

IN THE SUPREME COURT OF VICTORIA AT MELBOURNE
COMMERCIAL AND EQUITY DIVISION
COMMERCIAL COURT

SCI 2010 398

IN THE MATTER OF TIMBERCORP SECURITIES LIMITED
(IN LIQUIDATION) ACN 092 311 469

TIMBERCORP SECURITIES LIMITED (IN LIQUIDATION)
ACN 092 311 469 IN ITS CAPACITY AS RESPONSIBLE ENTITY OF THE
2005 TIMBERCORP CITRUS PROJECT (ARSN 114 091 299)
AND ORS

Plaintiffs

CERTIFICATE IDENTIFYING EXHIBIT


Date of document: 23 February 2010
Filed on behalf of: the Plaintiffs

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This is the exhibit marked "**MAK-13**" now produced and shown to **MARK ANTHONY KORDA** at the time of swearing his affidavit on 23 February 2010.

Before me:



LUCY HANNAH KIRWAN
Arnold Bloch Leibler
Level 21, 333 Collins Street
Melbourne 3000
An Australian Legal Practitioner within the
meaning of the Legal Profession Act 2004

Exhibit "MAK-13"
2008 Annual Report for Timbercorp Limited



TIMBERCORP
AGRIBUSINESS
INVESTMENT MANAGERS





Mixed Sources

Product group from well-managed
forests and other controlled sources

www.fsc.org Cert no. SGS-COC-004630
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CORPORATE DIRECTORY

Timbercorp Limited

ABN 87 055 185 067

Registered Office / Head Office

Level 8
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Melbourne, Victoria 3000

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Facsimile 03 9670 4271

Email melb@timbercorp.com.au

Website www.timbercorp.com.au

Offices in Albany, Boort, Hamilton, Mildura and Penola

Directors

Rodney M Fitzroy (Chairman)

Robert J Hance (Non-Executive Director)

Kevin A Hayes (Non-Executive Director)

Gary W Liddell (Non-Executive Director)

Sol C Rabinowicz (Executive Director, Chief Executive Officer)

Company secretary

Mark Pryn

Gideon Meltzer

Share registry

Computershare Investor Services Pty Ltd

452 Johnston Street
Abbotsford, Victoria 3067

Telephone 1300 360 965

Website www.computershare.com.au

Auditors

Deloitte Touche Tohmatsu

180 Lonsdale Street
Melbourne, Victoria 3000

Stock exchange listings

Timbercorp Limited's Ordinary Shares, Reset Preference Shares, Unsecured Subordinated Reset Convertible Notes and 2005 Bonds are quoted by the Australian Stock Exchange Limited.

Unsecured subordinated reset convertible notes	Fully paid	
	Number	Percentage
J P MORGAN NOMINEES AUSTRALIA LIMITED	171,636	20.680
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	85,496	10.300
UBS NOMINEES PTY LTD	68,260	8.220
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	65,364	7.880
CITICORP NOMINEES PTY LIMITED	52,785	6.360
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	34,294	4.130
NATIONAL NOMINEES LIMITED	27,001	3.250
FORTIS CLEARING NOMINEES P/L	18,072	2.180
ANZ NOMINEES LIMITED	15,968	1.920
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSI ECSA	12,598	1.520
MR GABRIEL BERGER	11,635	1.400
PINEROSS PTY LTD	10,500	1.270
M F CUSTODIANS LIMITED	10,327	1.240
MR PETER HOWELLS	5,600	0.670
MR HO HING LAI	5,336	0.640
PENSWOOD PTY LTD	4,500	0.540
ARGO INVESTMENTS LIMITED	4,450	0.540
SANDHURST TRUSTEES LTD	4,269	0.510
METHUSALAH NOMINEES PTY LTD	4,000	0.480
PREMISE PTY LTD	3,750	0.450
	615,841	74.20%

ADDITIONAL STOCK EXCHANGE INFORMATION *Continued*

as at 30 November 2008

Twenty largest holders of quoted equity securities *Continued*

Reset preference shareholders	Fully paid	
	Number	Percentage
J P MORGAN NOMINEES AUSTRALIA LIMITED	5,254,678	15.12%
NATIONAL NOMINEES LIMITED	2,183,247	6.28%
ARGO INVESTMENTS LIMITED	1,000,000	2.88%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	737,351	2.12%
ANZ NOMINEES LIMITED	724,334	2.08%
MR HO HING LAI	361,889	1.04%
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	345,367	0.99%
BALCARA ENTERPRISES PTY LTD	305,000	0.88%
MR PETER HOWELLS	262,000	0.75%
MR MALCOLM ERIC GORDON	210,495	0.61%
MR GEORGE KALIL	201,000	0.58%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	194,000	0.56%
M F CUSTODIANS LIMITED	178,718	0.51%
CTSF PTY LTD	150,000	0.43%
MR ASHLEY DAVID FONG	150,000	0.43%
MR HO HING LAI	145,000	0.42%
MR MICHAEL SCOTT HAYES	140,000	0.40%
MR RICHARD NOEL LILLY	135,400	0.39%
MR SIMON BRIDGER	132,266	0.38%
MR MAREK JAN WOJT	123,000	0.35%
	12,933,745	37.23%

Twenty largest holders of quoted equity securities

Ordinary shareholders	Fully paid	
	Number	Percentage
TIMWA PTY LTD	50,000,000	14.20%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	19,069,287	5.42%
J P MORGAN NOMINEES AUSTRALIA LIMITED	16,065,641	4.56%
KENLEET INVESTMENTS PTY LTD	10,000,000	2.84%
UBS NOMINEES PTY LTD	9,090,703	2.58%
NATIONAL NOMINEES LIMITED	8,760,129	2.49%
ANZ NOMINEES LIMITED	6,719,761	1.91%
CITICORP NOMINEES PTY LIMITED	6,072,209	1.72%
WARBONT NOMINEES PTY LTD	4,241,615	1.20%
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	3,353,362	0.95%
CITICORP NOMINEES PTY LIMITED	3,181,838	0.90%
MR ROBERT HANCE	2,353,961	0.67%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	2,276,611	0.65%
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD	2,164,454	0.61%
CITICORP NOMINEES PTY LIMITED	1,890,855	0.54%
COGENT NOMINEES PTY LIMITED	1,840,921	0.52%
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	1,554,486	0.44%
AUST EXECUTOR TRUSTEES NSW LTD	1,489,502	0.42%
EMILY KRSTINA (AUSTRALIA) PTY LIMITED	1,300,000	0.37%
MR GEOFFREY J EASTMURE	1,172,379	0.33%
	152,597,714	43.34%

ADDITIONAL STOCK EXCHANGE INFORMATION

as at 30 November 2008

Number of holders of equity securities

Ordinary share capital

352,071,429 fully paid ordinary shares are held by 14,615 shareholders.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Reset preference share capital

34,743,527 fully paid converting preference shares are held by 2,241 shareholders.

Fully paid converting preference shares have limited voting rights and carry the right to cumulative dividends of 6.5% per annum.

Unsecured subordinated reset convertible notes (Notes)

830,000 fully paid unsecured subordinated reset convertible notes are held by 786 shareholders.

Fully paid Notes carry one vote per share and carry the right to coupon payments.

Options

2,713,740 options (with entitlements to 2,713,740 ordinary shares) are held by 40 option holders. Note that 1,221,000 options have lapsed / cancelled since 30 September 2008. Options do not carry a right to vote.

