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CONSTITUTE A VIOLATION OF THE RELEVANT LAWS OR  
REGULATIONS OF SUCH JURISDICTION**

**FOR IMMEDIATE RELEASE**

3 July 2018

**All-Cash Offer**

**for**

**Phaunos Timber Fund Limited ("Phaunos" or the "Company")**

**by**

**Mahogany Bidco Limited ("Stafford Bidco")**

**a company ultimately controlled by**

**Stafford Capital Partners Limited ("Stafford")**

#### **Summary**

- Further to the announcement by Stafford on 5 June 2018 setting out the key financial terms of a possible offer for Phaunos, Stafford is pleased to announce an all-cash offer pursuant to which Stafford Bidco, a company wholly-owned by Stafford International Timberland Fund VIII and ultimately controlled by Stafford, shall offer to acquire the entire issued and to be issued share capital of Phaunos not already directly or indirectly owned by it or its concert parties (the "**Cash Offer**"). The Cash Offer is to be implemented by way of a takeover offer under Part XVIII of the Companies Law and in accordance with the Code.
- Under the terms of the Cash Offer, Phaunos Shareholders will receive:
  - US\$0.49 in cash for each Phaunos Share**
- The Cash Offer values Phaunos's entire issued and to be issued share capital at approximately US\$244.2 million (on a fully diluted basis).
- The price of US\$0.49 per Phaunos Share represents a premium of approximately:
  - 11 per cent. to the Closing Price of US\$0.44 per Phaunos Share on 4 June 2018 (being the last Business Day prior to the commencement of the Offer Period); and
  - 1.2 per cent. to Phaunos's net asset value per Phaunos Share of US\$0.51 as at 31 December 2017 (taking into account downward adjustments for currency fluctuations and the compulsory share redemption post 31 December 2017).
- As noted in the Possible Offer Announcement, the Cash Offer will provide:
  - Phaunos Shareholders with an opportunity to accelerate their exit from Phaunos and receive value for the entirety of their holding in cash within an expected timetable of three to four months as opposed to receiving a series of distributions which the Phaunos Board has indicated it expects to make in

connection with the managed wind-down process over the 14 to 20 month period from the end of April 2018 with the potential for this period to be extended;

- the Phaunos Board with the option to dispose of Phaunos's entire portfolio of assets in a single corporate sale of the entire business without the need for a prolonged due diligence process (which would include those assets which are not currently part of the Asset Realisation Process, being Aurora Forestal, GreenWood Tree Farm Fund and National Timber Partners); and
- certainty to Phaunos Shareholders by removing the challenges associated with a relatively illiquid asset class and any unforeseeable issues that may arise in connection with the managed wind-down process.
- Stafford is a leading private markets investment and advisory group with a global presence and US\$5.4 billion under management and advice covering Agriculture, Credit, Infrastructure, Private Equity, Sustainable Capital, Timberland and Venture Capital. It has offices in Austin, Boston, Curitiba, Hanover, London, Sydney and Zurich. Stafford Bidco is a newly-incorporated company wholly-owned by Stafford International Timberland Fund VIII and ultimately controlled by Stafford.
- Commenting on the Cash Offer, Stephen Addicott, Partner at Stafford, said:

*"In its response on 14 June 2018 to our Possible Offer Announcement released on 5 June 2018, the Phaunos Board reiterated its commitment to balance maximising the value from the Company's investments with making timely returns of capital to shareholders."*

*Stafford believes that, unlike the Asset Realisation Process, the Cash Offer will achieve precisely those aims of the Phaunos Board at an attractive value within a shorter expected timeframe and with a greater degree of certainty for Phaunos Shareholders."*

- The Cash Offer is conditional on, among other Conditions, Stafford Bidco receiving valid acceptances which have not been withdrawn in respect of shares which comprise not less than 90 per cent. in value of the Phaunos Shares affected (as calculated in accordance with Part XVIII of the Companies Law).
- The Cash Offer will be on the terms and subject to the Conditions set out in Appendix 1 to this Announcement. It is expected that the Offer Document, containing the full terms and conditions of, and further information about, the Cash Offer, and the Form of Acceptance (for Phaunos Shareholders that hold their Phaunos Shares in certificated form only) shall be published within 28 days of this Announcement (or such later date as may be agreed with the Panel) and not within the 14 days following this Announcement without the consent of the Phaunos Board.
- If any dividend, distribution, share repurchase payment or return of capital in respect of the Phaunos Shares is announced, declared, made or paid on or after the date of this Announcement, Stafford Bidco has the right to reduce the Offer Price payable for each Phaunos Share under the terms of the Cash Offer by the amount of such dividend, distribution, share repurchase payment or return of capital.

**This summary should be read in conjunction with, and is subject to, the full text of this Announcement (including the Appendices). The Cash Offer will be subject to the satisfaction or (if applicable) waiver of the Conditions and certain further terms set out in Appendix 1 and to the full terms and conditions which will be set out in the Offer Document and, in respect of Phaunos Shareholders who hold their Phaunos Shares in certificated form, the Form of Acceptance. Appendix 2 contains the sources of information and bases of calculation of certain information contained in this Announcement, Appendix 3 contains definitions of certain terms used in this Announcement and Appendix 4 sets out Stafford's detailed views on Phaunos's asset portfolio.**

**Enquiries:**

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Stephen Addicott

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**+44 (0) 20 3301 8000**

Peter Thickett

Stafford has retained Ashurst LLP as legal advisers in connection with the Cash Offer.

### **Important notice**

Lancea LLP, which is authorised and regulated by the Financial Conduct Authority in the United Kingdom, is acting exclusively for Stafford and Stafford Bidco and for no one else in connection with the Cash Offer and will not be responsible to anyone other than Stafford and Stafford Bidco for providing the protections afforded to its clients or for providing advice in connection with the Cash Offer.

This Announcement is for information purposes only and is not intended to and does not constitute, or form part of, an offer, invitation or the solicitation of an offer to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of any securities, or the solicitation of any vote or approval in any jurisdiction, pursuant to the Cash Offer or otherwise, nor shall there be any sale, issuance or transfer of securities of Phaunos in any jurisdiction in contravention of applicable law. The Cash Offer will be made solely by means of the Offer Document and, in respect of Phaunos Shares held in certificated form, the Form of Acceptance, which will contain the full terms and conditions of the Cash Offer, including details of how to accept the Cash Offer. Any approval, decision or other response to the Cash Offer should be made only on the basis of the information in the Offer Document and, in respect of Phaunos Shares held in certificated form, the Form of Acceptance. Phaunos Shareholders are strongly advised to read the formal documentation in relation to the Cash Offer once it has been despatched.

### **Overseas jurisdictions**

This Announcement has been prepared in accordance with English law, Guernsey law and the Code, and the information disclosed may not be the same as that which would have been disclosed in accordance with the laws of jurisdictions outside England and Guernsey. The statements contained in this Announcement are made as at the date of this Announcement, unless some other time is specified in relation to them, and there shall be no implication that there has been no change in the facts set forth in this Announcement since such date

The release, publication or distribution of this Announcement and the availability of the Cash Offer in or into jurisdictions other than the United Kingdom and Guernsey may be affected by the laws and regulations of those jurisdictions. Persons who are not resident in the United Kingdom or Guernsey, or who are subject to the laws of any jurisdiction other than the United Kingdom or Guernsey, should inform themselves about, and observe any applicable requirements. Any person (including, without limitation, nominees, trustees and custodians) who would, or otherwise intends to, forward this Announcement, the Offer Document or any accompanying document to any jurisdiction outside the United Kingdom or Guernsey should refrain from doing so and seek appropriate professional advice before taking any action. Any failure to comply with the applicable legal or regulatory requirements may constitute a violation of the laws and/or regulations of any such jurisdiction. To the fullest extent permitted by applicable law, the companies and persons involved in the Cash Offer disclaim any responsibility and liability for the violation of such restrictions by any person. Further details in relation to Overseas Shareholders will be contained in the Offer Document.

The Cash Offer will not be made, directly or indirectly, in or into or by use of the mails or any other means or instrumentality (including, without limitation, telephonic or electronic) of interstate or foreign commerce of, or any facility of a national, state or other securities exchange of, a Restricted Jurisdiction, and no person may accept the Cash Offer by any such use, means, instrumentality or facility or from within a Restricted Jurisdiction. Accordingly, copies of this Announcement and the formal documentation relating to the Cash Offer are not being, and must not be, directly or indirectly, mailed or otherwise forwarded or distributed in, into or from a Restricted Jurisdiction and persons receiving this Announcement (including custodians, nominees and trustees) must not distribute or send it into or from a Restricted Jurisdiction.

### **US shareholders**

The Cash Offer will be made for securities of a company domiciled in Guernsey and Phaunos Shareholders in the United States should be aware that this Announcement, the Offer Document and any other documents relating to the Cash Offer have been or will be prepared in accordance with English law, Guernsey law and the Code and applicable disclosure requirements, format and style thereunder, all of which differ from those in the United States.

The Cash Offer will be made in the United States pursuant to applicable US tender offer rules, including Regulation 14E under the Exchange Act, and securities laws and otherwise in accordance with the requirements of English law, Guernsey law, the Code, the Panel, the London Stock Exchange, the FCA and the GFSC. Accordingly, the Cash Offer will be subject to disclosure and other procedural requirements, including with respect to withdrawal rights, offer timetable, settlement procedures and timing of payments that are different from those applicable under United States domestic tender offer procedures and law. The Cash Offer will be made in the United States by Stafford Bidco and no one else.

Neither the US Securities Exchange Commission nor any US state securities commission has approved or disapproved the Cash Offer or passed upon the adequacy or completeness of this Announcement. It may be difficult for US holders of Phaunos securities to enforce their rights under and any claim arising out of the US federal securities laws, since Stafford Bidco and Phaunos are located outside the United States, and some or all of their officers and directors may be resident outside the United States. US Phaunos Shareholders may not be able to sue a non-US company or its officers or directors in a non-US court for violations of the US securities laws. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgement and a US court may lack jurisdiction over such persons.

The receipt of cash pursuant to the Cash Offer may have tax consequences in the United States and under other applicable tax laws and such consequences, if any, are not described herein. US Phaunos Shareholders are urged to consult with their own legal, tax and financial advisors in connection with making a decision regarding the Cash Offer.

To the extent permitted by applicable law, in accordance with, and to the extent permitted by, the Code and normal UK market practice, Stafford Bidco or nominees or brokers of Stafford Bidco (acting as agents) or their respective affiliates may from time to time make certain purchases of, or arrangements to purchase, Phaunos Shares or other Phaunos securities other than pursuant to the Cash Offer at any time prior to completion of the Cash Offer. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices. Any such purchases, or arrangements to purchase, will comply with all applicable requirements of the Code, the Listing Rules and Regulation 14E under the US Exchange Act including Rule 14e-5, to the extent applicable. To the extent required to be disclosed in accordance with applicable regulatory requirements, information about any such purchases will be disclosed on a next day basis to the Panel and will be available from any Regulatory Information Service, including the Regulatory News Service on the London Stock Exchange website, [www.londonstockexchange.com](http://www.londonstockexchange.com). To the extent that such information is required to be publicly disclosed in the United Kingdom in accordance with applicable regulatory requirements, this information will as applicable also be publicly disclosed in the United States.

#### **Cautionary note regarding forward-looking statements**

This Announcement and other information published by Stafford or Stafford Bidco may contain statements which are, or may be deemed to be, "forward-looking statements". Forward-looking statements are prospective in nature and are not based on historical facts, but rather on current expectations and projections of the management of Stafford or Stafford Bidco (as applicable) about future events, and are therefore subject to risks and uncertainties which could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements.

The forward-looking statements contained in this Announcement include, among others, statements relating to the potential exposure of Phaunos to market risks, and statements expressing management's expectations, beliefs, estimates, forecasts, projections and assumptions.

Although Stafford and Stafford Bidco believe that the expectations reflected in such forward-looking statements are reasonable, they can give no assurance that such expectations will prove to be correct. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements should therefore be construed in the light of such factors. All forward-looking statements contained in this Announcement are expressly qualified in their entirety by the cautionary notes contained or referred to in this section, and you are cautioned not to place undue reliance on these forward-looking statements.

Neither Stafford nor Stafford Bidco nor any of its or their associates or directors, officers or advisers, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Announcement will actually occur.

Other than in accordance with their legal or regulatory obligations, neither Stafford nor Stafford Bidco is under any obligation, and both

Stafford and Stafford Bidco expressly disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### **Rounding**

Certain figures included in this Announcement have been subjected to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

### **No profit forecasts or estimates**

No statement in this Announcement is intended as a profit forecast or estimate for any period.

