

TE AUPŌURI COMMERCIAL DEVELOPMENT LIMITED

STATEMENT OF CORPORATE INTENT

Purpose

Te Aupouri Commercial Development Limited (TACDL) is a wholly owned subsidiary of Te Rūnanga Nui O Te Aupouri Trust (the Rūnanga), an entity established through the Rūnanga Deed of Trust (clause 3.3), and the Companies Act 1993.

TACDL is a Māori Authority for tax purposes.

The company's purpose is to receive the commercial assets owned by the Rūnanga, and administer and undertake all commercial activities associated with those assets other than fisheries settlement assets as defined in the Māori Fisheries Act 2004, which are held and managed by Te Aupouri Fisheries Management Limited (TAFML).

This role will be carried out in a prudent and profitable manner, providing sustainable optimum returns in perpetuity to its shareholder.

The company will do this either by itself and/or through any subsidiary, Trust or other entity established for that purpose, on behalf of and solely for the benefit of the Rūnanga, and in the furtherance of its purposes.

Structure

The company's constitution allows a minimum of three and a maximum of five directors. No more than 40% of directors can, at the same time, be current Trustees of the Rūnanga. Directors can serve a maximum of three terms of three years in total.

TACDL and TAFML share the same Directors. This facilitates the development of shared objectives consistent with those of the Rūnanga and also results in cost savings.

TACDL employs a General Manager to develop and operationalise the TACDL Strategic Plan and to carry out the day to day functions of the business as directed and guided by the TACDL Board. There is a number of staff employed on Pukekararo Station. At this time, in order to support entities as a further cost saving, the Rūnanga continues to provide all administrative and financial services to the company. The Board acknowledges this support with gratitude.

Operating Principles

TACDL has established four principles to guide decision-making and the development of business relationships:

1. Accountability and transparency
2. Pursuit of excellence
3. Full, open and a 'no surprises' approach to communication and open communication
4. Where practicable, building the business toward the employment of Te Aupōuri people

Nature and Scope of TACDL

TACDL is tasked with the management of commercial assets transferred to the company from the Rūnanga and is required to do so solely for the benefit of the Rūnanga and in the furtherance of Rūnanga objectives.

The company applies the following minimum standards as defined in the Letter of Expectation from the Rūnanga:

- Embedding of Kotahitanga and Te Aupōuri values, including Whanaungatanga, Manākitanga, Kaitiakitanga, Tikanga and Rangatiratanga within the culture of the business and its practices.
- Following best commercial practice to achieve the company's commercial objectives.
- Open and early communication, particularly in respect to any potentially contentious matter(s).
- An autonomous approach to business as usual.
- Prudent and expertly advised modest capital expenditure.
- Aligned with the Rūnanga strategy (five year plan).

TACDL is precluded from operating businesses or undertaking activities that are inconsistent with the TRNOTA Trust Deed, TACDL's Constitution or any policy which the Rūnanga may develop over time. The company is also required to comply with any restrictions placed on the use of commercial assets by the Rūnanga.

The Rūnanga, as our sole shareholder, monitors our performance, receives regular reports and ensures we are aligned with its kaupapa. This is made explicit through a Letter of Expectation from the Rūnanga.

Long Term Strategic Objectives

The key objective of TACDL is to generate sustainable returns and cash flow required to meet the distribution and operational requirements of the Rūnanga, within an acceptable risk profile. Given the early development stages of the farming enterprises, then cash flow requirements of the Runanga have been met from the income returns generated by investment funds which are managed by Milford Asset Management and Kiwi Wealth Ltd. Sustainable returns will be generated by:

- Being an inter-generational investor
- Ensuring investments are within agreed and appropriate risk and return levels
- Developing investment strategies that reflect Te Aupōuri values
- Maintaining an appropriately balanced investment portfolio that ensures no one asset or asset class is too heavily weighted. This is caveated by the priority given by the Runanga to retain and acquire former Iwi land which results in a weighting of activity towards farming (until access to water is secured).
- Over time developing an economic competitive advantage for the company

- Investigating other investments outside the core assets that show clear commercial potential and provide rates of return greater than is being achieved from core assets. This is subject to availability of capital and/or the ability to negotiate partnership arrangements.
- Attracting and retaining key commercial acumen to governance and management roles
- Providing the appropriate level of cash flow required to meet the distribution and operational requirements of the Rūnanga. This matter to be agreed in conjunction with the annually planning and budgeting cycle.

Key Investment Areas

Subject to the ongoing transfer of relevant assets from the Rūnanga, TACDL gives priority to the following areas in the medium to long term as a consequence of the assets acquired through the Treaty Settlement process.

1. Farming
2. Forestry
3. Aquaculture
4. Property
5. Right of First Refusal – for next 172 years

In addition to the above, TACDL may engage with research and development opportunities that might arise.

