

27 May 2009



## COMPANY ANNOUNCEMENT

### FEA Senior Management Podcast – FAQ's

The senior management of Forest Enterprises Australia Limited (FEA) has recorded a podcast in response to a number of frequently asked questions (FAQ's) generated by the recent collapse of two industry participants and the subsequent media coverage this has created about the future of plantation forestry investments. The podcast will be available at [www.fealtd.com](http://www.fealtd.com) shortly, but we have also taken the opportunity to make this release.

#### 1. How is FEA different to Timbercorp Ltd and Great Southern Ltd?

*FEA has a large and developing business in timber processing. Unlike these two companies, FEA is a fully integrated forestry and forest products company and approximately half of its revenue was generated from manufacturing sources in FY2008, as shown in the pie charts in question 3 below. We have made significant investment in recent years establishing a state-of-the-art saw mill to process sawn timber at Bell Bay, Tasmania, and manage a sizable and profitable export wood fibre operation called SmartFibre Pty Ltd.*

*FEA was established over 23 years ago as a specialist forestry company, which continues to remain our dedicated focus today. Our CEO, many members of our Board of Directors and senior management team are qualified and highly experienced professional foresters in areas ranging from plantation management through to log and timber processing and distribution.*

*We have never offered horticultural (non forestry) investments and we do not use authorised representatives (i.e. those without a Financial Services Licence) for direct distribution of forestry investments.*

*Additionally, since 2003, FEA has originated a quality loan book of over \$270 million in grower loans and approximately \$190 million has been repaid and/or sold with write-offs totalling only \$2.6 million. This strong result reflects the high quality of our management skills, debtor profile and our investors' repayment history.*

#### 2. What would happen to FEA if the government abolished managed forestry investments?

*FEA believes that it is unlikely that managed forestry investments will be abolished, as the sector had already been extensively reviewed in previous years. These reviews have culminated in the current Federal forestry policy and the "Plantations for Australia: The 2020 Vision" which dictates an ongoing strategic mandate to establish new plantations to achieve 3 million hectares by the year 2020. Managed forestry investments are responsible for around 80% of new plantation establishment in Australia and also are important for an increasing proportion of the replanting of harvested plantations.*

*If there were to be a material change in government policy, it is important to note that FEA is a fully integrated forestry and forest products company that does not solely rely on a single source of revenue. FEA's strategy concentrates on continuing to diversify revenue streams. This has resulted in the commissioning of the Bell Bay saw mill, producing sawn timber for the Tasmanian and mainland markets; and our SmartFibre joint venture which exports wood fibre.*

*If FEA were to experience a downturn of forestry investment sales from FY2008 sales (of \$114.5 million) to previous levels of our FY2006 and FY2007 results (i.e. circa \$60 million), our NPAT would reduce by approximately \$7 million. A positive outcome of this scenario would be that our current land bank would be sufficient to establish the plantations resulting from the equivalent of \$60 million in forestry investment sales. This had benefits to cashflow in FY2010, but we note the lack of certainty about FY2009 revenue and result from these new sales.*

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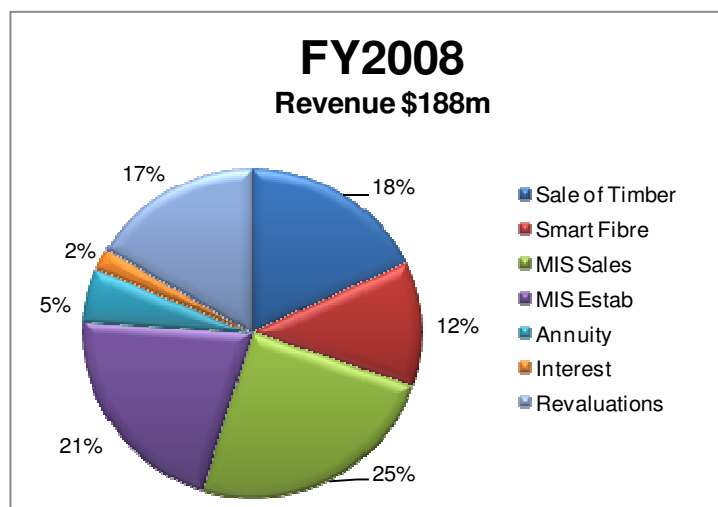
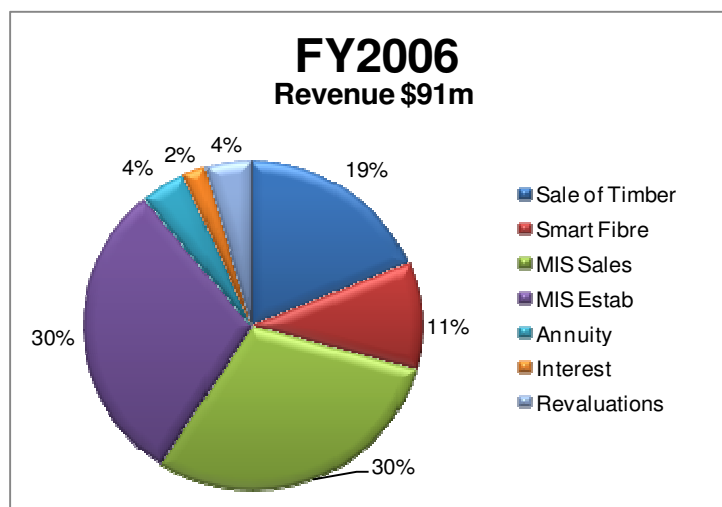


