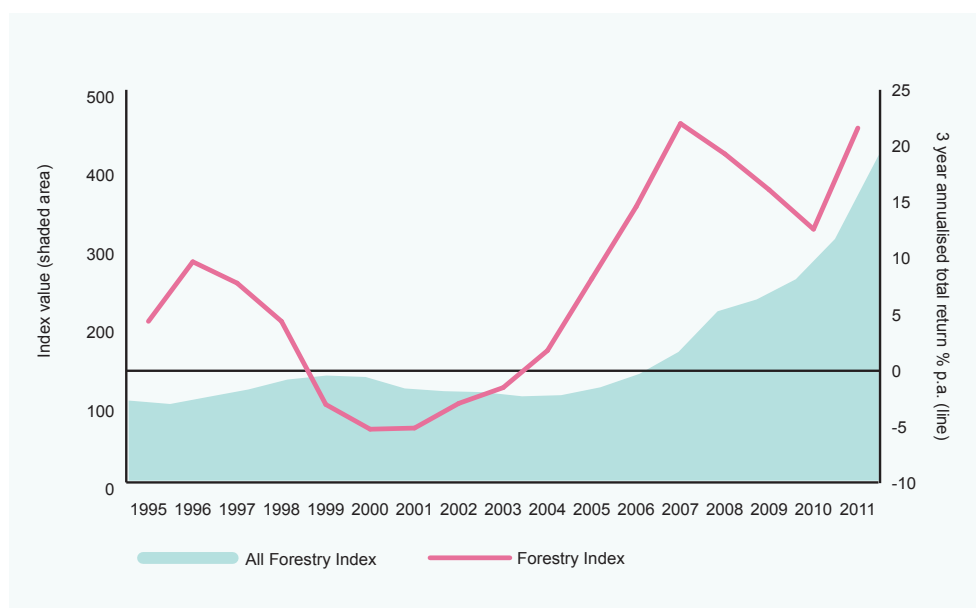


IPD UK Forestry Index

Results for the year to 31st December 2011



The IPD UK Forestry Index is calculated from a sample of private sector coniferous plantations of predominantly Sitka spruce in mainland Britain and in 2011 returned **34.8%**

IPD UK Forestry Index

	Index Dec-2010	Index Dec-2011	1 yr	3 yrs	Annualised rates %		
	Dec 1992 = 100	Dec 1992 = 100			5 yrs	10yrs	19yrs
Forestry total return	301.6	406.7	34.8	21.6	20.4	13.9	7.7
Timber price change*	91.5	95.4	4.3	15.1	11.3	6.0	-0.2

* On a year to March basis (2011 = March 2012)

Other assets (total return)

	Index Dec-2010	Index Dec-2011	1 yr	3 yrs	5 yrs	10yrs	19yrs
Equities	411.0	396.8	-3.5	12.9	1.2	4.8	7.5
Gilts	379.3	438.6	15.6	7.9	9.0	7.0	8.1
Commercial property	489.7	528.1	7.8	8.7	-0.7	6.9	9.2

Data Sources: FTSE All-Share Index, FTSE UK Gilts Index 5 - 15 yrs, IPD UK Annual Index, Forestry Commission Nominal Price Index of Coniferous Standing Sales (for Great Britain)

Sponsors

Bidwells, Border Consultants, ConFor, FIM Services Limited, Forestry Commission, Fountains Forestry, Highfield Forestry, Scottish Woodlands, UPM Tilhill, Stellar Asset Management

Acknowledgements

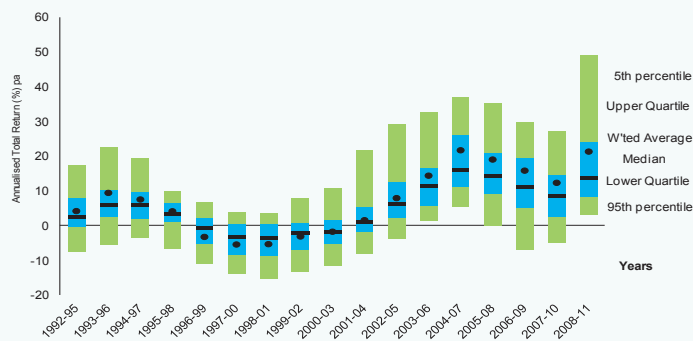
IPD would like to thank all those forest owners, land agents and forest managers who have provided information for this analysis and the Forestry Commission who contributed to the cost of data collection and analysis. Forestry consultancy has been provided by the sponsors, who are responsible for the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

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Range of individual forests returns