TE AUPŌURI COMMERCIAL DEVELOPMENT LIMITED – REPORT FROM DIRECTORS

Pukekaroro Station

Business Overview

Pukekaroro Station incorporates what was Cape View Station, Onepu and the Nathan Block (part of Wairahi farms), which consists of approx. 1567ha.

The last 12 months has seen the continuing consolidation of the farms as a cohesive unit and farming business. The vision for Pukekaroro Station is:

‘Nurture the land to provide for the people - Preserve the land for future generations’.

The business strategy is:

‘Develop a high performing, profitable, diversified and sustainable farming business that operates within the core values of Te Aupouri’.

Strategies to achieve the business goals are to:

- Develop farm infrastructure to optimise beef and sheep productivity
- Optimise soil fertility and improve pasture management to increase pasture production and quality
- Develop partnerships with horticulturists to increase returns and develop land capability
- Protect soils and waterways to preserve the resource
- Explore other land uses to ensure optimum returns without undue risk
- Provide a safe and enjoyable working environment that attracts, develops and retains high quality staff
- Set targets, monitor performance, celebrate and reward success

A Year of Significant Changes

In terms of people, Mike Stevens, Te Aupouri Group Chief Executive Officer, did not return from leave in December 2018, leaving a gap in management. The 2 Runanga Trustees appointed as Directors, Waitai Petera and Maahia Nathan, both served their maximum terms (3 years X 3 terms), as did 1 of our professionally appointed Directors, Teresa Tepania-Ashton as at the end of April 2019. Waitai and Maahia have been replaced by Keryn Bristow and Sonny Christie. Teresa was replaced by Montgomery Spencer, a person newly retired as a long serving manager with AS Wilcox Ltd and someone with a lot of experience and expertise in the horticulture sector.

Sean Stratton joined the Board as a professional appointment, fresh from his role as GM of Te Rarawa’s commercial arm, Te Waka Pupuri Pūtea. Scott Blair resigned his position as Manager of Pukekaroro Station at the end of March 2019. A recruitment process followed his departure with mixed results.

After much robust discussion, the decision was made to support and grow the staff we had on hand and so Iain Ferguson was promoted from second in charge (2IC) to Farm Manager in May 2019. Our AgFirst Farm consultant Chris Boom, was replaced by Sandy Douglas from AgDesign, late in 2019. The pairing of Sandy and Iain, is set to uplift and provide a more aggressive approach to growing the performance of Pukekaroro – in improved, more consistent grazing/pasture management; finalisation of the infrastructure – upgraded water system, roads/tracks, and subdivision/fencing; and increasing the stock numbers on farm.

The Board acknowledges the efforts of the Farm Management Committees and particularly the contribution of a high performing local farmer, Dennis O’Callahan.

Finally, to assist manage all of this change, Geraldine Baker has moved across from her role as Chief Operating Officer for the Te Aupouri Group to a newly created role as dedicated General Manager of both TACDL & TAFML.

Cropping

As foreshadowed in last year’s Annual Report, TACDL indicated that cropping practises would be reviewed in order to protect fragile soils. Leading into summer of 2019, Southern Fresh Foods Limited – the salad croppers, decided to invest their cropping efforts elsewhere, partly as a result of TACDL advising that we would not be renewing lease arrangements beyond 2020 but also due to their requirement for increasing areas of land to crop. The Board felt the intensive nature of that cropping regime was not one that would provide the overall long term benefits of good pasture management for Pukekaroro.

Cropped land on the Nathan block (Salt Rd), and the high performance block (Onepu Farm), were needing some respite from repetitive cropping, therefore the TACDL Board indicated to Balle Brothers Limited they would only consider making new land available for cropping – land that needed to be developed, rather than continue to crop the same areas. This led to them going elsewhere and TACDL entered into a short term arrangement with Master’s Brothers, to grow melons and squash from August 2019 to March 2020.

Thus, land previously committed to cropping development(s) was in some cases unexpectedly returned to the farming base (Cape View flats and high performance on Onepu), leading to more staff hours and resources being directed to re-grassing and bringing that land back into pasture. Being short-staffed and the redirection of resources slowed down planned infrastructure development. Projected income from land leased for cropping purposes was not fully realised, leading to slightly lower revenue than budgeted.

Water for the Future

Pukekaroro currently has access to water that overflows from the Dam on Waimarama Orchard which is owned by Ngati Kuri. The arrangement we have with them is an informal one and therefore with the effects of climate change becoming more and more pronounced it is critical to secure unencumbered supply, especially during drought seasons/conditions. This will be one of the main areas of focus for management over the ensuing year.

