

Queensland assets sale

Sale of Forestry Plantations Queensland

THE FACTS



Queensland
Government

About FPQ

Forestry Plantations Queensland (FPQ) is Queensland's largest grower of plantation forest timber. FPQ manages more than 210,000 hectares of hardwood and softwood plantations and is a key supplier to the domestic timber processing industry.

Plantation timber provides a positive environmental alternative to native forest wood, such as old growth forests. Currently FPQ has demand for about 1.7 million cubic metres per annum with the potential to sustainably supply around 2.0 million cubic metres per annum.

FPQ's plantation-grown timber is sold to manufacturers for use in everything from house frames to kitchen benches and furniture.

FPQ has a skilled and experienced management and workforce, comprising more than 400 staff. It is the largest commercial forestry plantation grower in Queensland, and one of the largest in Australia.

The strong demand for FPQ's products is driven primarily by local and domestic timber demand. FPQ has the key advantage of the close proximity of its plantations to the nation-leading growth area of South East Queensland.

FPQ - in focus

FPQ is a fully integrated plantation business, including research and nursery capabilities. It has a demonstrated ability to successfully establish plantations in the Queensland climate utilising species not grown commercially in other regions of Australia.

FPQ's plantation estate has a total long-term sustainable harvest of around 2.0 million cubic metres per annum based on long-term tree crop rotations of between 25 to 45 years.

FPQ manages about 210,000 hectares of plantation, within an overall estate of 300,000 hectares (the non-plantation land is buffer zones around boundaries and water courses).

There is a viable and robust local processing sector that is generally located close to FPQ's resources. These processors use the sawlog to manufacture high value veneer/plywood and structural timber. Smaller logs are used for landscaping and other products, while residues are used for fibre-board production (e.g. MDF and particle board).

The markets for manufactured timber products were under considerable pressure during 2008-09 as a result of the global financial crisis. However, forecasts suggest a considerable improvement in 2009-10 and improved customer up-take.

FPQ performance in 2008-09

- 1.55 million cubic metres of plantation timber removals
- \$72.4 million in timber sales
- 6,613 hectares of additional land secured for plantations
- \$2.2 million invested in research and development
- 6.4 million trees planted.

The longer-term

FPQ's products generally take between 25 and 45 years to mature (i.e. be ready for harvest). The longer-term view for FPQ is positive, with strong market fundamentals and strong demand for logs from local processors based on strong domestic demand for manufactured products (especially structural grade timber).

Why sell FPQ?

- FPQ is a plantation timber business which grows trees for commercial sale. It is not the Government's role to own and operate a timber business. The Government's role is to deliver public infrastructure and services for the public – schools, roads and hospitals.
- The plantation-grown timber industry is now at a mature stage of development in Queensland. There is a long-term sustainable harvest and a significant privately-owned processing sector. Now is the time to offer the private sector the opportunity to invest in the plantations.
- FPQ requires up to \$100 million of ongoing Government investment over the next five years. It is the Government's view that the private sector is better placed to take on the expense and manage the risk of running this commercial plantation timber business.
- Importantly, the Government is not selling the Crown land under the plantations – only the rights to manage the trees.

About the sale

Timing

The FPQ sale process is planned for completion during the remainder of the 2009-10 financial year.

This involves three distinct stages:

- Stage one – indicative bids by late January
- Stage two – due diligence and binding bids in March
- Stage three – contractual finalisation by June.

Potential buyers

Market sounding indicates a range of potential bidders:

- International and Australian pension funds
- Timber Investment Management Organisations (TIMOs)
- Trade buyers (existing timber industry participants).

A competitive bidding process is the best way to achieve a fair market value for the business.

Expressions of Interest

High level sale information is available to all interested parties.

Bona fide bidders are requested to submit (via the State's commercial advisor) a written Expression of Interest (EOI) to participate in the sale process. This involves an assessment to ensure potential bidders are suitably qualified to participate in the process and be provided access to detailed commercial information, as per standard commercial practice.

Interested bidders can find further information regarding the Expression of Interest and bidding process at www.treasury.qld.gov.au.