Distribution of holders of equity securities

	Fully paid ordinary shares	Reset preference shares	Unsecured subordinated reset convertible notes	Ordinary share options
1 – 1,000	2,032	232	736	–
1,001 – 5,000	5,536	911	33	1
5,001 – 10,000	2,942	533	2	12
10,001 – 100,000	3,846	543	12	19
100,001 and over	259	22	1	8
	14,239	1,806	595	55
Holdings less than a marketable parcel	4,997	245	15	–

Substantial shareholders

Ordinary shareholders	Fully paid	
	Number	Percentage
TIMWA Pty Ltd	50,000,000	14.20%
HSBC Custody Nominees (Australia) Ltd	19,069,287	5.42%

Deloitte

Auditor's Opinion

In our opinion:

- (a) the financial report of Timbercorp Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company and consolidated entity's financial position as at 30 September 2008 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw your attention to Note 1 in the financial report which indicates that the consolidated entity, in the absence of waivers, would have breached certain bank covenants at balance date. The consolidated entity has, subsequent to year end, obtained waivers for the breach of covenants as at 30 September 2008 and varied future covenants and terms. This includes an undertaking to sell selected assets and apply a portion of the proceeds to reduce debt. These factors, along with other mitigating factors being relied on by management to address these issues, are as set forth in Note 1 "Going Concern". In the event that the mitigating factors as disclosed in Note 1 do not eventuate as management anticipate, there exists a material uncertainty about the company's and consolidated entity's ability to continue as going concerns and whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included under the heading "Remuneration Report" within the directors' report for the year ended 30 September 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Timbercorp Limited for the year ended 30 September 2008, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



S PELUSI
Partner
Chartered Accountants
Melbourne, 24 December 2008

INDEPENDENT AUDIT REPORT

Deloitte

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Independent Auditor's Report to the members of Timbercorp Limited

Report on the Financial Report

We have audited the accompanying financial report of Timbercorp Limited, which comprises the balance sheet as at 30 September 2008, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Member of
Deloitte Touche Tohmatsu

Liability limited by a scheme approved under Professional Standards Legislation.

A holder's request for Conversion is subject to Timbercorp Limited's right to redeem the Notes in certain circumstances. Holders are able to request Redemption of their Notes on the occurrence of an Acceleration Event.

Redemption by Timbercorp Limited: Timbercorp Limited may Redeem Notes in certain circumstances including:

- a Reset Date;
- at any time if less than \$30 million face value of Notes remain on issue;
- following a Recommended Takeover Event;
- at any time after the 2nd anniversary of the Notes Allotment Date if the daily VWAP of ordinary shares exceeds a price equal to $((\text{Face Value} \div \text{Minimum Conversion Number}) \times 140\%)$ for 20 consecutive Business Days; and
- following a Tax Event, Accounting Event or Change in Law Event.

Conversion into Timbercorp Limited Ordinary Shares: Where Notes are Converted into ordinary shares, the number of ordinary shares received on Conversion will be subject to a minimum of 25 and a maximum of 400 ordinary shares.

Ranking: Notes rank in priority to Ordinary Shares and equally with Converting Preference Shares and Reset Preference Shares on issue for payment of dividends and coupons and for return of capital on a winding up.

Participation: Prior to Conversion, Notes do not confer on holders any right to participate in any issue of securities in Timbercorp Limited or in the profits or property of Timbercorp Limited, except as set out in the Terms of Issue.

35. Subsequent events

Revised banking term sheets

The Group agreed on revised bank facility term sheets including waivers of certain covenants in relation to the following bank facilities after the reporting date:

- \$200.000 million facility – an agreement was reached on 27 November 2008 to obtain waivers for certain covenants as at the reporting date and to vary future covenants and terms of the loan. Without the waiver, the Group would have been in breach of these covenants;
- \$35.000 million facility – an agreement was reached on 27 November 2008 to obtain waivers for certain covenants as at the reporting date and revise the terms of the loan. Without the waiver, the Group would have been in breach of these covenants;
- \$132.900 million facilities – an agreement was reached on 25 November 2008 to obtain waivers for certain covenants as the reporting date. Without the waiver, the Group would have been in breach of these covenants. The potential breach did not affect the classification of the facilities as at reporting date as they were already included as current liabilities directly related to assets classified as held for sale.

Refer to note 33(b) for further details on the classification of these facilities.

Test case decision

On 19 December 2008, the Full Bench of the Federal Court of Australia has handed down its decision in the case of the Australian Taxation Office (ATO) vs Hance and Hannebery (the test case). The court found by a majority/unanimous decision that participants in non-forestry managed investment schemes (MIS) are carrying on a business of primary production and are entitled to be treated accordingly for the purposes of taxation. The ATO has a period of 28 days to lodge any appeal against the decision to the High Court.

The decision will have no impact in the current year as the Company has announced that it will stand out of the MIS market in 2009 and will reconsider MIS in the context of the full review the Company is undertaking and the prevailing market conditions.

Investment in Listed Entities

The Group's major listed entity investment is a holding of 4,500,000 shares in Select Harvests Limited. The carrying value of the shares as at 30 September 2008 is \$5.26 per share based on a 60 day weighted average market price, in accordance with the Group's accounting policy. Subsequent to year there has been a significant fall in the share price of Select Harvests Limited which in the month of December 2008 (up to the 18th December) generally traded below \$2.50 per share. Whilst the share price remains above the Group's cost price of \$2.07 per share, any movements in the market price will impact net assets via the asset revaluation reserve and will not impact earnings.

36. Additional Company information

Timbercorp Limited is a listed public company, incorporated and operating in Australia.

Registered office and principal place of business

Level 8
461 Bourke Street
Melbourne, Victoria 3000

NOTES TO THE FINANCIAL STATEMENTS *Continued* for the financial year ended 30 September 2008

34. Financial instruments *Continued*

(e) Capital risk management

Capital risk management is managed together with liquidity risk through a comprehensive capital management planning involving regular reviews of short, medium and long term cash flow requirements against forecast which in turn need to be matched with appropriate forms of debt and equity funding or asset sales in the ordinary course of business. The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 20, cash and cash equivalents and equity attributable to equity holders of the parent, comprising of issued capital, reserves and retained earnings as disclosed in Notes 23, 24 and 25 respectively. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged from 2007.

Capital risk is also monitored through regular review of gearing, ratios and the adequacy of interest cover and net asset backing levels. The ratios at year end was are follows:

	Consolidated	
	2008	2007
	\$'000	\$'000
Gearing – net debt / equity	151.6%	157.5%
Net Tangible Asset per ordinary security	130.4	131.0

(f) Compound financial instruments terms and conditions (Contractual Arrangements)

The terms and conditions of the various compound financial instruments on issue are set out below. Capitalised terms in this section are set out in the relevant product disclosure statement at the time of issue.

(i) Reset Preference Share (RPS) – Listed (ASX Code: TIMPB)

RPS are convertible to fully paid ordinary shares and can only be converted into ordinary shares. The number of ordinary shares issued on conversion is determined by multiplying the number of RPS by a conversion multiple equal to the greater of \$2.05 (being the Face Value adjusted up for the Conversion Discount) and the amount determined by multiplying the Minimum Conversion Number at the Exchange Date by the average of the daily volume weighted average sale price of ordinary shares sold on the ASX during the 20 business days immediately preceding the exchange date, subject to a maximum of four ordinary shares per reset preference share.

