FEA
GROUP OF COMPANIES
OUTGROWING THE REST

Why REAL forestry investment RETURNS are REALLY IMPORTANT

May 2009 Fact Sheet No.4

In June 2008, Forest Enterprises Australia (FEA) harvested its first forestry investment project, the Tasmanian Forests Trust No 1 ARSN 093 165 210 (Project 1993).

The final clearfall harvest after approximately 15 years resulted in total grower net harvest proceeds of $16,920 per hectare (including GST)[1]. – equating to a pre-tax Internal Rate of Return (IRR) of 13.3% per annum[2] and an after-tax IRR of 7.3% per annum[3].

FEA's second forestry investment project, the Tasmanian Forests Trust No 2 ARSN 093 165 505 (Project 1994) is scheduled to be clearfall harvested in late 2009.

Current preliminary projections indicate this project may deliver a return comparable to that of the 1993 project – that is total net harvest proceeds (including thinnings) of around $17,000 per hectare (including GST)[4].

This equates to a pre-tax IRR of around 13.0% per annum[2] and an after-tax IRR of around 6.6% per annum[3].

The 1994 Project was thinned in 2003-04 and investors have received thinning harvest net proceeds of $2,794 (including GST)[4] per hectare.

Why are forestry investment returns so important?

For any investment, many would agree that the ultimate arbiter of its quality is the longer-term return that it delivers.

To use a very simple example, if you're going to put some money in the bank for 15 years, you'd probably prefer to earn 13.3% pa rather than 3.3% pa, assuming equal risk levels.

Investing in forestry is no different.

Faced with a choice between two forestry investments with comparable structures, costs, risks and investment terms – how do you decide?

We suggest that the investment manager's past record in two areas is critical:

- Performance – how well has the manager performed with reference to its previous projects?; and
- Returns – what investment returns have been delivered by this manager?

Continued Over...

How might the total net returns from FEA's forestry investments compare with other asset classes?

FEA's 1993 Project

Thinning Harvest: 2002-03

- 84% of area thinned, 5% sawlog recovery for EcoAsh®
- Thinning harvest proceeds in year 9: $2,844 per hectare (including GST)

Clearfall Harvest: 2008

- 68% sawlog recovery for EcoAsh®
- Clearfall harvest proceeds in year 15: $14,036 per hectare (including GST)[3]

Total net harvest proceeds: $16,920 per hectare (including GST)[3]

Pre-tax IRR 13.3% per annum[1] Post-tax IRR 7.3% per annum[1]

FEA 1994 Project – Preliminary Projections

Thinning Harvest: 2003-04

- 86% of area thinned
- Thinning harvest proceeds in year 9: $2,794 per hectare (including GST)

Clearfall Harvest: scheduled for 2009*

- 77% sawlog recovery for EcoAsh®
- Clearfall harvest proceeds in year 15: $14,234 per hectare (including GST)[3]

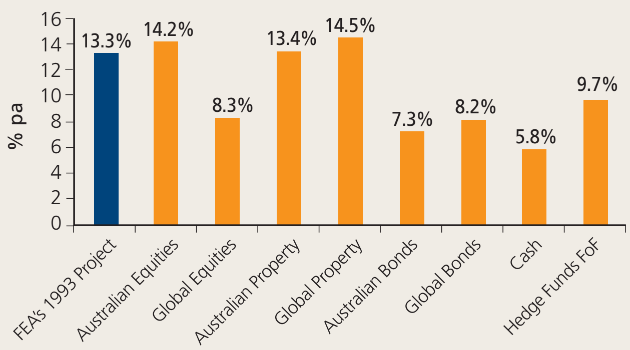
Total net harvest proceeds: $17,028 per hectare (including GST)[3]

Pre-tax IRR 13.0% per annum[1] Post-tax IRR 6.6% per annum[1]

* Actual timing of harvest may vary from the schedule due to changes in weather, market conditions, contractor availability or the advice of the Independent Forester.

How does FEA's 1993 Project compare with a range of other asset classes over a similar 15-year investment period?

Performance of Asset Classes
15 years to 31 December 2007



Source: Lonsec Research, Asset Class Historical Characteristics January 2008

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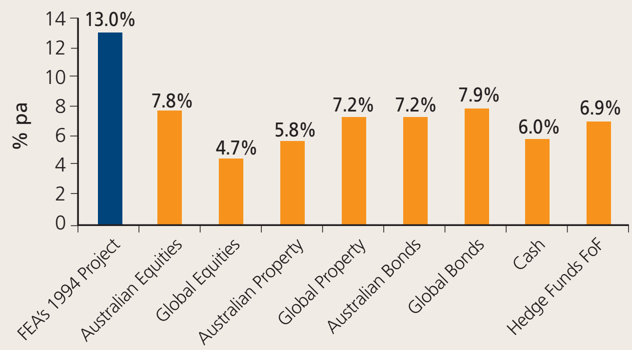


Source: Lonsec Research, Asset Class Historical Characteristics January 2009

What is predicted for other asset classes in the future?

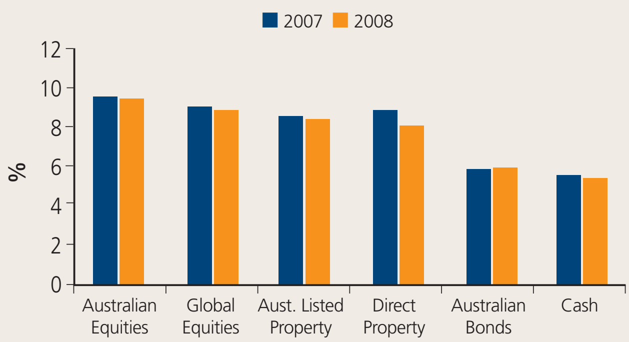
FEA's 1993 and 1994 forestry investments have very much held their own when compared to a broad range of alternative asset classes over similar timeframes.