Public access to be maintained

The Government has committed to ensuring ongoing public access to State Plantation Forests on Crown land.

Plantation Forestry Licence

A new plantation forestry licence will be created under the *Forestry Act 1959*. The key terms of this licence will be:

- The Licence applies to Crown land with tenure of State Plantation Forest and reflects the rights/powers that already exist under the Act.
- The licence term is at least 99 years. This is to provide long-term security of access for plantation management, reflecting the long-term investment horizon of up to 45 years between planting and harvesting. It also reflects the State's decision to retain ownership of the Crown land underpinning most of the estate.
- The right to manage the land for plantation forestry purposes only. Not complying with this requirement could lead to land being excised from the licence and returned to State management.
- Public access to State Plantation Forests on Crown land to be maintained.

Recreational use

Continued public access, consistent with the *Forestry Act 1959*, will be retained under the licenced arrangements. Access to State Plantation Forests on Crown land encompasses a range of activities, including public access for recreation (eg driving vehicles on forestry roads, walking across plantations or dog-sledding), apiary (beekeeping) sites, horse riding, car rallies and stock grazing.

These activities are either allowed by regulatory signage or through specific permit, depending on individual activity and circumstances in individual plantations (eg harvesting activities or wet weather may preclude safe unrestricted access to forestry roads).

The plantation manager will continue to have the ability to restrict or prevent all forms of public access where there are legitimate operational reasons to do so. This is commonly required when harvesting or planting activities means the operation of large machinery presents a risk to public safety, there is a high fire risk or a risk of damage to forestry roads during wet weather.

Grazing

Stock grazing permits and their allocation and operation under the *Forestry Act 1959* will continue. This will ensure the continued positive relationship of timber and grazing interests working together.

Apiary

Permits for apiary (beekeeping) sites will continue to be issued under the *Forestry Act 1959*. It is already established that beekeeping is to be excluded from native forests by 2025 and thus the plantation areas (including their native forest buffer zones) are seen as an important alternative location. Again, this will ensure the continued positive relationship of timber and rural-oriented interests working together.

Conservation and environment

FPQ and key conservation stakeholders have negotiated for several parcels of plantation land to be progressively retired from commercial production and then transitioned to conservation status. The licence will include specific areas that have 'sunset clauses'. This will allow time for the trees to mature and be harvested prior to the land being excised from commercial production. The retirement of these areas will not impact on existing supply agreements.

Areas include:

- Palen Creek – 557 hectares
- Mount Mee – 121 hectares
- Yurol – 74 hectares
- Oakview – 72 hectares
- Brooweena – 165 hectares
- Watalgan – 85 hectares
- Bulburin – 874 hectares
- Degalgil/Dan Dan(Dawes) – 91 hectares
- Wongabel – 647 hectares.

Total – 2,686 hectares.

Environmental considerations

FPQ manages a plantation forest business. Plantation timber provides a positive environmental alternative to native forest wood, such as old growth forests.

It is the Government's intentions to seek a buyer with good forestry credentials and a strong financial capacity to take the business forward as an integral part of Queensland's sustainable, plantation-based timber industry.

Forest management standards

The plantation licence terms will include the requirement to maintain accreditation under an internationally-recognised forestry standard. FPQ currently meets the Australian Forestry Standard certification, which enhances its well respected environmental credentials and sustainable plantation management practices.

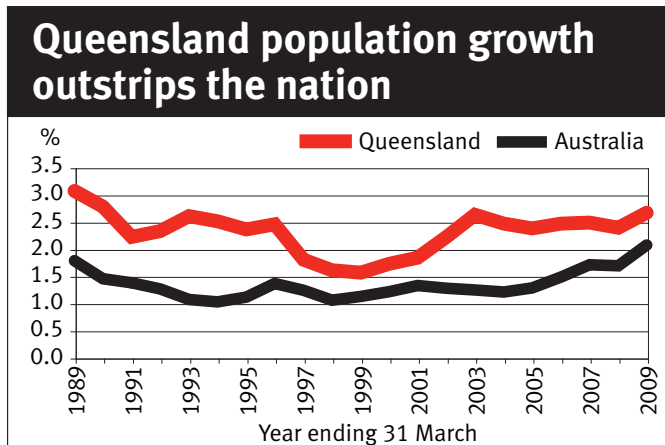
Fire management

Preventing the damaging impacts of uncontrolled wildfire is clearly in the interests of the plantation manager. FPQ therefore maintains a fire detection and suppression capacity to protect its investment in the plantations. The new owner of FPQ will be expected to continue this approach and work with relevant State agencies as part of a coordinated fire-risk management and response program.