3 year rolling annualised total returns by forest

3 year (%pa)	Weighted average	Top 5%	Upper quartile	Median	Lower quartile	Bottom 5%
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	36.7	26.0	16.2	11.5	5.2
2005-08	19.3	35.2	20.9	14.5	9.3	0.0
2006-09	16.1	29.8	19.1	11.3	5.3	-7.0
2007-10	12.6	27.3	14.6	8.7	2.9	-4.8
2008-11	21.6	43.2	23.3	14.0	8.6	3.3

Summary

In 2011, the IPD forestry index showed a total return of 34.8% for the year, 14.8 percentage points higher than the 20% total return seen in 2010. The 2011 total return represents the best annual performance since the inception of the index in 1992 and continues the recent trend for very strong performance by forestry investment in the UK. The three-year annualised total return of 21.6% is nearly triple the 7.7% annualised total return achieved over the past 19 years.

The distribution of three-year annualised total return shows a high degree of polarisation between the top and bottom performing quartiles, 23.3% compared to 8.6%. The median at just 14% falls well below the weighted average, indicating that larger lot sizes have generally outperformed smaller ones.

This factor has been consistent for all three and five year periods during the past decade with the polarisation between the performance of the top and bottom quartiles increasing markedly in the three years to 2011, suggesting that the larger/higher value forests have increased the performance gap over smaller/lower value ones. Over the 19 year history higher value lots have also outperformed with the weighted average 2.2% higher than the median.

Timber prices continued to rise in 2011, by 4.3% in spite of a record rise of over 38% in 2010. This brings the three year average price rise to 15.1% which can be credited as a contributory factor to the strong performance of forestry investment during this period, with the impact likely to be greater the closer a forest is to maturity.

The decade to the end of 2011 has seen continued strong performance by UK forestry investment with annualised total returns of 21.6%, 20.4% and 13.9% over 3, 5 & 10 years respectively. This performance should be noted for its superiority over commercial property, residential property, rural property, equities and gilts in all cases over 3, 5 and 10 years. The previous decade represented tougher times for UK forestry, having underperformed other UK property classes and gilts over 19 years.

IPD Forestry total return index vs timber price Index



5 year rolling and long term annualised total returns by forest

5 year (%pa)	Weighted average	Top 5%	Upper quartile	Median	Lower quartile	Bottom 5%
2001-06	7.8	22.4	10.3	6.1	3.5	-2.0
2002-07	15.0	26.0	16.7	12.8	7.6	-0.3
2003-08	16.2	28.5	17.9	11.7	7.7	0.3
2004-09	16.6	26.3	18.8	12.9	8.3	-1.3
2005-10	17.7	24.9	18.1	13.8	8.8	0.5
2006-11	20.4	36.5	20.9	14.1	9.1	1.4
Long term (%pa)						
1992-11	7.7	12.5	8.1	5.5	4.3	2.0

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.

Revenue 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 2011 the 140 forests in the index had a total capital value of £187.6m.

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.

The calculation of Forestry returns was modified for the 2005 Index, to move in line with IPD's standard method of calculating investment performance and to conform to international standards of asset performance measurement. Annual returns are now calculated on a time-weighted basis, by compounding the 12 individual monthly returns. As a result of this change, the Index history was restated.

Austerity has become the new watch-word in Britain as the state, consumers and companies have all cut back on spending, with the economy officially falling back into recession by spring 2012. Despite this, trees keep growing. Indeed, timber harvesting in Scotland reached a new record, increasing by more than 7% since the previous year.

The UK timber processing industry had, it seemed followed the pleas of the beleaguered Chancellor, George Osborne's call to 'rebalance' the economy. Taking advantage of favourable exchange rates, UK timber processors have increased their market share in a declining market. Many are now also actively exporting. Increased demand from overseas helped increase prices, with standing timber prices increasing by 22% over the year.

With a shortage of attractive alternative investments, UK forestry looked like a safe investment and many individual investors and investment funds attempted to increase their forestry holdings.

Some 66 forests totalling 10,600 hectares were sold during the year*. Although the volume of sales has increased in recent years, it is still only 0.6% of the total area of conifer forest in the UK. Perhaps the most unreported statistic is how existing owners are retaining their forestry investments. The significant tax benefits are one of the principle benefits of ownership of these forestry assets and this long term investment in the UK.

Scotland is increasingly the centre of sales activity, with 76% (by value) of all transactions. Over 40% (by area) of all sales are Forestry Commission (FC) disposals. Interestingly, this statistic holds true in England, despite the cessation of all FC disposals there in late 2010, as the FC concluded deals which had already been agreed.

