FEA
GROUP OF COMPANIES

**31 August 2009**

# FEA continues to rise to the occasion despite the challenges of the past year

- FEA's business model as a vertically-integrated forestry and forest products company remains sound.
- Renewed focus on reducing costs, increasing productivity and creating a new generation forestry investment to meet maturing markets.

## Financial Summary

| | Year ended 30 June 2009 | Year ended 30 June 2008 |
|---|---|---|
| Revenue | $152.5 m | $139.3 m |
| EBIT | ($5.2 m) | $64.6 m |
| NPAT | ($14.1 m) | $43.6 m |
| NTA (per share) | 71.4 c | 79.4 c |
| EPS (Basic) | (3.5 c) | 10.8 c |

* Comparatives have been restated for a reassessment of deferred lease and management fee income.
* EBIT represents earnings before interest expense and tax.

## Overview

In the face of extremely challenging conditions in its core business activities, management focus is firmly fixed on containing costs, maximising efficiency and productivity, effectively managing capital and reducing debt.

The **sawmilling** business had higher short-term operating costs and lower than expected production throughput in the new Bell Bay sawmill during its commissioning and ramp-up phases. This combined with the effects of the global financial crisis and general economic downturn on domestic demand for sawn timber, saw the forest products segment report a loss before interest and tax of $4.3 million.

Costs have now reduced and mill output, productivity and sawn-timber grade and quality have all shown strong upward trends since January 2009. FEA is well-placed as the domestic sawn timber market shows encouraging signs of recovery, influenced by the First Home Owners Grant scheme and elements of the Australian Government's economic stimulus which are contributing to increased timber demand, particularly for housing and local community infrastructure projects.

**SmartFibre's** wood fibre processing and export business continues to operate profitably, although impacted by lower demand from Japanese customers, and lower softwood wood fibre selling prices partly due to a stronger Australian dollar. The price of hardwood wood fibre has remained steady.

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The **forestry investment division** was severely impacted in FY09 by the failures of prominent investment managers Timbercorp Ltd and Great Southern Ltd. These events in April and May 2009 are now subject to a current Joint Parliamentary Enquiry into agribusiness managed investment schemes. We expect that the outcome of this enquiry will impact positively on the market view of investor security.

The total agribusiness investments sector fell an estimated 77% on the previous year and although FEA maintained its market share sales fell to $23.3 million as opposed to $114.5 million in FY08. Notwithstanding, FEA has a particularly low default rate of 1.3% on its forestry investment loan book – which we believe sets the industry benchmark. Of the finance provided to investors in FY09, the average loan term was 1.4 years, meaning a swift amortisation.

The immediate future of the forestry investment market is more difficult to predict. The fact that $227 million (90%) of the $250 million invested in managed agribusiness investments in FY09 was directed towards forestry products indicates continuing acceptance of quality forestry projects offered by sound managers with established records of success.

Investments made in the sector during FY09 will result in around 21,500ha of plantation forestry being established as compared with 78,250ha from investments made during FY08. Australia has a national requirement of 100,000 ha of plantation forestry to be established per annum in order to meet the targets contained within the *Plantations for Australia: The 2020 Vision* strategy.

FEA is committed to making adjustments to the way forestry investments are structured to ensure the financial viability of projects in the short and long term. Australia still faces a shortfall in domestically-produced forest products to satisfy demand, and managed forestry investments are responsible for around 80% of new plantation establishment and an increasing proportion of harvested timber.

FEA is confident that future prospects of the forestry investment industry remain robust.

To achieve this, we believe that there will be a move away from 'up-front' investment models in favour of those with a proportion of investor contributions being made on an ongoing basis, effectively mirroring actual project costs. In this regard, it is important to note that a proportion of FEA forestry investments are already structured with ongoing fees, and these contributed cash revenue each year.

In summary, FEA will maintain a strong focus on cost reduction, efficiency in production, marketing and distribution – as well as ensuring its forestry investment and timber products are carefully tailored to the needs of markets as they recover and evolve. We will also maintain our prudent capital management program and continue to reduce debt.

## Review of Operations

### Forestry Investment

FEA Plantations Project 2009 is an innovative, flexible and competitively-priced forestry investment that has been highly rated by Australia's leading forestry investment researchers.

However, as most forestry investments are made in the final months of the financial year (May and June), the impact of Timbercorp and Great Southern entering administration in late April and mid-May respectively combined with the effects of the global financial crisis on the domestic economy, created uncertainty regarding all agribusiness investment.

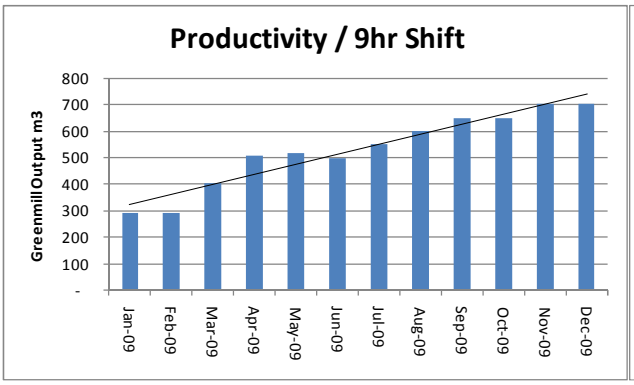
Ultimately, sales of $23.3 million were realised – an almost 80% reduction on the previous financial year's result of $114.5 million.

