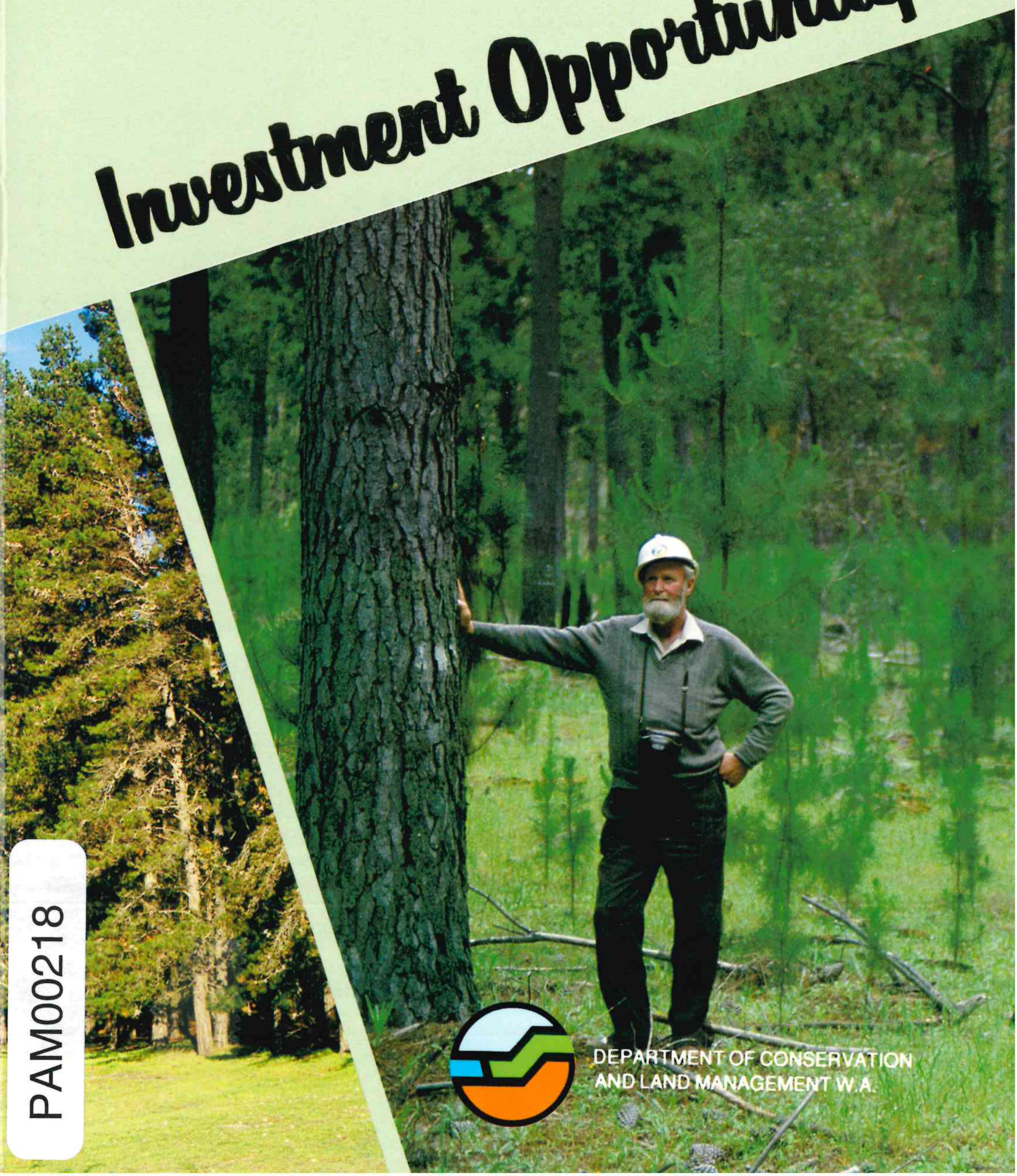
Softwood Sharefarming

Investment Opportunity



DEPARTMENT OF CONSERVATION AND LAND MANAGEMENT W.A.