The average sale price per hectare has increased by approximately 34% over the year to a record of £4,650 per hectare and this figure is matched by the 2011 IPD Index total return of 34.8. However, this statistic hides two very different stories.

Good quality, spruce dominated woodlands, with good access and typically located in south Scotland sold incredibly well. Such woods produce very strong cash flows and competition amongst purchasers has been extraordinary.

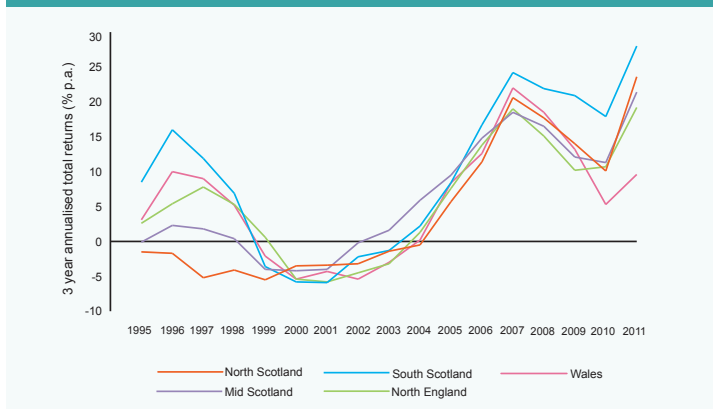
By contrast, less productive, pine dominated woodlands, especially those in the north with difficult access, have sometimes attracted no offers. The lower yielding crops and less valuable timber significantly reduces revenue and this is exacerbated by increased access and restocking costs. Indeed, biological growth is often so slow that investors cannot make a financial case for restocking and in 2011 forestry investors with cash tended to prefer productive and accessible Sitka spruce.

In uncertain economic times, it is difficult to predict where prices will go next. However, with new diseases attacking larch and pine, but not Sitka spruce, this trend looks set to continue through 2012. With the 2012 tranche of FC disposals heavily weighted towards pine in the north, this could lead to the development of two distinctly different markets.

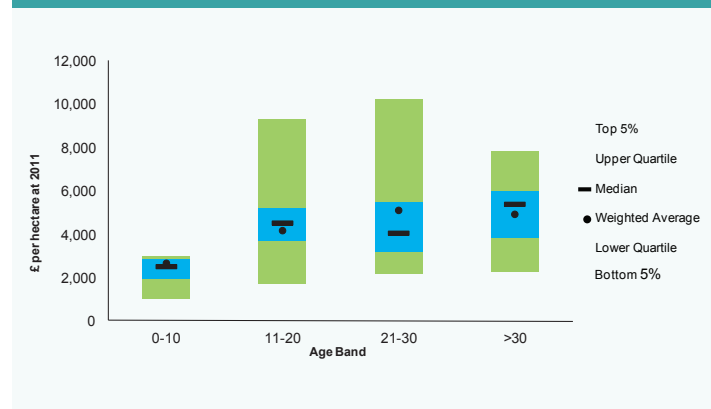
Overall, the long term prospect for UK forestry looks good. With a long run (1992 to 2011) total return of 7.7% per year, forestry looks a safe investment in turbulent times. The trees just keep growing.

*UPM Tilhill Forest market Report 2011

3 year annualised total returns by region



Range of valuations (£ per hectare) by age band



Performance by region of plantation

The South of Scotland remained the best performing region of the sample with an annualised total return of 28% year on year over the three years to the end of 2011. Also the largest region, this area contains 59 forests and now represents over 50% of the total value.

All the other regions apart from Wales posted very strong annualised total returns in the three years to 2011, ranging from 19.2% in Northern England to 23.6% in Northern Scotland. Wales trailed the rest of the country by some distance with an annualised total return of 9.6% per year from 2008-2011.

The South of Scotland has also been by far the strongest performing region over the 19 year history of the index with an annualised total return of 10%, several percentage points in excess of the numbers posted by all the other regions. These range from 5.1% in North Scotland to 6.5% in mid Scotland on average per year from Dec 1992 to Dec 2011.

Performance by age

Forestry investments are segmented into four age bands; 0 – 10, 11 – 20, 21 – 30 and >30 years. The younger forests (0 - 10 years) tend to be valued at a lower rate per hectare, with 2011's median valuation at £2530 per hectare. As age increases, the median per hectare valuation increases with the older forests' (>30 years) median value at £5412 per hectare.

Between 2008-2011 the three older categories of forests performed strongly with annualised total returns of 22.2%, 20.3% and 21.7% for forests of 11 – 20, 21 – 30 and >30 years respectively.

Despite their lower average value the youngest forests have typically performed best in the IPD forestry index with the 0 - 10 year old category achieving an annualised total return of 11.2% over the 19 years to the end of 2011, significantly higher than all other age groups.