Farming Overview

Weather conditions were difficult over much of the last 14 months (to September 2019). The farm experienced a very challenging winter coming out of 2018. High rainfall in autumn meant that soils were saturated at the start of winter with conditions continuing into early spring. Cattle were unable to be kept from damaging pasture which led to lower utilisation and pasture growth. In October it turned dry with very little rain falling over the summer months. The farm ended up with only a couple of weeks of good growing/grazing conditions in between the wet and dry. The drier summer forced early sales with lower weights.

Good pasture management remained an ongoing concern over the 12 months covered by this report. Destocking was considered in June 2019. However, the decision was made to hold all stock due to the low store market at that time. Pasture quality remained marginal over most of the farm (between 1714 – 2037kgDM/ha), the long rotations and relatively low feed levels resulting in a good clean up of pastures. However, many of the livestock liveweights were behind where they ought to have been leading into the main sale period (November – January), this meant income from sales was significantly below budget. Despite all of this, good grazing management allowed pre-graze cover to build in front of cattle facilitating clean-up of approx. 80% of rough kikuya trash.

The lack of water troughs on some parts of the farm, especially Onepu, meant that cattle were not able to be back-fenced. With the future focus on better subdivision and getting water to more areas on farm, this problem will gradually be addressed over the next 2 years.

Due to the reasons covered above, overall financial returns for the 2018/19 season were disappointing. The challenging climatic conditions lead to lower livestock weights during the main sale period resulting in income from livestock sales being significantly below budget. Poorer than budgeted returns from leases with cropping partners and ongoing expenditure to remedy the areas developed for cropping added to the financial impact.

Sandy Douglas and Iain Ferguson, with support from Dennis O’Callahan, have submitted a business plan and budget for the year through to September 2021 which shows a recovery of the farming position and which has been adopted by the Board.

Development

Despite fewer staff and challenging farming conditions, some progress on infrastructure development was still able to be carried out. Over 100 new troughs were installed and most of the anticipated track and fencing improvement was completed. The adoption of a proposed highly intensive techno/cell rotation system to the parts of the farm that could support it, will require better subdivision equipment, fencing and access to water before it can be implemented. Current planning and budgets through to September 2021 support this strategy.



Te Raite Station

As reported in the last period, as of July 2016, this farm has been leased to Northern Livestock Limited (NLL). NLL is Kurt and Cathy Natrass and John Woodward. Kurt and Cathy are the principle contacts and farmers on the land.

TACDL had originally agreed to lease Te Raite to NLL for 5 years. However, the Board has been so impressed with the thoughtful development, passion, supervision and alignment of values demonstrated by Kurt and Cathy's stewardship of Te Raite, they have agreed to extend the original lease to out 2024 (was originally to 2021). A condition of the extension is that TACDL has the right to take back 100ha per annum and a maximum total of 300ha, for its own use thus protecting access to land for any planned 'other' use.

As reported in previous Annual Reports, TACDL agreed to re-invest all lease monies received for the first 2 years initially, back into the much needed maintenance and development of the farm. This was expanded to the first 3 years in the last reporting period. This reinvestment back into the business has seen revolutionary changes occur on the farm. Improved land for better pasture/grazing through cropping arrangements with both Paul Harvey and AS Wilcox Ltd; new fencing (which is still ongoing); re-alignment of true boundaries effected since the removal of old shelter belts; improved access to more areas within the farm – new tracks, roads, culverts, gates and eradication of gorse and yellow weed. It is important to record that, while TACDL has re-invested rental monies to fund development

materials, it is NLL who have contributed the project management skills and the labour. This has been extraordinarily advantageous to TACDL.

During this reporting period, nothing new has come to light other than Kurt's continued very capable management of the cropping enterprise undertaken by AS Wilcox Ltd on 60ha of the farm. With NLL's cooperation and assistance, we look forward to progressing Te Aupouri's horticultural aspirations on Te Raite after we have come through the very long and expensive process of applying and receiving access to water through Northland Regional Council's consenting process, which we look forward to happening within the next reporting cycle.

Both Pukekararo and Te Raite Stations have their own farm committees who meet every 6 months to monitor and evaluate the capital development and investment commitments made by both entities. This has proven invaluable in ensuring planned activities and costs are in line with expectations and budgets, and getting to grips with and managing those issues that were not envisaged at the beginning of the season, in a timely and effective manner.

Forestry

Te Aupōuri has a number of interests in forestry that belong to the Rūnanga, but in the future will come under TACDL control. The major forestry asset is a 30% undivided interest in the land on which the majority of the Aupouri Forest is planted. During the reporting period, management of the Runanga interest in the Aupouri Forest land was transferred to TACDL. After a goodly amount of time spent negotiating the rates, rental income from the Crown Forestry License held by Summit Forests NZ Ltd (SFNZ) has been allocated to the Iwi land owners (after this reporting period).