### **Disclosure requirements of the Code**

Under Rule 8.3(a) of the Code, any person who is interested in 1% or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the Offer Period and, if later, following the announcement in which any securities exchange offeror is first identified. An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm (London time) on the 10th Business Day following the commencement of the Offer Period and, if appropriate, by no later than 3.30 pm (London time) on the 10th Business Day following the announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the Code, any person who is, or becomes, interested in 1% or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s), save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm (London time) on the Business Day following the date of the relevant dealing.

If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3.

Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).

Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Panel's website at [www.thetakeoverpanel.org.uk](http://www.thetakeoverpanel.org.uk), including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.

### **Rule 26 disclosure**

In accordance with Rule 26 of the Code, a copy of this Announcement will be available at [www.staffordcp.com](http://www.staffordcp.com) by no later than 12 noon (London time) on 4 July 2018.

The content of the website referred to in this Announcement is not incorporated into and does not form part of this Announcement.

### **Availability of hard copies**

You may request a hard copy of this Announcement by contacting Stafford on +44 207 535 4915. You may also request that all future

documents, announcements and information to be sent to you in relation to the Cash Offer should be in hard copy form. A hard copy of this Announcement will not be sent to you unless so requested.

Copies of this Announcement and any other document relating to the Cash Offer may not be mailed, distributed, forwarded or otherwise transmitted or made available in, into or from any jurisdiction where this would violate applicable law (including by custodians, nominees and trustees).

#### **Information relating to Phaunos Shareholders**

Please be aware that addresses, electronic addresses and certain information provided by Phaunos Shareholders, persons with information rights and other relevant persons for the receipt of communications from Phaunos may be provided to Stafford Bidco during the Offer Period as required under Section 4 of Appendix 4 of the Code as required to comply with Rule 2.11(c) of the Code.

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**FOR IMMEDIATE RELEASE**

3 July 2018

**All-Cash Offer**

**For**

**Phaunos Timber Fund Limited ("Phaunos" or the "Company")**

**By**

**Mahogany Bidco Limited ("Stafford Bidco")**

**a company ultimately controlled by**

**Stafford Capital Partners Limited ("Stafford")**

#### **1. Introduction**

Further to the announcement by Stafford on 5 June 2018 setting out the key financial terms of a possible offer for Phaunos, Stafford is pleased to announce an all-cash offer pursuant to which Stafford Bidco, a company wholly-owned by Stafford International Timberland Fund VIII and ultimately controlled by Stafford, shall offer to acquire the entire issued and to be issued share capital of Phaunos not already directly or indirectly owned by it or its concert parties (the "**Cash Offer**"). The Cash Offer is to be implemented by way of a takeover offer under Part XVIII of the Companies Law and in accordance with the Code.

Stafford Bidco has reserved the right to implement the Acquisition by way of a Scheme, subject to the consent of the Panel.

## 2. **The Cash Offer**

Under the terms of the Cash Offer, which will be subject to the Conditions and further terms set out in Appendix 1 and to the full terms and conditions to be set out in the Offer Document, Phaunos Shareholders will receive:

### **US\$0.49 in cash for each Phaunos Share**

The Cash Offer values Phaunos's entire issued and to be issued share capital at approximately US\$244.2 million (on a fully diluted basis).

The price of US\$0.49 per Phaunos Share represents a premium of approximately:

- 11 per cent. to the Closing Price of US\$0.44 per Phaunos Share on 4 June 2018 (being the last Business Day prior to the commencement of the Offer Period); and
- 1.2 per cent. to Phaunos's net asset value per Phaunos Share of US\$0.51 as at 31 December 2017 (taking into account downward adjustments for currency fluctuations and the compulsory share redemption post 31 December 2017).

## 3. **Background to and reasons for the Cash Offer**

### **Background**

At Phaunos's 2017 AGM, the majority of votes submitted were against continuing the Company (the "**Continuation Vote**"). Phaunos Shareholders subsequently approved an orderly realisation of its assets, and Pöyry were appointed as sales agents on 28 November 2017 to manage this asset realisation process (the "**Asset Realisation Process**"). The Phaunos Board has indicated that the realisation of the Company's assets pursuant to the Asset Realisation Process may take between 14 and 20 months from the end of April 2018, and has highlighted that this timeline is subject to material uncertainties, which may result in extensions of it. Stafford estimates that the time value of money for the receipt by Phaunos Shareholders of the proceeds from the Cash Offer relative to the Asset Realisation Process in accordance with the expected timetable could amount to US\$0.03 to US\$0.04 per Phaunos Share.

Stafford understands that evaluated indications of interest from prospective purchasers of Phaunos's assets were expected to have been received by now though no announcement has yet been made by Phaunos in this regard. However, Stafford does note the announcement by Phaunos on 29 June 2018 that Phaunos has exercised its rights to initiate a voluntary exit mechanism pursuant to the shareholder agreement relating to the Aurora Forestal asset. Stafford expects that this will result in the incurrence of real estate transfer taxes, appraisal costs and legal costs. Stafford is of the opinion that, following completion of this voluntary exit, Phaunos will hold a sub-scale asset in an over-supplied wood-supply market.

Stafford acted as the Investment Manager for Phaunos from July 2014 until February 2018, when its contract terminated following Stafford's decision to resign in July 2017 as a result of the outcome of the Continuation Vote. During its tenure as Investment Manager, Stafford was widely recognised for leading a positive turnaround of the Company. This included reducing the percentage of higher risk assets within the portfolio from 36 per cent. to 13 per cent. of the net asset value between June 2014 and December 2016, reducing portfolio debt from approximately 20 per cent. to around one per cent. of the net asset value in 2016, reducing expenses from US\$21.9 million to US\$7.3 million between 31 December 2013 and 31 December 2016, and increasing the cash and cash equivalents from US\$4.9 million at 30 June 2014 to US\$45.6 million at 31 December 2016. In addition, at the time of the Continuation Vote, Stafford was supportive of a five-year continuation of Phaunos which, in Stafford's opinion, would have afforded the opportunity to build on the positive turnaround that had been achieved and potentially to grow the Company further for the benefit of Phaunos Shareholders.

### **Phaunos Net Asset Value**

Stafford notes that the reported net asset value of Phaunos for the year ended 31 December 2017 is US\$0.51 per Phaunos Share (the "**2017 NAV Per Share**"), down from US\$0.55 per share as at 31 December 2016. The expected realisation range stated by the Phaunos Board in the 2017

Annual Report is US\$0.45 - US\$0.57 per share. Stafford also notes the 19 per cent. increase in the net realisable value of the Company's Matariki Interest between 31 December 2016 and 31 December 2017 respectively (as stated in the applicable Annual Report), and believes that corresponding downward adjustments will likely have been made to the net asset value of certain South American assets owned by Phaunos in order to produce the 2017 NAV Per Share figure. Stafford also believes that, in order to realise shareholder returns at a level which would be equivalent to the sale of the Company at a price of US\$0.57 per Phaunos Share, Phaunos would need to dispose of the Matariki Interest at a premium of 27 per cent. to the revised independent valuation of its net asset value whilst achieving an aggregate amount of not less than the net asset value of the remaining assets (including the Aurora Forestal asset, the Greenwood Tree Farm Fund and National Timber Partners) in the Phaunos portfolio.

Based on its extensive industry knowledge and experience and its view that the 2017 NAV Per Share figure already captures the recent increase in New Zealand timberland values, Stafford does not believe that such a high premium will be achieved for the Matariki Interest or that all of the remaining assets will be sold at their respective net asset values within the 14 to 20 months from the end of April 2018 as stated in the 2017 Annual Report.

Stafford also notes the currency fluctuations that have occurred since the Company's last published net asset value on 31 December 2017 of US\$280.3 million (the "**2017 NAV**"), notably in the New Zealand Dollar and the Brazilian Real in relation to which Phaunos has stated that it has a significant exposure. Based on the conversion rates against the United States dollar utilised for these currencies in the 2017 Annual Report and their prevailing exchange rates as at 29 June 2018, the New Zealand Dollar and the Brazilian Real have depreciated by approximately 5.1 per cent. and 19.7 per cent. respectively, against the United States dollar in this intervening period. Stafford estimates that the impact of these currency depreciations could have resulted in a decrease in the 2017 NAV of US\$14.1 million and in the 2017 NAV Per Share of US\$0.0282 per Phaunos Share for this period. Were this to have occurred, Stafford's Cash Offer would represent a premium of approximately 1.2 per cent. relative to Stafford's estimate of the prevailing net asset value per Phaunos Share as at 29 June 2018.

Stafford's detailed views on Phaunos's asset portfolio are given in Appendix 4.

#### **The Cash Offer**

Following the release of the Possible Offer Announcement on 5 June 2018, Stafford has had the opportunity to discuss its proposed Cash Offer with Phaunos Shareholders who hold (or are otherwise able to control) Phaunos Shares representing approximately 75 per cent. in value of the Phaunos shareholder base.

Stafford continues to believe that the Cash Offer represents an excellent opportunity for Phaunos Shareholders to realise in cash their full investment in the Company at a premium to the prevailing share price of Phaunos Shares prior to the Possible Offer Announcement. It is also Stafford's view that the likelihood of achieving, over time, higher net proceeds than those implied by its Cash Offer is relatively low and is outweighed by the potential downside for Phaunos Shareholders in light of the execution and market risks inherent in the Asset Realisation Process.

Stafford had hoped to receive support from the Phaunos Board for the Cash Offer for the reasons set out above but unfortunately this has not been forthcoming.

Stafford also reiterates its position outlined in the Possible Offer Announcement that it is not participating in the Asset Realisation Process and confirms that it does not currently have any intention to participate in this process in the future.

#### **4. No access to non-public information**

The information in this Announcement concerning Phaunos has been obtained from publicly available information. Stafford has not had engagement with Phaunos's management or had access to due diligence information in connection with the Cash Offer. Although Stafford has no knowledge that would indicate that the information relating to Phaunos is inaccurate or incomplete, Stafford cannot verify it.

#### **5. Information relating to Stafford and Stafford Bidco**



## **Stafford**

Stafford has US\$5.4 billion under management and advice from over 75 institutional investors across Europe, the United States and Australia, providing investment management and advisory services in alternative assets. Founded in 2000, Stafford has specialist investment teams in agriculture, credit, infrastructure, private equity, sustainable capital, timber and venture capital. The team consists of over 45 professionals investing from its principal offices in Austin, Boston, Curitiba, Hanover, London, Sydney and Zurich and has a significant global presence. Stafford is a member of the Principles for Responsible Investment.

Stafford operates as an independent asset management group owned by its management team and is controlled by two of its founders, Richard Bowley and Geoff Norman. Stafford is authorised and regulated by the Financial Conduct Authority in the United Kingdom.

Stafford's timber investment team provides fund management and advisory services to institutions seeking global timberland exposure achieved through pooled investment vehicles and co-investment opportunities in transactions. It has developed a track record of providing timberland exposure through diverse investment opportunities and leverages its extensive timberland experience throughout the investment process.

In May 2018, Stafford announced the final close of Stafford International Timberland Fund VIII of US\$612.5 million from investors in the UK, Europe and the United States, close to 21 per cent. of which has already been committed to investments. Stafford International Timberland Fund VIII, which is a commingled fund comprising three limited partnerships (two of which are registered in England and one in Delaware) ultimately controlled by Stafford, is a specialist timberland fund providing liquidity to limited partners in existing timberland funds through the secondary market, additional equity for timberland managers through co-investment and separate account opportunities, and equity for new timberland funds. The limited partners of Stafford International Timberland Fund VIII include corporate pension funds, public body pension plans, insurance companies and high net worth individuals.

## **Stafford Bidco**

Stafford Bidco is a company incorporated in England on 28 June 2018 and formed for the purposes of implementing the Cash Offer. It is wholly-owned by Stafford International Timberland Fund VIII and ultimately controlled by Stafford. The directors of Stafford Bidco are Stephen Addicott, Geoffrey Norman, Angus Whiteley and Vince Cao. Stafford Bidco has not traded since its incorporation, nor has it entered into any obligations other than in connection with the implementation of the Cash Offer.

## **6. Information relating to Phaunos**

Phaunos is a Guernsey-domiciled authorised closed-ended investment scheme, authorised by the GFSC under section 8 of The Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended) and the Authorised Closed-ended Investment Schemes Rules 2008 made thereunder.

Established in 2006, the Company invests in a concentrated, but diversified portfolio of timberland and timber-related investments. It holds a portfolio of timber assets located principally in New Zealand, Brazil and Uruguay.

It was announced on 19 June 2017 that the Company's further continuation resolution at its 2017 AGM had not been passed. Therefore, the Phaunos Board is currently implementing a process for the realisation of its assets, and as a consequence, the Company is now self-managed by the Phaunos Board, supported by a number of executives and service providers within the financial, forestry management and asset sale functions.

