

16 June 2009

## Email to Forestry Scheme Growers

Dear Grower

### Re: Timbercorp Forestry Schemes Update

The financial analysis of the Timbercorp forestry schemes has been completed and we are writing to advise you about the next steps in the Administration.

On a positive note, unlike the horticultural schemes, growers in the forestry schemes own the trees which have an intrinsic value dependent on the age, quality and condition of the trees.

In previous correspondence and in Court, we have explained that Timbercorp Securities Ltd (**TSL**), the Responsible Entity (**RE**) for the forestry schemes, is “hopelessly insolvent”, with no cash available to fund operations after July 1.

The cash flow problems are particularly concerning, as forestry schemes have a rent liability of \$9.6 million for the three months from 1 July 2009. We are seeking a rental moratorium from lessors of 90 days but at this stage we do not know if landlords will grant us one.

Timbercorp’s MIS forestry schemes typically fall into two types:

- Woodlot Schemes, which were sold between 1997 and 2004 and require growers to make an upfront payment then annual payments for rent and maintenance; and
- Timberlot Schemes, which were sold between 2004 and 2008 that require growers to make one upfront payment to cover the future costs of the scheme.

With both types of forestry schemes, the grower payments do not cover the total actual cost of running the projects and managing the schemes.

From the growers’ perspective, the forestry schemes would be cash flow positive provided that TSL meets all of its legal obligations to growers, service providers and land owners. However, TSL does not have the cash to enable it to do so.

TSL as the RE, and in its personal capacity, is obliged to meet a cash flow deficiency of approximately \$170 million over the remaining lives of the 11 forestry schemes.

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In light of this, there appear to be two options for dealing with the forestry schemes.

**1. Recapitalisation by a new responsible entity**

Any new responsible entity would require significant capital backing to cover the \$170m cash flow shortfall over the remaining lives of the schemes or would have to raise that amount from growers or meet those cash flow obligations by a combination of both.

To date none of the potential responsible entities that have approached us are willing to use their own capital to cover the \$170 million cash flow short fall. Instead they have proposed raising most, or all of, the further funds from growers. Our preliminary legal advice is that there are no powers under the scheme governing documents which permit increasing fees or imposing new fees.

Most parties that have approached us in relation to the forestry schemes are primarily interested in securing access to the timber and would generally prefer to buy the assets on an unencumbered basis.

**2. Sale of timber on behalf of growers**

The sale of the forestry scheme assets would involve the sale of land, trees and industrial equipment and the assignment of leases together as a package. The trees will be sold by the administrators on behalf of growers.

We have received significant expressions of interest to acquire Timbercorp's forestry assets, including trees, from both local and international sources.

Through a sale of assets on an unencumbered basis, proceeds received from the sale of trees can be treated as harvest proceeds that would otherwise be distributed to growers in due course at harvest. In theory, the current fair value of the trees should simply be the net present value (NPV) of the net harvest proceeds that would otherwise be received by growers at harvest.

This option is only achieved through the early termination of the forestry schemes either under the terms of their governing documents, or by order of the court.

As officers of the RE we owe a duty to act in the best interests of growers. Accordingly and having particular regard to potential returns to growers and the current cash flow crisis we currently intend to apply to the court to seek an early termination of the forestry schemes. If successful, we can then commence the asset sale process. We realise that not all growers may support this approach and the court will again provide a forum for those voices to be heard and the various views to be carefully considered.

Please watch the Timbercorp web site for court documents related to the application, regular updates and the email addresses for sending questions.

Yours faithfully

A handwritten signature in black ink, appearing to read 'M. Korda', with a stylized flourish at the end.

MARK KORDA  
Administrator