in valuation	6,750,104	2,483,785
Forest market value at 30 June	18,905,000	24,337,700
Forest crop – Trust’s forest		
<i>Asset at 1 July</i>	249,878,903	198,000,233
Harvest	(12,960,816)	(465,933)
Current year increase in valuation	73,252,320	50,758,793
Capitalised costs	2,190,174	1,585,810
Forest market value at 30 June	312,360,581	249,878,903
Current year increase in valuation		
Total forest crop market value at 30 June 2020	331,265,581	274,216,603

The Group holds the forestry asset for the purpose of harvest.

Lake Taupo Forest Trust and the Ministry for Primary Industries have a joint venture agreement whereby land harvested each year is surrendered from the lease and returned to full Trust control. In 2020 the Crown and Trust agreed that while the lease will expire in June 2021, the Trust will grant a forestry right to the Crown to have the arrangement extend to 2023. The Crown plans to still have around 300,000m³ of trees in the forest at June 2021, and will probably complete the harvest of this wood by June 2022, at which point the Trust will be one hundred percent owners of the 23,000-hectare forest estate. At 30 June 2020 the Trust had full control of 93.9% (2019: 90.9%) of the initial Crown lease component of the forest.

Indufor Asia Pacific Limited (an independent valuer) has calculated the Trust’s share of value of the remaining hectares of joint forest crop as at 30 June 2020 at \$18,905,000 (2019: \$24,337,700). The valuation is based on the pre-tax net present value (NPV) of the future stumpage receipts, of which 35% goes to Lake Taupo Forest Trust and 65% to the Crown. In calculating the value, Indufor applied a 7.5% (2019: 8.0%) discount rate to the future cashflows.

	Group 2020 \$	Group 2019 \$
Valuation at 30 June	18,905,000	24,337,700

The trees in the joint venture forest are all aged over 27 years. Sales of trees harvested during the current reporting period totalled 476,000m³ (2019: 527,000m³). The fair value of this harvested product was \$34,766,000 (2019: \$41,637,243) of which Lake Taupō Forest Trust received a 35% share.

The Trusts’ own forest has a total stocked area of 22,623 hectares (2019: 23,712), ranging in age from 1 to 23 years. Indufor Asia Pacific Limited has valued these at 30 June 2020 at \$312,360,581 (2019: \$249,878,903). This value includes a share of a plantation investment with the Lake Rotoaira Forest Trust owning the other share on Opepe Forest Trust lands. Indufor Asia Pacific Limited has valued the Trust’s share of this forest at 30 June 2020 at \$5,327,529 (2019: \$4,230,541). Also included is a plantation investment with the Lake Rotoaira Forest Trust owning the other share on Hautu Rangipō Whenua Lands called Kaimanawa Forest. Indufor Asia Pacific Limited has valued the Trust’s share of this forest at 30 June 2020 at \$3,187,881 (2019: \$2,390,388).

Also included, is a share of a plantation investment with the Lake Rotoaira Forest Trust owning the other share on Tuwharetoa Settlement Trust lands being Taurewa, Waituhi and Pureora South Forests. These were purchased at 30 June 2018 at their fair value of \$3,300,000. At June 2020 these forests are valued at \$4,569,737.

	Group 2020 \$	Group 2019 \$
Valuation at 30 June	312,360,581	249,878,903

The inputs applied in the valuation of the Trust's forest crop have been categorised as level 3 in the fair value hierarchy.

The Group is exposed to financial risks in respect of agricultural activity. The agricultural activity of the Group consists of the management of forests to produce logs. The primary financial risk associated with this activity occurs due to the length of time between expending cash on the purchase or planting and maintenance of trees and on harvesting trees, and ultimately receiving cash from the sale of logs to third parties. The Group's strategy to manage this financial risk is to actively review and manage its working capital requirements. In addition, the Group maintains credit facilities at a level enough to fund the Group's working capital during the period between cash expenditure and cash inflow. The Group's investment strategy includes a Growth Portfolio of investments called the Forestry Reserve Fund which is available to support any cash flow or financial risk from Forestry. Currently this is valued at \$14.7 million (2019: \$13.2 million).