Holders may request an exchange (conversion) on a Reset Date, at any quarter end (and receive only the minimum conversion number), or at the occurrence of certain trigger events. Timbercorp Limited may require exchange (by way of conversion or repurchase) on a reset date or at the occurrence of certain trigger events. Where exchange occurs, Timbercorp Limited must do one (or a combination) of the following (as determined by Timbercorp Limited):

- convert the RPS into Ordinary shares;
- repurchase the RPS; or
- arrange for a third party to acquire the RPS from the Holder (for Holder-requested exchange only)

The first Reset Date is 30 September 2009.

RPS holders are entitled to a fully franked, non-cumulative preference dividend of 6.75% p.a. payable in March and September each year on issue. RPS holders may attend any general meeting of the Company and have limited voting rights. RPS rank in priority to ordinary shares and Notes.

(ii) Unsecured Subordinated Reset Convertible Notes (Notes) – Listed (ASX Code: TIMG)

Timbercorp Limited completed its Unsecured Subordinated Reset Convertible Notes (Notes) issue on 28 September 2006. The total funds raised were (Net) \$79,200,000 after allowing for issue costs of \$3,800,000. There are 830,000 Notes on issue with a Face Value of \$100 per Note. At the time of issue, the value of the debt component of each \$100 note was \$95.641 with the residual \$4.359 representing the equity component. Issue costs were allocated between the debt and equity components accordingly.

Coupon: Notes entitles holders to receive cumulative unfranked coupons payable semi-annually in arrears.

Coupon Rate: The Coupon Rate is a floating rate and is set at a fixed margin over the 6 month bank bill swap rate at the beginning of each Coupon Period.

The Margin which will apply until the first Reset Date (being 30 November 2011) is 2.75%. The Margin cannot be adjusted under a Reset Process to a level that is less than 1.75% per annum.

Reset Date: The Margin, the Conversion Discount, the Reference Rate, and certain other terms of Notes may be adjusted on a Reset Date pursuant to a successful Reset Process.

The first Reset Date is 30 November 2011. Reset Dates are then 5 years after the previous Reset Date, unless a different Reset Date is set under a Reset Notice.

Exchange by Holders: A holder may effect Exchange at any time prior to a Reset Date by requesting Conversion of the Notes at the Minimum Conversion Number. A holder may also request Exchange by Converting each Note into a number of ordinary shares calculated by dividing the Face Value of each Note by the 20 day VWAP immediately prior to conversion less a 2.5% discount (subject to the Maximum and Minimum Conversion Numbers), in certain defined circumstances including:

- a Reset Date; and
- on the occurrence of a Trigger Event (including a Takeover Event), as defined in clause 4.2(f) of the Terms of Issue.

	Less than 3 months	3-6 months	6-12 months	Between 1-5 years	Over 5 years	Total cash flows	Carrying amount
Company 30 September 2007	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-derivatives							
Non-interest bearing	15,088	772	602	–	–	16,462	16,462
Fixed rate	44,644	19,835	5,623	85,977	1,453	157,532	135,027
Variable rate	5,208	5,248	10,574	245,646	–	266,676	218,005
Compound – fixed (iii)	–	2,352	2,358	75,636	–	80,346	70,853
Compound – variable (iii)	3,833	–	4,216	102,048	–	110,097	79,881
Total non-derivatives	68,773	28,207	23,373	509,307	1,453	631,113	520,228

- (i) Bank facilities totalling \$235.000 million have been classified as current borrowings as at the reporting date in line with the accounting standards, as the Group was considered to be in breach of certain financial covenants. For both the Group and Company they are classified as repayable in less than three months. However, after the reporting date, these covenants were waived by the relevant banks for the reporting period and new terms for the facilities were agreed. As at the date of this report, \$100 million of this amount could be reclassified as non current borrowings (between 1-5 years). A further \$105 million could subsequently be reclassified to liabilities directly related to assets classified as held for sale (6-12 months). After repayment of the \$105 million, the facility can be redrawn to fund certain capital expenditure. The remaining \$30 million could subsequently be reclassified to current borrowings (6-12 months).
- (ii) Bank facilities totalling \$122.787 million have been classified as liabilities related to assets classified as held for sale. As at the reporting, the Group was considered to be in breach of certain financial covenants and as a result they are classified as repayable in less than three months. However, after the reporting date, these covenants were waived by the relevant bank for the reporting period. As a result the repayment could be reclassified to repayment between 6-12 months in line with the expected sale of the assets.
- (iii) For the compound instruments the table assumes repayment in cash at the first reset date. The instruments could be extended and / or be converted into shares with no cash outflow. Further information on the compound instruments is stated in paragraph (F) and Note 20.

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available for sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example over the counter derivatives and investments in unlisted subsidiaries) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Refer to the start of this Note for the fair value amounts of the financial assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

34. Financial instruments *Continued*

(c) Liquidity risk management *Continued*

	Less than 3 months	3-6 months	6-12 months	Between 1-5 years	Over 5 years	Total cash flows	Carrying amount
Consolidated 30 September 2008	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Non-derivatives							
Non-interest bearing	63,896	2,084	6,512	-	-	72,492	72,492
Fixed rate	3,996	2,964	34,955	72,550	-	114,465	99,072
Variable rate (i) (ii)	385,898	23,421	84,167	253,597	6,840	753,923	686,345
Compound – fixed (iii)	-	2,329	71,344	-	-	73,673	69,015
Compound – variable (iii)	3,760	-	3,760	96,341	-	103,861	81,300
Total non-derivatives	457,550	30,798	200,738	422,488	6,840	1,118,414	1,008,224
Derivatives							
Net settled interest rate swaps	(123)	(314)	462	2,940	319	3,284	2,585

	Less than 3 months	3-6 months	6-12 months	Between 1-5 years	Over 5 years	Total cash flows	Carrying amount
Consolidated 30 September 2007	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Non-derivatives							
Non-interest bearing	100,261	4,440	4,681	-	-	109,382	109,382
Fixed rate	45,847	19,835	6,814	112,410	1,453	186,356	159,277
Variable rate	29,174	21,313	50,984	558,480	10,185	670,135	553,818
Compound – fixed (iii)	-	2,352	2,358	75,636	-	80,346	70,853
Compound – variable (iii)	3,833	-	4,216	102,048	-	110,097	79,881
Total non-derivatives	179,115	47,940	69,053	848,574	11,638	1,156,320	973,211
Derivatives							
Net settled interest rate swaps liabilities	-	-	-	-	-	-	-

	Less than 3 months	3-6 months	6-12 months	Between 1-5 years	Over 5 years	Total cash flows	Carrying amount
Company 30 September 2008	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-derivatives							
Non-interest bearing	13,778	401	193	-	-	14,372	14,372
Fixed rate	2,905	2,964	9,622	72,550	-	88,041	74,830
Variable rate (i)	235,000	-	-	-	-	235,000	235,000
Compound – fixed (iii)	-	2,329	71,344	-	-	73,673	69,015
Compound – variable (iii)	3,760	-	3,760	96,341	-	103,861	81,300
Total non-derivatives	255,443	5,694	84,919	168,891	-	514,947	474,517

If secured loans have an amount overdue, the total outstanding loan balance is taken into account when considering doubtful debts. The secured loans overdue amount of \$11.437 million (2007: \$7.503 million) relates to a total outstanding secured loan balance as follows:

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Secured loan balance with overdue amount	62,614	44,086	–	–
Secured loan balance with no overdue amount	418,635	361,508	410	549
Secured loan receivable balance total	481,249	405,594	410	549

Loan finance provided is secured against the project interests held by the project investor. In order to determine the appropriate level of doubtful debts provisioning the balances of those investors with non performing loans and/or outstanding project receivables are compared to underlying value of security held being the project interests. The value of the underlying security is determined by reference to the expected cash flows arising over the life of the project discounted at 17.5%. Any shortfalls are included in the provision for doubtful debts. The value of forestry project investments generally increases as the term to maturity (harvest) decreases. The value of horticulture project investments will also increase in line with the progression towards commercial and full maturity crop yields and as the investments become cash flow positive.