Population growth

Continued population growth in Queensland is expected to underpin stable long-term housing demand. Queensland's population grew by 112,700 over the 12 months to March 2009.

This was the biggest addition of all Australian states and takes Queensland's population beyond 4.44 million. Queensland's long-term growth forecasts are well above the national average.



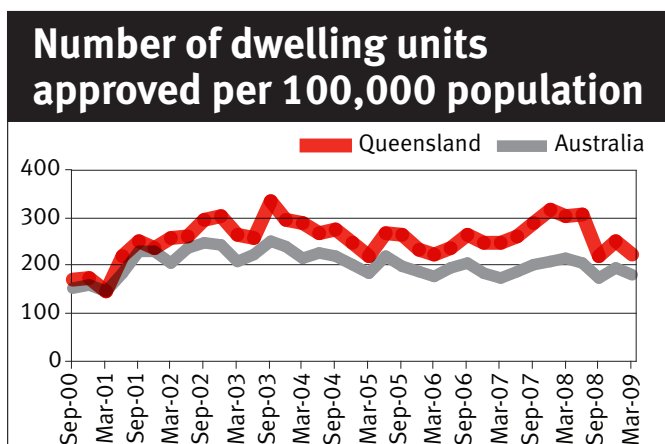
The increasing Queensland-based demand for timber, together with FPQ's solid domestic customer base is attractive to potential buyers. While potential buyers of FPQ are expected to take a long-term view of the market fundamentals in valuing the business, the current position in the demand cycle having just come off the bottom, is expected to add to buyer interest in FPQ.

Demand for timber

Demand for domestic sawlog timber is driven primarily by the demand for structural timber for the construction market. Locally grown and processed softwood is the predominant timber used for the construction of new dwellings and building renovations in Queensland.

Queensland leads the nation in both economic expansion and population growth over the past decade, driven by our strong resource sector, burgeoning housing market and the Government's ongoing infrastructure building program.

New dwelling approvals are a lead indicator of construction activity and over the past 10 years Queensland has continued to outperform the national average (see graph below).



Industrial relations

FPQ has more than 400 employees.

The Government has made the commitment to ensure three years employment security from date of sale for FPQ award staff transferring to the new owner. This has been reflected in a Code of Practice, which has been agreed between the Government, FPQ and unions. The next steps are to negotiate the employee transfer mechanism and to establish a new enterprise agreement.

Importantly, the Government has stated its intentions to seek a buyer with good forestry credentials and a strong financial capacity to take the business forward as an integral part of Queensland's sustainable, plantation-based timber industry.