## **7. Management, employees and business of Phaunos**

As noted above, Stafford has not had engagement with Phaunos's management or been granted access to due diligence in connection with the Cash Offer. However based on Stafford's experience during its time as manager of Phaunos, Stafford would seek to manage the assets for the longer term benefit of the investors in Stafford International Timberland Fund VIII which would involve further analysis in order to formulate detailed plans to reflect the expected duration of the Stafford International Timberland Fund VIII

as would be expected of an experienced forestry investment manager.

The Phaunos 2017 Annual Report states that Phaunos has no employees and makes no reference to the operation of any pension schemes. After the Cash Offer becomes, or is declared, wholly unconditional, it is intended that members of the Stafford Bidco team would assume the board positions of Phaunos in place of the existing Phaunos Board and Stafford Bidco would transfer the company secretarial and administration responsibilities from Vistra Fund Services Guernsey Limited to Stafford personnel and the Stafford International Timberland Fund VIII's administrator.

Stafford Bidco is not aware that Phaunos operates any research and development functions though it intends that the management of Phaunos's asset portfolio will be assumed by Stafford following the Cash Offer becoming, or being declared, wholly unconditional.

In light of the intention for Stafford to manage Phaunos's asset portfolio, once Phaunos's assets have been transferred under the management of Stafford, Stafford Bidco will assess whether it is appropriate to commence a process to liquidate and deregister all wholly-owned subsidiaries of Phaunos as well as Phaunos itself. This would include ceasing to operate at the locations of Phaunos's places of business (including any headquarters or headquarters functions of Phaunos) and redeploying Phaunos's fixed assets (if any) in accordance with the intention for Stafford to manage Phaunos's asset portfolio.

8. **Compulsory acquisition, delisting and cancellation of trading**

If Stafford Bidco receives acceptances of the Cash Offer in respect of not less than 90 per cent. in value of the Phaunos Shares affected (as calculated in accordance with Part XVIII of the Companies Law), Stafford Bidco intends to exercise its rights pursuant to Part XVIII of the Companies Law to acquire compulsorily, on the same terms as the Cash Offer, the remaining Phaunos Shares in respect of which the Cash Offer has not at such time been accepted.

Following the Cash Offer becoming or being declared wholly unconditional, if Stafford Bidco receives acceptances under the Cash Offer in respect of, and/or otherwise agrees to acquire, 75 per cent. or more of the voting rights carried by Phaunos Shares, Stafford Bidco intends to procure that Phaunos shall make an application for the cancellation respectively, of the listing of Phaunos Shares on the Official List and of the trading in Phaunos Shares on the London Stock Exchange's Main Market for listed securities. A notice period of not less than 20 Business Days before the cancellation will commence on the date on which such application is made.

**Such cancellation shall significantly reduce the liquidity and marketability of any Phaunos Shares not assented to the Cash Offer at that time, and their value may be affected as a consequence. Any remaining Phaunos Shareholders would become minority shareholders in a majority controlled limited company and may be unable to sell their Phaunos Shares and there can be no certainty that any dividends or other distributions shall be made by Phaunos or that the Phaunos Shareholders shall again be offered as much for the Phaunos Shares held by them as under the Cash Offer.**

Stafford Bidco reserves the right to increase its shareholding after the Cash Offer has closed by buying further Phaunos Shares in the market (to the extent permitted under applicable laws and regulation), which may subsequently allow it to reach the threshold for delisting without the need to launch a further offer to all Phaunos Shareholders.

9. **Financing**

The cash consideration payable in connection with the Cash Offer will be financed by a draw down from funds managed on a discretionary basis by Stafford.

In accordance with Rule 2.7(d) of the Code, Lancea LLP, as financial adviser to Stafford and Stafford Bidco, is satisfied that sufficient resources are available to satisfy in full the cash consideration payable to Phaunos Shareholders under the terms of the Cash Offer.

10. **Disclosure of interests in Phaunos Shares**

Stafford made a public Opening Position Disclosure in respect of the interests in the relevant securities of Phaunos held by Stafford and its concert parties on 15 June 2018 (the "**Stafford OPD**").

As set out in the Stafford OPD, 758,234 Phaunos Shares are held by Stafford, representing less than 0.02 per cent. of Phaunos Shares in issue as at the close of business on 2 July 2018 (being the last Business Day before the date of this Announcement).

Save as disclosed in this Announcement and the Stafford OPD, as at the close of business on 2 July 2018 (being the last Business Day before the date of this Announcement), neither Stafford Bidco, nor any of its directors, nor, so far as it is aware, any person acting, or deemed to be acting, in concert with it (within the meaning of the Code) had:

- (a) any interest in, or right to subscribe for, relevant securities of Phaunos;
- (b) any short position in respect of relevant securities of Phaunos (whether conditional or absolute and whether in the money or otherwise), including any short position under a derivative, any agreement to sell or any delivery obligation or right to require another person to purchase or take delivery of, relevant securities of Phaunos;
- (c) procured an irrevocable commitment to accept the terms of the Cash Offer in respect of relevant securities of Phaunos; or
- (d) borrowed or lent any relevant securities of Phaunos (including, for these purposes, any financial collateral arrangements of the kind referred to in Note 4 on Rule 4.6 of the Code) save for any borrowed relevant securities which have been either on-lent or sold.

Furthermore, save as disclosed in this Announcement and the Stafford OPD, no arrangement exists between Stafford Bidco or Phaunos or a person acting in concert with Stafford Bidco or Phaunos in relation to Phaunos Shares. For these purposes, an "arrangement" includes any indemnity or option arrangement, any agreement or any understanding, formal or informal, of whatever nature, relating to Phaunos Shares which may be an inducement to deal or refrain from dealing in such securities.

"Interests in securities" for these purposes arise, in summary, when a person has long economic exposure, whether absolute or conditional, to changes in the price of securities (and a person who only has a short position in securities is not treated as interested in those securities). In particular, a person will be treated as having an "interest" by virtue of the ownership, voting rights or control of securities, or by virtue of any agreement to purchase, option in respect of, or derivative referenced to, securities.

#### 11. **Overseas shareholders**

The availability of the Cash Offer, and the distribution of this Announcement, to persons who are not resident in the United Kingdom may be affected by the laws of the relevant jurisdiction in which they are resident. Such persons should inform themselves of and observe any applicable legal or regulatory requirements of their jurisdiction. Phaunos Shareholders who are in doubt about such matters should consult an appropriate independent professional adviser in the relevant jurisdiction without delay.

This Announcement does not constitute an offer for sale of any securities or an offer or an invitation to purchase any securities. Phaunos Shareholders are advised to read carefully the Offer Document and, for Phaunos Shareholders who hold their Phaunos Shares in certificated form, the Form of Acceptance once those documents have been despatched.

#### 12. **Conditionality of the Cash Offer**

The Cash Offer will be subject to the terms and Conditions referred to in Appendix 1 and to the full terms and conditions which will be set out in the Offer Document and, for Phaunos Shareholders who hold their Phaunos Shares in certificated form, the Form of Acceptance.

Among other Conditions, the Cash Offer will be conditional on:

- (a) valid acceptances (which have not been withdrawn) being received by no later than 1.00 p.m. (London time) on the first closing date of the Cash Offer (or such later time(s) and/or date(s) as Stafford Bidco may, with the consent of the Panel or in accordance with the Code, decide) in respect of Phaunos Shares which comprise not less than 90 per cent. in value of the Phaunos Shares affected (as calculated in accordance with Part XVIII of the Companies Law);
- (b) the Matariki Interest not having been disposed of, transferred, mortgaged or charged, nor having had any security interest created over it, nor ceasing to be available to Phaunos, and no right arising under which the Matariki Interest could be required to be disposed of, transferred, mortgaged or charged, or could cease to be available to Phaunos; and
- (c) any consents or approvals required under the New Zealand Overseas Investment Act 2005 or the New Zealand Overseas Investment Regulations 2005 in respect of the Cash Offer having been granted (or being deemed to have been granted in accordance with the relevant law) provided that such consent or approval is on terms satisfactory to Stafford Bidco.

Stafford Bidco confirms that it considers the Condition described in (b) above to be of material significance to Stafford Bidco in the context of the Acquisition though it notes that this Condition remains subject to the application of Rule 13.5 of the Code.

13. **Consent**

Lancea LLP has given and not withdrawn its consent to the publication of this Announcement with the inclusion in it of the references to its name in the form and context in which they appear.

14. **Document published on a website**

A copy of this Announcement will, by no later than 12 noon (London time) on 4 July 2018, be published on Stafford Bidco's website at [www.staffordcp.com](http://www.staffordcp.com) until the end of the Offer Period.

15. **General**

The Cash Offer will extend to all Phaunos Shares unconditionally allotted or issued fully paid after the date of this Announcement and before the Cash Offer closes (or such earlier date as Stafford Bidco may, in accordance with the Conditions and further terms of the Cash Offer, decide).

The Phaunos Shares will be acquired under the Cash Offer fully paid and free from all liens, charges, equitable interests, charges, encumbrances, rights of pre-emption and other third party rights of any nature whatsoever and together with all rights attaching to them as at the date of this Announcement or subsequently attaching or accruing to them, save for the right to receive any other dividend, distribution, share repurchase payment and/or return of capital in respect of which a corresponding reduction has been made to the Offer Price in accordance with paragraph 2.13 of Appendix 1.

The Cash Offer will be on the terms and subject to the conditions set out in this Announcement (including in Appendix 1), and the full terms and conditions to be set out in the Offer Document when issued and, in respect of Phaunos Shareholders who hold their Phaunos Shares in certificated form, the Form of Acceptance. The Offer Document and the Form of Acceptance shall be published within 28 days of this Announcement (or such later date as may be agreed with the Panel) and not within the 14 days following this Announcement without the consent of the Phaunos Board. The Cash Offer will be governed by the laws of England and will be subject to the applicable requirements of the Code, the Panel, the Listing Rules, the London Stock Exchange, the FCA, the GFSC and applicable Guernsey law and regulation and US tender offer rules.

The acquisition of Phaunos Shares under the Acquisition is proposed to be implemented by way of a takeover offer under Part XVIII of the Companies Law and in accordance with the Code. However Stafford Bidco may, with the agreement of the Panel, elect to implement the Acquisition by means of Court-sanctioned scheme of arrangement of Phaunos under Part VIII of the Companies Law.

The bases and sources of certain information contained in this Announcement are set out in Appendix 2. Certain terms used in this Announcement are defined in Appendix 3.

This Announcement is being made pursuant to Rule 2.7 of the Code.

**Enquiries:**

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Stephen Addicott

**Lancea LLP (Financial Adviser to Stafford and Stafford Bidco)**  
**+44 (0) 20 3301 8000**

Peter Thickett

Stafford has retained Ashurst LLP as legal advisers in connection with the Cash Offer.

**Important notice**

Lancea LLP, which is authorised and regulated by the Financial Conduct Authority in the United Kingdom, is acting exclusively for Stafford and Stafford Bidco and for no one else in connection with the Cash Offer and will not be responsible to anyone other than Stafford and Stafford Bidco for providing the protections afforded to its clients or for providing advice in connection with the Cash Offer.

This Announcement is for information purposes only and is not intended to and does not constitute, or form part of, an offer, invitation or the solicitation of an offer to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of any securities, or the solicitation of any vote or approval in any jurisdiction, pursuant to the Cash Offer or otherwise, nor shall there be any sale, issuance or transfer of securities of Phaunos in any jurisdiction in contravention of applicable law. The Cash Offer will be made solely by means of the Offer Document and, in respect of Phaunos Shares held in certificated form, the Form of Acceptance, which will contain the full terms and conditions of the Cash Offer, including details of how to accept the Cash Offer. Any approval, decision or other response to the Cash Offer should be made only on the basis of the information in the Offer Document and, in respect of Phaunos Shares held in certificated form, the Form of Acceptance. Phaunos Shareholders are strongly advised to read the formal documentation in relation to the Cash Offer once it has been despatched.

**Overseas jurisdictions**

This Announcement has been prepared in accordance with English law, Guernsey law and the Code, and the information disclosed may not be the same as that which would have been disclosed in accordance with the laws of jurisdictions outside England and Guernsey. The statements contained in this Announcement are made as at the date of this Announcement, unless some other time is specified in relation to them, and there shall be no implication that there has been no change in the facts set forth in this Announcement since such date.