Softwood Sharefarming

Investment Opportunity

Investment

The Western Australian Government invites landowners and investors in the south-west to participate in a softwood joint venture scheme that will diversify the source of their incomes and increase the State's timber supply.

Pine is expected to supply a high percentage of the timber milled in this State by 2000AD. To achieve this, the Government, through the Department of Conservation and Land Management, manages 65 000 hectares of softwoods which is being expanded by an additional 2 000 hectares each year, 80 percent of which will be acquired under the terms of the sharefarming scheme.

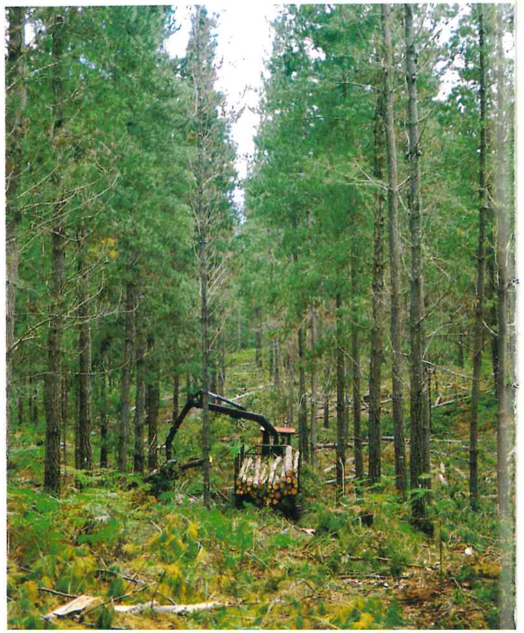
This scheme is part of a Government plan to develop at least four major softwood processing centres in the south-west. One of these centres will be the Albany-Plantagenet area, where 10 000 to 15 000 hectares of plantation capable of supplying between 100 000 and 150 000 cubic metres of pine sawlogs each year will be developed.

Development in this area started in 1987 and 1 500 hectares of pines have been planted.

This industry will inject capital and create employment opportunities in the region, and the value of the Government's commitment to the sharefarming scheme in the Albany-Plantagenet area up to the year 2000 is expected to be $20 million.

Future demand for sawn timber is expected to exceed Western Australia's capacity to supply, and increased production will come from maturing softwood plantations.

The south coast area, where the annual rainfall is greater than 650mm, is most favourable for growing P. radiata. The climate is milder and has a longer growing season than other parts of the south-west, and under good management radiata pine will grow to commercial sawlog size in 25 to 30 years.



The State Government is confident that the future market for softwood is assured and is prepared to financially back the sharefarming scheme. The participating landowner will, therefore, be investing in a long-term venture that is backed by the State Government.

The scheme allows landowners or investors to diversify their income in several ways: by receiving a yearly payment indexed for inflation; by working under contract on pine planted on the property; by running stock under the pine in some years; and by receiving a proportion of the sale price of softwood crop at final harvesting.

The scheme is flexible and can provide different investment opportunities to suit a wide range of investor needs, including taxation benefits.

How the scheme works

The sharefarming scheme is administered by the Department of Conservation and Land Management (CALM).

If the landowner's offer of land for the scheme is accepted, the owner retains title over the land and can sell it at any time as long as the Government's interest is preserved.

