

# “The worst drought in living memory” – A Great Southern special report

Many parts of Australia are in the grip of what is widely regarded as the worst drought in living memory.

The Federal Government recently announced a new package of drought assistance for farmers, taking total government aid for drought-affected farmers to more than \$3.5 billion. More than 1000 farmers are expected to take up so-called “exit grants” which will see them paid to leave the land.

Drought is not just an issue for farmers. It is something that touches many aspects of all our lives, with rising food prices just one of the very tangible outcomes. The value of good agricultural land will often also rise, reflecting demand for property in areas with sufficient rainfall.

Despite companies such as Great Southern being among the most significant players in the agricultural sector, we have never received a cent of subsidy from the government for drought or any other matter.

Instead, we prosper by our strategy of acquiring the most suitable land for our operations; by bringing unrivalled expertise to bear in how we manage our projects; and by investing in infrastructure to limit water issues on our operations as much as possible.

In this special report, we provide you with a comprehensive overview of Great Southern’s response to climate change, drought and water issues.

## How is Great Southern impacted by drought and water?

For some time now, climate and water issues have been high on the national agenda with several areas of Australia experiencing prolonged drought conditions.

As major participants in the Australian agricultural sector, Great Southern takes the threat of climate change and drought conditions very seriously and is very committed to monitoring and managing the changing environment in relation to our operations.

Overall, Great Southern is well placed in relation to this issue, with access to adequate high security water, rainfall catchment on farm, private dams, regulated ground water and river supply as well as the ability to purchase temporary transfer water as required.

Critically, we have factored in the water requirements for the life of the Great Southern projects – ensuring these assets are based on the reliability of high security water entitlements.

Some of our operations located in the southern half and on the eastern sea board of Australia have been affected by water related issues but in general we have suffered manageable impact to our projects as a result of drought.

This is largely due to our scale and the water management strategies we follow. These strategies include the deliberate geographic spread of our properties, rigorous land selection protocols and the development of crop and livestock projects which are well suited to the locations in which they are established, ensuring economic and environmental sustainability.



All climate information correct as at November 2007

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## Boosting our commitment to water resource management

Great Southern is ensuring a coordinated and strategic national approach to the management of its water resources with the appointment of a National Manager, Water Resources and Development.

Tom McKeon – who has extensive experience in irrigation, development, general farming and resource management – is now managing all water related issues across the range of Great Southern agribusiness investments, building on initiatives already in place.

Great Southern has a large and valuable resource base in both land and water associated with our assets under management and we recognise the on-going critical importance of water to support the performance of our projects and to create value for our stakeholders.

The two main objectives of this new role are to secure and manage our current water assets and to build on these for future requirements.

Our in-house water expert will also ensure Great Southern is compliant with the complex and comprehensive regulatory framework that manages water under the National Water Initiative, as well as meeting each state government's individual legislative requirements.

As a starting point, Tom has conducted a water audit to develop a picture of the value of Great Southern's water 'bank' and our access to adequate water supply to meet our current and upcoming project requirements.

The audit findings show Great Southern is well placed with access to adequate high security water, rainfall catchment on farm, private dams, regulated ground water and river supply as well as the ability to purchase temporary transfer water within the system if required.

Information gathered on the full range of water options available to Great Southern in any given region will greatly assist and inform future land acquisition activities and ensure projects are developed on strong sustainable environmental, as well as commercial foundations.

## Careful climate management creates opportunities for investors

Domestically and globally we are now seeing a general increase in the cost of food and fibre commodities as climate issues and a reduction in available farming land worldwide affect supply. Moreover, we are witnessing a growing population and emerging Asian middle class driving greater demand.

These factors are creating opportunities for investors to benefit from participating in well managed, sustainable agricultural investment projects.

A real and current example of environment- related favourable market conditions is the general increase in the prices being paid by wineries (and consumers down the line) for Australian wine grapes.

Careful vineyard property diversification and the ability to secure extra water means Great Southern has been able to manage the drought, water and frost conditions which have dramatically slashed the 2007 wine grape vintage. We are now well placed to take advantage of the increase in wine prices created by this undersupply, to create increased value for our investors.

