



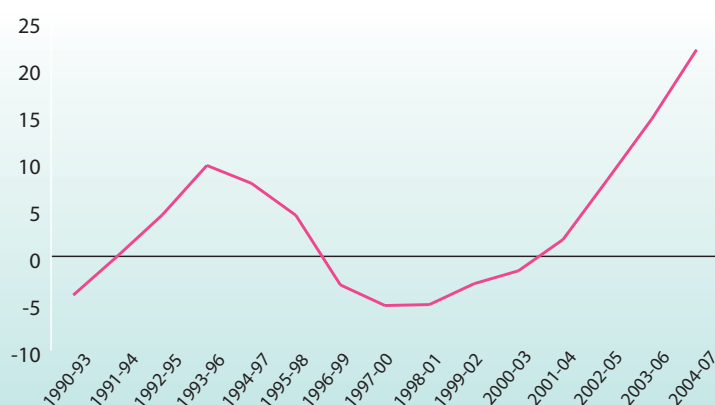
IPD UK Forestry Index

Results for the year to 31st December 2007

On the pulse of
the property world



IPD UK Forestry Index Performance - 3 year annualised total return, % p.a.



The IPD UK Forestry Index is calculated from a sample of private sector coniferous plantations of predominantly Sitka spruce in mainland Britain.

IPD UK Forestry index returns

Forestry	1992=100	2007	Annualised total return %			
			3 yrs	5 yrs	10 yrs	15 yrs
Total return	211.4	31.6	22.0	15.0	4.9	5.1
Timber price change*	80.7	46.3	24.4	14.6	-2.1	-1.4

* On a year to March basis (2007 = March 2008)

Comparative data - Total return

	1992=100	2007	3 yrs	5 yrs	10 yrs	15 yrs
Equities	393.7	5.3	14.5	15.4	6.2	9.6
Bonds	303.3	6.4	4.5	4.4	6.1	7.7
Commercial property	527.7	-3.4	10.8	12.2	11.4	11.7

Data sources: FTSE All Share Index, FTSE 5-15 Gilts Index, IPD UK Annual Property Index

Sponsors of the IPD UK Forestry Index

Bidwells, Border Consultants, Close Brothers Investment, ConFor, Forestry Commission, Forestry Investment Management, fountains, Scottish Woodlands Ltd, UPM Tilhill, Highfield Forestry

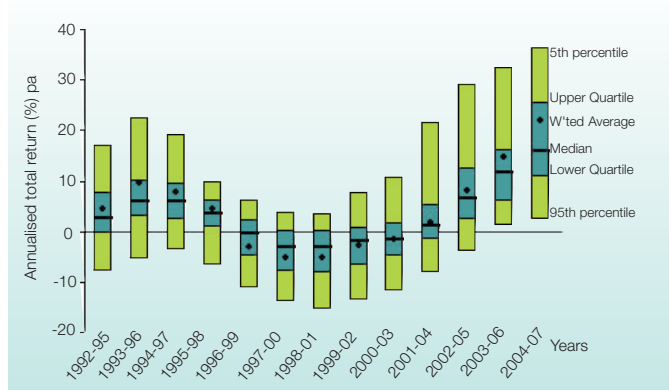
Disclaimer

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Summary of full results

Range of individual forest returns

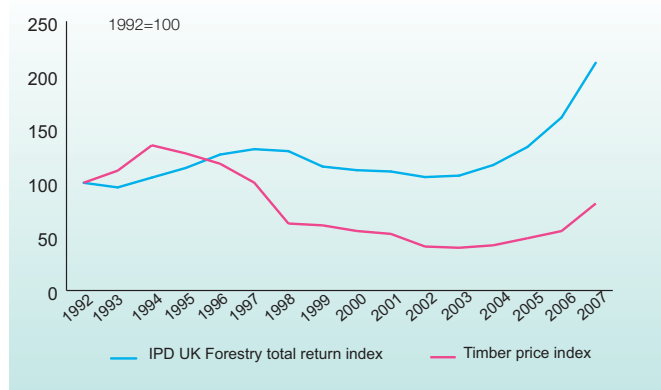


3 years rolling annualised returns						
(% p.a.) 3 year	Weighted average	Top 5%	Upper quartile	Median	Lower quartile	Bottom 5%
1997-00	-5.2	3.9	0.2	-3.1	-8.0	-13.8
1998-01	-5.1	3.5	0.3	-3.3	-8.4	-15.4
1999-02	-2.9	7.8	0.7	-1.8	-6.8	-13.7
2000-03	-1.5	10.7	1.7	-1.7	-5.0	-11.8
2001-04	1.8	21.6	5.4	1.2	-1.7	-8.3
2002-05	8.2	29.2	12.5	6.6	2.5	-4.1
2003-06	14.6	32.4	16.3	11.7	6.0	1.1
2004-07	22.0	36.4	25.6	15.9	10.7	2.3