5. LEASES

NZ IFRS 16 *Leases* is effective for annual reporting periods beginning on or after 1 January 2019. LTFT group applies NZ IFRS 16 from 1 July 2019 for the first time.

The Group has entered into forestry leases which have a duration of 35 years, with 30 years remaining from 30 June 2020. The forestry leases will be depreciated on a straight line basis across the remaining useful life.

The estimated impact on adoption is:

Recognition of right-of-use asset	7,267,225
Reduction of lease prepayment	(196,218)
Recognition of lease liability	7,071,007

Set out below are the carrying amounts for the right-of-use assets and lease liabilities recognised and the movements during the period:

Right-of-use Asset - Forestry Rights

Opening-carrying-amount	
Addition	7,267,225
Depreciation	(252,388)
Closing carrying amount	7,014,837

Set out below are the carrying amounts of lease liabilities recognised and the movements during the period:

Lease Liability

Opening carrying amount	7,071,007
Interest Expense	252,712
Lease Payments	(391,120)
Closing carrying amount	6,932,599
Current	181,469
Non-Current	6,751,130
	6,932,599

6. COVID-19

On 11 March 2020 the World Health Organisation declared the outbreak of COVID-19 a global pandemic. Two weeks later the New Zealand Government declared a state of national emergency. Since 26 March 2020 the country has been through various alert levels and a complete lockdown period at alert level 4 from 26 March to 27 April 2020. COVID-19 has impacted the price of timber and financial markets across the globe. COVID-19 may continue to affect timber prices and the investment market going forward, however at this time it is not practicable to provide quantitative or qualitative estimate of the potential impact.

Group Directory

LAKE TAUPŌ FOREST TRUST

Chief Executive Officer

John Bishara

Group Manager

Amy Walker

Trust Accountant

Maureen Smith

Team Leader Owners' Services

Shanyn Warena

Team Leader Support Services

Raukura Dunster

Executive Assistant to CEO

Sandy Gibbison

Assistant Accountants

Tarita Kingi-Rihari, Theresa Derby-Hema, Jared Matuauto

Support Services Administrators

Logan Davis

LAKE TAUPŌ CHARITABLE TRUST

Kaitiaki

Judy Harris, Hemi Biddle

PO Box 219, Tūrangi 3353

Phone: 07 386 0389

Fax: 07 386 0390

Email: frankie@ltct.co.nz or

elizabeth@ltct.co.nz

Website: www.ltct.co.nz

LAKE TAUPŌ FOREST MANAGEMENT LIMITED

Directors

Bill Liley, John Van Der Leden, Clinton Ellis

Director and Forest Operations Manager

Geoff Thorp

Assistant Manager

Patrick Nepia

THE WEIGHBRIDGE COMPANY LIMITED

Director

Judy Harris

Director and Operations Manager

Geoff Thorp

LTFT LAND HOLDINGS LIMITED

Directors

Clinton Ellis, Judy Harris

TAUPŌ MOANA INVESTMENTS LIMITED

Trading as IWInvestor

Directors

**Debra Birch (Chair), John Bishara, Stephen Napier,
Natvar Vallabh**

General Manager and Adviser

Linda Mastny

Investment Operations Manager/Client Services

Ariana Dais

Office Manager

Lisa te Heuheu

Compliance Manager

Nicole Pask

Taupō Office

72 Totara Street, PO Box 688, Taupō 3351

Phone: 07 378 7644

Fax: 07 378 7647

Email: info@iwiinvestor.co.nz

Website: www.iwiinvestor.co.nz

The Trust Order

Governance of the Trust is carried out in accordance with the Trust Order issued by the Māori Land Court and with Te Ture Whenua Māori Act 1993 and the Trustee Act 1956. For the Trustees and owners, the Trust Order is their constitution. It provides for:

- power to carry out the Trust business;
- financial management;
- election of Trustees;
- owners' meetings.

The Trustees' duties and powers are set out in the Trust Order. Their work and the work carried out by the Trust's management and staff must comply with the Order. The Order sets out the process for the appointment of Trustees, including an election every three years by postal ballot. In 2016, the Trust changed to a rotation policy whereby five Trustees (the longest serving) retire, and the remaining six continue for a further three-year term. Those retiring may seek re-election..

