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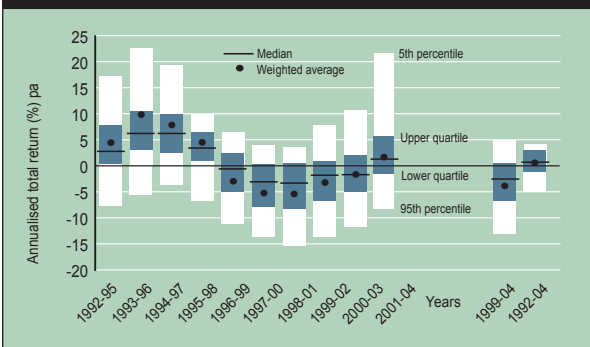
Bidwells
Border Consultants
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Forestry Commission
Forestry Investment
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Scottish Woodlands Ltd
Tilhill Forestry Ltd

Results to December 2004

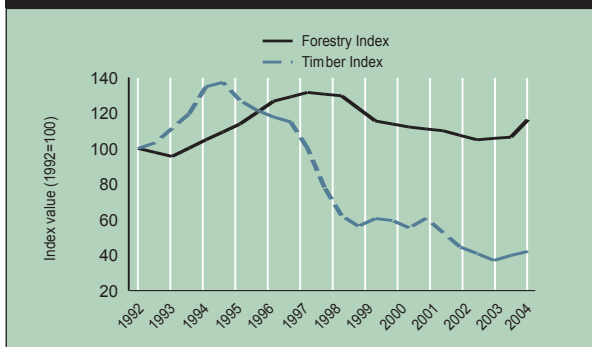
		Annualised		
	2004	3 years (2001-2004)	5 years (1999-2004)	Long term (1992-2004)
Forestry % pa				
Total return	9.3	1.9	0.1	1.3
Timber price change	5.8	-7.2	-7.0	-7.0
Other assets (total return) % pa				
Equities	12.8	1.8	-3.0	8.4
Bonds	6.6	6.2	6.4	8.5
Commercial property	18.3	12.9	11.1	12.0

Summary of results

Range of individual forest returns



IPD Forestry total return index v's timber price index



3 year rolling annualised returns

	Weighted average	Top 5%	Upper quartile	Median	Lower quartile	Bottom 5%
3 year (% pa)						
1994-1997	7.9	19.3	9.7	6.1	2.3	-3.7
1995-1998	4.5	9.9	6.2	3.5	0.9	-6.9
1996-1999	-3.0	6.4	2.2	-0.5	-5.0	-11.3
1997-2000	-5.2	3.9	0.2	-3.1	-8.0	-13.8
1998-2001	-5.4	3.5	0.3	-3.3	-8.4	-15.4
1999-2002	-3.2	7.8	0.7	-1.8	-6.8	-13.7
2000-2003	-1.7	10.7	1.7	-1.7	-5.0	-11.8
2001-2004	1.9	22.0	5.4	1.3	-1.7	-8.3

5 year rolling and long term annualised returns

	Weighted average	Top 5%	Upper quartile	Median	Lower quartile	Bottom 5%
5 year (% pa)						
1994-1999	1.9	8.0	4.8	1.9	-0.4	-6.9
1995-2000	-0.3	6.0	2.8	0.3	-2.4	-8.2
1996-2001	-2.8	3.4	1.3	-1.0	-4.6	-10.5
1997-2002	-4.4	3.3	0.1	-3.0	-6.9	-13.3
1998-2003	-3.9	4.9	0.5	-2.6	-6.9	-13.1
1999-2004	0.1	10.6	3.0	0.3	-3.0	-9.5
Long term (% pa)						
1992-2004	1.3	4.9	3.1	1.1	-0.7	-3.3

Summary

- The average total return on investments in forestry in 2004 was 9.3%. This built significantly on the return of 1.4% last year to turn around the previous five years of negative returns. The longer term annualised returns were consequently positive, at 1.9% per annum for the 3 years to December 2004, and 0.1% pa over the last 5 years. The annualised return for the 12 year period since the start of the index in 1992 has risen to 1.3% pa.
- Some forests have performed remarkably well this year, with the top 5% of plantations achieving a 3 yr annualised return of at least 22%. There is, however, a wide range of individual forest returns, with the bottom 5% showing returns lower than -8.3%. This range narrows substantially when looking at a longer period; over twelve years, half of forests had annualised returns of between -0.7% and 3.1%.
- When compared to other asset classes over 2004, forestry returns were higher than gilts, but lower than UK equities and commercial property. However, over both 3 and 5 years, forestry investments actually outperformed UK equities. Over the longer 12 year period, forestry was the worst performing asset, although forestry returns have been less volatile than either equities or gilts. This characteristic, along with its low correlation with equities, gilts and property, gives forestry a diversifying quality that can be exploited in multi-asset portfolios.
- Forestry investment has undoubtedly benefited from the rising timber prices over 2004. After years of a downward sloping index which saw a drop in prices of almost 70% between 1995 and early 2003, the timber price index was at a level in March 2005 that was 5.8% higher than in March 2004, and 13.7% higher than in September 2003.
- The Index has a large number of plantations in the older age bands - forests over 20 years old represent over 75% of capital employed. The performance of older forests therefore have a greater impact on overall forestry returns. So, although younger forests performed particularly well, headline returns were held back to a large degree by the lower returns of older forests.