The release, publication or distribution of this Announcement and the availability of the Cash Offer in or into jurisdictions other than the United Kingdom and Guernsey may be affected by the laws and regulations of those jurisdictions. Persons who are not resident in the United Kingdom or Guernsey, or who are subject to the laws of any jurisdiction other than the United Kingdom or Guernsey, should inform themselves about, and observe any applicable requirements. Any person (including, without limitation, nominees, trustees and custodians) who would, or otherwise intends to, forward this Announcement, the Offer Document or any accompanying document to any jurisdiction outside the United Kingdom or Guernsey should refrain from doing so and seek appropriate professional advice before taking any action. Any failure to comply with the applicable legal or regulatory requirements may constitute a violation of the laws and/or regulations of any such jurisdiction. To the fullest extent permitted by applicable law, the companies and persons involved in the Cash Offer disclaim any responsibility and liability for the violation of such restrictions by any person. Further details in relation to Overseas Shareholders will be contained in the Offer Document.

The Cash Offer will not be made, directly or indirectly, in or into or by use of the mails or any other means or instrumentality (including, without limitation, telephonic or electronic) of interstate or foreign commerce of, or any facility of a national, state or other securities exchange of, a Restricted Jurisdiction, and no person may accept the Cash Offer by any such use, means, instrumentality or facility or from within a Restricted Jurisdiction. Accordingly, copies of this Announcement and the formal documentation relating to the Cash

Offer are not being, and must not be, directly or indirectly, mailed or otherwise forwarded or distributed in, into or from a Restricted Jurisdiction and persons receiving this Announcement (including custodians, nominees and trustees) must not distribute or send it into or from a Restricted Jurisdiction.

## **US shareholders**

The Cash Offer will be made for securities of a company domiciled in Guernsey and Phaunos Shareholders in the United States should be aware that this Announcement, the Offer Document and any other documents relating to the Cash Offer have been or will be prepared in accordance with English law, Guernsey law and the Code and applicable disclosure requirements, format and style thereunder, all of which differ from those in the United States.

The Cash Offer will be made in the United States pursuant to applicable US tender offer rules, including Regulation 14E under the Exchange Act, and securities laws and otherwise in accordance with the requirements of English law, Guernsey law, the Code, the Panel, the London Stock Exchange, the FCA and the GFSC. Accordingly, the Cash Offer will be subject to disclosure and other procedural requirements, including with respect to withdrawal rights, offer timetable, settlement procedures and timing of payments that are different from those applicable under United States domestic tender offer procedures and law. The Cash Offer will be made in the United States by Stafford Bidco and no one else.

Neither the US Securities Exchange Commission nor any US state securities commission has approved or disapproved the Cash Offer or passed upon the adequacy or completeness of this Announcement. It may be difficult for US holders of Phaunos securities to enforce their rights under and any claim arising out of the US federal securities laws, since Stafford Bidco and Phaunos are located outside the United States, and some or all of their officers and directors may be resident outside the United States. US Phaunos Shareholders may not be able to sue a non-US company or its officers or directors in a non-US court for violations of the US securities laws. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgement and a US court may lack jurisdiction over such persons.

The receipt of cash pursuant to the Cash Offer may have tax consequences in the United States and under other applicable tax laws and such consequences, if any, are not described herein. US Phaunos Shareholders are urged to consult with their own legal, tax and financial advisors in connection with making a decision regarding the Cash Offer.

To the extent permitted by applicable law, in accordance with, and to the extent permitted by, the Code and normal UK market practice, Stafford Bidco or nominees or brokers of Stafford Bidco (acting as agents) or their respective affiliates may from time to time make certain purchases of, or arrangements to purchase, Phaunos Shares or other Phaunos securities other than pursuant to the Cash Offer at any time prior to completion of the Cash Offer. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices. Any such purchases, or arrangements to purchase, will comply with all applicable requirements of the Code, the Listing Rules and Regulation 14E under the US Exchange Act including Rule 14e-5, to the extent applicable. To the extent required to be disclosed in accordance with applicable regulatory requirements, information about any such purchases will be disclosed on a next day basis to the Panel and will be available from any Regulatory Information Service, including the Regulatory News Service on the London Stock Exchange website, [www.londonstockexchange.com](http://www.londonstockexchange.com). To the extent that such information is required to be publicly disclosed in the United Kingdom in accordance with applicable regulatory requirements, this information will as applicable also be publicly disclosed in the United States.

## **Cautionary note regarding forward-looking statements**

This Announcement and other information published by Stafford or Stafford Bidco may contain statements which are, or may be deemed to be, "forward-looking statements". Forward-looking statements are prospective in nature and are not based on historical facts, but rather on current expectations and projections of the management of Stafford or Stafford Bidco (as applicable) about future events, and are therefore subject to risks and uncertainties which could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements.

The forward-looking statements contained in this Announcement include, among others, statements relating to the potential exposure of Phaunos to market risks, and statements expressing management's expectations, beliefs, estimates, forecasts, projections and assumptions.

Although Stafford and Stafford Bidco believe that the expectations reflected in such forward-looking statements are reasonable, they can give no assurance that such expectations will prove to be correct. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause

actual results and developments to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements should therefore be construed in the light of such factors. All forward-looking statements contained in this Announcement are expressly qualified in their entirety by the cautionary notes contained or referred to in this section, and you are cautioned not to place undue reliance on these forward-looking statements.

Neither Stafford nor Stafford Bidco nor any of its or their associates or directors, officers or advisers, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Announcement will actually occur.

Other than in accordance with their legal or regulatory obligations, neither Stafford nor Stafford Bidco is under any obligation, and both Stafford and Stafford Bidco expressly disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### **Rounding**

Certain figures included in this Announcement have been subjected to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

### **No profit forecasts or estimates**

No statement in this Announcement is intended as a profit forecast or profit estimate for any period.

### **Disclosure requirements of the Code**

Under Rule 8.3(a) of the Code, any person who is interested in 1% or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the Offer Period and, if later, following the announcement in which any securities exchange offeror is first identified. An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm (London time) on the 10th Business Day following the commencement of the Offer Period and, if appropriate, by no later than 3.30 pm (London time) on the 10th Business Day following the announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the Code, any person who is, or becomes, interested in 1% or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s), save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm (London time) on the Business Day following the date of the relevant dealing.

If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3.

Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).

Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Panel's website at [www.thetakeoverpanel.org.uk](http://www.thetakeoverpanel.org.uk), including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.

## **Rule 26 disclosure**

In accordance with Rule 26 of the Code, a copy of this Announcement will be available at [www.staffordcp.com](http://www.staffordcp.com) by no later than 12 noon (London time) on 4 July 2018.

The content of the website referred to in this Announcement is not incorporated into and does not form part of this Announcement.

## **Availability of hard copies**

You may request a hard copy of this Announcement by contacting Stafford on +44 207 535 4915. You may also request that all future documents, announcements and information to be sent to you in relation to the Cash Offer should be in hard copy form. A hard copy of this Announcement will not be sent to you unless so requested.

Copies of this Announcement and any other document relating to the Cash Offer may not be mailed, distributed, forwarded or otherwise transmitted or made available in, into or from any jurisdiction where this would violate applicable law (including by custodians, nominees and trustees).

## **Information relating to Phaunos Shareholders**

Please be aware that addresses, electronic addresses and certain information provided by Phaunos Shareholders, persons with information rights and other relevant persons for the receipt of communications from Phaunos may be provided to Stafford Bidco during the Offer Period as required under Section 4 of Appendix 4 of the Code in order to comply with Rule 2.11(c) of the Code.

## **APPENDIX 1**

### **CONDITIONS TO AND CERTAIN FURTHER TERMS OF THE CASH OFFER**

The Cash Offer will be made on the terms and conditions set out in this Appendix 1 and to be set out in the Offer Document and, in respect of Phaunos Shareholders who hold their Phaunos Shares in certificated form, the Form of Acceptance.

#### **1. CONDITIONS TO THE CASH OFFER**

The Cash Offer will be conditional upon:

##### **Acceptance Condition**

- 1.1 valid acceptances of the Cash Offer being received (and not, where permitted, withdrawn) by no later than 1.00 p.m. (London time) on the first closing date of the Cash Offer as specified in the Offer Document (or such later time(s) and/or dates(s) as Stafford Bidco may, with the consent of the Panel or in accordance with the Code, decide) in respect of Phaunos Shares which, taken together with all other Phaunos Shares which Stafford Bidco acquires or agrees to acquire (whether pursuant to the Cash Offer or otherwise), comprise not less than 90 per cent. (or such lower percentage as Stafford Bidco may, subject to the Code, decide) in value of Phaunos Shares affected (as calculated in accordance with Part XVIII of the Companies Law), provided that this



Condition will not be satisfied unless Stafford Bidco shall have acquired or agreed to acquire (whether pursuant to the Cash Offer or otherwise) Phaunos Shares carrying more than 50 per cent. of the voting rights normally exercisable at general meetings of Phaunos, including for this purpose (to the extent (if any) required by the Panel) any such voting rights attaching to any Phaunos Shares that are unconditionally allotted or issued fully paid before the Cash Offer becomes or is declared unconditional as to acceptances whether pursuant to the exercise of outstanding subscription or conversion rights or otherwise. For the purposes of this Condition:

- (a) Phaunos Shares which have been unconditionally allotted but not issued before the Cash Offer becomes or is declared, unconditional as to acceptances whether pursuant to the exercise of any outstanding subscription or conversion rights or otherwise, shall be deemed to carry the voting rights which they will carry upon issue;
- (b) Phaunos Shares (if any) that cease to be held in treasury before the Cash Offer becomes or is declared, unconditional as to acceptances are Phaunos Shares affected in accordance with Part XVIII of the Companies Law; and
- (c) the term "voting rights" shall be construed in accordance with its meaning under the Code.

In addition, the Cash Offer will also be subject to the following Conditions and, accordingly, the Cash Offer will not become, or be declared, wholly unconditional unless the following Conditions (as amended, if appropriate) have been satisfied or, where relevant, waived:

#### **Matariki Interest**

- 1.2 the Matariki Interest not having been disposed of, transferred, mortgaged or charged, nor having had any security interest created over it, nor ceasing to be available to Phaunos, and no right arising under which the Matariki Interest could be required to be disposed of, transferred, mortgaged or charged, or could cease to be available to Phaunos;

#### **OIO clearance**

- 1.3 without limitation to the Condition set out in paragraph 1.5 of this Appendix 1 below, any consents, clearances or approvals required under the New Zealand Overseas Investment Act 2005 or the New Zealand Overseas Investment Regulations 2005 in respect of the Cash Offer having been granted (or being deemed to have been granted in accordance with the relevant law) provided that such consent, clearance or approval is on terms satisfactory to Stafford Bidco;

#### **Competition clearances**

- 1.4 to the extent that, in the opinion of Stafford Bidco, any anti-trust control consents, clearances or approvals are required or desirable prior to the completion of the Cash Offer according to the law of any other jurisdiction, all relevant notifications or filings having been made, all appropriate waiting periods (including any extensions thereof) having expired, lapsed or been terminated and all such consents, clearances or approvals having been granted (or being deemed to have been granted in accordance with the relevant law) provided that each such consent, clearance or approval is on terms satisfactory to Stafford Bidco;

#### **Regulatory Authority clearances, notifications, waiting periods and authorisations**

- 1.5 other than in relation to the regulatory and competition law approvals referred to in paragraphs 1.3 and 1.4 of this Appendix 1 above, no central bank, government or governmental, quasi-governmental, supranational, statutory, administrative or regulatory body or association, institution or agency (including any trade agency) or any court or other body (including any professional or environmental body) or person in any jurisdiction (each a "**Regulatory Authority**") having decided to take, institute or threaten any action, proceeding, suit, investigation, enquiry or reference or enacted, made or proposed and there not continuing to be outstanding any statute, regulation, order or decision that would or might reasonably be expected to:
  - (a) make the Cash Offer or the acquisition or the proposed acquisition of Phaunos Shares, or control or

management of Phaunos by Stafford Bidco or any member of the Wider Stafford Bidco Group void, unenforceable or illegal in any jurisdiction or directly or indirectly prohibit or otherwise restrict, delay or interfere with the implementation of, or impose additional conditions or obligations with respect to, or otherwise challenge or require amendment to the terms of, the Cash Offer or the acquisition or the proposed acquisition of any Phaunos Shares, or control or management of Phaunos by Stafford Bidco or any member of the Wider Stafford Bidco Group;