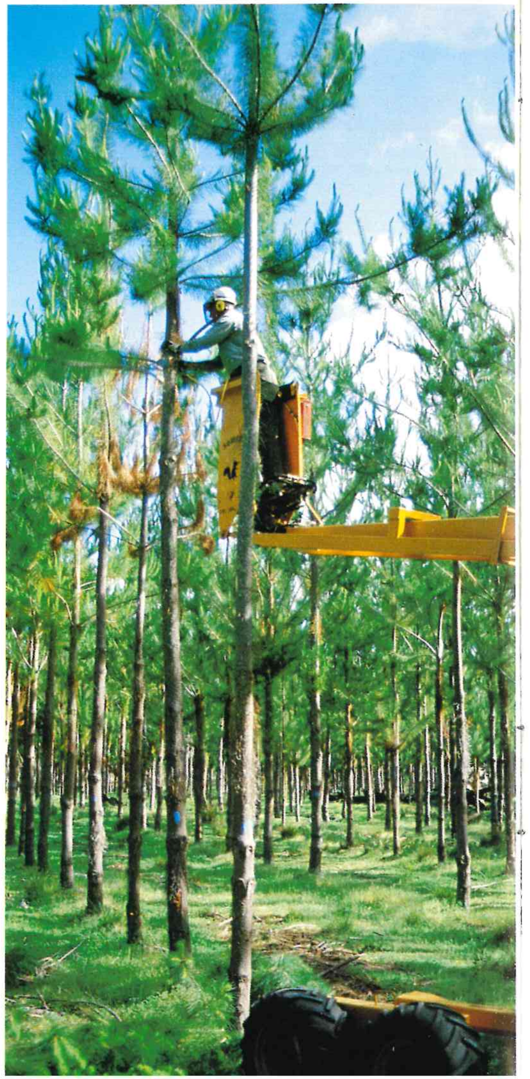
CALM provides the resources for all softwood operations (planting, harvesting and marketing), as well as carrying all risks for the venture.

Participants receive a predetermined annuity indexed for inflation, and a predetermined percentage of clearfall revenue.

Annuity payments are calculated by estimating the expected revenue from final harvesting of the crop. This revenue is estimated using present-day timber prices and probable future timber yields, which are based on CALM's extensive experience in P. radiata plantation forestry. Payments will be higher for better properties, those with expected high yields and low forestry costs, than for poorer or more difficult sites.

The annuity payments are set against part of the final harvesting revenue that is calculated to be the landowner's share. The harvesting revenue is shared between the Government and the landowner taking into account such factors as Government costs in the scheme, agricultural returns in the region and the fact that agricultural returns are not assured and fluctuate over time. The scheme is designed so that both Government and landowner earn an equitable return on their investment.

After final harvesting, the property is returned to a condition suitable for replanting softwoods or to resume other farming activities.

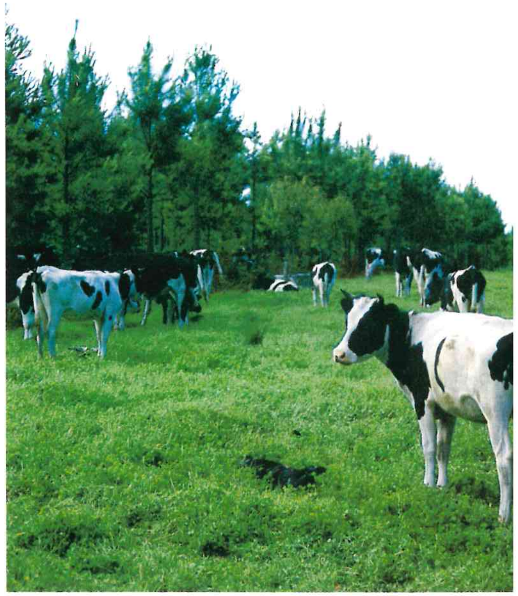


Entering the scheme

There are two options:

1 The landowner submits the land for survey and assessment. If the survey reports find the property suitable, and the landowner wishes to stay with the scheme, a management plan and site map for the area is prepared. The plan will set out where the pines are to be planted, and where all the special physical features required to manage the plantation will be constructed. The completed plan will be discussed with you, and with your consent, will then form the basis for the final contract between you and CALM. There is a considerable degree of flexibility in the terms of the contract, and negotiations will be conducted to seek solutions agreeable to both parties.

Once the landowner agrees to the management plan and site map then the cost of developing and managing the plantation and the anticipated returns will be calculated by CALM. At this stage the way you want your returns paid will be discussed. Several options are available, for example, a low annual payment, with the bulk of your profit share paid at harvesting or a high annual payment and a lower amount at harvest. Other options are listed on page 5. Once these details are agreed upon the contract will be drawn up for signing. The contract will set out the general terms, conditions and all payments throughout the life of the crop.