Tax status

Tax is a very important consideration for investors in forestry, but the wide variation of tax status between investors makes it impossible to reflect these benefits in the results. The Index excludes these substantial fiscal advantages that are available to the investor.

Income from timber sales in the UK is free of Income and Corporation Tax and growing timber is exempt from Capital Gains Tax. After two years of ownership, commercial woodlands qualify for 100% Business Property Relief from Inheritance Tax.

The index

The IPD Forestry Index is calculated from a sample of private sector coniferous plantations of predominantly Sitka spruce in mainland Britain. By the end of 2004 the 161 forests in the index had a total capital value of £74.4m.

The Index is derived from a series of annual valuations and cash flows, but in order to reflect the long-term nature of forestry investment the series is presented on a three-year annualised basis. The year-on-year returns and Index values are shown on the back of this publication, but analysis is based principally on the annualised results. These demonstrate more clearly the long-term returns available to investors.

The series is based at 1992 after the expiry of tax relief on expenditure, which was withdrawn in March 1988 with a period of transitional relief until December 1992. The Index reflects movements in valuations driven by changes in the underlying long-term trend in UK timber markets and investor demand.

Market commentary provided by the sponsors

The commentary for last year's Index can be summarised in two words: "cautious optimism". This year underlines that there was little need for caution. Timber prices recovered, albeit from a very low base, on the back of weaker sterling, higher shipping and freight costs, and an expanding market for small roundwood and sawmill co-products. The reduction in supply from the Baltic states, along with the Forestry Commission's reduced harvesting in Wales, have also put upward pressure on the price of timber. The Forestry Commission's Coniferous Standing Sales Prices Index for the year to March 2005 was 5.8% higher in nominal terms than for the year to March 2004, and nearly 14% higher than for the year to September 2003.

Significant new investments have been announced in existing processing capacity in sawmills and a boardmill, which will increase demand for timber. The increase in timber-frame housing is also helping demand. In addition, there are feasibility studies under way for a new pulp mill at Invergordon, which would use the equivalent of 36% of the current annual harvest.

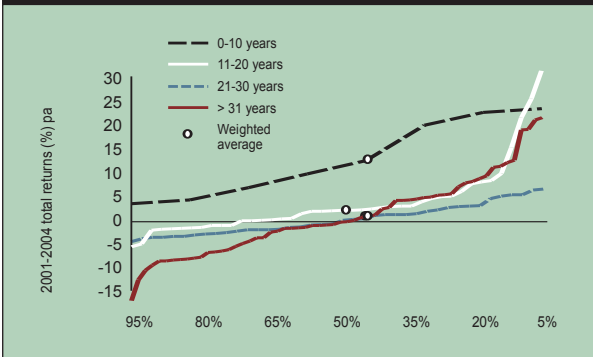
There are 21 biomass projects at feasibility stage, which would require a total of 3.6 million tonnes per annum of wood fibre – double the current availability of product. Just a few of these that have planning permission or are under construction would more than replace the portion of the small roundwood market lost to recycling over the last few years. Co-firing in coal-fired power stations to meet renewables targets will also increase demand.

There have been worries about the impact on timber prices, at least in the short term, of the significant windblow caused by the recent storms in Europe, particularly the catastrophic gale in Sweden. However, the UK has largely escaped the consequences, seeing little effect. Hauliers are also concerned at the impact that the Working Times Directive may have on transport costs.

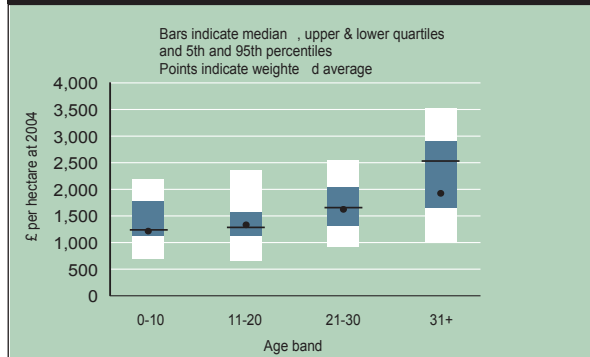
Timber price rises have fed through into higher plantation values. Domestic growers are now debating the degree and sustainability of price increases. This renewed confidence is fuelling demand for productive forests, which are currently in short supply, limited by a lack of Forestry Commission disposals and, in contrast to recent years, no new large-scale pension fund sales. Forests that had stuck on the market have sold, and recent sales have seen many competing bids and offers well in excess of guide prices. One agent reported in May "some spectacular prices compared to the trough of two or three years ago". The Tilhill/Savills Forest Market Report, spring 2005, showed a 24% annual increase in market size to £25million and a 14% increase in average woodland sale price. Private individuals, often with IHT mitigation in mind, are major buyers.