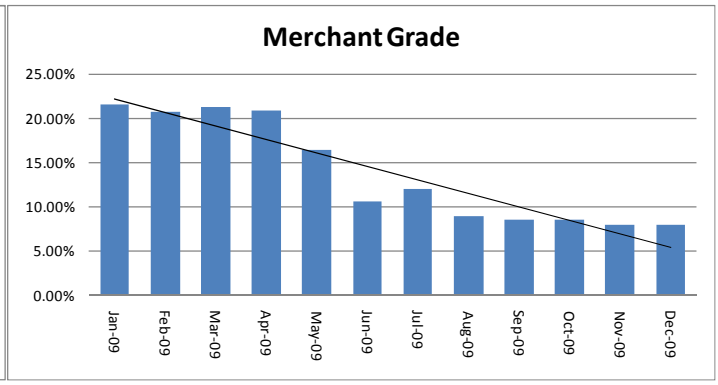
On a positive note, the lower than anticipated level of sales means that FEA already holds sufficient land for the required plantation establishment, and no further expenditure will be required.

All plantation establishment required for FY08 sales was completed on schedule, prior to 30 June 2009.

## Forest Products

The Bell Bay sawmill experienced a longer than anticipated ramp-up period in the six months to 31 December 2008. Higher operating costs and lower levels of productivity than planned resulted in a loss for the period. As productivity has increased, so has timber quality, with a significantly reduced proportion of lower 'merchant' grade (low grade) products. The recent improvements in operational performance at the saw mill, as shown in the graphs below, indicate favourable trends:




FEA's jointly-owned SmartFibre wood fibre processing and export facility has continued to remain profitable.

Its major long-term Japanese customers have reduced demand over the past year in line with other contracted suppliers as falls in the export of manufactured goods led to lower demand for packaging.

## Finance Facilities

Net debt (bank debt less cash on hand) improved by approximately $7 million over the six months to 30 June 2009 to $190 million, from $197 million reported as at 31 December 2008.

Facility headroom (including $16.6 million cash on hand) was approximately $50 million as at 30 June 2009, with debt-to-equity ratios as follows:

| | |
|---|---|
| Net debt divided by net debt plus equity: | 39.9% |
| Net debt divided by equity: | 66.4% |

Current bank facilities total $240.8 million, which include a cash advance (revolving line of credit) and a $9.0 million working capital facility. The cash advance facility does not have regular principal repayments and its maturity date is January 2011.

As part of an ongoing capital management and debt reduction program, FEA sold a $13 million portion of its loan book during FY09 at 100 cents in the dollar. The current loan book is high-quality, with a low default rate representing 1.3% of the loan book. Further loan book sales are being explored, as is the opportunity for the sale and lease-back of non-core forestry freehold land.

Some of the $19.3 million finance costs in FY09 relate to funding loans that are provided to participants in our forestry investments.

## Banking Covenants

FEA has advised in previous ASX releases that due to the anticipated fall in profit, FEA sought and received waivers in banking covenants in advance at 30 June 2009. FEA is currently in a process of having its banking covenants reviewed. Until those financial covenants have been reset, we have classified our bank debt as a current liability. Once the financial covenants have been reset, we intend to subsequently classify debt between current and non-current upon reset.

An independent accountant has been engaged to review and report on the business. That report will be an input into discussions with our banks on revised covenants.

## Assets sales

During the last year, FEA completed approximately $22 million of asset sales that mostly achieved book value. These assets included forestry investment loans that had previously been provided to our growers; forestry land; and other surplus assets. The Company has flagged asset sales in the next 12 months and have made a $3 million provision for disposal costs.

FEA currently has around $300 million of high quality forestry land. This land has been valued by independent valuers as at 30 June 2009 and Directors have adopted those valuations. Those reports have shown a drop of around $2 million, which is less that 1% of the value of forestry land (investment property).

## Dividend

The Directors have not declared a dividend in respect to FY09.

The balance of the consolidated franking account at year-end, adjusted for franking credits arising from payment of income tax payable, is 9.8 cents per share as at 30 June 2009.

## Outlook

Forestry Investment

FEA is Australia's longest-established hardwood plantation forestry investment manager with a successful 24-year history over 18 forestry investment projects.

Australia's consumption still requires more forest products than it currently produces. The Australian Government remains committed to *Plantations for Australia: The 2020 Vision*, and its target of more than 3 million hectares of forestry plantations by 2020.

Currently, around 80% of new plantations are established through forestry investment, and the government supports forestry investment as the most economically viable means of funding the achievement of the *2020 Vision*.

FEA stresses the importance of a positive signal from the current joint parliamentary inquiry to ensure regulatory support allows for the continued growth of plantation resources in Australia.

FEA will take a proactive stance and a lead role in the industry in structuring its FEA Plantations Project 2010 to maximise investor security, while maintaining a forestry investment product that is attractive and competitively-priced. FEA is on schedule to release this new generation investment in November 2009.