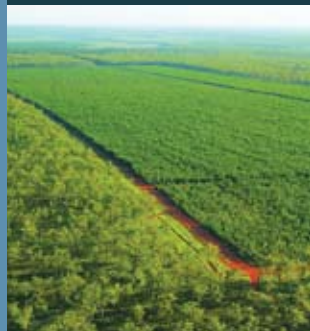
Major wineries Great Southern supplies grapes to have issued indicative grape pricing for the 2008 vintage which is significantly up on prices paid for grapes in recent years. For some varieties grown by Great Southern, such as Shiraz, indications are that price increases of up to 40% per tonne will occur for the 2008 vintage.

Climate change and undersupply issues are not only affecting Australia, but also other key global wine-grape producing regions such as Spain and Italy. Italian wine producers are forecasting their lowest production in 50 years, which is leading to increased demand not only domestically but globally.

With food inflation also tipped to rise above 5% by next year, opportunities exist for investors to benefit from having a stake in livestock, horticulture and food crop investment projects which are well serviced by water and located in productive areas.

The newly launched Great Southern Rural Opportunities Fund and our horticulture projects have access to sound water supplies or are situated in high rainfall areas and provide a vehicle for investors to potentially benefit from strengthening food markets.

Climate and environment issues have also led to a renewed focus on the value of our forests. We are seeing promising long-term opportunities for forestry plantations in relation to biomass energy and carbon trading. As one of the largest plantation forestry managers in Australia, Great Southern is actively investigating these opportunities.



# GREAT SOUTHERN PROJECTS: Water and climate update



## Vineyards

The total Great Southern vineyard estate comprises more than 1500 hectares, located across a variety of key growing regions Australia-wide. Of this estate, approximately half is located outside the Murray Darling catchment area – which has been the main wine grape growing

region impacted by dry conditions and a severe restriction in irrigation allocations.

While Murray River inflows have been below average for the past 24 months, the current Great Southern vine plantings which are fed by the system have sufficient water entitlements to meet current and full production requirements.

This has involved the purchase of temporary transfer allocations from various areas within the Murray Darling system and, to date, Great Southern has been able to secure the majority of the water required to make up its small shortfall. We expect to finalise outstanding water requirements for vines in the Murray Darling area before the end of 2007.

Thanks to sound management techniques, our vineyards have come into the season with full soil moisture profiles and the Great Southern viticultural management team has also put water management strategies in place across all vineyards to minimise the impact of water shortages going forward. Additional soil moisture monitoring probes were installed on vineyards, where required, to assist with irrigation applications and a water budget model was introduced to calculate on-going water requirements.

Great Southern's asset acquisition strategy for planned new vineyard developments in 2008 ensures that purchased assets are able to access sufficient high security water supply.



## Almonds

The Great Southern almond investment projects source 100% of their water from an underground aquifer and have sufficient licensed volumes to meet the current and future needs of the projects (based on current water allocations).

Although located in the Murray Darling basin area, the properties do not rely on the river system for water, providing investors in these projects with a unique competitive advantage.

The current plantings also have sufficient entitlements to meet the requirements of the trees at full production, based on current allocations.

Importantly, Great Southern is expected to have access to sufficient groundwater entitlement to service the planned 2008 development. To ensure security of daily extraction capacity and peak delivery supply, we have planned to develop extra bores in this area to service the property. Test bore licenses have been obtained and drilling is expected to commence in December.



## High Value Timber

The high rainfall areas of northern Australia in which our high value timber plantations are being grown have not experienced any drought conditions.

Among the determining factors in the creation of Great Southern forestry investment opportunities is the ability

to secure land in suitable growing regions (in terms of water balance), matched with the species' inherent ability to cope with periods of drought, but also abundant water supply to maximise production. These are major strengths of our High Value Timber project.

Great Southern has identified several regions of tropical northern Australia as being low drought risk and has matched the most appropriate high value timber species to grow in those regions.

*Khaya senegalensis*, native to sub-Saharan Africa, is reputedly one of the most drought-tolerant of the African Mahogany species and has been established by Great Southern in the tropical Douglas Daly region of the NT where reliable rainfall and deep soils occur.

Teak, the other species grown as part of our High Value Timber project is also highly tolerant to a wide range of climates and is very well suited to the areas of tropical northern Queensland in which it is being grown by Great Southern. Teak tolerates a wide range in temperatures and periods of severe drought.



## Beef Cattle

Water plays a vital role in supporting Great Southern's beef cattle operations in two ways – providing stock with sufficient drinking water and sustaining the pastures from which cattle source feed.

