

HIGHER RETURNS place FEA at the FOREFRONT of Australia's FORESTRY INVESTMENT industry

Fact Sheet No. 1

The inaugural forestry managed investment project of Forest Enterprises Australia Ltd (FEA), the 1993 Tasmanian Forests Trust No 1 (ARSN 093 165 210), is scheduled to distribute its final harvest dividend in May 2008.

When the thinning and estimated clearfall harvest proceeds are discounted back to 1993 dollars, the total anticipated return is approximately 50% higher than original 1993 dollar per hectare Prospectus estimates based on the assumptions of a yield of 375 tonnes per hectare at age 15 years and a selling price of \$20 per tonne.

Three factors should produce this excellent result - the achievement of higher prices for growers' sawlogs than originally estimated due to our value-adding capabilities, early thinning income, and higher than anticipated plantation growth rates.

Current forecasts indicate the Project will deliver a pre-tax return of 12.4% per annum and an after-tax return of 7.5% per annum to grower investors¹.

"Returns in excess of 7% IRR after tax would represent one of the best performed woodchip projects that we are aware of," said Tim Lee, Director of independent agribusiness investment analyst Australian Agribusiness Group (AAG)².

Harvesting is scheduled for early 2008 and our inventory forecasts a total yield of around 400 m³ per hectare.

Average annual plantation growth rates are usually referred to in terms of Mean Annual Increment (MAI) - which is the average volume of logs grown in cubic metres per hectare per year (m³/ha/year) over the growing term (rotation) or life of a plantation.

The estimated yield for our 1993 Project equates to a growth rate of recoverable logs of around 29 MAI, 16% higher than the Prospectus expectations of 25 MAI.

The total distribution to growers is likely to be in excess of \$17,000 per hectare including GST. This includes an earlier thinnings harvest of \$2,884 including GST paid in 2003.

As well as achieving a higher than anticipated growth rate, it is also pleasing that it appears that the clearfall harvest should yield a sawlog recovery rate for EcoAsh® of around 60%. This is excellent, as the 1993 Prospectus assumed all timber harvested would be sold for lower-value pulpwood and 60% sawlog recovery at clearfall is well above the 40% estimated for FEA's current and recent projects.

Although past performance is never a guarantee of future success, the anticipated returns for FEA's first MIS Project are very positive indeed.

Why is this result so significant?

As with any investment, it is the return on investment that dictates its quality.

Timber is an agricultural commodity, as are wheat and sheep. Like other commodity prices, timber is subject to normal market fluctuations in price.

No matter how good a forestry company is at maximising usable timber yield through efficient processing and obtaining the best prices for the highest-quality timber products - and FEA is very good indeed at these aspects - the timber plantation that grows better produces a greater volume of timber for sale at harvest.

More timber per woodlot simply generates a greater opportunity to maximise grower's returns.

Can you explain what Mean Annual Increment means?

Mean Annual Increment (MAI) is the average volume of timber produced (in cubic metres) per hectare of plantation per year over the growing term (rotation) or life of a plantation.

For example, an MAI of 29m³/ha/year equates to a harvest volume, on a 1 hectare Woodlot after say 13 years, of 29 x 1 x 13 = 377m³ of timber per hectare.

Multiply this volume of timber by the price(s) achieved for those logs less expenses (such as harvesting and transport) and you have your final harvest return.

This is slightly simplistic in that a thinning will occur around year 9 in order to produce quality sawlogs, however, MAIs achieved provide a valid direct comparison of various investments providing the timber species are comparable.

For example:

Investment A - MAI 29m³/ha/year provides 29 x 1 x 13 = **377m³** of marketable timber per hectare, versus

Investment B - MAI 15m³/ha/year providing 15 x 1 x 13 = **195m³** of marketable timber per hectare.

Which investment would you rather have made?

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¹Pre-tax return takes into account 100% tax-deductibility of growers' costs, but does not include tax payable on harvest proceeds. After-tax return takes into account 100% tax deductibility of growers' costs and includes tax payable on harvest proceeds. Both calculations are based on top marginal tax rates.

²Tim Lee has an Honours degree in Forestry, is a member of the Institute of Foresters Australia and is a recognised authority on the performance of the Agri Managed Investments sector.





Why has FEA performed well?

Forest Enterprises Australia is exclusively a forestry and forest products group with a 22-year track record of success.

We select land, establish plantations, grow trees and value-add the timber produced through our processing facilities and marketing of branded products.

How well trees managed by FEA grow is a product of our forestry experience and expertise.

Geographical spread: FEA targets Tasmania, northeast NSW and southeast Queensland.

Site selection: We apply rigorous selection criteria including rainfall, infrastructure proximity and soil quality and depth.

Genetics: FEA sources seedlings with superior genetics and our research and development ensures their form, productivity, disease resistance and hardiness are continually improving.

Species selection: We choose species appropriate for plantation locations. We also select species that will meet our growth goals and versatility in the products they produce.

Silviculture: Silviculture is the growing and tending of trees. It's something FEA is expert in and our management of stocking, nutrition, growth and harvesting are backed by 22 years of experience.

Woodflow modelling: Advanced plantation growth and forest product measurement systems assist us manage thinning and harvesting, contractors and milling operations to maximise forest product value-adding – and returns to growers.

What are the implications for a secondary market?

In May 2007, the Australian Government announced that from 1 July 2007 investors in forestry Managed Investment Schemes would be allowed to trade their interests once they have been held for a period of at least four years.

Plantation growth rates clearly have significant implications for the value of such investments in this 'secondary market'.

Quite simply, a mid-rotation woodlot with a higher growth rate (and therefore a greater volume of standing timber) should logically attract greater demand than a woodlot with a lower growth rate and log volume.

For a forestry investment that really grows, talk to FEA

Although past performance is never a guarantee of future success, the anticipated returns for our first MIS Project are very positive.

FEA is one of Australia's leading forestry and forest products businesses.

As we've outlined, we're specialists that do one thing – and do it very well.

That one thing is forestry and the subsequent processing, value-adding and marketing of its products.

Add to that a our record of outperforming the market on the only thing that really counts – successfully growing better-performing plantations – and your investment choice is clear.

This information current as at December 2007