We have also secured external preferred finance for the FY2009 project through aggregate facilities of \$95 million with two separate lenders further reducing capital requirements.

### 3. What percentage of gross revenue is generated from sales of forestry investments?

The charts below is evidence of FEA shifting its reliance away from a single revenue source and moving further towards a fully integrated model with diversified revenue streams. In FY2008, sales of forestry investments accounted for approximately 50% of FEA's total revenue, compared with approximately 64% in FY2006. This figure should continue to improve as the Bell Bay saw mill output quantity improves.

We do not anticipate that the FY2009 result will include an investment property (freehold forestry land) revaluation increase in the current financial climate. This will not be quantified prior to receipt of independent land valuation reports, as part of our normal fair value reviews.



Note: The above charts include FEA's 50% share of SmartFibre revenue, not separately recognised in FEA's accounts, as SmartFibre is equity accounted. Since 30 June 2008, the company has reassessed its revenue recognition policy relating to deferred lease and management fees. The charts above have been adjusted to take this into account. Please see note 1(e) of FEA's FY2009 half year accounts for further details. Please refer to Page 12 FEA's 2008 Annual Report for a description on the way that MIS revenue is recognised.

### 4. What is FEA's debt to equity ratio?

FEA had a debt to equity ratio of approximately 40% (net debt divided by net debt plus equity) as at 31 December 2008 with net debt of \$197 million (bank debt of \$207 million less cash of \$10 million).

Our current bank facilities are \$245 million, comprised of \$235 million cash advance and \$10 million working capital. The cash advance facilities are a revolving credit (i.e. they do not have scheduled principal repayments) and are due for renewal or repayment in January 2011.

### 5. Did FEA sell its second tranche of its loan book of \$6m as announced to the ASX previously?

A contract to sell a \$6 million tranche of loans has been executed. A condition precedent of this contract is for the purchaser to obtain finance and we anticipate a settlement in June 2009. Upon settlement, we will have sold two loan book tranches for 100 cents in the dollar that, in this market, is a very successful outcome.

### 6. Why did FEA identify that it would sell assets?

FEA believes it is prudent capital management in today's economic environment to sell selected assets and decrease debt levels. This is part of our ongoing approach to capital management. We believe that the loan book and non-core land assets are both very high quality assets.



**7. Have the trees from FY2008 sales been planted?**

*Plantation establishment for all FY2008 sales are on track and will be fully completed prior to 30 June 2009.*

**8. What is “Plantations for Australia: The 2020 Vision” and does it still have credibility in the current environment?**

*This Federal policy initiative was announced in October 1997 and remains a strategic partnership between the Commonwealth, State and Territory Governments with combined forest industry input. It was reviewed in 2002.*

*The core objective is to enhance the plantation timber processing industry to improve regional wealth and international competitiveness through a sustainable increase in Australia's plantation resources. It is also aimed at replacing nearly Australia's import deficit in forest products of nearly \$2 billion per annum. The underlying goal of the “Plantations for Australia: The 2020 Vision” is to treble the area of forestry plantations from 1 million hectares in 1996 to 3 million hectares by the year 2020.*

*Australia's progress towards meeting this target achieved nearly 2.0 million hectares of total plantations as at 2008 and will require a significant increase in new plantation establishment in order to achieve the strategic target.*

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