Loan finance is also offered to horticulture project investors as a means of funding their on-going rent, license and management fee obligations, particularly in the intervening period between project subscription and the project becoming cash flow positive. The overall level of finance provided against on-going fee invoices is generally within the range of 25% to 40% which is considerably lower than the levels of finance provided at the subscription stage.

Loan and project arrears positions are closely monitored and reported regularly to the executive and the board. Within the grower management team, there is an arrears manager supported by a team dedicated to minimising arrears positions. In addition to standard collection procedures, one of the most effective arrears management tools is in form of project proceeds whereby the Group actively exercises any rights of offset under the various projects or otherwise seeks directions to pay from project investors. Project investors who continue to fail to adequately service their personal obligations may be listed as being in default with credit reporting agencies and/or may have their project interests sold at a public auction.

The following table details the movement in the provision for doubtful debts in relation to trade receivables and loan receivables:

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Opening balance	10,419	6,086	–	–
Addition to provision	7,982	4,359	–	–
Utilised / disposal of provision	(887)	(26)	–	–
Closing balance	17,514	10,419	–	–

The interest earned on loan balances which have amounts overdue by more than 90 days during 2008 was \$4.279 million (2007: \$2.018 million).

The Company does not have any overdue balances or loan receivables (2007: nil) and subsequently the Company does not have a provision for doubtful debt.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the consolidated entity's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

Based on existing asset values the Company has no exposure to a financial guarantee provided to holders of unsecured notes in a controlled entity.

The credit risk on cash is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

10) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding requirements. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Due to the dynamic nature of the underlying businesses including asset sales, the Group aims at maintaining flexibility in funding by keeping committed to credit lines available with a variety of counterparties. Included in Note 33 is a listing of additional undrawn facilities that the Group and Company has at its disposal at balance date.

The tables below analyse the Group's and Company's financial liabilities, net and gross settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash out flows (cash inflows) including both interest and principal cash flows. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

34. Financial instruments *Continued*

(b) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The credit worthiness of counterparties and collateral or other security is obtained where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit risk is measured on a fair value basis.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics given the nature of the products. The Company assesses periodically the credit risk in relation to its subsidiaries.

The primary credit exposures for the Group comprise loan finance provided to new and existing project investors and also to outstanding project receivables largely relating to project investors' on-going rent, licence and management fee obligations. As at 30 September 2008 the total loan book was \$481.249 million (2007: \$405.594 million) and outstanding project receivables were \$13.351 million (2007: \$5.356 million).

The level of finance provided to new project investors varies considerably from year to year but generally within a range of 55% to 85% of total project subscriptions. In 2008 the level of finance provided was at the higher end of the range.

All new investment finance applications are subject to extensive credit checking procedures including checking whether there are any existing project arrears, credit referencing, loan affordability testing, and a review of the applicant's net worth. Further assurance is also taken from financial advisors' and planners' legal responsibilities under the "know your client rule" and their overriding duty to recommend investment arrangements that fall within their client's appetite for risk and capacity to service.

The following table sets out the amounts that are overdue in relation to trade receivables and secured loan receivables:

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Trade receivables overdue	13,351	5,356	-	-
Trade receivables not overdue	6,634	15,932	-	-
Trade receivables total	19,985	21,288	-	-
Secured loan receivables overdue	11,437	7,503	-	-
Secured loan receivable amounts not overdue	469,812	398,091	410	549
Secured loan receivable amounts total	481,249	405,594	410	549
Total amounts overdue	24,788	12,859	-	-

The following table details the ageing of the overdue balances:

	days	0-30	30-60	60-90	90-120	120+	Total
30 September 2008		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade receivables		-	-	-	535	12,816	13,351
Secured loan receivables		258	147	233	155	10,644	11,437
Total		258	147	233	690	23,460	24,788

	days	0-30	30-60	60-90	90-120	120+	Total
30 September 2007		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade receivables		-	-	661	-	4,695	5,356
Secured loan receivables		194	376	303	58	6,572	7,503
Total		194	376	964	58	11,267	12,859

(ii) Foreign exchange risk

From time to time the Group and/or Company enter into transactions denominated in foreign currencies; hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward exchange contracts. The carrying amount of foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Consolidated	
	2008	2007
	\$'000	\$'000
Euro	81	459
US dollars	42	253
	123	712

The Company does not hold any foreign currency denominated monetary assets or monetary liabilities as at the reporting date (2007: nil).

Forward foreign exchange contracts

Management policies require Group companies to manage their foreign exchange risk against their functional currency. The consolidated entity does not enter into or trade in derivative financial instruments for speculative purposes.

Management are required to review the Group's foreign exchange position and take out forward exchange contracts in accordance with board approved delegations to manage foreign exchange risks. Forward exchange contracts entered into are, where applicable, designated as cash flow hedges.

The following table details the forward foreign currency contracts outstanding as at the reporting date:

	Average exchange rate		Foreign currency		Contract value		Fair value	
	2008	2007	2008	2007	2008	2007	2008	2007
Outstanding contracts			FC'000	FC'000	\$'000	\$'000	\$'000	\$'000
Buy EUR dollars								
Less than 3 months	-	0.5741	-	182	-	316	-	(24)
3 to 6 months	-	-	-	-	-	-	-	-
6 to 9 months	-	-	-	-	-	-	-	-
			-	182	-	316	-	(24)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to foreign exchange risk at the reporting date on monetary assets and liabilities denominated in currencies other than the functional currency of the Group.

At the reporting date, if the foreign exchange rate had been 5% higher or lower, the Group's net profit would decrease by \$4 thousand and increase by \$5 thousand (2007: decrease by \$24 thousand and increase by \$26 thousand).

(iii) Price risk

The Company and Group are exposed to equity securities price risk arising from shares in listed entities. These investments are held for strategic rather than trading purposes. The investments are not actively traded. Management monitors the share price movement of the investments periodically.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risk at the reporting date.

At the reporting date, if the equity prices had been 5% per annum higher or lower, the Group's:

- net profit would increase by \$8 thousand and decrease by \$8 thousand (2007: increase by \$46 thousand and decrease by \$46 thousand); and
- other equity reserves would increase by \$0.829 million and decrease by \$0.829 million (2007: increase by \$1.350 million and decrease by \$1.350 million).

At reporting date, if the equity prices had been 5% per annum higher or lower, the Company's:

- net profit would increase by \$8 thousand and decrease by \$8 thousand (2007: increase by \$46 thousand and decrease by \$46 thousand).

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

34. Financial instruments *Continued*

(a) Market Risk

(i) Interest rate risk

Borrowing

The Group's main interest rate risk arises from long-term borrowings. Borrowings subject to variable interest rates expose the Group to cash flow risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. Group policy is to assess the mix of fixed and floating interest rates and to use interest rate swaps to change the mix and mitigate the risks. The Group analyses its interest rate exposure on a dynamic basis which includes the borrowings held by the Company. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. The assessment is done and reported to the Board monthly, including quantum, terms, exposure and reset dates.

