

# TUKIA NEWS

*June 2010*

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**TUKIAGROUP**

LAUNCHING COMMERCIAL ENTERPRISES

## What is Tukia Group?

Tukia Group is a world-class commercial development company, created by and for the Central North Island Iwi Collective. Its purpose is to develop the commercial interests of the Collective and other Iwi, by launching large, long-term, Iwi-owned businesses.

Tukia uses its global connections to help Iwi capture the full commercial potential of their assets. Tukia's international team has many years' experience in structuring profitable investment partnerships.

But what makes Tukia unique is its embodiment of Māori and CNI tikanga, and its focus on long-term investment and sustainability for future generations.

“Tukia Group is a smart and cost-effective means for Iwi to realise their commercial aspirations.”

— Lennie Johns, Chairman,  
Tukia Group Board

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questions and suggestions. Please email  
them to us at [info@tukiagroup.com](mailto:info@tukiagroup.com)*

# Tēnā koutou

Welcome to the second edition of Tukia News. We've had a really exciting 2010 so far. It's been a series of challenges, excitement and lessons as we continue to identify, explore and execute on the many opportunities available in the CNI and beyond.

In this edition we'll be discussing carbon farming in New Zealand and the Tukia Group approach to this huge opportunity. This year is an important year for the Emissions Trading Scheme in New Zealand, with the first mandatory emissions reporting beginning in January this year. In July, certain organisations will begin to account for their carbon emissions and acquire the necessary carbon credits.

To address this changing environment and the valuable opportunities it presents us, Tukia has enlisted the cooperation of CO2 Australia in the formation of a joint venture. The new company will be the leading carbon farming operation in New Zealand. We will provide carbon credit aggregation and carbon farming consulting to suppliers, and carbon credit sales to the major buyers in the market.

Everyone at Tukia is really excited to be continuing our mission of identifying opportunities, developing strategies and establishing the organisations required to capture value from them. In our next newsletter we'll be covering some of exciting geothermal opportunities Tukia has been developing. Until then, there are new geothermal resources available on our website.

Warm regards,  
Pelenato Sakalia, CEO,  
Tukia Group

## Management Profile

### *James Moulder*

James leads Tukia Group's geothermal energy and carbon farming activity. He has worked in the Australasian power market since 2000. In his last role he worked at Mighty River Power as General Manager of Generation, where he drove the development of the Kawerau Geothermal Power Station. He is Chairman of the New Zealand Electricity Commission's Market Development Advisory Group.

James has considerable financial and commodity markets experience and has been at the forefront of carbon and power market development in New Zealand. Prior to joining Mighty River in 2002, James held senior management positions in New Zealand and offshore within global services firm Andersen and with the financial and commodities trading group at ANZ Bank.



# Workstream Updates



## Forestry Replant

Tukia has successfully concluded negotiations with Kaingaroa Timberlands, the Harvard Management Company and the New Zealand Superfund. The outcomes of these negotiations will enable CNI Iwi investors to participate directly in the Kaingaroa replant at the optimum future time.

We've also inspected Pureora South, Waituhi and Taurewa forests for rental review, and investigated the KLC manufacturing facility.

## Geothermal Energy

The Lake Rotoaira Trust has given Tukia Group the mandate to undertake and manage the initial baseline and assessment phases of the development of the Tokaanu geothermal field.

Tukia is also working with Land Trusts and Hapū in Tauhara and Northland, to advance their plans to develop their geothermal resources. This includes support with commercial negotiations, and providing access to our geothermal experts.

Negotiations have continued with Mighty River Power for CNI funders to engage as partners in a portfolio of overseas geothermal projects.

## Carbon Farming

Tukia's current capability gaps in the carbon farming area have been identified and a suitable partner with complementary skills has been identified.

In a joint venture with this partner, CO2 Australia, Tukia is launching an integrated carbon farming and associated services company in New Zealand.

Tukia has secured the interest of several trusts due to receive pre-allocated carbon credits this year.

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*For more background on carbon farming and Tukia's strategy, browse the following pages in this newsletter:*

## Land Management

Successful Crown Forest License invoicing has been conducted.

A number of reviews, evaluations and protocols have been submitted to the CNI Iwi Holdings Ltd Board. To improve efficiency, we are developing a number of formal systems and frameworks that are needed to cater to common commercial and resource requests.

Tukia is also investigating effluent discharge issues, and what effect any decisions made in this regard may have on existing rentals.

A revised and finalised RFR/DSP Deed has been provided to PSGE project managers.

# Emissions Trading Scheme

Manufacturing processes and the burning of fossil fuels produce emissions like carbon dioxide that are thought to contribute to climate change. The Emissions Trading Scheme (ETS) creates incentives to reduce these emissions or to find ways to absorb CO<sub>2</sub> from the atmosphere.

The government allocates companies a number of NZUs (often referred to as carbon credits) to cover a fixed amount of emissions.

