

# **Brookfield to spin off timber asset**

## **Profitable Island Timberlands to become part of Bermuda-based partnership**

**Gordon Hamilton, Vancouver Sun**

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Brookfield Asset Management, which owns 50 per cent of one of Vancouver Island's largest forest companies, Island Timberlands, is spinning off its timber and power assets into a Bermuda-based partnership to create an offshore investment vehicle.

Toronto-based Brookfield intends to issue 60 per cent of the new firm, called Brookfield Infrastructure Partners LP, as a special dividend to its existing shareholders. Brookfield will retain the remaining 40 per cent.

Brookfield Infrastructure Partners will initially own five electricity and timber operations in North America, Brazil and Chile. It is to begin trading on the New York Stock Exchange Jan. 31.

Being based in Bermuda, the new company will have an international board of directors and is expected to be exempt from certain Canadian taxes and the enforcement of Canadian civil judgments.

In its prospectus, Brookfield Infrastructure Partners lays out the purpose of the spinoff as a strategy to create a global pure-play public issuer "that should be well positioned to pursue an infrastructure and acquisition growth strategy."

It defines infrastructure as "long-life, physical assets that are the backbone for the provision of essential products or services for the global economy." The partnership will be the primary vehicle for future large-scale infrastructure acquisitions by Brookfield, which has \$90 billion in assets worldwide.

Island Timberlands is one of its more profitable assets, the prospectus reveals.

Brookfield, along with two Canadian institutional partners, created Island Timberlands in 2005 from Weyerhaeuser Co.'s private lands after purchasing Weyerhaeuser's coastal assets. Weyerhaeuser's sawmills and Crown timberlands were later merged into Western Forest Products.

Island Timberlands owns 258,000 hectares of land on Vancouver Island, the largest chunks being in the regions of Courtenay, Port Alberni, Nanaimo and Duncan. There are 58 million cubic metres of timber on the properties, mostly high-value Douglas fir, cedar and hemlock. Island Timberlands harvests 1.8 million cubic metres a year, which is mostly exported to markets in the U.S. Pacific Northwest and Asia.

The prospectus provides a rare glimpse into privately held Island Timberlands, revealing it to be one of the most, if not the most profitable forest company in the province based on net income.

Income statements show that despite the generally depressed forest economy in B.C., Island Timberlands posted net income of \$32.1 million on log sales of \$184 million for the nine months ending Sept. 30, 2007. By comparison, Western Forest Products, a company under common control of Brookfield that operates sawmills and logs Crown land in the same region, lost \$12.9 million over the same nine-month period.

The prospectus also sheds light on Brookfield's strategy for Island Timberlands.

**n Log exports:** The U.S. Pacific Northwest has made significant investments in modernized sawmills, resulting in a three billion board-foot, or 29-per-cent increase, in regional sawmilling capacity over the last five years. "This increase in capacity, combined with conservation-related reductions in harvest levels, has made the U.S. Pacific Northwest an attractive timber market." Because of their high fixed costs, the U.S. sawmills continue to operate in depressed markets, such as the one the industry is now experiencing.

**n Looming timber shortages:** Brookfield foresees a global scarcity in timber supplies, the result of the mountain pine beetle's drastic effect on future timber production in B.C. and Alberta, Russian log export restrictions, the continued withdrawal of timberlands for conservation or real estate development, and competition for wood fibre from bio-fuel producers.

**In Real Estate:** Island Timberlands has 14,000 hectares of Vancouver Island identified as "higher and better-use" properties that could be developed or sold for conservation purposes. It values those lands at \$104 million. In the nine months ending Sept. 30, 2007, it sold \$14 million of those properties for a net gain of \$7 million. Two other forest companies, TimberWest Forest, and Western Forest Products, have attracted broad public concern on the Island for selling off parcels of their own timberlands.

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