During 2007 and 2008, Group and Company borrowings at variable rate were all denominated in Australian dollars.

Assets

The Group's interest rate risk arises from long term grower loan book. The grower loan book is subject to fixed rate interest, exposing the Group to fair value interest rate risk. This risk is taken into account when analysing the Group's overall interest rate exposure as described in the previous paragraph.

Interest rate swaps

The following table details the notional principal amounts and remaining terms of open derivative financial instruments as at the reporting date:

Interest rate swap	Average contracted fixed interest rate		Notional principal amount		Fair value	
	2008	2007	2008	2007	2008	2007
Outstanding floating for fixed contracts	%	%	\$'000	\$'000	\$'000	\$'000
Consolidated						
Less than 1 year	6.19	6.18	130,930	48,816	–	444
1 - 2 years	6.38	6.04	71,200	114,446	(131)	1,584
2 - 3 years	6.53	6.22	18,660	59,326	(90)	773
3 - 4 years	6.25	5.92	60,507	7,971	(250)	128
4 - 5 years	6.86	6.49	11,334	63,382	(128)	1,037
More than 5 years	7.06	–	50,000	–	(1,986)	–
			342,631	293,941	(2,585)	3,966

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the Australian BBSY. The Group settle the difference between the fixed and floating interest rate on a net basis. All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure to variable interest rates on borrowings. The interest rate swaps settle and the interest payment on the loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the period that the floating interest payments on debt impact profit or loss. The Group does not enter into or trade derivative financial instruments for speculative purposes.

The Company does not hold any derivative financial instruments as at the reporting date (2007: nil).

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for both derivative and non derivative instruments at the reporting date and the stipulated change taking place at the beginning of the year and held constant throughout the reporting period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and representing their assessment of the possible change in interest rates.

At the reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's:

- net profit would decrease by \$1.265 million and increase by \$1.265 million (2007: decrease by \$0.987 million and increase by \$0.987 million). This is mainly due to the Group's exposure to interest rates on its variable rate borrowings;
- other equity reserves would increase by \$2.504 million and decrease by \$2.824 million (2007: increase by \$2.141 million and decrease by \$2.352 million) mainly as a result of the changes in the fair value of cash flow hedges.

At the reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Company's:

- net profit would decrease by \$1.108 million and increase by \$1.108 million (2007: decrease by \$0.970 million and increase by \$0.970 million). This is mainly due to the Company's exposure to interest rates on its variable rate borrowings;

Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The methods used include sensitivity analysis in the case of interest rate, foreign exchange on other price risks and aging analysis for credit risk.

Financial risk management is carried out by a central department (Corporate Finance) under policies approved by the Board of Directors. Corporate Finance identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides principles for overall financial risk management, including policies covering specific areas, such as interest rate risk, credit risk, foreign exchange risk, non derivative financial instruments and investment of excess liquidity.

The table below sets out the details of the Group and parent entity financial instrument holdings and including further disclosures in relation to fair value, by way of notes to the table.

		Consolidated		Company	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
Financial Assets					
Cash and cash equivalents	a	32,635	45,123	28,160	42,228
Loans and receivables					
Trade and other receivables	a	104,025	95,007	13,570	20,984
Loan receivables	c	468,097	399,956	491,142	425,954
		572,122	494,963	504,712	446,938
Available for sale					
Shares in listed entities	b	24,010	39,923	340	1,358
Other investments	a	387	1,973	125	785
		24,397	41,896	465	2,143
Derivatives financial instruments	b	0	3,966	0	0
Total financial assets		629,154	585,948	533,337	491,309
Financial Liabilities					
Trade and other payables	a	72,492	105,470	14,375	16,462
Borrowings at amortised cost					
Compound financial instruments	d	150,315	150,734	150,734	150,734
Wholesale and institutional debt	e	691,196	554,300	239,621	218,487
Retail debt instruments	f	83,366	121,100	57,488	121,100
Finance lease liabilities	f	10,855	13,445	10,855	13,445
		935,732	839,579	458,698	503,766
Derivatives financial instruments	b	2,585	0	0	0
Total financial liabilities		1,010,809	945,049	473,073	520,228

- The carrying amount of these assets and liabilities is a reasonable approximation of fair value.
- The carrying value of these assets and liabilities represents fair value. Investments in listed entities are carried at prevailing market prices. Derivative financial instruments relate to the hedging arrangements in place for wholesale and institutional debt.
- Loan finance is provided to project investors on fixed terms and is secured against the project interests held by those investors. Refer also to note 34(a) for comments in relation to loan book credit risk management procedures. The fair value of the loan book is estimated to be \$463.735 million (2007: \$396.333 million) based on the expected principal and interest cash flows collections over the remaining term of the existing loan book, discounted at 9% (2007: 9%). This discount rate is based on an internal assessment of an appropriate risk premium to be added to the risk free rate.
- Compound financial instruments relate to two listed securities being the Reset Preference Shares (ASX: TIMPB) and the Unsecured Subordinated Reset Convertible Notes (ASX: TIMG). The contractual terms of both securities are set out in note 34(f). The estimated fair value of the compound financial instruments is \$91.849 million (2007: \$151.869 million) based on market prices for the securities at the end of the financial year.
- Refer to note 20(ii) for details of the wholesale and institutional debt portfolio. These facilities are subject to variable interest rates determined by reference to published interest rates with matching duration, plus a negotiated fixed margin for the facility provider. Accordingly, the book carrying value of wholesale and institutional debt portfolio is a reasonable approximation of the fair value, given the overall interest rates are considered to be at market. The cost of borrowings for the total debt portfolio averaged out for the financial year at 9.3% (2007: 8.6%).
- Retail debt instruments include the listed Timbercorp 8.9% Bonds (ASX: TIMHB). The carrying value of the listed Bonds is \$50.000 million (2007: \$50.000 million) whilst the fair value based on market price for the security at the end of the financial year was \$41.000 million (2007: \$47.250 million). The carrying amounts of the unlisted retail debt instruments and the lease finance facilities are a reasonable approximation of fair value, given their underlying interest rates are not significantly different to the overall costs of borrowings for the respective financial years.

Further information in relation to determination of fair value is included in paragraph (d) of this Note.

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

33. Notes to the Cash Flow Statement *Continued*

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000

(c) Cash not available for immediate use

Amount of cash held but not available for immediate use	5,965	6,087	2,076	6,087
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Cash balances which are not available for immediate use, include cash balances held:

- by the Custodian of various Managed Investment Scheme Projects; and
- by the Trustee of retail debt facilities as security.

