

26 May 2010

## **COMPANY ANNOUNCEMENT**

### **Willmott Forests pursues long-term growth plans**

Willmott Forests (ASX:WFL) considers that it is timely to inform the market of its current progress and planning in light of problems encountered by other companies in the plantation forestry sector in recent times.

The Company has implemented a prudent and resilient long-term strategy over the past 30 years and is currently actively pursuing its long-term growth plans after successfully completing its capital raising of \$20.5 million in November 2009. The half-year results released to the market on 16 February 2010 ([www.asx.com.au](http://www.asx.com.au)) indicate a stable financial platform from which to implement these plans.

Willmott Forests remains on track to deliver another sound financial result and on 5 March 2010 advised the ASX that it does not expect its operating result for the full year ending 30 June 2010 would vary from the previous corresponding period by more than 15%.

Stockbroking firm, Veritas Securities Limited has also recently released an updated research report on Willmott Forests and this can be sourced from the Willmott Forests' website ([www.willmottforests.com.au](http://www.willmottforests.com.au)).

#### **2010 Product update**

The Willmott Forests Premium Forestry Blend - 2010 Project is experiencing broad market acceptance having been rated highly by Australian Agribusiness Group (ASX Announcement 23 April 2010) with a further rating of *4 stars* from Adviser Edge released to the market in the last few days.

An external grower finance facility has recently been secured for the 2010 Project (ASX Announcement 24 May 2010). The facility is provided by Merricks Capital, a boutique funds management firm who acts on behalf of a wide range of institutional and family office clients.

#### **Operations update**

All in-field plantation management activities continue to be undertaken in line with Willmott Forests' management plans. All site preparation and planting works are on schedule for completion within regulatory requirements.

Willmott Forests actively maintains an additional land bank towards 2010 woodlot sales through land previously purchased and through its exclusive pre-paid leasing arrangements.

All plantation insurances are in place and current.

Willmott Forests' 50:50 joint venture with Dongwha is proceeding with the \$65 million redevelopment of its timber processing plant in Bombala, NSW. The Project is expected to receive planning approvals within months and will soon move to financial closure and commencement of construction.

### **Stakeholders Update**

The attached update from the Chairman of Willmott Forests was dispatched today.

### **About Willmott Forests**

Willmott Forests is an integrated forestry company established in 1979 that plants, manages, harvests, processes and supplies plantation timber products for domestic and export markets. Willmott Forests manages 53,000 hectares of commercial plantations throughout New South Wales, Victoria and Queensland on behalf of more than 6,000 growers with forestry funds under management exceeding \$400m.

Willmott Forests' timber processing facility in Bombala, NSW is operated under a 50:50 Joint Venture with Dongwha, a global manufacturer of wood materials. A wide range of timber products are manufactured from plantation softwood at the Bombala site which - underpinned by a 20 year wood supply agreement with the NSW Government - is being redeveloped. The new complex is anticipated to be commissioned in 2011 with full production achieved by 2012.

Willmott Energy, a division of Willmott Forests, is focused on expanding into value added forest products in an environmentally positive way. Its' current interests include converting wood fibre to 'cellulosic' ethanol, the use of biomass in renewable fuel markets and the development of carbon sequestration opportunities.

### **Further information**

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26 May 2010

Dear Stakeholder

### **Willmott Forests Update**

I am pleased to have the opportunity of providing you with a further update of Willmott Forests' business.

Willmott Forests has implemented a sensible and resilient long-term strategy over the past 30 years, which has differentiated it from other plantation forestry companies.

The key elements of our overall business model that encompasses our capital management strategy, and clearly differentiates Willmott Forests from other companies in the sector have been well documented and explained to our stakeholders. These key elements are:

- prudent financial management;
- strict cost controls;
- compliant accounting policies; and
- access to quality forestry land

In essence, our strategy delivers the lowest capital intensive business model in the plantation forestry sector with absolute land security for our growers providing a win: win scenario for all stakeholders in Willmott Forests.

The strategy has proved to be robust which has allowed the business to grow sustainably in terms of total assets and maintain unused debt facilities at levels below the value of our plantation land at cost.

In the period since my last update:

- Record profit results were recorded for the full year to June 2009 and for the 2010 half year to December 2009
- PINES were reset in September 2009 significantly reducing company debt
- A successful capital raising of \$20.5 million was completed in November 2009
- Dividend policy has maintained high yields and provided confidence to shareholders
- An external grower finance facility has been secured for the Willmott Forests Premium Forestry Blend - 2010 Project

Willmott Forests remains on track to deliver another sound financial result. Further guidance concerning the full operating result for the year ending 30 June 2010 compared to the previous corresponding period can be found in a March 2010 response to the ASX (see [www.asx.com.au](http://www.asx.com.au)).