However, prospective current and future forestry investors with FEA should consider the following graph which outlines Lonsec's 10-year forecasts for a range of asset classes from 2007 and 2008.

This is real food for thought when you compare Lonsec's 10-year forecasts with the returns FEA's 1993 and 1994 Projects have already delivered, or are projected shortly to deliver.

Past performance is not indicative of future performance and FEA Plantations is not able to guarantee the performance of the plantations established for FEA Plantations Project 2009 nor any financial return to investors.

2007 and 2008 Asset Class
10-Year Forecasts



Source: Lonsec Asset Class 10-Year Forecasts, 2007 & 2008

[1] Includes thinning harvest proceeds of $2,884 per hectare (including GST) paid to growers in 2003.
[2] Pre-tax return takes into account 100% tax-deductibility of growers' costs, but does not include tax payable on harvest proceeds. Calculation is based on the top marginal tax rates applying in each year during the term of the investment.
[3] After-tax return takes into account 100% tax-deductibility of growers' costs and includes tax payable on harvest proceeds. Calculation is based on the top marginal tax rates applying in each year during the term of the investment.
[4] Figure reported includes GST and is for GST registered growers.

Do you still believe that taxation benefits are enough?

At FEA, we understand that forestry investments are sometimes promoted on the basis that, because an investor's costs are fully tax-deductible, returns don't really matter.

The investor has already received a taxation benefit through his investment.

If he simply receives his money back at harvest, it has been said that; "he should be happy".

However, returns are vitally important, as the simple example below shows:

Original Investment (A $10,000 investment is used for clarity and simplicity of comparison. It may not be possible to invest exactly this amount.)	Taxation Benefit (Assuming 2008-09 top marginal tax rate of 45%.)	Pre-tax Internal Rate of Return (Assuming a 15-year investment term to final clearfall harvest. The return includes any thinning harvest proceeds received during the investment term.)	Future Total Harvest Proceeds (Tax may need to be paid on this amount at the appropriate rate applying to the investor at the time.)
$10,000	$4,500	0% pa	$10,000 (That is – you get your money back after 15 years – but will need to pay tax on it when received)
$10,000	$4,500	2% pa	$13,459
$10,000	$4,500	4% pa	$18,009
$10,000	$4,500	6% pa	$23,966
$10,000	$4,500	8% pa	$31,722
$10,000	$4,500	10% pa	$41,772
$10,000	$4,500	12% pa	$54,736
$10,000	$4,500	13.0% pa (FEA's 1994 Project – Projected)	$62,543
$10,000	$4,500	13.3% pa (FEA's 1993 Project – Actual)	$65,080
$10,000	$4,500	14% pa	$71,379

In every example above, assume an original $10,000 was invested for which the investor received the same $4,500 taxation benefit (assuming 2008-09 marginal tax rate of 45%).

However, look at the difference the rate of return makes to the end result!

Basically, all forestry investments deliver the same initial taxation benefit – it just varies with the amount invested – but the higher the rate of return, the more future wealth may be created.

Next time someone tells you that returns don't matter because you've already received a tax benefit – remember this simple example.

How does FEA maximise returns to investors?

Forestry investment managers establish and maintain plantations on behalf of investors and, at the end of the investment term, harvest the timber and sell it.

Therefore, the returns from a forestry investment depend on two simple factors:

1. How much timber there is to sell; and
2. The price that can be achieved for that timber net of harvesting, transport and other costs.

Plantation growth rates

The plantation growth rate generally dictates how much timber there is to sell. FEA's 1993 project achieved a plantation growth rate of 27.6 cubic metres of timber per hectare per year, which is 10.4% higher than the original prospectus forecast.

The total harvest yield for the project was 404 tonnes of recoverable timber per hectare.

This growth rate and timber yield is significantly higher than that achieved by comparable projects managed by most other forestry investment managers.

Very simply, FEA investors had more timber to sell for the same area of plantation.

For more information see FEA Fact Sheet No 2: *"The forestry investment specialist that's outgrowing the rest"* and an independent report by IndustryEdge: *"Comparison of pooled Eucalypt timber investment growth rates"*, December 2007.

These publications are available by contacting us on Freecall 1800 600 009, emailing marketing@fealtd.com or at www.fealtd.com

Higher value timber products

The second critical factor in forestry investment returns is not just how much timber an investor has to sell at harvest – but the prices that can be achieved for that timber.

In the case of FEA's 1993 project, the final clearfall harvest yielded 68% sawlogs. Unlike forestry investment projects where 100% of the timber is sold as pulplogs, FEA seeks to maximise investor returns by recovering the highest possible proportion of higher-value sawlogs.

FEA processes hardwood eucalypt plantation sawlogs at its $72 million Bell Bay sawmill and markets the sawn timber under its EcoAsh® brand.

Remaining timber not suitable for sawlogs is exported as wood fibre by FEA's SmartFibre Pty Ltd processing facility to existing customers in Japan and elsewhere.

FEA's Bell Bay sawmill is the only sawmill facility in Australia commercially producing branded sawn timber from plantation Eucalypt timber.

The capacity of FEA to recover the maximum proportion of higher-value sawlogs and process these for added-value sawn timber products maximises the value of investors' plantations and increases the returns they should receive at harvest.

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