(d) Reconciliation of profit for the period to net cash flows from operating activities

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Profit for the period	41,639	66,392	20,672	33,124
(Gain) / loss on disposal of non-current assets	(1,151)	452	(35)	510
Depreciation and amortisation of non-current assets	15,543	10,591	7,129	5,159
Non-cash interest and borrowing costs	2,899	8,570	1,934	7,864
Agricultural assets - fair value movement	(579)	(5,168)	(2,261)	1,014
Investment property - fair value movement	-	(5,116)	-	-
Impairment of shares in listed entities	2,147	1,000	1,435	1,000
Share based payments - amortisation of employee option	591	789	591	789
Share of associates' profit (less dividends and distributions)	6,645	(5,793)	-	-
(Increase) / decrease in current tax assets	7,364	(7,364)	7,444	(7,444)
Increase / (decrease) in current tax liabilities	11,780	(13,747)	7,554	(4,935)
Increase / (decrease) in deferred tax assets	-	-	-	443
Increase / (decrease) in deferred tax liabilities	2,666	12,157	1,452	1,437
(Increase) / decrease in assets:				
Receivables, including loans receivable	(85,862)	(90,898)	8,519	(9,372)
Inventories	6,304	(27)	618	187
Prepaid and deferred expenditure	(6,102)	(1,319)	305	(1,039)
Deferred management fees	(34,283)	(19,665)	-	-
Tax receivable arising under tax funding agreements	-	-	(1,292)	17,375
Increase / (decrease) in liabilities:				
Payables	(12,386)	4,908	(2,087)	(5,942)
Provisions	19,081	357	(2)	320
Receipts in advance	(6,071)	(844)	(3)	(60)
Net cash provided by / (used in) operating activities	(29,775)	(44,725)	51,973	40,430

(e) Non cash financing and investing activities

During the financial year the Company issued shares to the value of \$7.444 million (2007: \$9.058 million) pursuant to the Timbercorp Dividend Reinvestment Plan.

34. Financial instruments

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk, currency risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as interest rate swaps to hedge certain risk exposures.

Expenses:

- rental of agricultural assets \$29,844,000 (2007: \$27,987,000);
- orchard / grove management charges \$4,583,000 (2007: \$3,947,000); and
- port operating costs \$5,205,000 (2007: \$5,129,000).

Receivable balances with associates as at year end are disclosed in Note 8.

(j) Transactions with other related parties

Details of interest revenue and expenses derived by the parent entity from partly-owned controlled entities are disclosed in Note 3 to the financial statements.

Aggregate amounts receivable by the parent entity are disclosed in Note 8 to the financial statements.

33. Notes to the Cash Flow Statement

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

Cash and cash equivalents	32,635	45,123	28,160	42,228
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(b) Financing facilities – amounts used**Unsecured**

Compound financial instruments (i)	150,315	150,734	150,315	150,734
Retail debt instruments (i)	–	24,250	–	–
	150,315	174,984	150,315	150,734

Secured

Wholesale / Institutional debt (ii)	563,828	554,300	233,495	218,487
Retail debt instruments (i)	83,366	121,100	59,124	121,100
Finance lease liabilities (i)	10,855	13,445	10,855	13,445
	658,049	688,845	303,474	353,032

Liabilities directly related to assets classified as held for sale

	127,368	–	4,490	–
Total financing facilities used*	935,732	863,829	458,279	503,766

* Classified in the Balance Sheet as follows:

Liabilities direct related to assets classified as held for sale	127,368	–	4,490	–
Current borrowings – repayable in 12 months	205,596	280,105	73,408	97,004
Current borrowings – classified as current (iii)	235,000	–	235,000	–
Non-current borrowings	367,768	583,724	145,381	406,762
	935,732	863,829	458,279	503,766

(i) These facilities are effectively fully drawn.

(ii) Unused bank loan finance facilities amount to \$6.400 million (2007: \$31.400 million)

(iii) Bank facilities totalling \$235.000 million have been classified as current borrowings as at the reporting date in line with the accounting standards, as the Group was considered to be in breach of certain financial covenants. The Group has, subsequent to year end restructured its borrowing arrangements so as to obtain waivers for the covenants at 30 September 2008 and to vary future covenants and terms. As at the date of this report, \$100.000 million of this amount could be reclassified as non current borrowings. A further \$105.000 million could subsequently be reclassified to liabilities directly related to assets classified as held for sale. After repayment of the \$105.000 million, the facility can be redrawn to fund certain capital expenditure. The remaining \$30.000 million could subsequently be reclassified to current borrowings – repayable within 12 months.

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

32. Related party disclosures *Continued*

(f) Transactions with directors and their related entities

Transactions with, and amounts receivable from and payable to, directors or their related entities occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those which it is reasonable to expect the entity would have adopted if dealing with the director or related entity at arm's length in the same circumstances.

Details of revenue and expense items arising from transactions with a related entity of R J Hance are as follows:

- Sundry purchases \$11,621 (2007: \$15,509)
- Timbercorp Limited has entered into an agreement with an entity related to director Robert Hance (Timbercorp (WA) Pty Ltd). Timbercorp Limited has a put option to sell and Timbercorp (WA) Pty Ltd has a call option to buy Timbercorp Limited's interest in Australian Garlic Producers Pty Ltd for \$4,361 million. Timbercorp (WA) Pty Ltd can exercise the call option at any time up to 15 September 2010 and Timbercorp Limited can exercise the put option between 1 July 2009 and 15 September 2010. Timbercorp Limited has recognised a financial asset (loans – associated entity) in relation to the put option (refer Note 8).

G W Liddell is a partner of the chartered accounting firm Liddell Weight & Co which derived fees of Nil (2007: \$5,400) for professional services provided to the consolidated entity.

Cranley Nominees Pty Ltd, in which R M Fitzroy has a beneficial interest and is also a director, entered into a five year consultancy agreement with Timbercorp Limited under which the Company is entitled to receive a consultancy fee in respect of horticultural asset acquisition advice of \$400,000 per annum payable by equal quarterly instalments in arrears. The contract was terminated in September 2008. A termination fee of \$744,000 was paid. Fees paid and payable during the reporting period were \$1,144,000 (2007: \$400,000).

Other transactions with directors as project grower investors where amounts were received or paid by the Group were:

- new project investments \$996,911 (2007: \$2,629,280);
- project sales incentives paid \$Nil (2007: \$23,623);
- crop and harvest proceeds paid \$1,011,534 (2007: \$613,037); and
- project rent, management, insurance, and licence fees received \$949,726 (2007: \$618,047).

As at 30 September 2008, current project receivables were \$602,843 (2007: \$344,260).

(g) Transactions with other key management personnel

Transactions with other key management personnel as project grower investors where amounts were received or paid by the Group:

- new project investments \$76,455 (2007: \$92,400);
- project sales incentives paid \$12,347 (2007: \$9,309);
- crop and harvest proceeds paid \$163,902 (2007: \$138,327); and
- project rent, management, insurance, and licence fees received \$196,411 (2007: \$197,910).

As at 30 September 2008, current project receivables \$199,532 (2007: \$121,504).

(h) Transactions within the wholly owned Group

The ultimate parent entity in the wholly-owned Group is Timbercorp Limited.

Details of interest revenue and expenses derived by the parent entity from and to wholly-owned controlled entities are disclosed in Note 3 to the financial statements. Transactions within the wholly-owned Group are based on normal terms and conditions.

Amounts receivable by the parent entity are disclosed in Note 8 to the financial statements.

(i) Transactions with associates

The following items of income and expenses were transacted with associates including joint venture entities:

Income:

- asset management fees received \$1,790,885 (2007: \$1,830,000);
- asset development fees received \$6,748,000 (2007: \$24,085,000);
- corporate services fees received \$292,773 (2007: \$138,445);
- other fees received including equipment leasing \$311,966 (2007: \$353,342);
- profit arising from asset sales Nil (2007: Nil); and
- net harvest proceeds / (loss) (\$745,000) (2007: \$431,029).