Stockbroking firm, Veritas Securities Limited recently released an updated research report on Willmott Forests with a BUY recommendation. This report can be sourced on the Willmott Forests' website at [www.willmottforests.com.au](http://www.willmottforests.com.au)

The Willmott Forests Premium Forestry Blend - 2010 Project has recently been rated by the Independent Research Groups as follows:-

- Australian Agribusiness Group – *4 Stars*
- Adviser Edge – *4 Stars*

This endorses Willmott Forests' position as a market leader in the managed plantation investment arena in Australia and continued strong market support for its product offerings is expected.

An attractive external grower finance facility has been secured for the 2010 Project (ASX Announcement 24 May 2010) following a competitive process conducted by Willmott Forests. The third party finance provider, Merricks Capital, is a boutique funds management firm who acts on behalf of a wide range of institutional and family office clients.

Furthermore, the 2010 Project contains unique investor protection mechanisms which positively differentiates Willmott Forests' product in the marketplace.

### **Financial management**

As at 31 December 2009, Willmott Forests was conservatively geared with net debt in the order of \$77 million against shareholder funds of \$179 million and total assets of \$345 million. There has been no material change to this position since 31 December 2009.

Willmott Forests' strategy over the past 30 years and its ongoing planning is strongly supported by its shareholders as evidenced by the high level of participation in the November 2009 capital raising of \$20.5 million. With \$5.5 million directed to working capital, the balance of \$15 million will be directed to support funding for the Company's sawmill development in Bombala, NSW.

The Company's hybrid security (ASX Code: WFLPA) known as PINES was reset in September 2009. This offered PINES holders an opportunity to convert their securities into ordinary shares. A total of 56% of holders elected to convert and represented to the Company a very cost efficient method of reducing debt and increasing equity while also increasing liquidity in the stock.

Willmott Forests' recent financial performance is summarised in the table below:

		<b>FY08</b>	<b>FY09</b>	<b>Change</b>	<b>HY09</b>	<b>HY10</b>	<b>Change</b>
<b>Revenue</b>	(\$m)	90.8	121.3	34%	44.0	40.2	-9%
<b>NPAT (\$m)</b>	(\$m)	11.3	14.7	30%	4.2	9.6	129%
<b>Total Assets</b>	(\$m)	351.7	367.7	5%	324.0	344.6	6%
<b>Equity</b>	(\$m)	143.7	155.5	8%	148.0	178.9	21%

Note: The figures outlined in the table above have been derived from Willmott Forests Limited's published accounts: 2008 and 2009 Annual Reports and the Half Year Accounts as published in Appendix 4D lodged with the ASX. Equity has been adjusted to take PINES preference shares (ASX: WFLPA) into account.

### **Operations update**

Willmott Forests actively maintains an additional land bank towards 2010 woodlot sales through land previously purchased and through its exclusive pre-paid leasing arrangements.

In excess of 95% of the land required for the 2010 Project has been secured.

All in-field plantation management activities continue to be undertaken in line with Willmott Forests' management plans and site preparation and planting works are on schedule for completion within regulatory requirements. Willmott Forests' plantation management activities continue to follow best industry practices to optimise results, which includes regular monitoring for growth, health and nutritional status and applying treatments as necessary.

All plantation insurances are in place and current.

Our timber processing operation continues to significantly contribute to the Company's total revenue with further growth planned via our joint venture sawmill development. A \$65 million expansion of the facility, with partner Dongwha, is proceeding and planning approvals are expected within months which will soon see the project move to financial closure and commencement of construction.

The Willmott Energy division of the business remains focussed on expanding into value added forest products in an environmentally positive way.

## Summary

Willmott Forests has been actively involved in plantation forestry for 30 years.

Our prudent and sound long term strategy continues to be a key differentiator and this strategy includes:

- ✓ A focus on our core competency of plantation forestry only
- ✓ Sound and prudent financial management
- ✓ Access to quality forestry land and implementation of pre-paid leasing arrangements
- ✓ External grower finance off balance sheet
- ✓ Expansion through the softwood value chain via downstream timber processing and alternative energy opportunities
- ✓ Long-term wood supply arrangements
- ✓ Development of long-term relationships with other reliable and financially strong forestry and industry participants

I trust that the company's performance, resilience and reliability since I last wrote provides our growers and shareholders with continued confidence in the Company and assists advisors in providing recommendations to clients in the plantation forestry sector for our highly rated product.

Thank you for your continued interest and involvement with Willmott Forests.

Yours sincerely



**Jonathan D Madgwick**  
**Chairman**  
**Willmott Forests Limited**