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Company Announcements Platform
Australian Securities Exchange

MARKET UPDATE

Trading Outlook

The company has revised its market guidance for the year ended 30 June 2012 with underlying earnings before interest and tax for the year expected to be approximately \$30 million. The revision from the previous guidance is a reflection of the following factors:

- Marketing of hardwood sawn timber operations in Tasmania and Western Australia ceased in December 2011. The company is currently reviewing operations at its remaining hardwood timber business in Victoria.
- Operating performance from the softwood sawmills at Bell Bay and Tarpeena is being impacted by the downturn in activity in the housing sector. Market conditions in the South East Australian region have contracted further in November and December with import competition remaining strong. Production at both mills has been reduced to a two-shift basis to manage inventory levels. The earnings forecast is based on this market situation not improving in the balance of the 2012 financial year.
- A reduction in earnings from the forest products business of \$10 million. This reduction is due to a reduction in forecast sales volume for the financial year to 2.2 million gmt and reduced processing margins and management fees resulting from forecast reductions in selling prices.
- Export woodchip volume for the 2012 calendar year is forecast in the range of 2.6-2.8 million gmt including softwood at 0.6 million gmt. Volume improvement is forecast to occur progressively through the 2012 calendar year, although pricing will remain under pressure. At the quoted 2011 calendar year benchmark price for *Eucalyptus globulus* ex Albany of \$207.40 per bdmt, Australian hardwood fibre is approximately 15% out of the market in comparison to its competitors. This gap is driven by both the impact of the Australian dollar appreciation and availability of low cost wood out of South East Asian supply sources, notably Vietnam and Thailand. Forecasts for the 2012 calendar year are based on the business meeting market pricing. Demand for softwood fibre is improving with increasing interest from Chinese customers.

Reported earnings for the year will be impacted by non-operating items including:

- Costs associated with the sale and exit from business operations, currently estimated at \$(2.5) million (pre tax).
- Revaluation and expenses associated with financial instruments, estimated at \$(10.4) million (pre tax). \$5.4 million of this cost is a non cash valuation adjustment.
- Revaluation of plantation related assets of \$(89.1) million (pre tax) to reflect a reduction in current market stumpage value. This is a non cash valuation adjustment. These assets include standing timber and rights to future cash flow from investment in MIS projects.

These value assessments are unaudited and subject to review in the finalisation of the half-year accounts.

Underlying earnings before interest and tax for the first half is expected to be approximately 40% of the full year forecast.

Finance Facilities

The company is in negotiation with its core debt facility providers to extend existing finance facilities until 31 December 2012. The company's senior debt facility matures on 31 January 2012. The balance of this facility is currently \$340 million with approximately \$216 million to be re-financed following repayments from asset sale transactions. Further information in respect of the facility extension will be provided when terms are finalised.

Asset Sales

Agreements for the sale of the Green Triangle forest estate have been executed, subject to conditions precedent including FIRB approval, with the transaction scheduled to settle prior to 31 January 2012. Net proceeds of the transaction of approximately \$120 million will be applied to debt reduction.

The company has a heads of agreement with a purchaser for the MIS loan book. The purchaser is currently finalising transaction due diligence with completion scheduled in January 2012. This transaction is expected to reduce debt by approximately \$85 million through cash received and the retirement of securitisation facilities.

Pulp Mill Project

Negotiations to secure an equity investment partner for the Bell Bay pulp mill are continuing. Site earthworks for the project are proceeding on schedule and on budget and are expected to complete in March 2012.

Asset Valuation

Asset values are being reviewed in light of continuing asset sale processes and market conditions, specifically the decline in the market value of hardwood fibre. The review of hardwood plantation related assets will be finalised in preparing half year reports. Current estimates indicate a reduction in the value of these assets which comprises standing timber and interests in MIS schemes of approximately \$89.1 million (pre tax). The carrying value of the Tasmanian forest estate and associated assets following this revaluation will be approximately \$660 million. The effect of these valuation adjustments is to reduce the net tangible asset value per share to approximately 91 cents. These value assessments are unaudited and subject to review in the finalisation of the half-year accounts.

Contact

Company: Greg L'Estrange – 03 6335 5211

Media: Matthew Horan – 0403 934 958