(d) Loans to directors and other key management personnel as project grower investors

	Opening balance \$	Loans advanced \$	Principal repaid \$	Interest charged \$	Closing balance \$	Number in group No.	Average interest rate
2008							
Directors	3,073,812	1,273,644	(1,692,206)	297,037	2,952,287	4	8%
Other key management personnel	367,469	160,081	(88,586)	32,906	471,870	3	8%
	3,441,281	1,433,725	(1,780,792)	329,943	3,424,157	7	

	Opening balance \$	Loans advanced \$	Principal repaid \$	Interest charged \$	Closing balance \$	Number in group No.	Average interest rate
2007							
Directors	2,758,921	1,136,330	(998,364)	176,925	3,073,812	5	8%
Other key management personnel	254,051	268,138	(175,372)	20,652	367,469	4	8%
	3,012,972	1,404,468	(1,173,736)	197,577	3,441,281	9	

These loans are made at arms length and are made on terms and conditions no more favourable than those offered to non-related project grower investors. There are some structured loans where the grower investor has agreed to forgo a share of their project investment harvest proceeds in lieu of interest charges. This type of loan structure is no longer available and grower investors are currently offered standard principal and interest, interest only (or a combination thereof) loans at commercial interest rates applicable to loans with terms ranging between 3 to 10 years.

(e) Directors and other key management personnel with loans above \$100,000 in the reporting period

	Opening balance \$	Loans advanced \$	Principal repaid \$	Interest charged \$	Closing balance \$	Highest in period \$
2008						
Directors						
R J Hance	2,400,750	986,940	(1,291,803)	244,595	2,340,482	2,864,086
S C Rabinowicz	368,980	286,704	(293,115)	26,653	389,222	522,453
R M Fitzroy	249,456	–	(77,936)	21,418	192,938	249,456
Other key management personnel						
T Browning	132,238	40,500	(25,035)	4,928	152,631	162,685
J Murray	161,812	77,237	(36,632)	21,001	223,418	231,234
	3,313,236	1,391,381	(1,724,521)	318,595	3,298,691	

	Opening balance \$	Loans advanced \$	Principal repaid \$	Interest charged \$	Closing balance \$	Highest in period \$
2007						
Directors						
R J Hance	2,285,052	530,409	(547,338)	132,627	2,400,750	2,608,106
S C Rabinowicz	350,958	288,061	(297,482)	27,443	368,980	504,000
J M Vaughan	97,729	–	(103,889)	6,160	–	103,889
Other key management personnel						
T Browning	96,813	46,200	(11,384)	609	132,238	137,626
J Murray	105,747	175,740	(134,624)	14,949	161,812	221,650
	2,936,299	1,040,410	(1,094,717)	181,788	3,063,780	

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

32. Related party disclosures *Continued*

(c) Directors' and other key management personnel equity holdings *Continued*

(iii) Reset Preference Shares issued by Timbercorp Limited

	Opening balance	Received on exercise of options	Net other change	Closing balance
	No.	No.	No.	No.
2008				
Other key management personnel				
J Murray	4,000	–	–	4,000

	Opening balance	Received on exercise of options	Net other change	Closing balance
	No.	No.	No.	No.
2007				
Other key management personnel				
J Murray	4,000	–	–	4,000

(iv) Unsecured Subordinated Reset Convertible Notes by Timbercorp Limited

	Opening balance	Received on exercise of options	Net other change	Closing balance
	No.	No.	No.	No.
2008				
Other key management personnel				
T Browning	200	–	–	200
J Murray	251	–	–	251
M Worthington	100	–	(100)	–
	551	–	(100)	451

	Opening balance	Received on exercise of options	Net other change	Closing balance
	No.	No.	No.	No.
2007				
Other key management personnel				
T Browning	–	–	200	200
J Murray	251	–	–	251
M Worthington	100	–	–	100
	351	–	200	551

(ii) Fully paid ordinary shares of Timbercorp Limited

	Opening balance	Received on exercise of options	Net other change	Closing balance
	No.	No.	No.	No.
2008				
Director				
K A Hayes	508,224	–	26,842	535,066
R M Fitzroy	4,259,713	–	180,781	4,440,494
G W Liddell	361,329	–	–	361,329
R J Hance	53,072,340	–	(718,379)	52,353,961
S C Rabinowicz	653,543	–	30,222	683,765
J M Vaughan*	465,864	–	(465,864)	–
Other key management personnel				
T Browning	872,109	–	(453,312)	418,797
D Lipton	351,480	–	(73,000)	278,480
G Meltzer	280,787	–	(110,787)	170,000
J Murray	336,850	–	(94,648)	242,202
M Worthington*	42,400	–	(42,400)	–
	61,204,639	–	(1,720,545)	59,484,094

* Resigned or ceased employment during the year.

	Opening balance	Received on exercise of options	Net other change	Closing balance
	No.	No.	No.	No.
2007				
Director				
K A Hayes	500,000	–	8,224	508,224
R M Fitzroy	4,185,814	–	73,899	4,259,713
G W Liddell	355,482	–	5,847	361,329
R J Hance	52,213,519	–	858,821	53,072,340
S C Rabinowicz	596,169	46,800	10,574	653,543
J M Vaughan	405,866	152,460	(92,462)	465,864
Other key management personnel				
T Browning	606,477	200,120	65,512	872,109
D Lipton	311,080	100,000	(59,600)	351,480
G Meltzer	119,600	150,520	10,667	280,787
J Murray	231,400	100,000	5,450	336,850
M Worthington	42,400	–	–	42,400
	59,567,807	749,900	886,932	61,204,639

Dividends were paid to directors and director related entities and other key management personnel in accordance with their respective shareholdings.

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

32. Related party disclosures *Continued*

(c) Directors' and other key management personnel equity holdings

(i) Share options issued by Timbercorp Limited

	Opening balance	Granted compensation (a)	Exercised	Closing balance	Vested and exercisable 30 Sep 08	Vested during the year
2008	No.	No.	No.	No.	No.	No.
Directors						
R J Hance	481,500	–	(105,660)	375,840	105,660	105,660
S C Rabinowicz	905,090	(237,590)	(105,660)	561,840	142,860	142,860
J M Vaughan*	375,840	–	(375,840)	–	–	105,660
Other key management personnel						
T Browning	366,580	(118,800)	–	247,780	18,600	18,600
D Lipton	532,970	(130,670)	(60,060)	342,240	80,460	80,460
G Meltzer	373,400	(106,920)	–	266,480	67,320	67,320
J Murray	582,510	(136,610)	(74,060)	371,840	95,460	95,460
M Worthington*	383,400	–	(383,400)	–	–	82,960
	4,001,290	(730,590)	(1,104,680)	2,166,020	510,360	698,980

	Opening balance	Granted compensation (a)	Exercised	Closing balance	Vested and exercisable 30 Sep 07	Vested during the year
2007	No.	No.	No.	No.	No.	No.
Directors						
R J Hance	481,500	–	–	481,500	105,660	105,660
S C Rabinowicz	714,300	237,590	(46,800)	905,090	105,660	105,660
J M Vaughan	528,300	–	(152,460)	375,840	–	105,660
Other key management personnel						
T Browning	447,900	118,800	(200,120)	366,580	–	200,120
D Lipton	502,300	130,670	(100,000)	532,970	60,060	160,060
G Meltzer	417,000	106,920	(150,520)	373,400	–	150,520
J Murray	545,900	136,610	(100,000)	582,510	124,580	124,580
M Worthington	383,400	–	–	383,400	66,960	66,960
	4,020,600	730,590	(749,900)	4,001,290	462,920	1,019,220

(a) The options granted as compensation in relation to the 2007 financial year were cancelled during the 2008 financial year.