It is inevitable that future forestry investment structures will move from an 'up-front investment cost only' model to alternatives that ensure the project is fully-funded throughout the investment term with grower payments mirroring plantation expenses. In this way, investors can be confident that a long-term forestry investment can proceed through to final harvest even if the investment manager strikes financial difficulties.

FEA believes that once this security is offered, investors will react positively to forestry investment managers such as FEA who can demonstrate a strong degree of success via long-term record of performance, forestry and silvicultural expertise – and who have taken plantations through the full cycle from establishment to final harvest.

Another strong positive for FEA is its agreement, reached during FY09 with Forests New South Wales to lease high-quality, second-rotation plantation sites in New South Wales for forestry investment plantations. Not only does the agreement reduce FEA's capital requirement for land acquisition – it also means investors have the added security of knowing their trees are being established on land with a long-term, proven record of high plantation growth rates.

Forest Products

The continuing effect of the First Home Owners Grant scheme, elements of the Australian Government economic stimulus and early signs of a slow but sustained domestic economic recovery have led to strengthening demand for structural timber products, particularly for housing and community infrastructure construction projects.

FEA is currently selling all the BassPine® products it is producing from its long-term 290,000 tonne per annum Radiata pine supply contract. As previously stated, Bell Bay sawmill productivity has been increasing since January, and there has been a significant increase in the volume of timber processed and projected over calendar 2009.

Increasing production volumes and quality – coupled with reducing operational costs – mean FEA is well-placed to capitalise in terms of revenue and profitability from further resurgence in domestic structural timber demand. This applies to both BassPine® softwood, and hardwood as volumes of EcoAsh® Eucalypt drawn from its harvested forestry investment plantations increase.

Demand for plantation wood fibre through FEA's jointly-owned SmartFibre wood fibre processing and export facility had softened, but existing Japanese wood fibre stockpiles have been run-down, and it appears the market is stabilising to a more consistent level of demand.

FEA is confident that SmartFibre's established, long-term supply contracts with major Japanese customers, and its strong track record for product quality, service, reliability and chain of custody certification will ensure an early recovery to market demand for its hardwood and softwood wood fibre.

**Annual General Meeting**

FEA is scheduled to hold its Annual General Meeting in Melbourne on 19 November 2009.

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**About Forest Enterprises Australia Ltd**

Forest Enterprises Australia Ltd (FEA) is an ASX-listed forestry and forest products company. Formed in 1985, it has a proud 24 year history and operates across the timber processing and agribusiness sectors. FEA owns a state-of-the-art $72 million plantation based timber mill, as well as a 50% share in a woodfibre processing and export facility, both at Bell Bay, Tasmania.

The Company has a commitment to environmentally sustainable plantation forestry and being an employer of choice, both of which are consistent with FEA's strategy of being a premier vertically integrated forestry and forest products company.

FEA has around 4,000 shareholders and currently employs around 200 people.

FEA established its own hardwood eucalyptus plantations in Tasmania in 1987 and subsequently on mainland Australia, predominantly the northern rivers region of New South Wales.

FEA Plantations Ltd, a wholly owned subsidiary of FEA, commenced its first managed investment scheme in 1993 and has issued 17 consecutive timber investment projects.

As at 30 June 2009, FEA has total freehold landholdings of approximately 95,000ha. FEA has approximately 71,000 hectares of plantations under management in Tasmania, Northern NSW, South East Queensland for approximately 13,000 investors. FEA recently expanded its estate into the Douglas Daly region of the Northern Territory for the future establishment of high-value African mahogany plantations.

FEA's expanded business base includes sawmilling of plantation timber. FEA produces the innovative branded sawn timber products, EcoAsh® and BassPine®, as well as exporting wood fibre under the SmartFibre® brand.

Environmental Management and Product Responsibility includes:

- Environmental Management System (EMS) Certification: ISO14001:2004 – Tasmanian Forestry Operations in 2005, NSW and Qld Forestry Operations in 2007, SmartFibre Pty Ltd facility at Bell Bay in 2006; and
- AFS-Chain of Custody (CoC) Certification: Australian Forestry Standard AS4707-2006 for SmartFibre Pty Ltd in 2007 and FEA Bell Bay Timber facility in 2009.

# FOREST ENTERPRISES AUSTRALIA LIMITED
## ABN 47 009 553 548
### AND CONTROLLED ENTITIES

## FINANCIAL INFORMATION
## FOR THE YEAR ENDED 30 JUNE 2009
**Provided to the ASX under listing rule 4.3A**

# Forest Enterprises Australia Ltd

**ABN: 47 009 553 548**

## Preliminary final report
## Year ended 30 June 2009
**(previous corresponding period: year ended 30 June 2008)**

### Results for announcement to the market

| | | | | $A'000 |
|---|---|---|---|---|
| Revenues from ordinary activities | up/~~down~~ | 9.5% | to | 152,487 |
| Profit / (loss) from ordinary activities after tax attributable to members | ~~up~~/down | (132.7%) | to | (14,229) |
| Net profit / (loss) for the period attributable to members | ~~up~~/down | (132.7%) | to | (14,229) |

| **Dividends** | Amount per security | Franked amount per security at 30% |
|---|---|---|
| Interim dividend | nil | nil |
| Final dividend | nil | nil |
| Previous corresponding period | 2.50¢ | 2.50¢ |
| Record date for determining entitlements to the dividend (*item 2.5*) | N/A | |

Brief explanation of any of the figures reported above necessary to enable the figures to be understood *(item 2.6)* :

Refer to attached for an overview of operations and outlook.