Summary

- 2007 was another exceptionally strong year of performance for UK forestry. The average total return on investments in forestry was 31.6%. This built significantly on the 2006 total return of 20.6% and was more than double the total return achieved in 2005, of 14.4%. Forestry total returns in 2007 reached a new level since the start of the index in 1992. The annualised 3 year return was 22.0% per annum and the 5 year annualised return was 15.0%. The 15 year annualised return since the start of the index in 1992 was 5.1% per annum.
- The range of returns varied greatly with plantations in the bottom 5% achieving 3 year annualised returns as low as 2.3% per annum whilst forests in the top 5% achieved 3 year annualised returns of 36.4%. Over the 15 year period since the start of the index, the range of returns narrows considerably with forests in the bottom 5% with total returns as low as -0.3% per annum and plantations in the top 5% with returns as high as 7.9% per annum.
- With a total return of 31.6% in 2007, investments in forestry out-performed equities, gilts and commercial property. For the first time since the start of the index, forestry has out-performed all three of the other asset classes over the 3 year period to 2007 and over the 5 year period, has out-performed gilts and commercial property. Over the 15 year period, forestry remains the weakest performing asset class. However, forestry returns also remain less volatile than equities and have a low correlation with this asset class. These characteristics continue to make forestry an attractive investment for any multi-asset portfolio attempting to reduce risk through diversification.
- Timber prices rose 46.3% from March 2007 to March 2008 and were 66.4% higher in March 2008 than in March 2006. Forestry investment has benefited greatly from this upward movement in timber prices.
- The index sample has a large number of forests that fall into the two oldest age bands. Combined, they contribute 86% of the total

IPD UK Forestry total return index vs timber price index



5 years rolling and long term annualised returns						
(% p.a.) 5 year	Weighted average	Top 5%	Upper quartile	Median	Lower quartile	Bottom 5%
1997-02	-4.3	3.3	0.1	-3.0	-6.9	-13.3
1998-03	-3.8	4.9	0.5	-2.6	-6.9	-13.1
1999-04	0.2	10.3	3.0	0.2	-3.1	-9.5
2000-05	3.6	12.7	5.5	2.2	0.1	-5.3
2001-06	7.8	22.4	10.3	6.1	3.5	-2.0
2002-07	15.0	25.2	16.4	12.1	6.9	-1.8
Long term (%pa)						
1992-07	5.1	7.9	5.1	3.4	0.5	-0.3

capital value of the index. The performance of forests in these two age bands therefore has a much greater impact on overall forestry total returns. This is particularly significant in the 2007 index, with the 21-30 years and >30 years age bands achieving their highest returns for the first time since the start of the index.

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 2007 the 145 forests in the index had a total capital value of £112.9m.

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.

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 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 general market trends seen in 2006 were continued in 2007, resulting in another year of strong value growth for UK forests. The freehold market was characterised by a shortage of supply relative to demand resulting in a number of closely contested woodland sales with offers significantly ahead of the asking price. A number of noteworthy sales can be attributed to "special purchasers" who were keen to acquire a particular property for strategic reasons, often associated with sporting or other non-timber interests and who were prepared to buy at substantial premiums. Over the 12 months to September 2007 the total value of property coming into the market almost doubled to around £67m.

In the early part of the year, the strengthening of both demand for and the value of softwood timber of all types increasingly underpinned freehold capital values. The Forestry Commission's Coniferous Standing Sales Price Index for Great Britain showed a significant year on year increase of 42% in real terms for the twelve months to March 2008 against an increase of 11% in the previous year. Timber marketing conditions were strong in the early part of 2007 where sawmills were generally working at full capacity to fulfill gaps in demand from import shortfalls. This situation changed in the latter half of the year with increased supplies coming into the UK, particularly of German and Canadian timber, partially as a result of falling demand in the American market, due to a slowing economy and the associated reduction in housing starts. The subsequent global credit crunch and run on Northern Rock during late 2007 caused a spike of interest in land based property as nervous investors sought alternative products.