If companies exceed this allocation, they have to buy extra carbon credits, in order to make up for the difference. When a company does not use all of their allocated carbon credits, or contributes to carbon reductions by growing trees through carbon farming, they can sell their excess units to those who need them. In other words, it is now possible to make money by reducing carbon.

The ETS provides a way for these companies to trade their carbon credits with each other and in international markets. Every year until 2015, more sectors will be brought under this

scheme which seeks to move carbon obligations as far up the value chain as possible. This means that the current market for carbon credits is largely comprised of the four major oil companies: Shell, BP, Mobil, and Caltex, alongside the major thermal power station operators Contact and Genesis Energy.

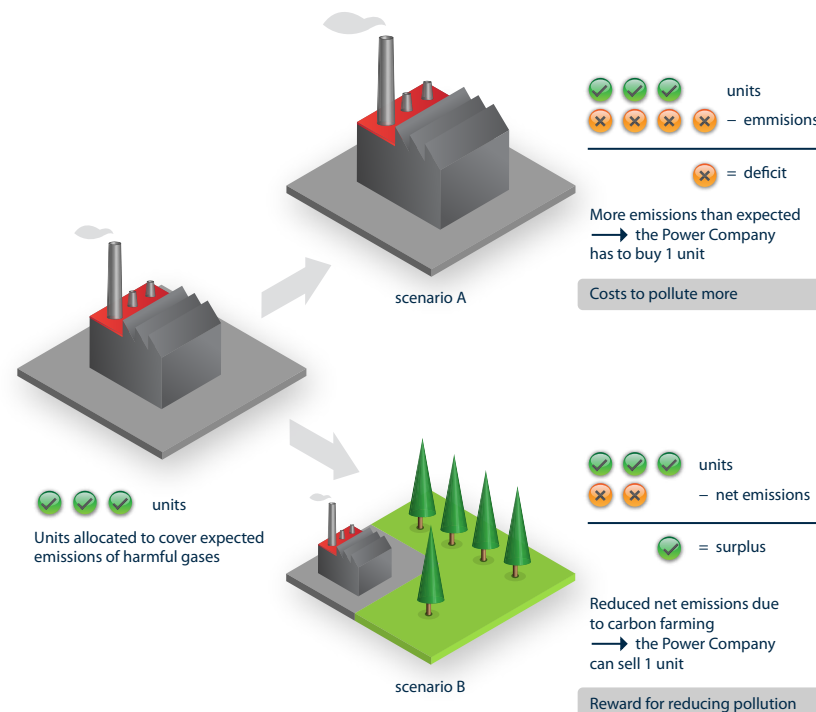
These larger buyers can trade with other companies and funds who have an excess of carbon credits. Over the long term though, the market for carbon credit offsets will in large part be met by those organisations and funds who generate new carbon credits through the practice of carbon farming.

## It is now possible to make money by reducing carbon

The ETS allows emitters to comply with the scheme and their subsequent obligations in the way that most suits their business. It does this by giving them the choice to either reduce their emissions or acquire extra carbon credits.

The ETS therefore meets the objective of lowering overall carbon emissions in the most efficient way possible.

Sector	Voluntary reporting	Mandatory reporting	Full obligations
Forestry	-	-	1 January 2008
Transport fuels	-	1 January 2010	1 July 2010
Electricity production	-	1 January 2010	1 July 2010
Industrial processes	-	1 January 2010	1 July 2010
Synthetic gases	1 January 2011	1 January 2012	1 January 2015
Waste	1 January 2011	1 January 2012	1 January 2015
Agriculture	1 January 2011	1 January 2012	1 January 2015



*The Emissions Trading Scheme provides a way for emitters to account for their outputs through carbon sequestration or by acquiring the necessary carbon credits.*

# Carbon Farming

The Permanent Forest Sink Initiative (PFSI) in combination with the Emissions Trading Scheme (ETS – See previous page) are policies designed to create land-use change in New Zealand by encouraging the creation of forest 'sinks' – re-established forests that help reduce total green house gas emissions.

Carbon farming is the practise of growing trees to remove carbon dioxide from the air and storing it in their leaves, trunk and roots: this process is called carbon sequestering. Units of stored carbon, also known as carbon credits or NZUs, can be traded at market with organisations who need them to offset their carbon emissions.

Carbon farming allows land owners to profitably invest in marginal land that is lying idle and not suitable for other agricultural activities. By combining carbon farming with other forms of land use, the PFSI and ETS have together created a valuable investment opportunity that can provide significant environmental as well as social and economic benefits.