### Income Statement

Refer to attached financial statements.

### Balance Sheet

Refer to attached financial statements.

### Statement of Cash Flows

Refer to attached financial statements.

### Dividends

| | Date of Payment | Total amount of dividend ($A'000) |
|---|---|---|
| Interim dividend - year ended 30 June 2009 | n/a | n/a |
| Final dividend - year ended 30 June 2008 | 7 October 2008 | 10,133 |

### Amount per security

| | | Amount per security | Franked amount per security at 30% tax | Amount per security of foreign sourced dividend |
|---|---|---|---|---|
| **Total dividend:** | Current Year | nil | nil | n/a |
| | Previous Year | 2.50 cents | 2.50 cents | n/a |

**Total dividend on all securities**

| | Current period $A'000 | Previous corresponding Period - $A'000 |
|---|---|---|
| Ordinary securities | 10,133 | 8,102 |
| **Total** | 10,133 | 8,102 |

## Details of dividend re-investment plans

N/A

## Statement of Retained Earnings

Refer to attached financial statements.

## Net Tangible Assets

| | Current period | Previous corresponding period (restated)* |
|---|---|---|
| Net tangible asset backing per ordinary security | $0.714 | $0.794 |

* Prior period net tangible assets has been recalculated based on the restated balance sheet and income statement of the consolidated accounts as described in the notes.

## Details of associates and joint venture entities

| Name of associate or joint venture entity | %Securities held |
|---|---|
| SmartFibre Pty Ltd | 50.00% |

**Aggregate share of profits (losses) of associates and joint venture entities (where material)**

| **Group's share of associates' and joint venture entities':** | 2009 $A'000 | 2008 $A'000 |
|---|---|---|
| Profit (loss) from ordinary activities before tax | 915 | 1,751 |
| Income tax on ordinary activities | (274) | (527) |
| **Net profit (loss) from ordinary activities after tax** | **641** | **1,224** |
| Adjustments | - | - |
| **Share of net profit (loss) of associates and joint venture entities** | **641** | **1,224** |

## Financial information

The information provided in the Appendix 4E is based on the financial report, which has been prepared in accordance with Australian accounting standards.

## Commentary on the results for the period

The net loss for the period is primarily attributable to lower than anticipated new sales from the company's managed forestry investments following the administration of both Timbercorp Ltd and Great Southern Ltd, higher short term operating costs and lower than expected production throughout during plant commissioning of the new Bell Bay sawmill, and higher financing costs.

## Audit of the financial report

The financial report is in the process of being audited.
The financial report is not likely to be the subject of dispute or qualification.

**CONSOLIDATED INCOME STATEMENT**

| | **30-Jun-09** **$'000** | 30-Jun-08 $'000 |
|---|---|---|
| Revenue | 152,487 | 139,262 |
| Other income | 285 | 25,879 |
| | 152,772 | 165,141 |
| Share of profits of associates and jointly controlled entities accounted for using the equity method | 641 | 1,224 |
| Forestry CoGS | (23,899) | (17,243) |
| Sawmilling CoGS | (44,192) | (13,100) |
| Forestry services expenses | (51,247) | (34,420) |
| Forestry investment expenses | (12,502) | (22,300) |
| Overhead expenses | (20,290) | (14,098) |
| Finance costs | (19,348) | (4,118) |
| Impairment of non-current assets | (2,806) | - |
| **Profit / (loss) before income tax (expense) / benefit** | (20,871) | 61,086 |
| Income tax (expense) / benefit | 6,733 | (17,519) |
| **Net profit / (loss) for the year** | (14,138) | 43,567 |
| **Attributable to:** | | |
| Equity holders of the parent | (14,229) | 43,567 |
| Minority interest | 91 | - |
| | (14,138) | 43,567 |
| **Earnings / (loss) per share:** | | |
| Basic (cents per share) | (3.49) | 10.75 |
| Diluted (cents per share) | (3.49) | 10.64 |

The Consolidated Income Statement should be read in conjunction with the accompanying notes.

