

18 May 2009

Dear Bond Holder / Note Holder

**TIMBERCORP LIMITED (ADMINISTRATORS APPOINTED) ("Timbercorp") -  
INFORMATION**

On 23 April 2009 the directors of Timbercorp appointed Mark Korda, Craig Shepard and Leanne Chesser, Partners of the firm KordaMentha as Voluntary Administrators, ("Administrators") to the Timbercorp group of companies. The appointment constitutes an event of default on the part of Timbercorp and its group of companies.

A Trust group company, Trust Company Fiduciary Services Limited (formerly Permanent Trustee Company Limited) is the Trustee for the holders of the following debt instruments:

***TIMBERCORP 2005 ASX LISTED BOND***

***TIMBERCORP FINANCE BOND***

***TIMBERCORP SUBORDINATED UNSECURED CONVERTIBLE NOTE (ASX LISTED)***

All of the above instruments are unsecured notes (since they are not secured by a fixed and floating charge against the issuer), although the Trustee holds various other securities on behalf of the investors. Each transaction is different and the securities vary in form and content, making enforcement a complex exercise for the Trustee and its advisors. Further comment on the securities and their enforceability appears below.

***Principal Actions taken by the Trustee to date***

While each of the unsecured note transactions is a completely separate matter, comments relating to the following actions taken by the Trustee to safeguard the rights of investors apply to all of them. The principal such actions include:

- (a) the Trustee has sought and obtained advice on what measures it may and should take at this time;
- (b) the Trustee has lodged proofs of debt with the Administrators in respect of the issuer and other Timbercorp group companies which have provided the securities;
- (c) the Trustee has been elected to the Committees of Creditors relating to the following entities:
  - Timbercorp Ltd
  - Timbercorp Finance Pty Ltd
  - Mango Land Pty Ltd
  - OIM #6 atf TOT #6 Pty Ltd
  - OIM #4 atf TOT #4 Pty Ltd
  - Timbercorp Plantations 2020 IAB Pty Ltd
  - Timbercorp Securities Ltd; and
- (d) the Trustee has continued frequent communications with the Administrators.

### ***Enforcement of Securities - General***

Broadly speaking, the Trust Deeds relating to the debt instruments referred to above provide that at the first instance only the Trustee may enforce the provisions of those Trust Deeds. Accordingly, at the Administrators' second meeting of creditors, the interests of the investors will be represented by the Trustee.

The Corporations Act 2001 (Cth) prevents a chargee from enforcing a charge during the administration period, except in limited circumstances. In the present case this effectively means the securities will not be able to be enforced before the second meeting of creditors to be convened by the Administrators is held. At that meeting creditors may resolve that:

- (a) the company execute a deed of company arrangement; or
- (b) the administration should end; or
- (c) the company be wound up.

The Administrators must convene the second meeting of creditors not later than 25 business days after the commencement of the voluntary administration. However, an application may be made to court to extend this period. Given the complexity of the Timbercorp group, an application seeking an extension is a distinct probability.

One of the circumstances in which a party holding security (a chargee) may enforce their security during the administration period, is if the security relates to the whole or substantially the whole of the property of the company under administration. In those circumstances, the chargee will have a small window of time within which to take enforcement steps. The Trustee is investigating which, if any, of the securities fall within this exception and, in order to protect the interests of the Bond Holders / Note Holders, has negotiated an extension of the time within which enforcement steps may be taken with the Administrators.

### ***Timbercorp ASX Listed 2005 Bond***

These notes, issued by Timbercorp, are classified as unsecured notes (since Timbercorp itself has not granted the Trustee on behalf of the Bond Holders a charge over all its assets). The limited security supporting this borrowing by Timbercorp consists of guarantees and mortgages, held by the Trustee, from the following Timbercorp group entities:

- (a) OIM#4 as trustee for the Timbercorp Orchard Trust #4;
  - (b) OIM#6 as trustee for the Timbercorp Orchard Trust #6;
  - (c) Mango Land Pty Ltd; and
  - (d) Timbercorp Plantations 2002 IAB Pty Ltd
- (all Administrators appointed).

Additional security is an amount of cash held in an interest bearing bank account controlled by the Trustee.