The government, in addition to regulating the emissions that organisations produce,

## Making Carbon Farming Work

Land used for carbon farming can also be used for:

- ◆ Producing non-timber products like honey
- ◆ Serving as a venue for recreation, learning or traditional cultural practices
- ◆ Earnings from public subsidies for complimentary environmental benefits (see social bonus)

plays a role in determining the amount of carbon credits allocated in return for carbon farming operations. These

### Carbon farming means removing CO<sub>2</sub> from the air by storing it in the leaves, trunk and roots of trees

allocations are intended to reflect the actual amount of carbon removed from the atmosphere by growing trees, and are calculated on a per hectare basis for a given species, age and density of planting. These allocations, found on government lookup tables, sometimes underestimate

the true carbon reductions of a carbon farming operation, but accurate measuring can counter these claims.

At Tukiā Group, the carbon farming opportunity is seen as an equaliser, giving economic returns to those who wish to preserve and improve the environment at the cost of those who damage it. Regardless of your stance on climate change, the ETS has made carbon farming a real and viable opportunity to produce returns from lands where previously the best option was to leave them idle. Furthermore, the scheme creates an incentive for preserving the existing indigenous forests of New Zealand and utilising them as a viable source of revenue.

## Social Bonus

As well as providing the landowner with economic benefits and contributing to the reduction of total carbon emissions, carbon farming produces benefits for the environment and society at large by:

- ◆ Preserving biodiversity
- ◆ Improving water and soil quality
- ◆ Erosion control



*Some marginal lands aren't suitable for farming or forestry and so lie idle.*

*By growing trees, CO<sub>2</sub> is absorbed from the atmosphere and stored within the trunk, roots and leaves.*

*This absorbed carbon entitles the owner to carbon credits which can be sold through the ETS.*

# Tukia's Carbon Farming Strategy

To take advantage of the opportunities presented by the Emissions Trading Scheme (ETS) and the benefits of running carbon farming operations, Tukia has signed a joint venture agreement with CO2 Australia in order to form CO2 New Zealand, an organisation strongly positioned to lead the carbon farming industry in New Zealand.

CO2 New Zealand will provide carbon credit aggregation, carbon farming consulting and carbon credit sales into the major carbon credit buyers in the market.

Tukia Group already holds the capability to address two of these primary functions: the management of carbon credit aggregation funds and the sales of carbon credits through its existing relationships with the largest buyers in Australasia. Tukia Group also brings to the venture access to land and the relationships required in order to secure an ongoing source of carbon credits from producers.

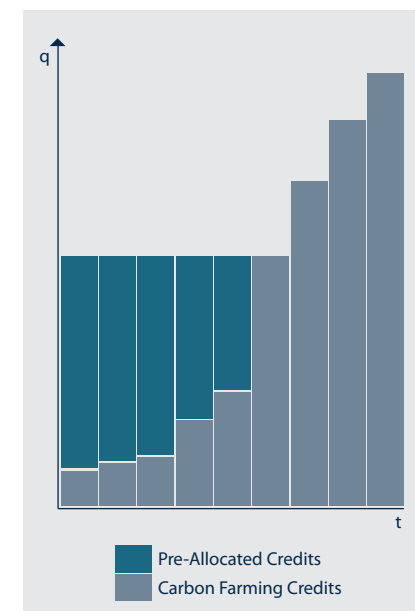
However, through the joint venture with CO2 Australia, Tukia group will also gain access to best practice carbon farming intellectual property and expertise.

CO2 Australia brings considerable capability in carbon farming processes and will help carbon farmers find the optimal use for their land.

They bring to the venture the ability to identify high yielding native and exotic trees as well as matching these with appropriate land types. They can provide the necessary measurement to avoid the government lookup tables (see page 8), and gain carbon credit allocation for the true value of the carbon reduction produced by the operation. Furthermore, they have experience with compliance and carbon accounting practices that will ensure we stay attuned to the regulatory environment which is still maturing.

Buyers typically want to offset a large amount of their emissions right away. Several trusts holding NZUs have already engaged Tukia Group to take advantage of this new opportunity.

CO2 New Zealand will pursue long term contracts with the major industry members, leveraging the pre allocated carbon credits being issued by the government to account for pre-1990



forestry assets. This will help to achieve the highest and safest return on these pre-allocated credits.

Securing long term contracts will allow for the establishment of extensive carbon farming operations that will meet contractual needs over the long term, while the short term needs are met by the existing credits. The second benefit of this strategy is that the revenue from the sale of credits can be used to fund investment into new carbon farming operations. This ensures that the maximum value is created – including for the holders of existing credits.



## *What's on the horizon*

In recent months Tukiā Group has been assisting a number of Land Trusts and Hapū to advance their plans to develop their geothermal resources. This includes support with commercial negotiations, and providing access to our geothermal experts.

This work will intensify in the coming months. Geothermal energy is renewable and environmentally friendly, making geothermal development a priority for the Government. That creates a sense of urgency to respond to resource consent processes and the approaches of other commercial players. This requires Māori land owners to be well prepared in a tight time frame, but also represents a significant commercial opportunity for those land owners and other investors.

In our next newsletter we will update you on the development of these geothermal opportunities.



