

The Manager  
Companies Announcements Office  
Australian Securities Exchange

6<sup>th</sup> August 2019

Dear Sir/Madam,

**Quarterly letter to shareholders**

Please find attached a copy of the latest in a series of letters that the Managing Director of the Company addresses to its shareholders following the end of each quarter.

The letter is intended to provide background information on the Company's activities and highlight the progress that has been made, while providing some insight into the Board's rationale for the Company's actions and its plans.

Yours sincerely,



Ms Vicky Allinson  
Company Secretary

## Quarterly Letter

June Quarter 2019

Dear Shareholder,

This is my first newsletter as Managing Director since taking the reins on 1st June 2019 from my predecessor, John Sergeant. I would like to make my first statement on this page, one of admiration for John's ambition and expertise in guiding the KIPT business to this advanced stage in the regulatory approvals process for the Kangaroo Island Seaport at Smith Bay, a crucial step in realising the value of the timberland assets.

As you know, John is still engaged with the company in an executive director capacity, providing a smooth transition for myself as his successor, and continuing to play a key role in the approvals process.

This acknowledgement extends to the contribution made by the other company officers and directors who have supported John and will continue to work with me towards the future success of the company. I also recognise the field officers who are responsible for the day to day maintenance of the forestry assets. It is the field staff who are pivotal in protecting and maintaining the forest assets and who, together with property manager PF Olsen and Country Fire Service volunteers, successfully contained (and mitigated) the impact of the December 2018 fires.

On a general level, I would also like to acknowledge the many other stakeholders of KIPT, including the community of Kangaroo Island, the business partners and the contractors who work in and around the forests and associated infrastructure. The company is about to embark on a substantial growth phase, which will bring about change on island, creating new employment opportunities in the forest and the supply chain.

Although these changes will be overwhelmingly positive for the community-as-a-whole, we should be mindful that the benefits of projects such as ours are not always shared proportionally across the community. On behalf of KIPT, I have recently acknowledged that change can create



uncertainty and a level of discomfort for some, and pledged to continue to listen carefully to community concerns and suggestions to improve our business and practices as the company emerges as an economic powerhouse for the KI community.

Having now completed the public consultation stage of the approvals process, and reviewed the submissions from public and government, the company and its lead consultant, Environmental Projects, are preparing the Response Document which, together with the draft EIS, will form the final version upon which government will make its determination.

KIPT has carefully reviewed the submissions and, in response to community concerns and new information not previously available to the company, is considering options to modify the KI Seaport design and operating practices to further allay concerns arising from the project. This has increased our confidence that, in its final form, the KI Seaport project will be capable of a timely approval by government.

The construction of the facility will complete KIPT's transition to a mature commercial enterprise. Although we may consider this well overdue, the timing is nonetheless favourable in terms of price and volume.

As reported by John in previous newsletters, market demand for sustainably grown Australian plantation hardwood (eucalyptus spp.) continues to increase at a time when supply is static to declining. Recent reported prices are at historic highs and we do not see any major downside in the short to medium term outlook.



The average age of the KIPT hardwood forests at harvest will be almost double the typical industry standard for blue gum. This was a concern of mine in working through the timing of approvals and construction for the project. Industrial plantations are managed to maximise value, taking into account the time cost of money and the variable rate of biological growth.

For Australian-grown blue gums, biological growth usually peaks around 10 years, and declines thereafter due to site limitations such as water availability and soil depth. Where conditions are not favourable, rapid decline may occur, resulting in poor health or even mortality. Thankfully the risk of this occurring to KIPT appears minimal.

Having toured the estate and examined the inventory data, it appears that conditions on western Kangaroo Island can support biological growth well beyond the industry standard harvest age, maintaining a healthy and vigorous condition free from any signs of stress.

The KIPT hardwood estate, in the absence of any other stressors, can be expected to continue its relatively high rate of growth to planned harvest age, with the additional wood 'banked-on-the-stump'. The benefit for KIPT shareholders is that the additional wood banked in the first rotation will dilute the unit cost of the soon-to-be-developed infrastructure at Smith Bay. The wood will also come onto the market at a time when prices are expected to remain firm, if not increasing.