Jeremy Fleming (former CEO of Carter Holt Harvey), and Sean Stratton (Director TACDL), represent Te Aupouri's interest in the negotiations. However, there is much work still to be done insofar as agreeing between the Iwi whether they want to be landlords or the owners of the trees as well. Te Hiku Iwi and Summit have agreed a variation to extend the Crown Forest Licence to the end of March 2020, to enable all parties to negotiate a long term arrangement.

The Variation Agreement required Summit to replant harvested areas, extended the term to allow areas replanted in 2017, 2018, and 2019 to reach maturity, and created a Summit / Te Hiku committee to give Te Hiku greater involvement in day to day matters to do with the land. Te Hiku and Summit also agreed a Collaboration Agreement that set out a process and milestones for reaching agreement on a long term arrangement with Summit by 2020.

Te Hiku and Summit have not progressed the work set out in the Collaboration Agreement, partly due to length of time it took all parties to agree the 2017 rent review but largely due to lack of urgency.

The expiry of the Variation Agreement makes reaching agreement with Summit and avoiding the problem of leaving area unstocked and vacant an urgent priority. It doesn't help that at times iwi cannot

agree on matters between themselves; let alone what needs to be agreed with Summit. However, we remain optimistic about finding a palatable outcome for all but in the meantime, a temporary solution/agreement needs to be reached for more time.....we remain committed to this objective in the meantime.

TACDL owns a forestry block on Onepu Farm (approx 107ha), which is coming up to maturity (in blocks). We have entered into a management agreement with Summit. Another forestry block, also known as Onepu Forest (approx 436ha), had the forestry rights sold by the Aupouri Maori Trust Board, prior to this asset being devolved in the treaty settlement process. Therefore a future liability has been created to replant or buy carbon credits, without offset revenue from the trees.

Aquaculture

TACDL is the owner of a farming permit and resource consent to farm mussels in 11ha of marine space in Houhora Bay. We have entered into a lease arrangement with Gulf Mussel Farms Ltd (the Bartrom family), who are green lipped mussel farmers in the Hauraki Gulf. GMF have put 10 mussel lines in the water and we are excited to see how/what eventuates from their endeavours. TACDL has the opportunity to partner with GMF in the future should it choose to do so.

Three of the Te Hiku Iwi are currently engaged in discussions and actions to secure resource consents for marine space in 3 separate areas (approx. 1860ha in total), 2-3kms off shore and running parallel to the beach, off the West Coast of the far north (Te Oneroa-A-Tohe). The full arrangement includes Te Rarawa, Ngai Takoto, Te Aupouri (3 Iwi), North Western Mussels Ltd, and Maui Inc. The concept is to catch mussel spat in the water, then transport to shore to on sell to the industry. Currently spat is collected on the beach and in the surf along Te Oneroa A Tohe. Current supply of spat cannot meet demand and the only barrier to growing the industry is supply of spat. The opportunity to participate in growing and processing mussels remains an option for further investment in the future. However, it is the creation of jobs and forging an industry – formed and bound in the far north to support a growing economy and employ Iwi members that is one of the critical drivers of this aspirational yet-to-be realised, venture.

Horticulture and other potential Land Uses

In respect of horticulture development and other potential land uses, TACDL are very focused on securing access to water. Firstly, for its farming operations on Pukekaroro – to maintain business continuity and growth. Secondly, through its resource consent application with NRC for Te Raite. Te Raite has more suitable soils for horticulture than the land blocks further north. Any development further north will require water storage options. TACDL is investigating these as well but this poses a more complex and different set of problems and possible solutions than applying for resource consent to take water from an aquifer underground. We are sure we will obtain the consent but it will take a

little more time and money to secure than first anticipated.

We look forward to reporting progress against this in next year's report.

In Conclusion

The return of assets has been long awaited by the Iwi, however many of the settlement assets were in poor condition at the time of transfer from the Crown or AMTB. One would hope that valuations at that time reflected that. The time and cost of returning those assets to good condition has been significant and has impacted operating cash flow. Where, in Forestry, cutting rights have been sold and with no obligation to replant, there exists a significant future liability. Pastoral farming enterprises on average return around 3% per annum and forestry is a longer term investment.

Focus on more profitable land use options is critical bearing in mind that Iwi land will not be sold. Access to water is fundamental to any development and that will be one of the main focuses over the next period. Establishing an out-of-the-box- mussel spat industry in the Far North is going to present opportunities, particularly for the benefit of future generations as will horticultural investment. Land under the control of TACDL has been assessed for alternative land use. The initial view, subject to further investigation, is that diversification is best pursued at Te Raite where there is a better prospect of access to adequate water.

Following the initial establishment phase and the transfer of assets to TACDL, the Board will focus on consolidating farming returns and on options that will provide greater returns from the company's assets and provide sustainable returns for the Runanga and Iwi members in the longer term.

Hei kona ra

Dame Alison Paterson

Chair