The longer-term considerations include carbon emissions targets and subsequent policies, the sustainability of increased production from tropical plantations, China's phenomenal demand for natural resources, and the price and availability of oil and gas. In summary, the outlook for timber prices and timberland values is positive.

Range of individual forest returns (3 yr annualised) by age band



Range of valuations (£ per hectare) by age band at 2004



Performance by age and region of plantation

- Across all age bands, returns for 2004 were higher than in 2003. The best performance again came from the youngest forests (reflecting the higher level of grant support), returning 15% per annum over the 3 years to 2004. Three-year rolling returns to 2004 were all positive for the three older age bands, having been negative in the 3 years to 2003. This was a result of markedly improved returns over the last year - even the age band that performed the least well (forests over 30 years old) returned 7.9% in 2004.
- Over the long term back to 1992, the highest returns have come from plantations under 10 years old, with 7.3% per annum. This is considerably higher than the long term returns for older forests, which annualises to 0.0% pa for the oldest plantations, and 1.6% pa for the middle age bands. The performance of older forests is more responsive to the price of timber, so they were more adversely affected by the collapse of timber prices in the late 1990s, and have only recently started to recover.
- The range of performance within each age band is considerable as local conditions and timber quality can have a major effect on individual plantation valuations. Top quartile returns in the youngest age band over the last three years have been above 21%, while the bottom quartile had returns below 6.5%. Semi-mature forests (aged 21-30) had the narrowest ranges of returns, with 90% of these plantations returning between -3.3% and 6.7% per annum.
- Weighted average capital values for each age band go from £1,186 per hectare for plantations under 10 years old, to nearly £2,000 for mature plantations. The median value for the oldest age band is significantly higher than the weighted average - half of these forests are valued at over £2,500 per Ha. Within each age band, individual estates have a wide range of valuations, due to factors including lot size, access, terrain, stem form and amenity value. Mature forests have the widest range, with the 5th and 95th percentiles having values as diverse as £1,000 and £3,500 per Ha.
- Analysis of performance by region is obscured by differences in the age composition of the sample in each area, which is not perfectly balanced. Some of the variation in performance is undoubtedly due to this variation in age mix. Investment returns have been strongest on plantations in the Mid-Scotland region over the last three years, at 6.1% pa, and weakest in North Scotland, the only region to record a negative 3-year annualised return (-0.4%).
- Wales saw the greatest variation in returns over the last three years, with the 5th percentile returning 24.6%, compared to -11.1% for the 95th percentile. Mid Scotland had the most skewed distribution - the weighted average (6.1%) was well above the median (0.3%). In fact, over two thirds of these forests returned below the weighted average. This was due to the strong returns on a small number of the higher valued plantations in the sample.

Index series

A more detailed breakdown of the annual results, by region and age band, and including results on a smaller sample back to 1980, is available on the IPD website www.ipdglobal.com

Index series					
Year end 31st Dec	Total return (% pa)	No. of forests	Total return index	Timber price change	*Timber price index
1993	-4.5	126	95.5	11.3	111.3
1994	9.8	126	104.9	21.1	134.8
1995	8.5	126	113.8	-5.6	127.2
1996	11.4	126	126.7	-7.5	117.7
1997	3.9	126	131.6	-14.9	100.1
1998	-1.4	153	129.7	-37.9	62.2
1999	-10.9	150	115.5	-2.7	60.5
2000	-3.0	152	112.1	-8.7	55.3
2001	-1.9	157	110.0	-4.9	52.6
2002	-4.6	164	104.9	-22.3	40.8
2003	1.4	162	106.4	-2.8	39.7
2004	9.3	161	116.3	5.8	42.0

Total return and timber price indices based at 1992=100

* Forestry Commission Nominal Price Index of Coniferous Standing Sales (for Great Britain) on a year to March basis (2004 = March 2005). It reflects the price in other years of the size and mix of timber sold in the base year. This is based on a size and mix of timber in 1996 and the series has been re-scaled to 1992.