**CONSOLIDATED BALANCE SHEET**

| | **30-Jun-09 $'000** | 30-Jun-08 $'000 |
|---|---|---|
| **Current Assets** | | |
| Cash and cash equivalents | 16,565 | 11,974 |
| Receivables | 24,154 | 74,196 |
| Other financial assets | 5,693 | 70,177 |
| Inventories | 12,377 | 8,665 |
| Standing timber | 2,467 | 1,922 |
| Current tax assets | 4,307 | - |
| Other current assets | 5,121 | 4,392 |
| | 70,684 | 171,326 |
| Non-current assets classified as held for sale | 107,380 | 2,900 |
| **Total current assets** | 178,064 | 174,226 |
| **Non-current assets** | | |
| Receivables | 21,297 | 76,711 |
| Investments accounted for using the equity method | 3,599 | 5,209 |
| Other financial assets | 15,672 | 11,959 |
| Standing timber | 20,963 | 18,310 |
| Property, plant and equipment | 117,418 | 108,018 |
| Investment properties | 231,470 | 271,767 |
| Deferred tax assets | 2,170 | 19,673 |
| Intangible assets | 1,801 | 12 |
| **Total non-current assets** | 414,390 | 511,659 |
| **Total assets** | 592,454 | 685,885 |
| **Current liabilities** | | |
| Trade and other payables | 37,528 | 102,216 |
| Current tax payables | - | 10,281 |
| Short term borrowings | - | 2,044 |
| Current portion of long term borrowings | 208,349 | 2,109 |
| Other financial liabilities | 1,344 | 1,056 |
| Other current liabilities | 30,036 | 69,539 |
| **Total current liabilities** | 277,257 | 187,245 |
| **Non-current liabilities** | | |
| Long term borrowings | 1,534 | 137,668 |
| Other financial liabilities | 10,139 | 344 |
| Deferred tax liabilities | 9,918 | 37,234 |
| Other non-current liabilities | 2,301 | 1,854 |
| **Total non-current liabilities** | 23,892 | 177,100 |
| **Total liabilities** | 301,149 | 364,345 |
| **Net assets** | 291,305 | 321,540 |
| **Equity** | | |
| Share capital | 179,804 | 179,701 |
| Other reserves | 560 | 7,368 |
| Retained earnings | 110,109 | 134,471 |
| Outside equity interest | 832 | - |
| **Total Equity** | 291,305 | 321,540 |

The Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

| **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY** | Fully paid ordinary shares **$'000** | Asset revaluation reserve **$'000** | Equity-settled employee benefits reserve **$'000** | Retained earnings **$'000** | Hedge reserve **$'000** | Outside equity interest **$'000** | Total **$'000** |
|---|---|---|---|---|---|---|---|
| **Balance at 1 July 2007** | 179,627 | 4,034 | 176 | 98,718 | - | - | 282,555 |
| Gain/(loss) on property revaluation | - | 3,660 | - | - | - | - | 3,660 |
| Gain/(loss) on cash flow hedges | - | - | - | - | 649 | - | 649 |
| Share based payments | - | - | 235 | - | - | - | 235 |
| Related income tax | - | (1,098) | - | - | - | - | (1,098) |
| **Net income recognised directly in equity** | - | 2,562 | 235 | - | 649 | - | 3,446 |
| Profit for the period | - | - | - | 43,567 | - | - | 43,567 |
| **Total recognised income and expense** | - | 2,562 | 235 | 43,567 | 649 | - | 47,013 |
| Transactions with shareholders in their capacity as shareholders | | | | | | | |
| Issue of shares | 74 | - | - | - | - | - | 74 |
| Transfer to retained earnings | - | (288) | - | 288 | - | - | - |
| Payment of dividends | - | - | - | (8,102) | - | - | (8,102) |
| **Balance at 30 June 2008** | 179,701 | 6,308 | 411 | 134,471 | 649 | - | 321,540 |
| **Balance at 1 July 2008** | 179,701 | 6,308 | 411 | 134,471 | 649 | - | 321,540 |
| Gain/(loss) on property revaluation | - | 150 | - | - | - | - | 150 |
| Gain/(loss) on cash flow hedges | - | - | - | - | (10,650) | - | (10,650) |
| Share based payments | - | - | 542 | - | - | - | 542 |
| Related income tax | - | (45) | - | - | 3,195 | - | 3,150 |
| **Net income recognised directly in equity** | - | 105 | 542 | - | (7,455) | - | (6,808) |
| Profit/(loss) for the period | - | - | - | (14,229) | - | 91 | (14,138) |
| **Total recognised income and expense** | - | 105 | 542 | (14,229) | (7,455) | 91 | (20,946) |
| Transactions with shareholders in their capacity as shareholders | | | | | | | |
| Issue of shares / units | 103 | - | - | - | - | 764 | 867 |
| Payment of dividends / distributions | - | - | - | (10,133) | - | (23) | (10,156) |
| **Balance at 30 June 2009** | 179,804 | 6,413 | 953 | 110,109 | (6,806) | 832 | 291,305 |

The Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

| | **30-Jun-09** | 30-Jun-08 |
|---|---|---|
| | **$'000** | $'000 |
| **Cash flows from operating activities** | | |
| Receipts from customers | 175,801 | 146,350 |
| Payments to suppliers and employees | (165,762) | (133,247) |
| Interest received | 7,466 | 3,704 |
| Interest and other costs of finance paid | (19,348) | (4,118) |
| Income tax paid | (14,879) | (4,981) |
| Net cash provided by/(used in) operating activities | (16,722) | 7,708 |
| **Cash flows from investing activities** | | |
| Funding of term debtors | (72,938) | (53,883) |
| Repayments from term debtors | 64,042 | 45,068 |
| Proceeds from sale of term debtors | 11,598 | - |
| Proceeds from sale of property, plant & equipment | 4,860 | 1,763 |
| Payment for property, plant and equipment | (19,254) | (54,713) |
| Payments for investment properties | (32,521) | (62,649) |
| Proceeds from sale of investment properties | 5,452 | 170 |
| Payment for standing timber | (311) | (855) |
| Payments for intangibles | (546) | (12) |
| Partial realisation of equity accounted investment | 2,250 | - |
| Net cash used in investing activities | (37,368) | (125,111) |
| **Cash flows from financing activities** | | |
| Proceeds from issues of equity securities | 5 | 74 |
| Proceeds from borrowings | 97,296 | 96,721 |
| Repayment of borrowings | (27,190) | (3,908) |
| Proceeds from units issued | 764 | - |
| Distributions paid | (23) | - |
| Dividends paid to members of the parent entity | (10,127) | (8,100) |
| Net cash provided by financing activities | 60,725 | 84,787 |
| **Net increase/(decrease) in cash and cash equivalents** | 6,635 | (32,616) |
| **Cash and cash equivalents at the beginning of year** | 9,930 | 42,546 |
| **Cash and cash equivalents at the end of year** | 16,565 | 9,930 |

The Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

| | **30-Jun-09 $'000** | 30-Jun-08 $'000 |
|---|---|---|
| **NOTE 1: PROFIT FROM OPERATIONS** | | |
| **(a) Revenue** | | |
| Revenue from continuing operations consisted of the following items: | | |
| Revenue from the sale of goods | 63,392 | 33,712 |
| Revenue from the rendering of services | 69,884 | 87,999 |
| | 133,276 | 121,711 |
| Rental revenue: | | |
| Operating lease rental revenue | 8,090 | 7,781 |
| | 8,090 | 7,781 |
| Interest Revenue: | | |
| Bank deposits | 133 | 749 |
| Other | 7,333 | 2,955 |
| | 7,466 | 3,704 |
| Increment in fair value of standing timber | 2,701 | 5,039 |
| Government grants received | 833 | 757 |
| Other | 121 | 270 |
| | 152,487 | 139,262 |
| | 152,487 | 139,262 |
| Attributable to: | | |
| Continuing operations | 152,487 | 139,262 |
| | 152,487 | 139,262 |
| **(b) Profit/(loss) before income tax expense/(benefit)** | | |
| Profit/(loss) before income tax has been arrived at after crediting/(charging) the following gains/(losses) from continuing operations: | | |
| Gain/(loss) on disposal of property, plant and equipment | 2,175 | (67) |
| Gain/(loss) on revaluation of investment property | (2,210) | 25,946 |
| Gain/(loss) on revaluation of assets held for sale | - | (201) |
| | (35) | 25,678 |
| Gains attributable to: | | |
| Continuing operations | (35) | 25,678 |
| | (35) | 25,678 |
| Profit/(loss) before income tax has been arrived at after charging the following expenses. The line items below combine amounts attributable to both continuing operations and discontinued operations: | | |
| Cost of Sales | 68,091 | 30,343 |
| Finance Costs: | | |
| Interest on loans | 14,609 | 3,144 |
| Other interest expense | 992 | 399 |
| Total interest expense | 15,601 | 3,543 |
| Other finance costs | 3,747 | 575 |
| | 19,348 | 4,118 |
| Net bad and doubtful debts arising from: | | |
| Term Debtors | 2,071 | 722 |
| | 2,071 | 722 |
| Depreciation of non-current assets | 4,756 | 1,984 |
| Amortisation of non-current assets | 281 | - |
| | 5,037 | 1,984 |
| Research and development costs immediately expensed | 297 | 172 |
| Operating lease rental expenses | | |
| Minimum lease payments | 6,512 | 3,879 |
| | 6,512 | 3,879 |
| Employee benefit expense: | | |
| Post employment benefits: | | |
| Employee Superannuation | 2,033 | 1,613 |
| Share based payments | 642 | 299 |
| Termination benefits | 194 | 211 |
| Salary & Wage Expense | 19,525 | 13,421 |
| | 22,394 | 15,544 |

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **cents per share** | **Total $'000** | cents per share | Total $'000 |
| **NOTE 2: DIVIDENDS** | | | | |
| **Recognised Amounts** | | | | |
| **Fully paid ordinary shares** | | | | |
| Final Dividend: | | | | |
| Franked to 30% (2008: 30%) | 2.50 | 10,133 | 2.00 | 8,102 |
| | 2.50 | 10,133 | 2.00 | 8,102 |
| **Unrecognised Amounts** | | | | |
| **Fully paid ordinary shares** | | | | |
| Final Dividend: | | | | |
| Franked to 0% (2008: 30%) | - | - | 2.50 | 10,133 |

**NOTE 3: EARNINGS PER SHARE**

| | **2009 No.** | 2008 No. |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 405,281,740 | 405,101,395 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 405,281,740 | 409,394,765 |

Potential ordinary shares are anti-dilutive at 30 June 2009.