There are altogether eleven (11) mortgages over rural land provided by the above companies and held by the Trustee. There are at least two (2) types of these, requiring

different legal processes for their enforcement. Notwithstanding that they may not be enforced immediately (please refer above), the Trustee has served the notices on the Administrators required by those mortgages to be so served in an event of default. Accordingly, the rights of the investors have been safeguarded in this respect.

The relevant Trust Deed states that at the first instance only the Trustee may enforce the provisions of the Trust Deed, the Bonds and other relevant documents (including by, without limitation, applying for liquidation, lodging a proof or claim or seeking damages). Accordingly, the Trustee will represent the interests of the investors at the Administrators' second meeting of creditors and in enforcing all available securities it holds on their behalf in due course.

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". The Trust Deed also provides that:

"The Trustee will be entitled where an Event of Default subsists:

- (a) to commence proceedings for the winding up of Timbercorp where Bond Holders that together hold not less than three-quarters in amount of Bonds held by all Bond Holders consent in writing;
- (b) to take such other action relating to enforcement of payment of Moneys Owing (including without limitation requiring Timbercorp to redeem the Bonds, requiring an immediate payment of all Moneys Owing and suing for or obtaining judgment for all Moneys Owing);
- (c) to prove in any Liquidation of Timbercorp (irrespective of when that Liquidation is commenced) subject to the Trust Deed; and
- (d) enforce the rights granted to the trustee under the Transaction Documents".

The expression "Transaction Documents" refers essentially to the Trust Deed and the securities.

As outlined above, the Trustee has already served all notices required to be served under the securities that the Trustee is able to serve – notwithstanding that the securities may not currently be enforced (please refer above). The Trustee considers it would not be in the interests of the investors to convene a meeting of the Bond Holders at the present time since:

- no further relevant information is available to the Trustee;
- the Trustee has already taken or is in the process of taking measures required to safeguard the investors' rights under the securities; and
- the convening of a meeting at this time would result in an unnecessary expense to be borne by the investors.

The Trustee is continuing to examine the exact asset position of each of the guarantors and mortgagors since, depending on the outcome of this examination, it may be possible to enforce the applicable securities earlier as outlined above.

The ultimate monetary return to the holders of Timbercorp ASX Listed 2005 Bonds will depend on whether normal interest payments and redemption of the securities may be possible (this is considered very unlikely in light of the shortage of funds experienced by Timbercorp) or the realization of the assets held by the guarantors and mortgagors. The Trustee will work with the Administrators to ensure any disposal of the securities is as efficient as possible, yielding the highest achievable return to the investors in the given market conditions.

### ***Timbercorp Finance Bond***

These notes, issued by Timbercorp, are classified as unsecured notes (since Timbercorp itself has not granted the Trustee on behalf of the Bond Holders a charge over all its assets). 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's silvicultural projects by a Timbercorp group company, Timbercorp Finance Pty Ltd.

The Trustee has engaged in detailed discussions with the Administrators in relation to the nature and quality of the security. As outlined above, enforcement of charges may not be possible while Timbercorp Finance Pty Ltd remains in voluntary administration.

The Trustee has been informed by the Administrators that:

- (a) the loans associated with the security held by the Trustee are full recourse in nature;
- (b) the Administrators do not anticipate a shortfall on the amount owing under the Bonds, given the historical performance of the loan book and low incidence of loan arrears; and
- (c) the Administrators have put in place collection processes which, together with the quality of Timbercorp's staff and systems, will ensure a successful collection of the loan book.

Given the foregoing, the Trustee is of the view that, even if it was possible to enforce the securities at this time, it would not be in the interests of the Bond Holders to enforce the Fixed and Floating Charge referred to above at this time. This would simply introduce another layer of expense (by the appointment of a receiver) while unlikely to improve the collection process and outcome and, in any event, enforcement is unlikely to be possible during the period of administration as outlined above. The option to enforce the Fixed and Floating Charge in the future remains open to the Trustee, subject only to the limitation on enforcement during a period of administration as outlined above.

In order to even better secure the Bond Holders' position, the Trustee has agreed with the Administrators that all loan moneys collected (net of collections expenses) in respect of the Trustee's security will be banked in an interest bearing bank account controlled by the Trustee. The bank account has now been opened and an initial collection amount received. It is intended that such amounts will fund future interest payments due to the Bond Holders and be available to redeem their investments as originally contemplated by this transaction.