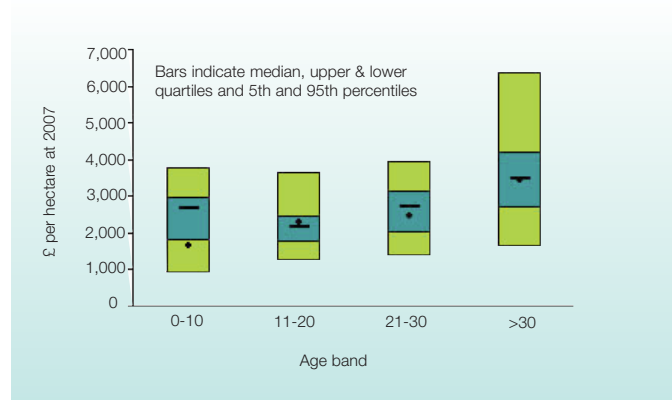
The year also saw the continuation of investment in the domestic wood processing industry, with the announcement of a number of substantial projects that will bolster the industry well into the future. For example James Jones and Sons announced the development of a £20m state-of-the-art sawmill at Lockerbie, bringing their total site investment to

£35m. BSW advanced their plans for a new £26m sawmilling facility at Fort William; the combination of these will have a very positive effect in sustained sawmilling capacity in both the South and North of Scotland. The small roundwood market was buoyant over 2007, mainly due to a shortage of material in Scandinavian mills, which strengthened the export trade, along with strong domestic demand for manufactured board products. As anticipated in the 2006 market report the development of the emerging biomass markets continued apace, adding to already strong demand for small roundwood.

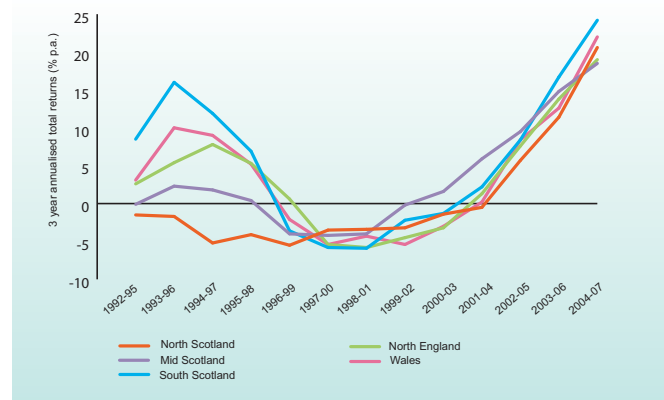
Whilst the strengthening in UK timber prices was one of the factors driving investment demand, there was undoubtedly continued interest from high net-worth individuals keen to utilise the available tax benefits. The market also saw an increase in overseas and corporate investors looking to diversify their portfolios on the back of the general rise in global commodity prices and an increasing awareness of exposure to the benefits of sustainable forestry in the provision of raw materials and in the climate change debate. This sentiment also impacted on agricultural land prices, which were driven upward by better product prices and perceived fears over future resource scarcity and commodity supply issues. Farmland values rose by around 30% over the year with prime arable land often selling in excess of £5,000 per acre.

In conclusion, 2007 was another exceptional year for forest values, with growth in both capital value and investor confidence, despite rising fuel costs and increasing uncertainty in the global economy. Throughout the first quarter of 2008 forest sales continued positively although it is apparent that some caution has returned to investment decisions, particularly in regard to purely commercial woodlands. The forthcoming Forestry Commission Repositioning Programme and the reintroduction of support for new planting in Scotland under the Scottish Rural Development Programme, will ensure market turnover and continue to provide forest investment opportunities.

Range of valuations (£ per hectare) by age band



3 year annualised returns by region, % p.a.



Performance by age and region of plantation (see tables overleaf for figures)

- Total returns in 2007 were high across all four of the age bands. The performance of older plantations is more responsive to the price of timber and for the first time since 1996, the 21-30 years band out-performed the youngest forests, achieving returns of 30.9%. The >30 years old forests did better at 40.0%, whilst the 0-10 years old forests returned 19.2%.
- Over the 3 years to 2007, the forests that fell within the 0-10 years old group were the top performing group with total returns of 27.0% per annum. The same pattern was true over the 5 years and long term 15 year period to 2007.
- Weighted average capital values for each age band extend from £1,648 per hectare for the youngest plantations to £3,438 per hectare for the oldest forests. The median value for the youngest forests was significantly greater than the weighted average - half of the youngest forests were valued at over £2,673 per hectare. The older, mature forests have a wider range of valuations than the other plantations.

The values in 2007 were diverse stretching from £1,628 per hectare for the 5th percentile and £6,363 per hectare for the 95th percentile.