Other important sale considerations

Customer and supplier contracts

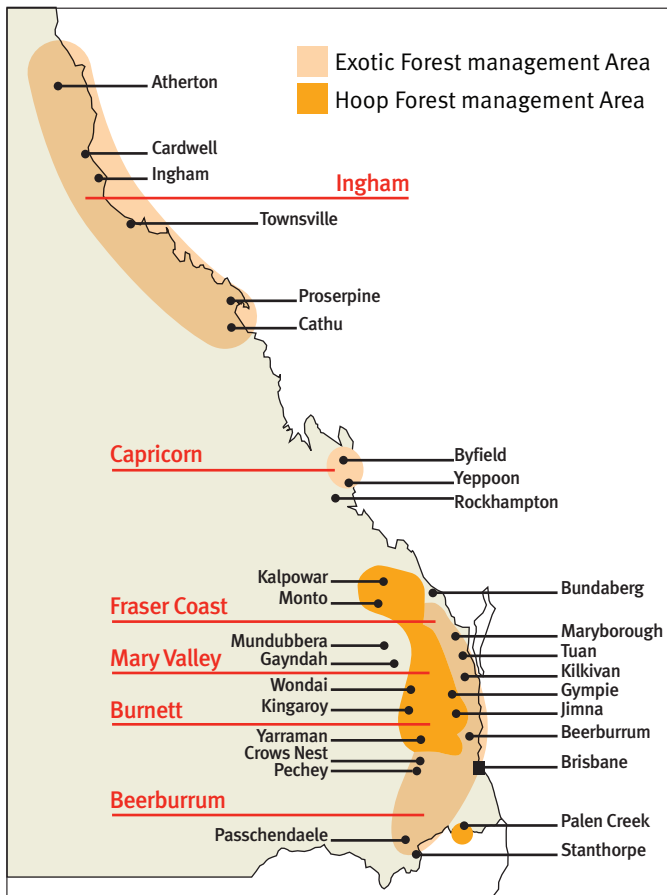
FPQ will be offered for sale as a 'going concern', that is, it will be sold as a complete entity operating under its current structure. For customers and contract holders, there will be no change to existing commercial arrangements.

All of FPQ's contractual rights and obligations will be transferred to the new owner.

Research and development

FPQ funds commercial research and development activities to improve the value of its plantations through making them more efficient or more productive. This continues a long tradition of value-adding plantation research and development activities. As is the case at present, it is expected that a new owner would continue to fund this form of research where there is a clear link to improving the value of the resource.

FPQ's products



Exotic pine plantation forests

Area planted – 138,551 hectares

Total estate – 152,098 hectares

Total sustainable harvest – approximately 1.7 million cubic metres per year.

Operational centres

- Beerburrum Forest Management Area (FMA) – Beerburrum, Passchendaele and Pechey
- Fraser Coast FMA – Toolara and Tuan (near Maryborough)
- Capricorn FMA – Byfield
- Ingham FMA – Ingham, Cardwell, Atherton and Cathu.

Large-scale exotic plantations were established from the 1940s on sandy soils in the coastal strip between Caboolture and Maryborough. Smaller nodes were established from the 1960s near Rockhampton and North Queensland. South East Queensland plantations were initially established with slash pine but have been progressively replaced by the more productive Caribbean pine and its hybrids.

The exotic plantations are managed to produce a high yield of sawlogs suitable for production of structural timber and plywood. A small percentage of the final harvest, some thinning logs and sawmill residues are utilised for the manufacture of non-structural timber, board products and exported as woodchips.



Hoop pine plantation forests

Area planted – 44,203 hectares

Total estate – 45,890 hectares

Total sustainable harvest – approximately 400,000 cubic metres per year.

Operational centres

- Mary Valley FMA – Imbil, Brooyar, Jimna and Gallangowan
- Burnett FMA – Yarraman and Kalpowar, and smaller areas at Palen Creek and Atherton.

Hoop pine plantations were established from the 1920s on high quality, high fertility sites generally in areas receiving greater than 800 millimetres of rainfall per year. Management practice is targeted at the production of large pruned logs for the production of plywood, veneers, large end section clear-wood and architectural products. Plantations are generally managed on 45 year rotation lengths. Genetic improvement commenced in 1958, focusing on improving tree volume, stem straightness, branching habit and wood quality. All seed for plantation establishment is now sourced from second generation seed orchards using controlled pollination among elite trees.



Hardwood plantation forests

Area planted – 12,073 hectares

Total estate – 13,356 hectares

The first harvest is not scheduled to begin until 2025 coinciding with the cessation of native forest harvesting on public lands. FPQ anticipates the sustainable yield to be in the order of 150,000 cubic metres per year.

Operational centres include plantations around Kingaroy and Wondai (near Gayndah and Mundubbera), and on the coastal plain between Beerburrum and Gympie.