**NOTE 4: NOTES TO THE CASHFLOW STATEMENT**

| | **30-Jun-09 $'000** | 30-Jun-08 $'000 |
|---|---|---|
| **(a) Reconciliation of profit/(loss) for the period to net cash flows from operating activities** | | |
| Profit/(Loss) for the period | (14,138) | 43,567 |
| (Gain)/Loss on sale or disposal of non-current assets | (2,175) | 67 |
| Share of jointly controlled entity's profit | (641) | (1,224) |
| Revaluations through income statement - investment property | 2,210 | (25,745) |
| Cost to sell held for sale assets | 1,200 | - |
| Biological asset increment of standing timber | (2,701) | (5,039) |
| Harvest of standing timber | (339) | (52) |
| Share based payments | 641 | 235 |
| Equipment finance interest charges | - | 3,201 |
| Minority interest share of profit | 91 | - |
| Depreciation and amortisation of non-current assets | 5,037 | 1,984 |
| Impairment of non-current assets and assets held for sale | 2,806 | - |
| Net present value adjustment of financial liability | - | 730 |
| Bad and doubtful debts expense | 2,071 | 722 |
| Increase/(decrease) in current tax liability | (14,588) | 10,376 |
| Increase/(decrease) in deferred tax balances | (6,899) | 4,121 |
| (Increase)/decrease in assets: | | |
| Current trade receivables | 505 | (5,508) |
| Current inventories | (3,711) | (5,708) |
| Other current receivables and accrued revenue | 61,572 | (42,879) |
| Prepayments | (730) | (2,145) |
| Increase/(decrease) in liabilities: | | |
| Current trade payables | (7,242) | (4,710) |
| Current other payables | 254 | (53) |
| Unearned Revenue | (40,300) | 35,416 |
| Employee Benefits | 355 | 352 |
| Net cash from operating activities | (16,722) | 7,708 |

**(b) Reconciliation of cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

| | | |
|---|---|---|
| Cash and cash equivalents | 16,565 | 11,974 |
| Bank overdraft | - | (2,044) |
| | 16,565 | 9,930 |

| | 30-Jun-09 $'000 | 30-Jun-08 $'000 |
|---|---|---|
| **(c) Cash balances not available for use** | | |
| Certain cash balances are not available for use by the economic entity as they form part of the security for loans and other facilities advanced to the economic entity. | | |
| Cash and cash equivalents | 125 | 125 |
| **(d) Financing facilities** | | |
| Bank overdraft, payable at call: | | |
| amount used | - | 2,044 |
| amount unused | 8,500 | 3,956 |
| | 8,500 | 6,000 |
| Cash advance facility: | | |
| amount used | 206,800 | 138,000 |
| amount unused | 25,000 | 102,000 |
| | 231,800 | 240,000 |
| Guarantee facility: | | |
| amount used | 120 | 1,120 |
| amount unused | - | - |
| | 120 | 1,120 |
| Equipment finance facility: | | |
| amount used | 29 | 1,776 |
| amount unused | 51 | 804 |
| | 80 | 2,580 |
| Credit card facility: | | |
| amount used | 12 | 20 |
| amount unused | 288 | 280 |
| | 300 | 300 |
| Secured loan facilities with various maturity dates: | | |
| amount used | 206,961 | 142,960 |
| amount unused | 33,839 | 107,040 |
| | 240,800 | 250,000 |

**NOTE 5: MOVEMENT IN RETAINED EARNINGS**

| | | |
|---|---|---|
| Balance at beginning of financial year | 134,471 | 98,718 |
| Net profit/(loss) attributable to members of the parent entity | (14,229) | 43,567 |
| Transfers to retained earnings | - | 288 |
| Dividends provided for or paid | (10,133) | (8,102) |
| Balance at end of financial year | 110,109 | 134,471 |

**NOTE 6: NET TANGIBLE ASSETS PER SECURITY**

| | cents per share | cents per share |
|---|---|---|
| Net tangible assets (NTA) per security | 71.4 | 79.4 |

**NOTE 7: GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURE ENTITIES**

| | | |
|---|---|---|
| SmartFibre Pty Ltd | | |
| Ownership Interest: | 50% | 50% |
| Principal Activity: Woodchip Exporting | | |
| Place of Incorporation: Australia | | |

| | 30-Jun-09 $'000 | 30-Jun-08 $'000 |
|---|---|---|
| Profit from ordinary activities before tax | 915 | 1,751 |
| Income tax on ordinary activities | (274) | (527) |
| Net profit from ordinary activities after tax | 641 | 1,224 |
| Share of net profit of associates and joint venture entities | 641 | 1,224 |

## NOTE 8: REASSESSMENT OF DEFERRED LEASE AND MANAGEMENT FEE INCOME

The group has reassessed the methodology by which managed investment scheme income is recognised under its revenue recognition policies. Managed investment scheme income comprises deferred lease and management fees, which are accrued over the life of each plantation based on the expected plantation yield discounted to present value at the reporting date. The amount of revenue generated is closely linked with the growth and harvesting of biological assets, and consequently accrued income calculations are derived from assumptions as determined by management. The revised methodology has the impact of reducing revenues in the early stages of the plantation life. The company believes this methodology provides a more appropriate measure for revenue recognition. Managed investment scheme accrued revenue is reported as a component of "other non-current financial assets" in the balance sheet.