- (b) require, prevent or materially delay the divestiture (or alter the terms of any proposed divestiture) by the Wider Stafford Bidco Group or the Wider Phaunos Group of all or any material part of their respective businesses, assets or properties or impose any limitation on their ability to conduct all or any part of their respective businesses and to own, control or manage any of their respective assets or properties;
- (c) impose any material limitation on, or result in any material delay in, the ability of any member of the Wider Stafford Bidco Group to acquire or hold or to exercise effectively, directly or indirectly, all or any rights of ownership of shares or other securities (or the equivalent) in, or to exercise management control over, any member of the Wider Phaunos Group or on the ability of any member of the Wider Phaunos Group to hold or exercise effectively, directly or indirectly, all or any rights of ownership of shares or other securities (or the equivalent) in, or to exercise management control over, any other member of the Wider Phaunos Group;
- (d) except pursuant to the Cash Offer or Part XVIII of the Companies Law, require any member of the Wider Stafford Bidco Group or of the Wider Phaunos Group to acquire or offer to acquire any shares or other securities (or the equivalent) or interest in any member of the Wider Phaunos Group or any member of the Wider Stafford Bidco Group owned by a third party;
- (e) require the divestiture by any member of the Wider Stafford Bidco Group of any shares, securities or other interests in any member of the Wider Phaunos Group;
- (f) impose any material limitation on, or result in any material delay in, the ability of any member of the Wider Stafford Bidco Group or the Wider Phaunos Group to integrate or co-ordinate its business, or any part of it, with the businesses or any part of the businesses of any other member of the Wider Stafford Bidco Group and/or the Wider Phaunos Group;
- (g) result in any member of the Wider Stafford Bidco Group or any member of the Wider Phaunos Group ceasing to be able to carry on business under any name under which it presently does so; or
- (h) otherwise material adversely affect the business, assets, financial or trading position or profits or prospects of any member of the Wider Stafford Bidco Group or of the Wider Phaunos Group,

and all applicable waiting and other time periods (including extensions thereof) during which any such Regulatory Authority could decide to take, institute or threaten any such action, proceeding, suit, investigation, enquiry or reference having expired, lapsed or been terminated;

- 1.6 other than in relation to the competition law and regulatory approvals referred to in paragraphs 1.3 and 1.4 of this Appendix 1 above, all material filings, applications and/or notifications which are necessary or reasonably considered appropriate by Stafford Bidco having been made and all relevant waiting periods and other time periods (including any extensions thereof) under any applicable legislation or regulation of any jurisdiction having expired, lapsed or been terminated and all applicable statutory or regulatory obligations in any jurisdiction having been complied with in each case in respect of the Cash Offer and the acquisition or proposed acquisition of any shares or other securities in, or control or management of, Phaunos or any member of the Wider Phaunos Group by any member of the Wider Stafford Bidco Group or the carrying on by any member of the Wider Phaunos Group of its business;
- 1.7 other than in relation to the competition law and regulatory approvals referred to in paragraphs 1.3 and 1.4 of this Appendix 1 above, all material authorisations, orders, grants, recognitions, confirmations, licences, consents, clearances, permissions and approvals which are necessary or reasonably considered appropriate by Stafford Bidco in any jurisdiction

for or in respect of the Cash Offer and the acquisition or proposed acquisition of any Phaunos Shares, or control of Phaunos, by Stafford Bidco or any member of the Wider Stafford Bidco Group being obtained on terms and in a form satisfactory to Stafford Bidco from appropriate Regulatory Authorities, or from any persons or bodies with whom any member of the Wider Stafford Bidco Group or the Wider Phaunos Group has entered into contractual arrangements or other material business relationships,

- 1.8 other than in relation to the competition law and regulatory approvals referred to in paragraphs 1.3 and 1.4 of this Appendix 1 above, such authorisations, orders, grants, recognitions, confirmations, licences, consents, clearances, permissions and approvals, together with all authorisations, orders, grants, recognitions, confirmations, licences, consents, clearances, permissions and approvals necessary or reasonably considered appropriate by Stafford Bidco for any member of the Wider Phaunos Group to carry on its business, remaining in full force and effect and no intimation of any intention to revoke, suspend, restrict or modify or not to renew any of the same having been made;

**No injunction**

- 1.9 no temporary restraining order, preliminary or permanent injunction, preliminary or permanent injunction, or other equivalent order threatened or issued and being in effect by a court or other Regulatory Authority which has the effect of making the acquisition of Phaunos, the Cash Offer or the acquisition or the proposed acquisition of any shares or other securities in, or control or management of, any member of the Wider Phaunos Group by Stafford Bidco or any other member of the Wider Stafford Bidco Group, or the implementation of any of the foregoing, void, voidable, illegal and/or unenforceable under the laws of any relevant jurisdiction or otherwise directly or indirectly preventing, prohibiting or restraining the consummation of the acquisition of Phaunos or the Cash Offer or any matter arising from the acquisition or proposed acquisition of any shares or other securities in, or control or management of, any member of the Wider Phaunos Group by Stafford Bidco or any other member of the Wider Stafford Bidco Group;

**No undertakings or assurances**

- 1.10 any Regulatory Authority not requiring any undertakings or assurances from Stafford Bidco, any member of the Wider Stafford Bidco Group or any member of the Wider Phaunos Group, except on terms reasonably satisfactory to Stafford Bidco, prohibiting the acquisition of Phaunos, the Cash Offer or the acquisition or proposed acquisition of any shares or other securities in, or control or management of, any member of the Wider Phaunos Group by Stafford Bidco or any other member of the Wider Stafford Bidco Group, or the implementation of any of the foregoing, or taking any other action to directly or indirectly prevent, prohibit, retain, restrict, delay or otherwise interfere with the implementation of any of the foregoing, in each case, which is material in the context of the Wider Phaunos Group or Wider Stafford Bidco Group, taken as a whole, or in the context of the Cash Offer;

**Certain matters arising as a result of any arrangement, agreement etc.**

- 1.11 except as Disclosed, there being no provision of any agreement, arrangement, licence or other instrument to which any member of the Wider Phaunos Group is a party or by or to which any such member or any of its assets is or may be bound, entitled or subject which, as a result of the implementation of the Cash Offer or the acquisition or proposed acquisition by Stafford Bidco or any member of the Wider Stafford Bidco Group of any Phaunos Shares, or change in the control or management of Phaunos or otherwise, would or might reasonably be expected to result in:
- (a) any monies borrowed by or any other indebtedness (actual or contingent) of, or any grant available to, any such member of the Wider Phaunos Group becoming repayable, or capable of being declared repayable, immediately or earlier than the stated repayment date or the ability of such member to borrow monies or incur any indebtedness being withdrawn or inhibited;
  - (b) the creation or enforcement of any mortgage, charge or other security interest over the whole or any part of the business, property or assets of any such member of the Wider Phaunos Group or any such mortgage, charge or other security interest (whenever arising or having arisen) becoming enforceable;
  - (c) any assets or interest of any such member of the Wider Phaunos Group being or falling to be disposed

of by or ceasing to be available to any member of the Wider Phaunos Group or any right arising under which any such asset or interest could be required to be disposed of or could cease to be available to any member of the Wider Phaunos Group;

- (d) the interest or business of any such member of the Wider Phaunos Group in or with any other person, firm or company (or any agreements or arrangements relating to such interest or business) being terminated or adversely modified or affected;
- (e) any such member of the Wider Phaunos Group ceasing to be able to carry on business under any name under which it presently does so;
- (f) the value of any such member of the Wider Phaunos Group or its financial or trading position or prospects being prejudiced or adversely affected;
- (g) any such agreement, arrangement, licence or other instrument being terminated or adversely modified or any onerous obligation arising or any adverse action being taken or arising thereunder;
- (h) the creation of any material liabilities (actual or contingent) by any such member of the Wider Phaunos Group;
- (i) any liability of any member of the Wider Phaunos Group to make any severance, termination, bonus or other payment to any of its directors or other officers;
- (j) the rights, liabilities, obligations, interests or business of any member of the Wider Phaunos Group under any such arrangement, agreement, licence, permit, lease or instrument or the interests or business of any member of the Wider Phaunos Group in or with any other person or body or firm or company (or any arrangement or arrangement relating to any such interests or business) being or becoming capable of being terminated, or adversely modified or affected or any onerous obligation or liability arising or any adverse action being taken thereunder; or
- (k) any requirement on any such member to acquire, subscribe, pay up or repay any shares or other securities (or the equivalent),

and no event having occurred which, under any provision of any agreement, arrangement, licence or other instrument to which any member of the Wider Phaunos Group is a party or by or to which any such member or any of its assets may be bound or be subject, might reasonably be expected to result in any events or circumstances as are referred to in this paragraph 1.11, in each case to an extent which is material and adverse to Stafford Bidco in the context of the Cash Offer;

#### **Certain events since 31 December 2017**

- 1.12 except as Disclosed, no member of the Wider Phaunos Group having since 31 December 2017:
- (a) issued or agreed to issue or authorised or proposed the issue of additional shares of any class, or securities convertible into, or exchangeable for, or rights, warrants or options to subscribe for or acquire, any such shares or convertible or exchangeable securities or transferred or sold (or agreed to transfer or sell) any shares out of treasury;
  - (b) recommended, declared, paid or made or resolved to recommend, declare, pay or make any bonus, dividend or other distribution, whether payable in cash or otherwise, other than any distribution by any wholly-owned subsidiary of Phaunos to Phaunos or any other wholly-owned subsidiaries of Phaunos;
  - (c) (except for transactions between Phaunos and its wholly-owned subsidiaries, or between its wholly-owned subsidiaries) undertaken:
    - (i) a conversion under Part V of the Companies Law;

- (ii) an amalgamation under Part VI of the Companies Law;
  - (iii) a migration under Part VII of the Companies Law; or
  - (iv) an arrangement or reconstruction under Part VIII of the Companies Law;
- (d) other than pursuant to the Cash Offer, implemented or authorised any merger or demerger or (except for transactions between Phaunos and its wholly-owned subsidiaries, or between its wholly-owned subsidiaries or transactions in the ordinary course of business) acquired or disposed of or transferred, mortgaged or charged, or created any other security interest over, any material asset or any right, title or interest in any such material asset;
- (e) (except for transactions between Phaunos and its wholly-owned subsidiaries, or between its wholly-owned subsidiaries, or transactions in the ordinary course of business that are not material to any member of the Wider Phaunos Group) entered into, or authorised the entry into, any joint venture, asset or profit sharing arrangement, partnership or merger of businesses or corporate entities;
- (f) (except for transactions between Phaunos and its wholly-owned subsidiaries, or between its wholly-owned subsidiaries) implemented or authorised any reconstruction, amalgamation, scheme or other transaction or arrangement with a substantially equivalent effect;
- (g) purchased, redeemed or repaid or announced any proposal to purchase, redeem or repay any of its own shares or other securities or reduced or made or authorised any other change in its share capital;
- (h) (except for transactions between Phaunos and its wholly owned subsidiaries or between its wholly owned subsidiaries, or transactions in the ordinary course of business that are not material to any member of the Wider Phaunos Group) made or authorised any change in its loan capital or issued or authorised the issue of any debentures or incurred or increased any indebtedness or contingent liability;
- (i) entered into, varied or terminated, or authorised the entry into, variation or termination of, any contract, commitment or arrangement (whether in respect of capital expenditure, real estate or otherwise) which is outside the ordinary course of business or which is of a long term, onerous or unusual nature or magnitude or which involves, or might reasonably be expected to involve, an obligation of a nature or magnitude which is or might reasonably be expected to be restrictive on the business of any member of the Wider Phaunos Group;
- (j) terminated or varied the terms of any agreement or arrangement between any member of the Wider Phaunos Group and any other person in a manner which would or might reasonably be expected to have a material adverse effect on the financial position of the Wider Phaunos Group;
- (k) been unable or deemed unable, or admitted in writing that it is unable, to pay its debts as they fall due or having stopped or suspended (or threatened to stop or suspend) payment of its debts generally or ceased or threatened to cease carrying on all or a substantial part of its business;
- (l) commenced negotiations with any of its creditors or taken any step with a view to rescheduling or restructuring any of its indebtedness or entered into a composition, compromise, assignment or arrangement with any of its creditors whether by way of a voluntary arrangement, scheme of arrangement, deed of compromise or otherwise or been declared insolvent;
- (m) (other than in respect of a member of the Wider Phaunos Group which is dormant and was solvent at the relevant time) taken any corporate action or had any legal proceedings started, served or threatened against it or any documents filed or faxed in court for its winding-up (voluntary or otherwise), dissolution or reorganisation (or for any analogous proceedings or steps in any jurisdiction) or for the appointment of a liquidator, provisional liquidator, receiver,

administrator, administrative receiver, trustee or similar officer (or for the appointment of any analogous person in any jurisdiction) of all or any material part of its assets and revenues or had notice given of the intention to appoint any of the foregoing to it;

