

WFL - 2009 Entitlement Offer & Overview – Mr Marcus Derham, CEO

BOARDROOM RADIO AUSTRALIA (BRR) INTERVIEW WITH MARCUS DERHAM, CHIEF EXECUTIVE OFFICER OF WILLMOTT FORESTS LIMITED (WFL)

MONDAY, OCTOBER 19 2009, 10:00AM AEST

BRR Today on Boardroom Radio we speak with Mr Marcus Derham the Chief Executive Officer of Willmott Forests Limited.

Welcome to Boardroom Radio Marcus.

WFL Thank you, I'm happy to be here.

BRR Marcus, you're joining us today to talk about your current Entitlement Offer to shareholders.

BRR The Rights Issue is providing funding for growing the company can you flesh out the opportunities that you see for WFL in the next 3 years?

WFL Our strategy is based on our core competencies of land and plantation management and downstream timber processing with a focus on the emerging renewable energy market.

We've built our business on Forestry Investment...this is an area where we have extensive expertise and a long and credible market presence.

We intend to continue to build on our increasing market share in this arena by offering attractive and investment worthy products with sound security measures.

In the Timber Processing division...the new mill development will be 'investment ready' in the next few months with planning approvals pending. This is an exciting growth opportunity that carries very little market risk.

Again, our 'Willmott Energy' business is aimed at exploiting our in-house expertise in the plantation forestry and investment markets.

Our experience and track record in plantation establishment and management will underpin our access to these lucrative markets which present opportunities for Willmott Forests in...

- Biomass;
- Renewable fuels; and
- Carbon.

BRR One of the key opportunities you mentioned is the saw mill project, what is the economic case for this and what returns do you anticipate?

WFL There is a very strong economic case for the saw mill project. Our plant is based on landscape products an area in which we already enjoy a strong market share. The new mill has little or no market risk in this regard and our conservative estimates see us producing a return on equity in excess of 20% in year 3 of operation.

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BRR Post the establishment of the new sawmill, is there a case for expansion? And, if so, what would the capex and the effect on the bottom line be?

WFL There is a case for expansion as the Willmott Forests plantation estate matures and provides additional volume for the Bombala mill or other resource becomes available.

The current wood supply agreement with Forests NSW is for 250,000 tonnes of sawlog per annum for 20 years.

Our current planning in terms of design and statutory approvals allows for additional capacity of up to 400,000 tonnes of log in. The sawmill design and state of the art equipment that will be utilised will allow us to profitably process logs through current wood supply agreements on one shift.

As and when additional resource becomes available in the future and markets allow for an expansion in capacity, the mill could effectively double its capacity utilising the same plant with only minimal additional capex. The increased volume and revenue utilising existing plant would significantly add to current expected profitability.

BRR The ETS is being mentioned everywhere, how can Willmott Forests benefit from its establishment?

WFL Plantation forestry offers enormous benefits in the carbon space. Willmott Forests has been the largest developer of new softwood plantations in Australia for many years now.

An Emissions Trading Scheme (ETS), in our view, will serve to focus more attention on plantation forestry's innate ability to assist in meeting emissions targets.

Again, our core competencies of land selection, plantation establishment and management will see Willmott Forests well placed as new markets emerge.

BRR When would a carbon initiative from Willmott Forests start making a return to shareholders?

WFL Our plans are well developed in this area. It is not unreasonable to expect initial benefits to flow to shareholders in the next 1 to 2 years with sustainable new income streams thereafter.

BRR On the Forestry MIS sector what is your view for the year ahead in terms of anticipated sales for the industry?

WFL 2009 saw approximately \$220m of forestry investment which was significantly down on the previous year high of around \$750m. Our view is that 2009 (with the collapse of Timbercorp and Great Southern) was about as bad as things can get in terms of market sentiment. It was certainly the worst I have seen in my 25 years in the industry.

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Our market soundings indicate some level of recovery this year and we expect the market will be in excess of \$300m.

Pleasingly, our market share in 2009 was around 30% and this has increased steadily over the last few years.

BRR Where will Willmott Forests be in terms of its market positioning in the sector for the current year?

WFL Willmott Forests is a well respected business in the sector with a long track record of performance. Our 2010 products will be both attractive and secure. Our experienced management team is focussed on delivering results. We expect that we will garner a high level of support from the market in all of our endeavours.

BRR Why is Willmott Forests raising equity?

WFL We have identified growth opportunities within our business planning and the time is right to progress those opportunities such as the Bombala sawmill development.

BRR How much do you intend to raise?

WFL Approximately \$20 million. We recently completed a placement to institutional and professional investors that raised \$6 million. Under the Rights Issue we have the ability to raise just over \$14 million.

BRR It's been a tough year for the industry. Why should shareholders invest further in Willmott Forests?

WFL Willmott Forests' conservative focus on its core competencies has enabled it to deliver a sound trading result in the 2009 financial year where others have failed. The fundamentals of the Company and its growth strategy are sound and achievable. A capital raising that focuses on long-term growth will ultimately benefit shareholders with a strengthened balance sheet.

BRR When did Willmott Forests last raise equity?

WFL We last raised equity in 2005 – that's 4 years ago. In 2006 we implemented a capital management strategy which delivered us the lowest capital intensive business model in the sector. The strategy has been a huge success which significantly reduced our need for capital for new plantation land. We said at the time that we would only be raising equity for growth opportunities other than land acquisition and those growth opportunities are now before us in the form of our new sawmill project, renewable energy and carbon.

BRR So, this isn't designed to reduce debt as we have seen across the industry?

WFL No, it is for those growth opportunities and working capital.

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On the debt front..., Willmott Forests secured debt finance in March 2009 in the face of one of the toughest markets we have ever seen. This was further testament to Willmott Forests' underlying financial strength. These debt facilities were split into two tranches with the first maturity date in 2011 and the next in 2012.

BRR What is the basis of the pricing of the Entitlement Offer?

WFL Pricing has been structured to encourage all shareholders to participate and represents a 63% discount to the pro forma NTA post the Rights Issue. We are also offering a shortfall facility to Eligible Shareholders who will be entitled to apply for between 5,000 and 25,000 additional new shares.

BRR Is the Entitlement Offer underwritten?

WFL Yes it is. Veritas Securities Limited is underwriting the Entitlement Offer to a minimum of \$7.1 million. We believe that the Underwriting Agreement together with the shortfall facility increases the prospect that the Entitlement Offer will be successful and fully subscribed.

BRR What differentiates Willmott Forests in the sector?

WFL We're a very sound and conservative Company with a long track record and we are well respected in all areas in which we operate. At the end of the day our 'products' our 'people' and our 'service' are what sets us apart.

In summary...

...we have a solid core business in which we are a market leader, a number of initiatives that are designed to enhance that core business and a management team that will continue to work hard to deliver positive outcomes.

BRR Marcus Derham the Chief Executive Officer of Willmott Forests, thanks for joining us today and telling us about your full year 2009 annual results.

WFL Thank you.

INTERVIEW CONCLUDED.