Importantly, the Great Southern beef cattle operations are non-

irrigated, relying on natural fed systems such as run-off and bores.

We have a broad geographic spread of land included in our beef cattle operations with properties in the high rainfall north of Australia (spanning Qld, NT and WA), known as our 'northern operations' as well as a 'southern operation' including properties in NSW, Tasmania and southern Queensland. Again, this geographic diversification is a deliberate risk management strategy.

Currently, our cattle operations across Australia are coping well with access to both adequate drinking water and pasture for stock-feed, particularly in the northern part of Australia where the majority of our herd is located and which has experienced good rainfall over recent months.

While drought conditions in parts of southern Australia and on the eastern sea board have impacted water availability to some of our cattle properties in these areas, we have been able to apply a range of strategies to effectively manage this situation thanks to our diverse aggregation. These have included moving cattle on properties experiencing reduced rainfall to our other properties.

Despite some prolonged dry weather in parts of northern Tasmania and on King Island where a great deal of our southern operations are located, the past four months have brought some good rainfall to this region which should carry us through the coming summer season.

## Olives

None of the olive grove properties included in Great Southern's olive income projects have been directly impacted by drought.

A key feature of the Great Southern 2007 & 2008 Diversified Olives Income Projects is their location, which provides access to sustainable and well managed underground aquifers in the Moore River region of WA. Great Southern has secured adequate ground water allocations to meet the forecast water needs of the groves.

The 2005 Project, located in the Preston Valley region of southern WA, is serviced by a private dam with substantial catchment areas. Following good rainfall in the region over recent months, this large (470ML) dam is currently at full capacity and is more than capable of meeting the requirements of the trees.

The 2006 Project, located in the Avon Valley of WA, has access to underground water via a series of bores on the property, also serviced by substantial and well-stocked catchment areas.

As one of the few major olive grove operations located outside the Murray Darling catchment area, the Great Southern olive investment projects provide investors with a distinct advantage in terms of its geography and access to water. Additional locations for the 2008 project are still being reviewed and assessed, but a factor which will be crucial to site selection for next year's project will be access to reliable water supply.

In addition, Great Southern applies sustainable water management techniques in its every day operations.



## Plantations

Great Southern's plantations are non-irrigated, relying on rainfall and soil-stored water.

Great Southern's hardwood plantation operation now spans all Australian states and the Northern Territory. While the impact of climate is at times unpredictable and unavoidable, we reduce this risk for growers through geographic diversification of plantations and by pooling the proceeds of the harvest for each individual project. Therefore, all investors enjoy the same returns per woodlot no matter where their plantations are based.

While we have experienced underperformance in some regions due to a lack of rainfall over recent years, this has been mitigated to an extent by good rainfall in other plantation regions – a prime example of risk mitigation through geographic diversification.

The eucalypt and acacia species grown as part of the Great Southern plantation projects are hardy species native to Australia and well-suited to our demanding climate. Moreover, given the timeframe of the plantation project there is ample opportunity to benefit from any upside in increased rainfall through to harvest age in regions currently subject to below average rainfall.



## Plantations and water use

The Bureau of Rural Sciences recently issued a new report, *Plantations and Water Use*, which examines the facts and science behind what has been a very emotive issue. The report stated:

*Plantations are a relatively minor land use across Australia and currently occupy a few percent of most catchments. However, because trees use more water than pasture, plantation expansion has become an issue in catchments where water is in short supply.*

It goes on to state that as a result of fluctuations in water use during a plantation's production cycle, "only a proportion of a plantation estate will be at peak water use at any given time".

The report states that plantations have been a part of the Australian landscape for at least 130 years. It makes some general findings about the benefits of plantation forestry, including:

*Reforestation with plantations can provide substantial environmental, social and economic benefits.*

*Plantation forestry typically leads to lower soil erosion and chemical use than agricultural land uses. Water quality is therefore likely to be better following reforestation of farmland, provided plantations are targeted to not reduce fresh water flows to salt affected streams.*

*Plantations provide the majority of timber used in Australia to manufacture products for home building, paper and other products. Much of this is processed locally and timber industries are major employers in some regional communities. For example, plantation forestry uses about 9% of the land used by primary industries in the Green Triangle region above 600 mm average annual rainfall. However, the plantation sector in that region generates 30% of the gross value of primary industries and 23% of the employment generated by primary industries.*

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