- (n) waived, compromised, settled, abandoned or admitted any dispute, claim or counter-claim whether made or potential and whether by or against any member of the Wider Phaunos Group (in each case, which is material in the context of the Wider Phaunos Group taken as a whole);
- (o) save as required by Stafford Bidco in connection with the Cash Offer, made any material alteration to its constitutional documents;
- (p) entered into, or varied the terms of, or terminated or given notice of termination of, any service agreement or arrangement with any director or senior executive of any member of the Wider Phaunos Group;
- (q) proposed, agreed to provide, or agreed to modify the terms of, any share option scheme, incentive scheme or other material benefit relating to the employment or termination of employment of any person employed by any member of the Wider Phaunos Group, other than in accordance with the terms of the Cash Offer;
- (r) made or consented to any material change to the terms of the trust deeds or change to the trustee or other fiduciary constituting the pension schemes (if any) established for its directors and/or employees and/or their dependants or to the benefits which accrue, or to the pensions which are payable thereunder, or to the basis on which qualification for or accrual or entitlement to such benefits or pensions are calculated or determined, or to the basis upon which the liabilities (including pensions) of such pension schemes are funded or made, or agreed or consented to, any change to the trustees, other than in accordance with applicable law;
- (s) entered into any contract, commitment or arrangement or passed any resolution or made any offer (which remains open for acceptance) with respect to, or proposed or announced any intention to effect or propose, any of the transactions, matters or events referred to in this paragraph 1.12; or
- (t) taken (or agreed or proposed to take) any action that requires, or would require, the consent of the Panel or the approval of Phaunos Shareholders in accordance with, or as contemplated by, Rule 21.1 of the Code;

**No adverse change, litigation, regulatory enquiry or breach or similar**

1.13 except as Disclosed, since 31 December 2017:

- (a) no adverse change having occurred, and no circumstances having arisen which would or might reasonably be expected to result in any adverse change in the business, assets, financial or trading position or profits or prospects of any member of the Wider Phaunos Group (in each case to an extent which is material in the context of the Wider Phaunos Group taken as a whole);
- (b) no litigation, arbitration proceedings, prosecution or other legal proceedings in any jurisdiction having been threatened, announced, instituted or remaining outstanding by, against or in respect of any member of the Wider Phaunos Group or to which any member of the Wider Phaunos Group is a party (whether as claimant or defendant or otherwise) and no investigation by any Regulatory Authority or other investigative body against or in respect of any member of the Wider Phaunos Group having been threatened, announced, instituted or remaining outstanding by, against or in respect of any member of the Wider Phaunos Group (in each case which is material in the context of the Wider Phaunos Group taken as a whole); and
- (c) no member of the Wider Phaunos Group having conducted its business in breach of any applicable laws and regulations which in any case is material in the context of the Wider Phaunos Group;

- (d) no steps having been taken and no omissions having been made which are reasonably likely to result in the withdrawal, cancellation, termination or modification of any licence held by any member of the Wider Phaunos Group which is necessary for the proper carrying on of its business and the withdrawal, cancellation, termination or modification of which is material in the context of the Wider Phaunos Group taken as a whole;

**No discovery of certain matters regarding information and liabilities**

1.14 save as Disclosed, no contingent or other liability having arisen outside the ordinary course of business which would or might reasonably be expected to affect adversely the business, assets, financial or trading position or profits or prospects of any member of the Wider Phaunos Group;

1.15 save as Disclosed, Stafford Bidco not having discovered that:

- (a) any financial, business or other information concerning the Wider Phaunos Group publicly disclosed prior to the date of this Announcement at any time by any member of the Wider Phaunos Group is misleading, contains a misrepresentation of fact or omits to state a fact necessary to make the information contained therein not misleading (in each case to an extent which is material in the context of the Wider Phaunos Group taken as a whole);
- (b) any member of the Wider Phaunos Group is subject to any liability, contingent or otherwise, other than in the ordinary course of business (in each case to an extent which is material in the context of the Wider Phaunos Group taken as a whole);
- (c) any information which affects the import of any information disclosed to Stafford Bidco at any time by or on behalf of any member of the Wider Phaunos Group which is material in the context of the Wider Phaunos Group taken as a whole or in the context of the Cash Offer; or
- (d) there is or is likely to be any obligation or liability (whether actual or contingent) to make good, repair, re-instate or clean up any property now or previously owned, occupied, operated or made use of or controlled by any past or present member of the Wider Phaunos Group under any environmental legislation, regulation, notice, circular or order of any Regulatory Authority in any jurisdiction (in each case to an extent which is material in the context of the Wider Phaunos Group taken as a whole);
- (e) circumstances exist (whether as a result of making the Acquisition or otherwise) which would be reasonably likely to lead to any Regulatory Authority instituting (or whereby any member of the Wider Phaunos Group would be likely to be required to institute), an environment audit or take any steps which would in any such case be reasonably likely to result in any actual or contingent liability to improve or install new plant or equipment or to make good, repair, reinstate or clean up any property of any description or any asset now or previously owned, occupied or made use of by any past or present member of the Wider Phaunos Group (or on its behalf) or by any person for which a member of the Wider Phaunos Group is or has been responsible, or in which any such member may have or previously have had or be deemed to have had an interest, which is material in the context of the Wider Phaunos Group taken as a whole; and

**Anti-corruption, sanctions and criminal property**

1.16 except as Disclosed, Stafford Bidco not having discovered that:

- (a) (A) any past or present member, director, officer, employee or agent of any person within the Wider Phaunos Group is or has at any time engaged in any activity, practice or conduct which would constitute an offence under the Bribery Act 2010, the US Foreign Corrupt Practices Act of 1977, the Prevention of Corruption (Bailiwick of Guernsey) Law, 2003 (as amended) or any other applicable anti-corruption legislation or (B) any co-venturer, or person that performs or has performed services or otherwise acts or had otherwise acted for or on behalf of the Wider Phaunos Group is or has at any time engaged in any activity, practice or conduct in such capacity or in

connection with such activity which would constitute an offence under the Bribery Act 2010, the US Foreign Corrupt Practices Act of 1977, the Prevention of Corruption (Bailiwick of Guernsey) Law, 2003 (as amended) or any other applicable anti-corruption legislation or regulation;

- (b) (A) any past or present member, director, officer, employee or agent of any person within the Wider Phaunos Group is or has at any time engaged in any activity, practice or conduct which would constitute an offence under the US Bank Secrecy Act of 1970, the Proceeds of Crime Act 2002, the Terrorism Act 2000, the Money Laundering Regulations 2007, the Criminal Justice (Proceeds of Crime)(Bailiwick of Guernsey) Law, 1999 (as amended), the Terrorism and Crime (Bailiwick of Guernsey) Law, 2002 (as amended) or any other applicable anti-money laundering legislation or (B) any co-venturer, or person that performs or has performed services or otherwise acts or had otherwise acted for or on behalf of the Wider Phaunos Group is or has at any time engaged in any activity, practice or conduct in such capacity or in connection with such activity which would constitute an offence under the US Bank Secrecy Act of 1970, the Proceeds of Crime Act 2002, the Terrorism Act 2000, the Money Laundering Regulations 2007, the Criminal Justice (Proceeds of Crime)(Bailiwick of Guernsey) Law, 1999 (as amended), the Terrorism and Crime (Bailiwick of Guernsey) Law, 2002 (as amended) or any other applicable anti-money laundering legislation and regulation;
- (c) any asset of any member of the Wider Phaunos Group constitutes criminal property as defined section 340(3) of the Proceeds of Crime Act 2002 (but disregarding sub-paragraph (b) of that definition);
- (d) any past or present member, director, officer, employee or agent of any person within the Wider Phaunos Group, or any other person for whom any such person may be liable or responsible, has engaged in any business with, made any investments in, made any funds or assets available to or received any funds or assets from: (A) any government, entity or individual in respect of which US or European Union persons, or persons operating in those territories, are prohibited from engaging in activities or doing business, or from receiving or making available funds or economic resources, by US or European Union laws or regulations, including the economic sanctions administered by the United States Office of Foreign Assets Control, or HMRC; or (B) any government, entity or individual targeted by any of the economic sanctions of the United Nations, the United States, the European Union or any of its member states; or
- (e) any past or present member, director, officer, employee or agent of any person within the Wider Phaunos Group is or has at any time engaged in any activity, practice or conduct which is in material non-compliance with applicable export control laws and regulations in jurisdictions in which any such entity of the Wider Phaunos Group does business or is otherwise subject to jurisdiction, including the United States International Traffic in Arms Regulations, the Export Administration Regulations, the Export Control Act 2002 or the Export Control Order 2008.

## 2. **CERTAIN FURTHER TERMS OF THE CASH OFFER**

- 2.1 The Conditions are for the benefit of Stafford Bidco and no Phaunos Shareholder shall be entitled to waive any of the Conditions without the prior consent of Stafford Bidco.
- 2.2 To the extent permitted by law and subject to the requirements of the Panel and the Code, Stafford Bidco reserves the right at its absolute discretion to waive, in whole or in part, all or any of the Conditions except the Condition contained in paragraph 1.1.
- 2.3 Each of the Conditions shall be regarded as a separate condition and shall not be limited by reference to any other Condition.
- 2.4 The Cash Offer will lapse if:
- (a) there is a Phase 2 CMA reference (as defined in the Code) made in respect of the proposed acquisition of Phaunos; or
- (b) the European Commission either initiates Phase 2 European Commission proceedings (as defined in the Code) or makes a referral to a competent authority of



the United Kingdom under Article 9(1) of the EU Merger Regulation and there is a subsequent Phase 2 CMA reference,

in either case before 1.00 pm (London time) on the first closing date of the Cash Offer or the time and date on which the Cash Offer becomes or is declared unconditional as to acceptances (whichever is the later).

2.5 If the Cash Offer lapses, it will cease to be capable of further acceptances. Phaunos Shareholders who have already accepted the Cash Offer will then cease to be bound by acceptances submitted at or before the time the Cash Offer lapses.

2.6 The Cash Offer will lapse, and will not proceed, unless all of the Conditions relating to the Cash Offer have been fulfilled or (if capable of waiver) waived by, or, where appropriate, have been determined by Stafford Bidco to be or remain satisfied by midnight (London time) on the 21st day after the later of:

(a) the first closing date of the Cash Offer; and

(b) the date on which the Cash Offer becomes or is declared unconditional as to acceptances,

or, in each case, such later date as Stafford Bidco may determine, with the consent of the Panel.

2.7 Stafford Bidco shall be under no obligation to waive (if capable of waiver) or treat as satisfied any Condition by a date earlier than the latest date specified above for its satisfaction even though the other Conditions of the Cash Offer may, at such earlier date, have been waived or fulfilled and there are, at such earlier date, no circumstances indicating that any such Conditions may not be capable of fulfilment.

2.8 Under Rule 13.5 of the Code, Stafford Bidco may not invoke a Condition so as to cause the Acquisition of Phaunos not to proceed, to lapse or any offer to be withdrawn unless the circumstances which give rise to the right to invoke the Condition are of material significance to Stafford Bidco in the context of the Acquisition. The Condition contained in paragraph 1.1 and, if applicable, any Scheme conditions adopted on the basis specified in paragraph 2.11, are not subject to this provision of the Code. As noted above, Stafford Bidco considers the Condition contained in paragraph 1.2 to be of material significance to Stafford Bidco in the context of the Acquisition.

2.9 If Stafford Bidco is required by the Panel to make an offer for any Phaunos Shares under a mandatory offer for Phaunos Shares under Rule 9 of the Code, Stafford Bidco may make such alterations to the above Conditions, including the Condition contained in paragraph 1.1 as are necessary to comply with provisions of that Rule.

2.10 Stafford Bidco reserves the right, subject to the prior consent of the Panel (if required), for any member of the Wider Stafford Bidco Group from time to time, instead of Stafford Bidco, to make the Cash Offer or otherwise implement the acquisition of Phaunos.

2.11 Stafford Bidco reserves the right, subject to the prior consent of the Panel, to implement the Acquisition of Phaunos by way of a Scheme. In such event, the Scheme will be implemented on the same terms (subject to appropriate amendment), so far as applicable, as those which would apply to the Cash Offer.

2.12 The Phaunos Shares will be acquired by Stafford Bidco pursuant to the Cash Offer fully paid and free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature whatsoever and together with all rights attaching to them as at the date of this Announcement or subsequently attaching or accruing to them, including, without limitation, voting rights and the right to receive and retain, in full, all dividends and other distributions (if any) declared, made or paid, or any other return of capital (whether by way of reduction of share capital, repurchase or redemption or otherwise) made on or after the date of this Announcement, save for the right to receive any dividend, distribution, share repurchase payment and/or return of capital in respect of which a corresponding reduction has been made to the Offer Price as specified in paragraph 2.13 below.