The KIPT softwood estate (*Pinus radiata*) does not have the same age-sensitivity as the hardwood estate and is typically grown on longer rotations. Pines can keep growing steadily for decades, providing more flexibility in determining the economic rotation age for stands like these pictured at Yerda North (year of establishment 1988). Nevertheless, to maintain a healthy pine forest and optimise value, interventions such as thinning and fertilising are required. Anticipated market demand may also favour pruning (removal of lower branches to create higher value 'clear wood').

The silvicultural history of KIPT softwood is quite variable, and some stands have not received on-time tending. This is not uncommon for forests that have experienced discontinuous ownership or periodic capital constraints. It is possible in younger stands to consider some form of corrective silviculture, however the candidate areas of the KIPT estate are now at an age where corrective silviculture is not an option.



Future crops, whether softwood or hardwood, will be established and managed under modern best practice, free from capital constraints, to realise optimal value for the KIPT shareholders. This biological 'upside' for the company has yet to be fully explored, but is expected to involve consideration of the interaction of site characteristics, best available genetics, and expected future market demands.

This brings me to an often-asked question among the KIPT executive team. What does the future of the KIPT business look like, and what is my own vision for the company? In a recent planning session with the board and executive team, I presented a strategic analysis of the company based on its core competencies and competitive advantages. Upon

completion of the KI Seaport, KIPT will be a (relatively) small vertically integrated forest grower. In its current form, the company's comparative advantage in forestry is the beneficial growing conditions offered by KI, a concentrated asset base and, upon completion, a modern loading facility.

A logical organic growth plan for KIPT would be to expand the forest estate, while encouraging third party access to the port. Other options for growth include leveraging the existing business to non-forestry enterprises located on Kangaroo Island, and forestry businesses in new geographies. The construction and operation of the Seaport itself also presents an opportunity, should KIPT wish to pursue infrastructure as a field of endeavour.

A key factor to take into account is the operating environment for the company now and in the future. The planted forest sector in Australia has undergone something of a renaissance in recent years. The transition from an ownership structure previously dominated by governments (softwood) and retail-based developers (hardwood) to institutional investors (mainly pension and superannuation funds) has coincided with an increase in demand for sustainably grown, clean green Australian product. At a time of high confidence, the sector is now openly discussing opportunities for future growth.

As I imagine the future of forestry in Australia, the model for successful and sustainable growth will likely depart from the traditional template of large-scale block plantings, which has in the past lead to conflict with the agriculture sector over land use, in favour of an integrated agroforestry landscape of commercial treecrops mixed with conventional agriculture (short-term cropping and animal husbandry). The notion of agroforestry is not new, but perhaps is an idea whose time has come to support the harmonious growth of the two sectors. Well-designed tree-plantings can complement agriculture providing shade and shelter for stock, habitat for biodiversity, soil conservation benefits, as well as income diversification.

More specifically for KIPT, the planning reforms underway in South Australia will provide an opportunity to consider the potential for agroforestry type expansion eastwards on the island, promoting pines which are better suited to low rainfall compared to blue gum. Such a model could provide a pathway for diversified growth, while avoiding the conflicts of the past between forestry companies seeking land for expansion, and the agricultural community which often see trees as a liability rather than an asset.

As a new Managing Director, the strategic planning exercise reassured me that whatever growth strategy the company chooses to pursue, its primary advantage is a diverse, highly functioning and competent board. This confidence extended to my first round of shareholder meetings, after which I was left with the impression that the KIPT ownership structure and composition itself bestows a comparative advantage, with sophisticated and strategic investors who fully understand the short-term challenges while maintaining faith

in the future success of the business and of the forestry sector. We are also fortunate to have developed strong relationships with our project partners- relationships that we hope to leverage and deepen, as we identify and pursue growth opportunities together.

As time goes by and the company moves to a mature cashflow-generating entity, I look forward to communicating and sharing the successes of the business with all stakeholders.

Keith Lamb  
MFor, MBA, GAIDC, MIFA  
Managing Director

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