This reassessment has resulted in a prior period adjustment to amounts previously reported for the year ended 30 June 2008, reducing revenue by $6.526m, income tax expense by $1.958m and profit after tax by $4.568m. This reassessment also reduces the amounts previously reported at 30 June 2008 for consolidated "other financial assets" and consolidated non-current assets by $14.493m, for deferred tax liability by $4.348m and retained earnings by $10.145m.

Earnings per share for the prior period have been restated as a result of this reassessment. The previously reported EPS has reduced by 1.13 cents per share to 10.75.

There is no cash flow impact of these adjustments.

## NOTE 9: ACQUISITIONS AND DISPOSALS / ASSETS CLASSIFIED AS HELD FOR SALE

| | **30-Jun-09** | 30-Jun-08 |
|---|---|---|
| The following significant acquisitions have occurred over the reporting period: | **$'000** | $'000 |
| Investment properties | 32,521 | 62,649 |
| Property plant and equipment | 19,254 | 54,713 |
| | 51,775 | 117,362 |
| The following significant items have been reclassified as held for sale during the reporting period: | | |
| Investment properties | 70,000 | - |
| Property plant and equipment | - | 2,900 |
| Non-current loans and receivables | 40,380 | - |
| Costs of disposal and impairment recognised | (3,000) | - |
| | 107,380 | 2,900 |

Non-current assets classified as available for sale includes forestry land ($70m) and loan book ($40m).

It is intended that all of the above forestry land would be sold however lease rights would be structured to ensure FEA retains access for the purpose of managing previously planted timber woodlot projects. The Company sold a $13m tranche of loans during December 2008 and is in the process of selling additional tranches totalling $40m. The Company has made a $3m provision for disposal costs and impairment.

## NOTE 10: CONTINGENT LIABILITIES

The Company has a contingent liability of $120,000 in respect of bank guarantees in place by controlled entities with the Commonwealth Bank of Australia Ltd.

The Company has provided a guarantee of $97.8m in respect of certain operating leases entered into by a controlled entity for the supply of plantation land for the economic entity's Managed Investment Scheme projects.

The Company has provided a guarantee of $3.0m in respect to its interest in SmartFibre Pty Ltd.

Other than mentioned above, the directors are not aware of any material contingent liabilities that should be disclosed in these financial statements.

## NOTE 11: SUBSEQUENT EVENTS

No dividends have been paid or declared since the end of the financial year. The Directors do not recommend the payment of a dividend in respect of the financial year.

Other than the above, the Directors are not aware of any subsequent events that have taken place since balance date which could have a material impact on the financial statements as at 30 June 2009.

## NOTE 12: SEGMENT INFORMATION

The economic entity operates solely in Australia. The entity comprises the following main business segments:

Forest Products
- Forest management services and the processing of forest products including whole logs, woodchips, sawn timber and other forest products.

Forestry Investments
- Establishment and financing of managed woodlots and provision of related forestry services, including the lease of scheme land.

| 2009 | Forest Products $'000 | Forestry Investment $'000 | Consolidated Total $'000 |
|---|---|---|---|
| **Segment Revenue** | 70,123 | 82,201 | **152,324** |
| Unallocated revenue | | | 163 |
| | | | **152,487** |
| **Segment Results** | (4,344) | 5,650 | **1,306** |
| Unallocated items | | | (2,829) |
| Borrowing costs | | | (19,348) |
| Profit from ordinary activities before income tax (expense) / benefit | | | (20,870) |
| Income tax (expense) / benefit | | | 6,733 |
| Profit / (loss) after tax | | | **(14,138)** |
| **Segment Assets** | 140,289 | 411,228 | **551,517** |
| Unallocated assets | | | **40,937** |
| Consolidated total assets | | | **592,454** |
| **Segment Liabilities** | 7,745 | 221,486 | **229,231** |
| Unallocated liabilities | | | **71,918** |
| Consolidated total liabilities | | | **301,149** |
| **Other Segment Information** | | | |
| Acquisition of segment assets | 7,960 | 43,815 | **51,775** |
| Depreciation and amortisation | 3,530 | 1,507 | **5,037** |

| 2008 | Forest Products $'000 | Forestry Investments $'000 | Consolidated Total $'000 |
|---|---|---|---|
| **Segment Revenue** | 45,671 | 92,815 | **138,486** |
| Unallocated revenue | | | 776 |
| | | | **139,262** |
| **Segment Results** | 4,576 | 63,227 | **67,803** |
| Unallocated items | | | (2,599) |
| Borrowing costs | | | (4,118) |
| Profit from ordinary activities before income tax expense | | | 61,086 |
| Income tax expense | | | (17,519) |
| Profit after tax | | | **43,567** |
| **Segment Assets** | 123,561 | 530,348 | **653,909** |
| Unallocated assets | | | **31,976** |
| Consolidated total assets | | | **685,885** |
| **Segment Liabilities** | 31,022 | 223,547 | **254,569** |
| Unallocated liabilities | | | **109,776** |
| Consolidated total liabilities | | | **364,345** |
| **Other Segment Information** | | | |
| Acquisition of segment assets | 52,781 | 64,581 | **117,362** |
| Depreciation and amortisation | 1,130 | 854 | **1,984** |