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". The Trust Deed also provides that:

"The Trustee will be entitled where an Event of Default subsists:

- (a) to commence proceedings for the winding up of Timbercorp where Bond Holders that together hold not less than three-quarters in amount of Bonds held by all Bond Holders consent in writing;
- (b) to take such other action relating to enforcement of payment of Moneys Owing (including without limitation requiring Timbercorp to redeem the Bonds, requiring an immediate payment of all Moneys Owing and suing for or obtaining judgment for all Moneys Owing);
- (c) to prove in any Liquidation of Timbercorp (irrespective of when that Liquidation is commenced) subject to the Trust Deed; and
- (d) enforce the rights granted to the trustee under the Fixed and Floating Charge".

As outlined above, the Trustee has received assurances from the Administrators as to the collectability of all moneys owing to the Bond Holders. The Trustee considers it would not be in the interests of the investors to convene a meeting of the Bond Holders at the present time since:

- no further relevant information is available to the Trustee;
- the Fixed and Floating Charge may not be enforced during the administration; and
- the convening of a meeting and appointment of a receiver at this time would not improve the collection process and result in an unnecessary expense to be borne by the investors.

The eventual monetary return to the holders of Timbercorp Finance Bonds will depend on whether the Administrators' team succeeds in collecting in full the moneys owed to the Bond Holders. On the basis of the representations given to the Trustee by the Administrators, it presently appears likely that the Bond Holders will be paid both the interest and principal due to them as originally contemplated by this transaction.

### ***Timbercorp Subordinated Unsecured Convertible Notes ("Notes") (ASX Listed)***

The issuer of these unsecured notes is Timbercorp. The Notes are unsecured obligations of the issuer and are neither guaranteed nor secured by any entity.

Clause 13.1 of Schedule 1 of the relevant Trust Deed states that at the first instance only the Trustee may enforce the provisions of the applicable Terms of Issue, in the following circumstances:

- "(a) where any Deferred Coupons have not been paid in accordance with clause 2.8(c); or
- (b) where the issuers has determined to Redeem Notes but the Redemption has not been completed".

The capitalized words above have the meanings assigned to them in the Trust Deed.

The Trust Deed also provides that:

"The Trustee is not bound to take any action referred to in clause 13.1 unless:

- (a) it has been:

- (i) so requested in writing by Holders holding 10% or more of Notes on issue; or
  - (ii) directed by Special Resolution; and
- (b) its liability is limited in a manner consistent with clause 8 of the Trust Deed;
- (c) it is indemnified to its satisfaction by the Holders or the Issuer against all costs, charges, liabilities and expenses which may be incurred by it in connection with that action".

The Trustee considers it would not be in the interests of the investors to convene a meeting of the Note Holders at the present time since:

- no further relevant information is available to the Trustee;
- the Terms of Issue cannot be enforced while the voluntary administration continues; and
- the convening of a meeting at this time would result in an unnecessary expense which would need to be funded in advance by the investors (since the Trustee holds no funds, there is no security that may be enforced and the Trustee would need to be indemnified by the Holders in advance of incurring any such expenses).

The amount of moneys (if any) which the Note Holders may ultimately expect will depend on whether or not any funds may be found in Timbercorp to meet its obligations to the Note Holders. Given the unsecured and subordinated position of the Holders and the fact that the Administrators have indicated that Timbercorp lacks the necessary funds even to pay its higher ranking and / or secured creditors, it appears that the prospect of any recovery by the Bond Holders is presently poor.

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

The Trustee will continue to examine the details of all securities, with a view to enforcing them as may be appropriate. It will also continue to engage with the Administrators, always acting in the interests of investors.

The Trustee will endeavour to post further updates (if required) on the Timbercorp website.

Yours faithfully

for and on behalf of Trust Company Fiduciary Services Limited A.C.N. 000 000 993



**STEN SILAVECKY**  
**MANAGER – STRUCTURED FINANCE**

Contact details for investor questions – please direct any questions relating to the administration to the Administrators:

**KordaMentha Timbercorp Hotline: 1800 628 188**

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 Administrators.