- 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 will undoubtedly be due to the variation in age mix.
- 2007 saw returns strengthen across all regions, particularly in Wales where returns have more than doubled to 37.4% since 2006 making it the strongest performing region for 2007. South Scotland still remains the top performing region over the 3 years and 15 years to 2007, with returns of 24.2% per annum and 6.7% per annum respectively.

Index series					
Year-end 31st Dec	Total return %	No. of forests	Total return index	Timber price change	*Timber price index
1998	-1.4	156	129.4	-37.9	62.2
1999	-11.1	157	115.1	-2.7	60.5
2000	-2.9	155	111.7	-8.7	55.3
2001	-1.1	163	110.5	-4.9	52.6
2002	-4.7	169	105.3	-22.3	40.8
2003	1.3	165	106.7	-2.8	39.7
2004	9.2	161	116.5	5.8	42.0
2005	14.4	158	133.3	15.6	48.5
2006	20.6	159	160.7	13.8	55.2
2007	31.6	145	211.4	46.3	80.7

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 (2007 = March 2008). 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-based 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 purpose 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. Felled plantations are replaced by the youngest age band whenever possible.

Tax position as at December 2007

Income	All income from UK timber sales is free of Income and 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	7	31	56	51	145
% Capital Value	1.7	12.6	44.9	40.8	100.0

Sample composition by region

Region	North Scot	Mid Scot	South Scot	North England	Wales	Total
No. of forests	19	26	53	17	30	145
% Capital Value	8.5	16.0	42.8	7.8	24.9	100.0

Valuation range (£ per hectare) by age as at 2007

Years	0-10	11-20	21-30	>30
5th percentile	3,761	3,646	3,958	6,363
Upper quartile	2,979	2,441	3,128	4,216
Median	2,673	2,165	2,704	3,474
Lower quartile	1,797	1,756	1,997	2,669
95th percentile	899	1,236	1,358	1,628
Weighted average	1,648	2,274	2,471	3,438

Acknowledgements

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, who are responsible for the Market Commentary section of the text.

Special Notes

Every care has been taken to ensure the correctness and accuracy of this publication. IPD cannot accept responsibility for any errors or omissions.

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Long term total return by age (% p.a.)				
Years	0-10	11-20	21-30	> 30
2000-03	9.3	-1.7	-2.2	-1.8
2001-04	14.9	2.4	0.7	1.2
2002-05	27.0	7.2	7.1	7.6
2003-06	30.0	12.2	12.1	16.0
2004-07	27.0	13.2	19.8	26.3
1998-03	8.1	-2.4	-4.9	-4.1
1999-04	13.2	1.2	-1.1	0.3
2000-05	19.3	3.0	2.6	3.2
2001-06	21.1	6.5	6.0	8.3
2002-07	23.7	10.1	13.3	17.1
1992-07	11.1	3.8	5.1	4.8

Range of return by age 2004-2007 (%p.a.)

Years	0-10	11-20	21-30	>30
5th percentile	34.7	34.6	32.3	42.5
Upper quartile	27.9	20.8	26.6	23.6
Median	20.9	15.1	16.8	15.9
Lower quartile	13.1	10.1	14.2	8.0
95th percentile	9.2	7.6	9.4	2.5
W'ted average	27.0	13.2	19.8	26.3

Long term total return by region (% p.a.)

Region	North Scot	Mid Scot	South Scot	North England	Wales
2000-03	-1.4	1.6	-1.3	-3.2	-3.0
2001-04	-0.5	5.9	2.2	1.3	0.2
2002-05	5.7	9.5	8.4	7.6	8.4
2003-06	11.4	14.8	16.7	13.8	12.6
2004-07	20.6	18.5	24.2	19.0	22.0
1998-03	-2.8	-1.4	-4.2	-4.6	-4.0
1999-04	-0.8	3.5	0.5	-1.0	-1.4
2000-05	1.9	5.4	4.2	2.6	2.7
2001-06	5.9	9.7	9.0	6.9	5.8
2002-07	13.1	14.7	16.0	13.0	14.9
1992-07	1.8	3.8	6.7	4.2	4.8

Range of return by region 2004-2007 (% p.a.)

Region	North Scot	Mid Scot	South Scot	North England	Wales
5th percentile	33.8	28.6	38.4	35.7	35.9
Upper quartile	19.5	19.7	27.8	25.0	22.4
Median	15.8	14.4	18.9	21.7	16.2
Lower quartile	13.6	11.1	12.6	11.1	9.6
95th percentile	7.4	6.7	8.1	0.7	4.7
W'ted average	20.6	18.5	24.2	19.0	22.0

For more detailed breakdown of the annual results, by region and age band, and including results on a smaller sample back to 1980, contact Shan Lee

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