

18 September 2009

Dear Bond Holder

**TIMBERCORP LIMITED (IN LIQUIDATION) ("Timbercorp") -  
TIMBERCORP FINANCE BOND INFORMATION**

This letter is an update for investors issued by Trust Company Fiduciary Services Limited (formerly Permanent Trustee Company Limited), which is the Trustee for the holders of Timbercorp Finance Bonds ("Bond Holders").

The limited security supporting this borrowing by Timbercorp consists of a Fixed and Floating Charge held by the Trustee over certain loans advanced to Growers in Timbercorp silvicultural projects by a Timbercorp group company, Timbercorp Finance Pty Ltd (in Liquidation) ("TFP").

***Insufficiency of Funds to pay Interest and Repay Bonds on 31 March 2010***

Shortly after their appointment the then Administrators, now Liquidators, advised the Trustee that:

- (a) the loans associated with the security held by the Trustee were full recourse in nature;
- (b) no shortfall was anticipated on the amount owing under the Bonds, given the historical performance of the loan book and low incidence of loan arrears; and
- (c) enhanced collection processes had been put in place by the Liquidators which, together with the quality of Timbercorp's staff and systems, were likely to ensure a successful collection of the loan book.

As set out in the previous update to Bond Holders, dated 15 July 2009, the Liquidators had shortly before that date informed the Trustee of the following matters:

- arrears of payments of interest on the portion of the TFP loan book had increased in previous weeks; and
- the term to maturity of the loan book significantly exceeded the period between then and the due date for repayment of the Bonds (31 March 2010).

The Liquidators have now informed the Trustee that the arrears position has deteriorated further in recent weeks.

**In these circumstances, the Liquidators will not have sufficient funds to effect interest payments to the Bond Holders due to be paid on 30 September 2009 and it will be impossible for the Bonds to be repaid by 31 March 2010.**

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The non-payment of interest is a monetary Event of Default defined in the relevant Trust Deed. The administration and liquidation of Timbercorp are also Events of Default under the Trust Deed. The Trust Deed requires the Trustee to convene a meeting of the Bond Holders "as soon as reasonably practicable after receiving notice of an "Event of Default".

As stated in its previous update, dated 15 July 2009, the Trustee was then of the view that while no monetary Event of Default had occurred, it would not be in the interests of the Bond Holders to either call a meeting of the Bond Holders or enforce the Fixed and Floating Charge referred to above. In these changed circumstances, the Trustee has again considered whether it is in the interests of the Bond Holders to take enforcement action and call a meeting of the Bond Holders.

Enforcing the Fixed and Floating Charge means appointing a receiver to the uncollected portion of TFP's loan book covered by this security with a view to selling or refinancing the relevant part of its loan book. Whether these actions can and should be taken needs to be weighed up against factors including:

- any undertaking by the Liquidators to carry out the same tasks that a receiver would (at no additional cost to the Bond Holders);
- access to Timbercorp's premises and experienced collections team;
- real-time access to Timbercorp's information management system as opposed to a download of the relevant loan details at a particular point in time; and
- the additional cost of a receiver and the state of the market for loans referable to potentially discontinued Timbercorp agricultural projects.

#### ***Enforcing the Fixed and Floating Charge and appointing a Receiver***

The Trustee considers that enforcing the Fixed and Floating Charge and appointing a receiver is now required in the best interests of the Bond Holders for the following reasons:

- enforcing the security will crystallize the floating aspect of the Fixed and Floating Charge;
- one consequence of the crystallization will be to enable future payments to Bond Holders to be classified as non-taxable return of capital, rather than taxable interest;
- the Trustee will aim to ensure that there is no duplication of tasks performed by the receiver and the Liquidators so that the Liquidators will continue to:
  - o collect all loan book payments due to the Bond Holders;
  - o pursue all defaulting borrowers; and
  - o take legal steps, including the serving of formal notices of demand, and legal proceedings in court to recover arrears; and
- such arrangement will be designed to minimize the additional expense of the receiver.

All loan moneys collected are being banked in an interest bearing bank account controlled by the Trustee with distributions to Bond Holders subsequently effected by the Liquidator – in future under supervision of the receiver - and the paying agent, Computershare Services Pty Ltd. This process will continue in respect of future such loan money collections (net of collection and distribution expenses and accrued Trustee fees and expenses).

However, as stated above, crystallization of the Fixed and Floating Charge will enable future payments to Bond Holders to initially represent return of capital, rather than taxable interest.

### ***Meeting of the Bond Holders***

The Trustee considers that it would not be in the best interest of Bond Holders for a meeting to be called at this time for the following reasons:

- the Trustee will shortly move to exercise its powers under the Trust Deed to enforce the Fixed and Floating Charge and appoint a receiver on behalf of Bond Holders;
- on the basis of periodic detailed reports provided to the Trustee by the Liquidators, the Trustee is satisfied that appropriate measures are being taken by the Liquidators in the loan book collection process;
- this process will continue following the appointment of a receiver, albeit with the receiver's oversight; and
- convening a meeting of Bond Holders would be unlikely to result in any change or in or improvement of the enforcement and collection measures currently in place and merely lead to an expense potentially reducing the eventual monetary return to Bond Holders.

However, the Trustee will continue to consider whether at any future time calling a meeting of Bond Holders is necessary or desirable in their interests and will call such a meeting if appropriate.

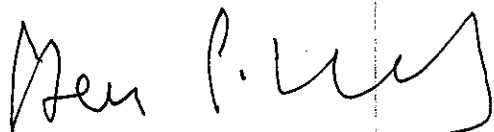
### ***The Way Forward***

The eventual monetary return to the holders of Timbercorp Finance Bonds will depend on whether the Liquidators' team – in future with the receiver's supervision - succeeds in collecting in full the moneys owed to the Bond Holders. **On the basis of information now available to the Trustee, in the absence of the TFP loans being sold or refinanced (considered not to be a realistic option given the high borrower delinquency), it will not be possible for the Bonds to be repaid at maturity, on 31 March 2010, since the loans underpinning the Bonds have a significantly longer maturity profile than the Bonds.**

The Trustee will continue to monitor the situation and assess what action (if any), including the calling of a meeting of Bond Holders, should be taken in their interests as further information on the progress of this liquidation/receivership comes to hand.

The Trustee will endeavour to post further updates (if required) and provide the details of the receiver, once an appointment has been made, on the Timbercorp website.

Yours faithfully



**STEN SILAVECKY**  
**HEAD OF STRUCTURED FINANCE SERVICES**

Contact details for investor questions – please direct any questions relating to the liquidation to the Liquidators (KordaMentha Pty Ltd):

**Timbercorp Hotline: 1800 628 188 or:**

KordaMentha Pty Ltd  
Level 24, 333 Collins Street  
Melbourne 3000

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In the event your question is of a type that only the Trustee may answer, your query will be referred to the Trustee by the Liquidators.