While it allows for other development approved by the owners, the Trust Order makes it clear that the core business of the Trust is forestry.

The Order allows for the operations of subsidiaries, and these subsidiaries are used for the forestry and investment arms of the Trust's business (see the Lake Taupō Forest Trust structure in the section About the Trust). It also allows for community-purposes funding to be administered through the Lake Taupō Charitable Trust (see the Charitable Trust report).

FINANCIAL

All authorities for payments from the Trust's funds originate in the Trust Order. Among other details, it sets out:

- provision for capital reserves for future forestry developments;
- the formulae for allocation of community purposes funding, including the annual Marae grants, the Charitable Trust's projects and grants and Pūtea Aroha;
- the formula for distributions to owners;
- provision for Trustees' fees and expenses;
- the requirements for annual financial reporting and audit.

Land Blocks

The land blocks vested in the Trust by the Māori Land Court are listed in the schedule to the Trust Order. The original Trust Order included 58 land blocks in the Trust. Over the years, the Trust has acquired further lands so that it now holds 68 Māori land blocks under its Trust Order and 13 general land blocks.

1	Hautū 1A1	25	Opawa Rangitoto 1A	49	Tauranga Taupō 1B2B2	TE WHENUA BLOCKS	
2	Hautū 1A2	26	Opawa Rangitoto 1B	50	Tauranga Taupō 2A1	69	Lot DP 480856
3	Hautū 1A3	27	Opawa Rangitoto 1C	51	Tauranga Taupō 2A2	70	Lot DP 489535
4	Hautū 1A4	28	Opawa Rangitoto 1D	52	Tauranga Taupō 2B1A	71	Lot DP 480856
5	Hautū 1A5	29	Opawa Rangitoto 2B	53	Tauranga Taupō 2B1B		
6	Hautū 1A6	30	Opawa Rangitoto 2D2	54	Tauranga Taupō 2B1C		
7	Hautū 1A7	31	Opawa Rangitoto 2D3B2	55	Tauranga Taupō 2B1D		
8	Hautū 1A8	32	Opawa Rangitoto 2G	56	Tauranga Taupō 2B1E		
9	Hautū 1B1B2A1	33	Opawa Rangitoto 3	57	Tauranga Taupō 2B2M1		
10	Hautū 1B1B2A2	34	Opawa Rangitoto 4	58	Tauranga Taupō 2B2M5		
11	Hautū 1B1B2B1E1	35	Opawa Rangitoto 5	59	Tauranga Taupō 3B1B		
12	Hautū 1B1B2B1E1A–C & Hautū 1B1B2B1F	36	Pahikohuru 2	60	Tauranga Taupō D2		
13	Hautū 1B1B2B3	37	Pahikohuru 3	61	Tauranga Taupō Y		
14	Hautū 1B1B2B4	38	Pahikohuru 4	62	Te Kopiha		
15	Hautū 1B1B2B5B1	39	Pahikohuru 5	63	Te Whakao 2		
16	Hautū 1B3	40	Pahikohuru 6	64	Te Whakao 3		
17	Hautū 2B1B2D2	41	Tauhara Middle 4A2B2C	65	Te Whataroa		
18	Hautū A1	42	Tauhara South B1	66	Tururururoa		
19	Hautū A2	43	Tauhara South B2	67	Hautū 1B1B1A		
20	Hautū A3	44	Tauranga Taupō 1A1	68	Hautū 2B1B2B		
21	Hautū A4	45	Tauranga Taupō 1A2				
22	Hautū A5	46	Tauranga Taupō 1B1B2				
23	Hautū C	47	Tauranga Taupō 1B1C				
24	Hautū D	48	Tauranga Taupō 1B1D				
						TREMAINE BLOCK	
						72	Te Whakao 1
						LTFT OFFICE	
						73	Lot 1 Deposited Plan 60862
						ENCLAVES	
						74	Section 1 SO 32019
						75	Section 1 SO 30614
						76	Sections 2–3 SO 356127
						77	Section 3 SO 36628
						78	Section 3 SO 33327(a)
						79	Section 3 Block XIII Waitahanui Survey District
						80	Section 4 Block XIII Waitahanui Survey District
						81	Part Tauranga Taupō 2A