2.13 If, on or after the date of this Announcement, any dividend and/or other distribution and/or share repurchase and/or

return of capital is declared, made, paid or other effective by Phaunos or otherwise becomes payable in respect of any Phaunos Share by reference to a record date falling on or after the date of this Announcement, Stafford Bidco reserves the right (without prejudice to any right of Stafford Bidco to invoke the Condition contained in sub-paragraph 1.12(b)) to reduce the Offer Price by the amount equal to the gross amount of such dividend and/or distribution and/or share repurchase and/or return of capital, in which case any reference in this Announcement to the Offer Price under the Cash Offer will be deemed to be a reference to the Offer Price as so reduced and Phaunos Shareholders will be entitled to receive and retain the amount by reference to which the Offer Price has been reduced. To the extent that any such dividend and/or distribution and/or share repurchase and/or return of capital is declared, made or paid or is payable and it is:

- (d) transferred pursuant to the Cash Offer on a basis which entitles Stafford Bidco to receive and retain it; or
- (e) cancelled in full prior to payment,

the Offer Price to be paid by Stafford Bidco under the terms of the Cash Offer will not be subject to reduction in accordance with this paragraph. Any exercise by Stafford Bidco of its rights referred to in this paragraph shall be the subject of an announcement and, for the avoidance of doubt, shall not be regarded as constituting any revision or variation of the terms of the Cash Offer.

- 2.14 This Announcement is, and the Cash Offer will be, governed by English law and subject to the jurisdiction of the courts of England and Wales. The Cash Offer will be subject to the Conditions and further terms which are set out in this Appendix 1, to the full terms and conditions which will be set out in the Offer Document, and to the applicable requirements of the FCA, the Panel, the London Stock Exchange, the GFSC, the Guernsey Competition and Regulatory Authority, the Code, the Listing Rules, FSMA and applicable US tender offer rules and any other laws applicable to the Cash Offer.

## **APPENDIX 2**

### **SOURCES OF INFORMATION AND BASES OF CALCULATION**

In this Announcement, unless otherwise stated, or the context otherwise requires, the following sources and bases of calculation have been used:

1. Historical financial information relating to Phaunos has been extracted or derived (without material adjustment) from the 2017 Annual Report, the 2016 Annual Report, the Annual Report & Consolidated Financial Statements of Phaunos for the year ended 31 December 2013 and the Condensed Interim Financial Report of Phaunos for the six months ended 30 June 2014 (Unaudited).
2. The total equity value of approximately US\$244.2 million (on a fully diluted basis) is obtained by multiplying the proposed US\$0.49 per Phaunos Share by Phaunos's fully diluted share capital as referred to in paragraph 3 below.

3. The fully diluted share capital of Phaunos is calculated on the basis of 498,360,117 Phaunos Shares in issue, as announced by the Company on 10 January 2018. The ISIN for Phaunos Shares is GG00BFX4LT97.
4. Unless otherwise stated, all prices for Phaunos Shares are Closing Prices as of the relevant date.
5. The premium calculations to the Offer Price per Phaunos Share have been calculated by reference to:
  - (a) a price of US\$0.44 per Phaunos Share, being the Closing Price on 4 June 2018 (the last Business Day prior to the Possible Offer Announcement); and
  - (b) Phaunos's net asset value of US\$0.51 per Phaunos Share as at 31 December 2017 published by the Company in the Phaunos 2017 Annual Report having been adjusted downward for Stafford Bidco's independent assessment of the impact of currency fluctuations in the period to 30 June 2018 and the compulsory share redemption post 31 December 2017.
6. Prevailing exchange rates as at 29 June 2018 are based on a US\$:NZD exchange rate of 1:1.4770 (Bloomberg) and a US\$:BRL exchange rate of 1:3.8474 (Bloomberg).
7. The reference to the "time value of money" amounting to US\$0.03 to US\$0.04 per Phaunos Share in the section entitled "Background to and reasons for the Cash Offer" has been calculated on the basis of the following assumptions:
  - (a) a discount rate of seven per cent.; and
  - (b) completion of the Asset Realisation Process occurring 13 months after Phaunos Shareholders could otherwise have expected to receive the consideration under the Cash Offer.

### **APPENDIX 3**

#### **DEFINITIONS**

|                      |  |
|----------------------|--|
| "2016 Annual Report" | the Annual Report & Consolidated Financial Statements of the Company for the year ended 31 December 2016 |
| "2017 AGM"           | the annual general meeting of the Company held on 19 June 2017   |

|                          |  |
|--------------------------|--|
| "2017 Annual Report"     | the Annual Report & Consolidated Financial Statements of the Company for the year ended 31 December 2017   |
| "Acquisition"            | the acquisition of the entire issued and to be issued share capital of Phaunos to be implemented by way of the Cash Offer or by way of the Scheme (as applicable)  |
| "Announcement"           | this Announcement made pursuant to Rule 2.7 of the Code  |
| "Annual Report"          | the 2016 Annual Report or the 2017 Annual Report, as applicable  |
| "associated undertaking" | has the meaning given in section 1151 of the UK Companies Act  |
| "Business Day"           | a day (not being a Saturday or Sunday) on which clearing banks are generally open in London for the transaction of normal banking business   |
| "Closing Price"          | the closing middle market quotation of a Phaunos Share as at the close of trading on the day to which such quotation relates as derived from Daily Official List published by the London Stock Exchange  |
| "CMA"                    | the UK Competition and Markets Authority, being the body responsible for investigating mergers and the regulation of firms under UK competition law created by the Enterprise and Regulatory Reform Act 2013   |
| "Code"                   | the UK City Code on Takeovers and Mergers  |
| "Companies Law"          | Companies (Guernsey) Law 2008 (as amended)   |
| "Condition"              | a condition of the Cash Offer set out in paragraph 1 of Appendix 1 to this Announcement and to be set out in the Offer Document  |
| "Court"                  | the Royal Court of Guernsey  |
| "Dealing Disclosure"     | an announcement pursuant to Rule 8 of the Code containing details of dealings in interests in relevant securities of a party to an offer   |
| "Disclosed"              | the information which: <ul style="list-style-type: none"> <li>(a) has been fairly disclosed in the Phaunos 2017 Annual Report; or</li> <li>(b) has been publicly announced to a Regulatory Information Service by Phaunos before the date of this Announcement.</li> </ul> |
| "EU Merger Regulation"   | Council Regulation (EC) 139/2004   |
| "FCA"                    | the Financial Conduct Authority  |
| "Form of Acceptance"     | the form of acceptance and authority relating to the Cash Offer which (in the case of Phaunos Shareholders who hold their Phaunos Shares in certificated form) will accompany the Offer Document   |
| "FSMA"                   | the Financial Services and Markets Act 2000 (as amended)   |
| "GFSC"                   | the Guernsey Financial Services Commission   |
| "Guernsey"               | the Island of Guernsey   |
| "Lancea LLP"             | Lancea LLP, financial adviser to Stafford and Stafford Bidco   |
| "Listing Rules"          | the listing rules made by the FCA pursuant to Part 6 of FSMA, referred to in section 73A of the same, and contained in the FCA's publication of the same name  |

|                              |             |   |
|------------------------------|-------------|---|
| "London Stock Exchange"      |             | London Stock Exchange plc   |
| "Matariki Interest"          |             | the Company's 23 per cent. holding in Matariki Forestry Group (New Zealand Company No. 1665572)   |
| "Offer Document"             |             | the offer document to be posted to Phaunos Shareholders containing the full terms and Conditions of the Cash Offer  |
| "Offer Period"               |             | the offer period (as defined by the Code) relating to Phaunos, which commenced on 5 June 2018   |
| "Offer Price"                |             | the consideration to be delivered by Stafford Bidco under the terms of the Cash Offer in the form of US\$0.49 in cash for each Phaunos Share  |
| "Opening Disclosure"         | Position    | an announcement containing details of interests or short positions in, or rights to subscribe for, any relevant securities of a party to the proposed Acquisition the subject of this proposed acquisition the subject of this Announcement if the person concerned has such a position   |
| "Overseas Shareholders"      |             | Phaunos Shareholders who are resident in, ordinarily resident in, or citizens of, jurisdictions outside the United Kingdom  |
| "Panel"                      |             | the UK Panel on Takeovers and Mergers   |
| "Phaunos"                    |             | Phaunos Timber Fund Limited, a non-cellular company incorporated in Guernsey with registered number 45564 and registered office at 11 New Street, St Peter Port, Guernsey GY21 2PF, Channel Islands and authorised as a closed-ended investment scheme by the GFSC  |
| "Phaunos Board"              |             | the board of directors of Phaunos   |
| "Phaunos Shares"             |             | the ordinary shares of no par value in the capital of the Company and any further such ordinary shares which are unconditionally allotted or issued while the Cash Offer remains open for acceptance or before such earlier date as Stafford Bidco (subject to the Code) may determine, not, unless the Panel so permits, being earlier than the date on which the Cash Offer becomes, or is declared, unconditional as to acceptances or, if later, the first closing date of the Cash Offer |
| "Phaunos Shareholders"       |             | the registered holders of Phaunos Shares from time to time  |
| "Phaunos 2017 Annual Report" | Annual      | the Annual Report & Consolidated Financial Statements of Phaunos for the year ended 31 December 2017  |
| "Possible Announcement"      | Offer       | the announcement made by Stafford of a possible cash offer for Phaunos on 5 June 2018 pursuant to Rule 2.4 of the Code  |
| "Pöyry"                      |             | Pöyry Capital Limited   |
| "Regulatory Authority"       |             | has the meaning given to it in paragraph 1.5 of Appendix 1  |
| "Regulatory Service"         | Information | any service authorised from time to time by the FCA for the purpose of disseminating regulatory announcements   |
| "Restricted Jurisdiction"    |             | any jurisdiction where local laws or regulation may result in a significant risk of civil, regulatory or criminal exposure if information concerning the Acquisition is sent or made available in that jurisdiction;  |

|   |   |
|---|---|
| "Scheme"                                      | if the acquisition is to be implemented by way of a scheme of arrangement, a scheme of arrangement under Part VIII of the Companies Law between Phaunos and the Phaunos Shareholders to implement the acquisition of Phaunos  |
| "Stafford"                                    | Stafford Capital Partners Limited   |
| "Stafford Bidco"                              | Mahogany Bidco Limited  |
| "Stafford International Timberland Fund VIII" | Stafford International Timberland VIII Fund (No 1) L.P., Stafford International Timberland VIII Fund (No 2) L.P. and Stafford International Timberland VIII (US) L.P., each of which is managed by Stafford   |
| "Stafford OPD"                                | has the meaning given in paragraph 10 of the Announcement   |
| "subsidiary"                                  | has the meaning given in section 1159 of the UK Companies Act   |
| "subsidiary undertaking"                      | has the meaning given in section 1162 of the UK Companies Act   |
| "UK" or "United Kingdom"                      | the United Kingdom of Great Britain and Northern Ireland  |
| "UK Companies Act"                            | the Companies Act 2006 (as amended)   |
| "United States" or "US"                       | the United States of America, its territories and possessions, any state of the United States and the District of Columbia  |
| "US Exchange Act"                             | the US Securities Exchange Act of 1934, as amended  |
| "Wider Phaunos Group"                         | Phaunos and its subsidiaries, subsidiary undertakings and associated undertakings and any other body corporate, partnership, joint venture or person in which Phaunos and all such undertakings (aggregating their interests) have an interest of more than 20 per cent. of the voting or equity capital or the equivalent  |
| "Wider Stafford Bidco Group"                  | Stafford Bidco and Stafford, and their respective subsidiaries, subsidiary undertakings and associated undertakings and any other body corporate, partnership, joint venture or person in which Stafford Bidco, Stafford and all such undertakings (aggregating their interests) have an interest of more than 20 per cent. of the voting or equity capital or the equivalent |

A reference to "includes" shall mean "includes without limitation", and references to "including" and any other similar term shall be construed accordingly.

All times referred to are London time unless otherwise stated.

All references to "US\$" are to the lawful currency of the United States.

All references to statutory provision or law or to any order or regulation shall be construed as a reference to that provision, law, order or regulation as extended, modified, replaced or re-enacted from time to time and all statutory instruments, regulations and orders from time to time made thereunder or deriving validity therefrom.

## APPENDIX 4

### STAFFORD'S VIEWS ON PHAUNOS'S ASSET PORTFOLIO

#### **Introduction and Background**

As noted above, Stafford acted as the Investment Manager for Phaunos from July 2014 until February 2018, during which time Stafford was widely recognised for leading a positive turnaround of the Company. At the time of the 2017 AGM, the price per Phaunos Share had reached US\$0.50 and the discount to NAV, which had reached 35 per cent. by the end of 2014, had shrunk to nine per cent.. Leading up to the 2017 AGM, Stafford was supportive of a five-year continuation of Phaunos, which would have afforded the opportunity to build on the turnaround achieved, and potentially to grow the Company further.

The purpose of this appendix is to provide Phaunos shareholders with details of the estimated impact of currency fluctuations on the value of Phaunos's asset portfolio since 31 December 2017.