Index design

The sample was originally structured to reflect market capitalisation across the regions and an approximately even number of plantations by age band in each region. This pattern has been distorted over the years by the ageing of plantations. For the purposes of the age band analysis plantations are artificially sold and re-purchased when they change bands. Properties are included in the three-year rolling returns according to their age in the end-year of the period. If a forest is sold from the sample it is replaced by one of the same region and age band. Felled plantations are replaced by the youngest age band whenever possible.

Tax position as at December 2004

INCOME TAX	All income from UK timber sales is free of Income & Corporation Tax
CAPITAL GAINS TAX	Growing timber is exempt from Capital Gains Tax
INHERITANCE TAX	After two years of ownership, commercial woodlands qualify for 100% Business Property Relief

Sample composition by age band

Years	0-10	11-20	21-30	>30	Total
No. of forests	8	44	41	68	161
% Capital employed	2.9	21.8	25.1	50.2	100.0

Sample composition by region

Region	North Scotland	Mid Scotland	South Scotland	North England	Wales	Total
No. of forests	20	30	56	21	34	161
% Capital employed	10.3	16.0	40.9	9.3	23.5	100.0

Range of valuations (£ per hectare) by age band at 2004

Percentile	0-10	11-20	21-30	>30
5th percentile	2,185	2,341	2,540	3,517
Upper quartile	1,767	1,555	2,029	2,892
Median	1,233	1,280	1,648	2,517
Lower quartile	1,115	1,114	1,325	1,649
95th percentile	712	668	934	999
Weighted average	1,186	1,315	1,605	1,928

Acknowledgments

IPD would like to thank all those forest owners, land agents and forest managers who have provided information for this analysis and the Forestry Commission who contributed to the cost of data collection and analysis. Forestry consultancy has been provided by the sponsors and Andrew Jennings, who are responsible for the Market Commentary section of the text.

Long term total return by age (% pa)

Year end 31st Dec Annualised	0-10	11-20	21-30	>30
1995-1998	4.0	4.2	7.0	0.5
1996-1999	2.9	-0.5	-3.0	-5.4
1997-2000	4.5	-2.3	-6.3	-6.4
1998-2001	7.6	-2.8	-7.2	-5.1
1999-2002	9.7	-1.5	-5.1	-2.6
2000-2003	9.3	-1.6	-2.7	-1.7
2001-2004	15.0	2.4	1.1	1.1
1995-2000	5.0	1.2	0.2	-2.6
1996-2001	6.0	-0.4	-3.7	-3.8
1997-2002	6.2	-2.5	-5.6	-5.1
1998-2003	8.1	-2.2	-5.4	-3.9
1999-2004	13.3	1.3	-1.3	0.2
1992-2004	7.3	1.6	1.6	0.0

Range of return by age 2001-2004 (% pa)

Percentile	0-10	11-20	21-30	>30
5th percentile	23.6	25.4	6.7	21.2
Upper quartile	21.0	5.4	3.0	5.7
Median	11.5	2.3	0.3	-0.4
Lower quartile	6.5	-0.8	-2.0	-6.0
95th percentile	4.1	-4.3	-3.3	-12.0
Weighted average	15.0	2.4	1.1	1.1

Long term total return by region (% pa)

Year end 31st Dec Annualised	North Scotland	Mid Scotland	South Scotland	North England	Wales
1995-1998	-4.3	0.1	6.9	5.3	5.2
1996-1999	-5.7	-4.1	-3.6	0.5	-2.5
1997-2000	-3.5	-4.3	-5.8	-5.4	-5.7
1998-2001	-3.4	-4.1	-6.5	-5.8	-4.6
1999-2002	-3.2	-0.3	-2.8	-4.5	-5.5
2000-2003	-1.3	1.7	-1.9	-3.2	-3.1
2001-2004	-0.4	6.1	2.2	1.4	0.1
1995-2000	-4.5	-2.3	0.5	0.4	0.5
1996-2001	-4.0	-2.5	-3.3	-1.4	-2.9
1997-2002	-3.6	-2.8	-4.5	-5.0	-5.6
1998-2003	-2.7	-1.4	-4.5	-4.6	-4.3
1999-2004	-0.8	3.6	0.1	-0.9	-1.4
1992-2004	-2.7	0.3	2.6	0.8	0.8

Range of return by region 2001-2004 (% pa)

Percentile	North Scotland	Mid Scotland	South Scotland	North England	Wales
5th percentile	10.2	20.1	23.3	12.5	24.6
Upper quartile	5.7	8.1	4.8	5.4	5.7
Median	1.1	0.3	2.2	0.3	0.4
Lower quartile	-4.7	-2.3	-1.4	-1.3	-1.7
95th percentile	-8.3	-4.5	-6.8	-3.6	-11.1
Weighted average	-0.4	6.1	2.2	1.4	0.1

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