2 CALM officers will assess certain properties which are on the market. A management plan will be prepared calculating the cost of developing and managing the plantation and the anticipated returns.

CALM will complete a number of options outlining the returns which will be paid to the prospective buyer of the property.

The investor is then able, in advance, to calculate an assured level of return on his investment.

Once the details are agreed and the investor has finalised purchase of the property, the sharefarming contract will be drawn up for signing.

The financial returns

Payments to landowner investors will vary from site to site and will depend on factors such as productivity, the area of land offered and development costs.

Each site will be assessed to determine the payment options. There is considerable flexibility available to the landowner-investor in deciding which investment return to choose.

A few typical investment variations are outlined below:

The investor's share

A Normal sharefarming programme

This option provides for 95 percent of investor's share in estimated profits being distributed as an annual payment throughout the term of the contract.

The final five percent is held as a residual payment or bonus, for payment at final harvesting. This bonus is expressed as an actual percentage of the total harvesting revenue.

B Education trust fund or superannuation programme

As above, except that the annuity payments can be structured similar to a superannuation programme or Education Trust Fund to commence at an agreed date some years after planting, such as either one year after planting, five years after planting, ten years after planting, or fifteen years after planting.

C Car replacement fund

As in Option A except that the 95 percent investors share in estimated profits are distributed as periodical payments instead of annually throughout the term of the contract.

D Long term investment programme

The investor receives no annuity payments, however the investor receives a pre-determined percentage share of all the final harvesting revenues at final harvest.

E Children investment fund

Similar to Option A except that less than 95 percent of investors share of estimated profits are distributed as an annual payment so that the investor can receive an increased percentage share of the total revenue received at final harvest, an investment strategy suitable for parents and/or grandparents to establish for young children.

In all of the investment variation options the investor can choose to contribute towards planting and/or tending costs before the start of the contract.

Owners pay plantation establishment costs. Owners enters scheme at between one to five years after planting with investor paying for all planting, firebreaks and initial fertiliser costs with CALM acting as the contractor under a guaranteed standard of plantation establishment.

There are attractive initial taxation benefits for investors who choose to pay for the costs of planting, firebreaks and initial fertilising and enter the scheme one or more years after planting. The level of subsequent annuities are also substantially increased.

There are additional options whereby the owner also pays for other tending costs, such as pruning and other maintenance costs, such as firebreaks.

Page 9 outlines the value of payments to investors for a number of these options.

The investment return is related to site productivity, which is strongly influenced by rainfall. An investor can expect a significantly higher return in the higher rainfall areas to the west of Albany than the lower rainfall areas to the east.

The Contract

Currently, this has two formats:

A Lease: for landowners who have a registered mortgage on their land.

A Deed under Profit a Prendre: for landowners without registered mortgages on the land involved.

The contract is between the State Government and individual landowners and must be honoured by whichever political party is in Government during the duration of the contract.

The contract structure easily enables transfer in the event of a farm sale. However, the new property owner must continue to observe the terms and conditions laid out in the contract.

Site clean-up at the end of the contract

Contractually the State is obliged to leave the plantation in a neat and tidy condition ready for replanting to pasture for livestock production if the site is not required for further softwood growing.

The stumps are cut near or at ground level and all eucalypt regrowth must be removed before handing back the site.

Because the stumps are relatively fast grown, young wood, they readily rot and should disintegrate within six years.