#### **Phaunos's net asset value as at 31 December 2017**

Phaunos's net asset value ("**NAV**") at 31 December 2017 was US\$280.3 million (the "**2017 NAV**") and its net asset value per Phaunos Share was US\$0.51 (the "**2017 NAV Per Share**"). However, Stafford estimates that currency fluctuations that have occurred since the 2017 NAV was published could have reduced the 2017 NAV by US\$14.1 million and the 2017 NAV Per Share by US\$0.0282, in each case as at 30 June 2018.<sup>[1]</sup>

Details of these calculations are contained in Table 1 below.

[Click here to view Table 1: Summary of Phaunos NAV and adjustments for share redemption and foreign exchange movements](#)

[http://www.rns-pdf.londonstockexchange.com/rns/3473T\\_10-2018-7-3.pdf](http://www.rns-pdf.londonstockexchange.com/rns/3473T_10-2018-7-3.pdf)

In its 2017 Annual Report, Phaunos announced an increase in its expected asset realisation range from US\$0.42 - US\$0.52 per share to US\$0.45 - US\$0.57 per share. However, Phaunos noted that it had "very limited visibility on the likely level of offers for the Company's assets". Phaunos also states that it anticipated having received evaluated indications of interest from prospective purchasers of the Company's assets by July 2018. Stafford believes that these indications of interest are likely to have limitations in testing realisation value, given that Stafford considers them likely to be:

- non-binding;
- subject to due diligence; and/or
- subject to regulatory approval.

For these reasons, Stafford does not consider that these indications of interest will be comparable to the Cash Offer from Stafford Bidco.

In Stafford's opinion, the potential for Phaunos to secure valuations from its Asset Realisation Process exceeding the value of the Cash Offer, within a timeframe that would be acceptable to Phaunos Shareholders is likely to be limited. Furthermore, any such potential is expected to be heavily outweighed by possible downside risks associated with the uncertainty on timing, the ongoing management costs, and the actual realisation prices for the assets in Phaunos's portfolio.

The discussion on each asset in the Phaunos portfolio set out below provides further support for Stafford's views and estimates of value.

#### **Matariki Forestry Group**

Matariki Forestry Group comprises 59 per cent. of the 2017 NAV. There has been a significant uplift in value for this asset, with its net asset value increasing by 32 per cent. over the past two years (see Figure 1).

[Click here to view Figure 1: Matariki Forestry Group net asset value \(2010-2017\)](#)

[http://www.rns-pdf.londonstockexchange.com/rns/3473T\\_1-2018-7-3.pdf](http://www.rns-pdf.londonstockexchange.com/rns/3473T_1-2018-7-3.pdf)

Stafford believes that this growth has been due to the following two key factors.

1. **Rising log prices**

Export log prices in New Zealand have climbed strongly since the end of 2015 (see Figure 2). However, they have historically been subject to considerable volatility, and are now also at a cyclical high. Stafford believes that there is an increased risk of log price volatility going forward which may reflect in pricing for forest assets in the region.

2. **Compressing discount rates**

Recent years have seen a declining trend in discount rates being used in New Zealand timberland valuations (see Figure 3). This mirrors a similar trend in the United States and points towards incoming investors with lower costs of capital, increasing competition for assets, and decreasing return expectations from the asset class. Stafford estimates that a 100 basis point drop in the discount rate applied to Matariki Forestry Group could add approximately US\$0.02 per share to Phaunos's NAV. However, this would imply a discount rate approaching the bottom of the range for 2017 shown above whereas Stafford believes that the downward trend is unlikely to persist in the current rising interest rate environment.

[Click here to view Figure 2: New Zealand A-grade softwood export prices](#)

[http://www.rns-pdf.londonstockexchange.com/rns/3473T\\_2-2018-7-3.pdf](http://www.rns-pdf.londonstockexchange.com/rns/3473T_2-2018-7-3.pdf)

[Click here to view Figure 3: Discount rates applied to timberland in New Zealand](#)

[http://www.rns-pdf.londonstockexchange.com/rns/3473T\\_3-2018-7-3.pdf](http://www.rns-pdf.londonstockexchange.com/rns/3473T_3-2018-7-3.pdf)

### **Mata Mineira (Brazil)**

The dominant wood demand in Minas Gerais is for charcoal in the iron and steel industry. This sector has struggled to recover to pre-crisis levels, with 2017 pig-iron sales volume being 60 per cent. lower than in 2007 (see Figure 4). As a result, there is now a substantial surplus of wood raw material in the region (see Figure 5). This has negatively impacted wood prices, presented significant challenges in maintaining cashflow, and severely limited investment activity in the region.

[Click here to view Figure 4: Non-integrated pig-iron sales in Brazil](#)

[http://www.rns-pdf.londonstockexchange.com/rns/3473T\\_4-2018-7-3.pdf](http://www.rns-pdf.londonstockexchange.com/rns/3473T_4-2018-7-3.pdf)

[Click here to view Figure 5: Wood balance in Minas Gerais \(2016\)](#)

[http://www.rns-pdf.londonstockexchange.com/rns/3473T\\_5-2018-7-3.pdf](http://www.rns-pdf.londonstockexchange.com/rns/3473T_5-2018-7-3.pdf)

### **Eucateca (Brazil)**



Located in the southern part of Mato Grosso state, the accessible eucalyptus wood markets consist almost entirely of low-value biomass fuel for drying agricultural products (soybean and corn). The plantation is largely mature, with approximately 1.8 million m<sup>3</sup> of standing eucalyptus timber estimated to be available for harvest. However, the region has a surplus of wood supply, and sales from Eucateca have been very limited (see Figure 6 and Figure 7). The inability to convert its harvesting potential into cashflow will likely limit the buyer interest for this asset.

[Click here to view Figure 6: Scale of Eucateca's sales relative to its available supply](#)

[http://www.rns-pdf.londonstockexchange.com/rns/3473T\\_6-2018-7-3.pdf](http://www.rns-pdf.londonstockexchange.com/rns/3473T_6-2018-7-3.pdf)

[Click here to view Figure 7: Wood balance in Eucateca locality \(2016\)](#)

[http://www.rns-pdf.londonstockexchange.com/rns/3473T\\_7-2018-7-3.pdf](http://www.rns-pdf.londonstockexchange.com/rns/3473T_7-2018-7-3.pdf)

### **Pradera Roja (Uruguay)**

A substantial part of the existing plantation area was included in a harvesting right sold to UPM during 2015 (see Figure 8). This right expires in 2022 and, until it is exercised, the underlying land is effectively encumbered. The remaining plantation areas will likely be considered sub-scale, and their immature status will limit the short-term cashflow potential. This may impact the value and desirability of the assets.

[Click here to view Figure 8: Location and status of Pradera Roja properties](#)

[http://www.rns-pdf.londonstockexchange.com/rns/3473T\\_8-2018-7-3.pdf](http://www.rns-pdf.londonstockexchange.com/rns/3473T_8-2018-7-3.pdf)

### **Other assets**

The Asset Realisation Process being run by Pöyry is for only four out of the seven assets in Phaunos's portfolio. The assets not currently included in this process are as follows.

#### **1. Aurora Forestal (Uruguay)**

This investment has not been included within the Asset Realisation Process with the Phaunos Board noting in the 2017 Annual Report that it has had challenges in obtaining sufficient due diligence information from the majority shareholder. The Phaunos Board subsequently announced on 29 June 2018 that Phaunos has exercised its rights to initiate a voluntary exit mechanism pursuant to the Aurora Forestal shareholder agreement. Stafford expects that this will result in the incurrence of real estate transfer taxes, appraisal costs and legal costs. Stafford is of the opinion that, following completion of this voluntary exit, Phaunos will hold a sub-scale asset in an over-supplied wood-supply market.

#### **2. GreenWood Tree Farm Fund (United States)**

The principal asset within this investment fund was sold in the first quarter of 2016. A loan note linked to this sale remains outstanding. Subsequent to this sale the intention has been to realise the remaining assets in GreenWood Tree Farm Fund. However, this has been hampered by supply commitments to a local veneer mill. The Phaunos Board states that a pending legal claim is payable, substantially settled post-year end, although Stafford has no visibility on the current status of this.

#### **3. National Timber Partners (United States)**

This fund has been in liquidation since 2012.

The fact that these assets are not included in the Asset Realisation Process highlights the high level of uncertainty associated with the timing and value of their realisation.

### **Realisation timelines**

The Phaunos Board has indicated that the Asset Realisation Process may take between 14 and 20 months from the end of April 2018, although it also noted that material uncertainties surrounding the process may result in this being extended.

The regulatory consent required for an overseas buyer of New Zealand assets is a significant factor behind this timeline and Stafford understands that the OIO currently takes nine months or more to process applications.

The Cash Offer for Phaunos is governed by the Code, and as such is expected to be completed within three to four months from date hereof. With respect to OIO consent described above, Stafford Bidco has been advised that the OIO will give priority in exceptional circumstances, such as to accommodate other statutory timeframes.

Stafford therefore believes that by accepting the Cash Offer, Phaunos Shareholders will benefit from a considerably shorter realisation timeframe and avoid the uncertain timeline associated with the Asset Realisation Process.

### **Impact of time value of money**

Stafford believes that, once the time value of money is considered, that potential realisation values from the current sales process would be reduced by US\$0.03 - US\$0.04 per share compared to the Cash Offer. This applies across a range of scenarios evaluated by Stafford in Table 2.

[Click here to view Table 2: Stafford scenarios on asset realisation outcomes](#)

[http://www.rms-pdf.londonstockexchange.com/rms/3473T\\_11-2018-7-3.pdf](http://www.rms-pdf.londonstockexchange.com/rms/3473T_11-2018-7-3.pdf)

These scenarios assume that all the Phaunos assets are sold, and that this is achieved within the Phaunos Board's estimated realisation timeline of between 14 and 20 months. Given that both these assumptions are subject to significant uncertainty, the ultimate reduction could be substantially larger than Stafford's estimate.

### **Cambium case study**

Timberland is generally viewed as a relatively illiquid asset class and asset realisation processes can take a significant amount of time. An example relevant to Phaunos is the case of Cambium Global Timberland Limited ("**Cambium**"). On 30 November 2012, Cambium, an AIM-quoted forest investment company, announced a proposal to change its investment policy with a view to implementing an orderly realisation of its investments. This proposal was approved by Cambium's shareholders on 22 February 2013. However, Cambium's Brazilian assets (some of which are in the same state as Phaunos's investments) remain unsold since this date.

During this period, Cambium's net asset value has fallen from £68 million to £16 million with only £5 million having been returned to shareholders via a tender offer in January 2015 (see Figure 9). Approximately £47 million has therefore been dissipated through operational and management costs, plus continued write-downs in asset values.

[Click here to view Figure 9: Cambium NAV vs market capitalisation](#)

The Directors' Report in Cambium's annual report and audited consolidated financial statements for the year ended 30 April 2017 contains the following statement: "*The Board will continue to consider appropriate offers for all the Company's assets but believes that shareholders' interests are no longer best served by aiming to dispose of assets within any specific time-frame, or by actively seeking purchasers and incurring all the costs that involves*".

Stafford believes that a similar outcome is possible from Phaunos's Asset Realisation Process, with the timeline to sell all the assets being extended significantly from the Phaunos Board's estimate of between 14 and 20 months. This risk is recognised to an extent by the Phaunos Board when it states that there "are material uncertainties inherent in the disposal process which may result in this time period being extended".

#### ***Timeline and next steps***

The formal offer document relating to the Cash Offer together with, for Phaunos Shareholders who hold their Phaunos Shares in certificated form, the accompanying form of acceptance, are expected to be posted to Phaunos Shareholders between 18 July 2018 and 27 July 2018. The Acquisition is expected to complete before the end of October 2018.

#### ***Conclusion***

Stafford believes that the Cash Offer of US\$0.49 per Phaunos Share represents fair value and a good opportunity for Phaunos Shareholders given that:

- it represents a premium to Phaunos's net asset value per Phaunos Share as at 31 December 2017 of US\$0.51 (taking into account downward adjustments for currency fluctuations);
- it covers the entirety of the Phaunos asset portfolio, including GreenWood Tree Farm Fund, National Timber Partners, and the Aurora Forestal asset, which are not part of the current sales process, thereby eliminating the risk of Phaunos struggling to realise a tail of assets;
- the entirety of Phaunos's asset portfolio will be sold via a single transaction;
- the assets are sold on an accelerated timeframe relative to the Asset Realisation Process, thereby providing a swifter exit for Phaunos Shareholders and avoiding a likely reduction in realised value through the impact of the time value of money; and
- the Cash Offer is fully funded from the Stafford International Timberland Fund VIII.

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[1]

This estimate does not consider the impact of exchange rate movements on any cash balances held by Phaunos in Latin America.