Arising from the South East Queensland Forest Agreement Hardwood Plantation Program and the Western Hardwoods Plan, the Queensland Government committed to the establishment and management of a total of 20,000 hectares of hardwood plantations managed for sawlog production by 2015. FPQ has established about 11,800 hectares of these plantations and the terms of sale will include completion of this program. The preferred hardwood species are spotted gum and western white gum. The average clearfall age is expected to be 25 years when sawlog harvests begin in 2025.



About the Queensland assets sale

In June 2009, the Queensland Government announced its intention to sell five commercial businesses. The businesses for sale include:

- **Forestry Plantations Queensland (the trees not the Crown land)**
- Port of Brisbane
- Queensland Motorways (the tolling rights on the Gateway and Logan motorways)
- Abbot Point Coal Terminal
- Queensland Rail's coal transport business.

The Government is also examining the potential sale of other commercial parts of QR but is NOT selling QR's public passenger services, or the State's rail network (other than coal lines).

About the program

The worst global recession in 70 years reduced Queensland's income by \$15 billion over four years, with income from:

- GST down by \$4.6 billion
- royalties down by \$2.6 billion
- taxes such as stamp duty down by \$7.8 billion.

Anyone who has a cut to their income needs to take action – whether it's a family, business or government. That's why the Queensland Government is prioritising spending on essential public services and infrastructure – new roads, schools and hospitals – which benefit all Queenslanders.

The financial benefits of selling these businesses

The sale of these assets will deliver the following financial benefits:

- \$15 billion in proceeds injected into the State budget
- \$12 billion saved in future borrowings for these businesses.

The sale of these assets will ensure that public money is spent on public infrastructure.

Contact information

General public enquiries

Web www.qld.gov.au/assetssale
Email thefacts@treasury.qld.gov.au
Telephone 1800 188 570

Bidder and commercial enquiries

Web www.treasury.qld.gov.au
Email fpqsale@rothschild.com.au
Telephone +61 2 9323 2450



Hon. Andrew Fraser MP
Member for Mount Coot-tha



Treasurer
Minister for Employment and
Economic Development

26 November 2009

Government announces timber business to be put to market

In state parliament today, Treasurer Andrew Fraser announced that the formal sale process for Forestry Plantations Queensland is underway.

“FPQ is one of five State-owned businesses that we are selling in response to the global financial crisis and its impact on our budget,” Mr Fraser said.

“We need to build infrastructure and to protect jobs, and if that means tough decisions then my government’s up for it.

“In 2009, it is not Government’s role to own and operate a commercial timber business.

“It is now time for the private sector to invest in this business, not a government that’s committed to vital infrastructure and services for the public – schools, roads and hospitals.

“This is an important milestone in our plan to deliver a stronger Queensland economy.”

Mr Fraser said in line with its initial commitment, the State is not selling the Crown plantation land on which the business is located - only the rights to manage, harvest and re-grow the plantation timber.

Mr Fraser also reiterated that the government had already moved to ensure the public retains the access rights to forestry land they currently enjoy.

“FPQ is the first of the assets to market and I’m confident that it will attract significant market interest.

“Given the bulk of the business’ maturity and proximity to Australia’s fastest-growing region, FPQ is considered ideally placed for long-term investors.”

Mr Fraser said FPQ employees remain the government’s main priority, which is why a three-year job guarantee for award employees has already been agreed to, through unions including the AWU, QPSU, CFMEU, and the AMWU.

“We moved swiftly to provide certainty for these employees.

“I’d like to acknowledge the efforts of the unions to work with the government to ensure the best outcomes for their members.”

FPQ is a fully established forestry business, including research and nursery capabilities, and has a long term sustainable harvest of around 2,000,000 cubic metres per annum.

FPQ’s tree crop plant–harvest rotations range from 25 – 45 years on about 210,000 hectares of plantation forest, within an overall land holding of about 300,000 hectares (including buffer zones around boundaries and watercourses).

Mr Fraser said that the sale process is now planned to involve:

- 1) Receiving indicative non-binding bids by late January,
- 2) Conducting due diligence and binding bids in March, and
- 3) Contractual finalisation by June.

For more details go to: www.Treasury.qld.gov.au

Media contacts: Treasurer’s Office – 3224 5982



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