The Trend in Annuity Payments with Rainfall

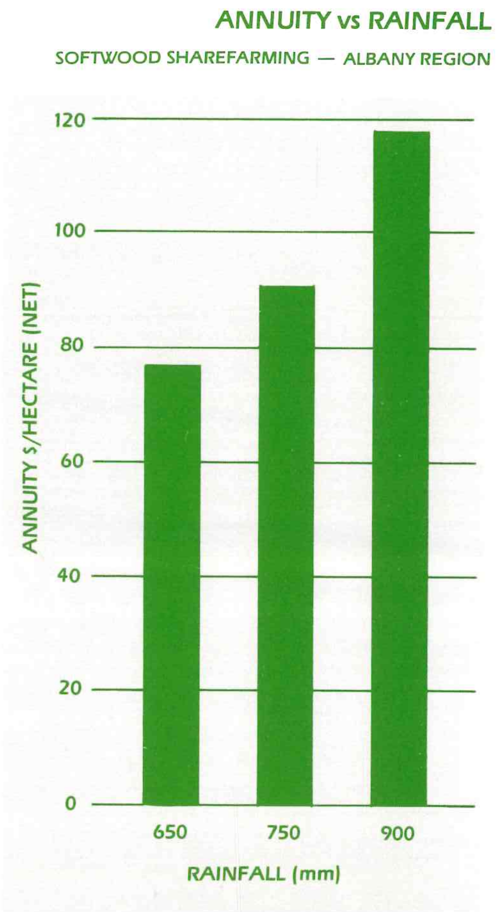
South Coast Softwood Sharefarming

Expected Direct Costs

This table indicates the likely level of per hectare direct costs which are involved when the investor chooses to pay.

Year	Operation	Direct* Cost
0	establishment	$360
1	maintenance	$ 20
2	fertiliser	$ 75
3	maintenance	$ 5
4	fertiliser	$ 75
5	low prune	$235

*(Includes a cost for firebreaks)



The following table outlines the approximate range of Softwood Sharefarming payments for properties in the South Coast region, based on 1987/88 prices, forestry costs and other factors. Ranges could change over time, depending upon any changes in economic factors. However, once payments are set for a landowner they are only adjusted for C.P.I. movements over time.

ANNUAL NET RETURNS PER HECTARE ($)

	CALM PAYS ALL COSTS		OWNERS PAY YEAR 0 DIRECT COSTS		OWNERS PAY YEAR 0-5 DIRECT COSTS	
OPTION	ANNUITY	RESIDUAL	ANNUITY	RESIDUAL	ANNUITY	RESIDUAL
A. 95% Annuity 5% Residual	50-120	190-450	65-140	245-525	85-165	315-615
B. 1 Year deferred Annuity (95%)	55-130	190-450	70-150	245-525	90-175	315-615
B. 5 Year deferred Annuity (95%)	70-165	190-450	90-195	245-525	115-225	315-615
B. 10 Year deferred Annuity (95%)	100-235	190-450	130-280	245-525	160-315	315-615
B. 15 Year deferred Annuity (95%)	150-350	190-450	190-415	245-525	240-470	315-615
C. 5 Yearly payments (95%)	300-720	190-450	390-850	245-525	490-965	315-615
C. 10 Yearly payments (95%)	690-1635	190-450	900-1935	245-525	1120-2200	315-615
D. 0% Annuity 100% Residual	— —	3830-9000	— —	4815-10550	— —	6290-12300
E. 50% Annuity 50% Residual	25-60	1915-4500	35-75	2438-5275	45-90	3145-6150

NOTE:

1. The above price ranges relate to the net planted area only, and assume that 18 percent of any site is unplantable because of roads, firebreaks etc.
2. Specific payments for properties take into account the attributes of each property, for example rainfall, soil types, topography and other factors.
   Payments are relatively high for properties in the high rainfall area and with good soils and topography.

If you are interested in this scheme please provide the following information:

Name: ....

Postal Address: ....

.............................Postcode:..........

Phone Number:

Work:....................

Home:....................

Approximate size of area to be offered:.............

Location of property:.............................

....

....

....

Post to the Department of Conservation and Land Management office at Albany:
44 Serpentine Road,
Albany 6330
Telephone: (098) 41 7133

For further information on Softwood Sharefarming contact the Department of Conservation and Land Management's Albany office on (098) 41 7133 or Ross Young on (09) 386 8811