Summary of full results

Index series					
Year end 31st Dec	Total return (%pa)	No. of forests	Total return index	Timber price change (%pa)	*Timber price index
2000	-2.9	155	111.7	-4.0	58.8
2001	-1.1	163	110.5	-9.7	53.1
2002	-4.7	169	105.3	-22.2	41.3
2003	1.3	165	106.7	-3.0	40.1
2004	9.2	161	116.5	9.3	43.8
2005	14.4	158	133.3	15.1	50.4
2006	20.6	159	160.7	11.0	55.9
2007	31.6	145	211.4	56.6	87.6
2008	7.0	144	226.2	-28.5	62.6
2009	11.1	140	251.4	5.5	66.0
2010	20.0	144	301.6	38.5	91.5
2011	34.8	140	406.7	4.3	95.4

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 (2011 = March 2012). 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 that is updated every 5 years (5-yearly chain linking) and the series has been re-based to 1992.

Tax position as at December 2011	
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					
Age	0-10	11-20	21-30	>30	Total
No. of forests	6	27	68	39	140
% Capital Value	0.4	12.9	63.0	23.7	100.0

Sample composition by region						
Region	North Scotland	Mid Scotland	South Scotland	North England	Wales	Total
No. of forests	21	20	59	13	27	140
% Capital Value	8.3	13.4	50.8	7.4	20.1	100.0

Valuation range (£ per hectare) by age at 2011				
Percentile	0-10	11-20	21-30	>30
5th percentile	2,991	9,356	10,227	7,834
Upper quartile	2,863	5,186	5,482	5,991
Median	2,530	4,545	4,077	5,412
Lower quartile	1,954	3,686	3,239	3,893
95th percentile	1,066	1,770	2,278	2,308
Weighted average	2,685	4,194	5,130	4,947

Contact		
Forestry market:	mark.weedon@ipd.com	+44 (0)20 7336 9286
General enquiries:	enquiries@ipd.com	+44 (0)20 7336 4783
IPD Head Office		
1 St. John's Lane		
London EC1M 4BL UK		
T: +44 (0)20 7336 9200		
F: +44 (0)20 7336 9399		
ipd.com		

Long term total return by age (%pa)				
Year end 31st Dec Annualised	0-10	11-20	21-30	>30
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
2005-08	15.3	12.7	19.1	21.4
2006-09	11.0	9.3	16.3	18.2
2007-10	12.4	12.6	12.0	13.5
2008-11	12.8	22.2	20.3	21.7
2002-07	23.7	10.1	13.3	17.1
2003-08	23.2	11.8	15.5	17.2
2004-09	18.6	10.8	15.6	18.9
2005-10	14.9	13.4	16.3	20.9
2006-11	13.2	17.7	20.5	20.7
1992-11	11.2	6.8	7.7	7.1

Range of return by age 2008-2011 (%pa)				
Percentile	0-10	11-20	21-30	>30
5th percentile	29.2	48.8	39.2	53.0
Upper quartile	17.8	24.1	24.4	22.1
Median	12.3	15.7	14.5	14.1
Lower quartile	6.0	9.3	8.7	8.1
95th percentile	2.8	5.0	4.7	1.6
Weighted average	12.8	22.2	20.3	21.7

Long term total return by region (%pa)					
Year end 31st Dec Annualised	North Scotland	Mid Scotland	South Scotland	North England	Wales
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
2005-08	17.7	16.5	21.9	15.1	18.5
2006-09	14.0	12.1	20.9	10.2	13.2
2007-10	10.1	11.3	17.9	10.7	5.3
2008-11	23.6	21.4	28.0	19.2	9.6
2002-07	13.1	14.7	16.0	13.0	14.9
2003-08	13.3	14.4	18.3	13.8	15.8
2004-09	14.9	13.5	20.6	12.4	13.9
2005-10	15.9	15.8	22.0	15.0	12.9
2006-11	20.6	18.4	25.1	17.1	14.0
1992-11	5.1	6.5	10.0	6.4	5.7

Range of return by region 2008-2011 (%pa)					
Percentile	North Scotland	Mid Scotland	South Scotland	North England	Wales
5th percentile	24.4	39.7	52.0	51.0	35.8
Upper quartile	19.8	23.5	26.1	27.7	15.8
Median	9.8	16.6	16.2	13.9	9.6
Lower quartile	8.4	10.2	9.3	9.8	6.2
95th percentile	2.4	3.1	5.1	8.6	3.3
Weighted average	23.6	21.4	28.0	19.2	9.6