* Resigned or ceased employment during the year.

32. Related party disclosures

(a) Equity interests in related parties

Equity interests in subsidiaries

Details of the equity interests held in subsidiaries are disclosed in Note 30 to the financial statements.

Equity interests in associates and joint ventures

Details of interests in associates and joint ventures are disclosed in Note 12 to the financial statements.

(b) Key management personnel compensation (including directors)

The key management personnel of the Group during the year were:

Directors

Mr K A Hayes	Chairman – Non-Executive – resigned as Chairman 1 October 2008
Mr R M Fitzroy	Non-Executive Director – appointed as Chairman 1 October 2008
Mr G W Liddell	Non-Executive Director
Mr R J Hance	Chief Executive Officer – resigned as Chief Executive Officer on 30 June 2008
Mr S C Rabinowicz	Deputy Chief Executive Officer – appointed as Chief Executive Officer on 1 July 2008
Mr J M Vaughan	Executive Director (Resigned 30 June 2008)

Other key management personnel

Mr T Browning	General Manager – Forestry
Mr D Lipton	General Manager – Horticulture
Mr G Meltzer	Group General Counsel and joint Company Secretary
Mr J Murray	Chief Financial Officer
Mr M Worthington	General Manager – New Business (Ceased employment 3 September 2008)

The aggregate compensation of the directors and other key management personnel is set out below:

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Short-term employee benefits	3,097,861	3,702,024	3,098,197	3,702,024
Post-employment benefits	532,186	117,004	532,186	117,004
Equity benefits	463,495	315,000	463,495	315,000
Other long-term employee benefits	19,872	69,328	19,872	69,328
	4,113,414	4,203,356	4,113,750	4,203,356

Details of the movements in Timbercorp Limited related equity holdings held during the financial year by each director and other key management personnel of the consolidated entity, including their related entities, are set out below. No equity was held nominally and no share options vested without being exercisable.

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

30. Subsidiaries *Continued*

Name of entity	Country of Incorporation	Ownership Interest	
		2008	2007
		%	%
Grovelot Holdings Ltd	Australia	100	100
Grovelot Holdings (2003 Project) Ltd	Australia	100	100
Olivecorp Processing Facility Pty Ltd	Australia	100	100
Boort Estate Pty Ltd	Australia	100	100
Citruscorp Management Pty Ltd	Australia	100	100
Grapecorp Management Pty Ltd	Australia	100	100
Mangocorp Management Pty Ltd	Australia	100	100
Mango Land Pty Ltd	Australia	100	100
Timbercorp Asset Management Pty Ltd	Australia	100	100
Almonds Australia Pty Ltd	Australia	100	100
<i>Controlled entities</i>			
– Almond Land Pty Ltd	Australia	100	100
– Almond Management Pty Ltd	Australia	100	100
Silvagene Pty Ltd	Australia	100	100
Avcorp Management Pty Ltd	Australia	100	100
OIM#4 Pty Ltd	Australia	100	100
B.B. Olives Pty Ltd	Australia	100	100
Agri Hort Developments Pty Ltd	Australia	100	100
Almond Investments Australia Pty Ltd	Australia	100	100
OIM #8 Pty Ltd	Australia	100	100
Grapecorp Land Pty Ltd (Formerly YBTL Holdings Pty Ltd)	Australia	100	100
OIM #6 Pty Ltd	Australia	100	100
OIM #10 Pty Ltd	Australia	100	100
Timbercorp Lot Investments Pty Ltd	Australia	100	100
Timbercorp Glasshouse Pty Ltd	Australia	100	100
Almond Land WA Pty Ltd	Australia	100	–
Elemental Funds Management Limited*	Australia	100	–

* Incorporated as Sustain Funds Management on 4 February 2008, name changed effective 20 May 2008

All wholly owned entities are members of the tax consolidated group of which Timbercorp Limited is the head entity.

31. Minority interests

	Contributed equity	Consolidated	
		Retained earnings	Total
	\$'000	\$'000	\$'000
Year ended 30 September 2008			
Opening balance	1,194	14,366	15,560
Share of current year result	–	(2,968)	(2,968)
Closing balance	1,194	11,398	12,592
Year ended 30 September 2007			
Opening balance	1,194	13,687	14,881
Share of current year result	–	679	679
Closing balance	1,194	14,366	15,560

(b) Operating leases

Operating leases largely relate to the lease of land for agricultural purposes for periods up to 24 years. The leased land is mostly sub-leased to growers.

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Non-cancellable operating lease payments – other parties				
No later than 1 year	20,199	19,670	15,824	16,165
Later than 1 year and not later than 5 years	72,332	70,719	56,903	57,763
Longer than 5 years	217,170	155,197	141,435	146,601
	309,701	245,586	214,162	220,529
Non-cancellable operating lease payments to associate entities				
No later than 1 year	31,199	29,373	39,381	29,373
Later than 1 year and not later than 5 years	124,796	117,493	124,796	117,493
Longer than 5 years	317,218	357,139	309,036	357,139
	473,213	504,005	473,213	504,005
Non-cancellable operating lease receivables				
No later than 1 year	82,218	71,465	–	–
Later than 1 year and not later than 5 years	398,792	341,138	–	–
Longer than 5 years	1,717,210	1,467,424	–	–
	2,198,220	1,880,027	–	–

30. Subsidiaries

Name of entity	Country of Incorporation	Ownership Interest	
		2008	2007
		%	%
Parent entity			
Timbercorp Limited	Australia		
Controlled entities			
Timbercorp Finance Pty Ltd	Australia	100	100
Controlled entity			
– Timbercorp Finance (Vic) Pty Ltd	Australia	100	100
Timbercorp Lands Pty Ltd	Australia	100	100
Controlled entity			
– Jindalee Enterprises Pty Ltd	Australia	100	100
Timbercorp Properties Ltd	Australia	100	100
Timbercorp Forestry Pty Ltd	Australia	100	100
Timbercorp Securities Ltd	Australia	100	100
Timbercorp Plantations Pty Ltd	Australia	100	100
Timbercorp Plantations 2002 IAB Pty Ltd	Australia	100	100
Plantation Land Ltd	Australia	–	–
Olivecorp Groves Pty Ltd	Australia	100	100
Olivecorp Land Pty Ltd	Australia	100	100
Olivecorp Management Pty Ltd	Australia	100	100
Almond Lot Ltd	Australia	100	100
Timbercorp Treasury Pty Ltd	Australia	100	100

NOTES TO THE FINANCIAL STATEMENTS *Continued* for the financial year ended 30 September 2008

28. Commitments for expenditure

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
(a) Capital expenditure commitments				
Property, plant and equipment				
Not longer than 1 year	-	396	-	-
Longer than 1 year and not longer than 5 years	-	-	-	-
	-	396	-	-
Investment property (i)				
Not longer than 1 year	427	-	-	-
Longer than 1 year and not longer than 5 years	-	-	-	-
	427	-	-	-

(i) Amount payable under contract for investment property purchased at year end are disclosed in note 19

(b) Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in Note 29 to the financial statements.

29. Leases

(a) Finance leases

	Minimum future lease payments				Present value of minimum lease payments			
	Consolidated		Company		Consolidated		Company	
	2008	2007	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
No later than 1 year	5,029	4,865	5,029	4,865	4,262	3,886	4,262	3,886
Later than 1 year and not later than 5 years	7,234	10,659	7,234	10,659	6,593	9,559	6,593	9,559
Later than 5 years	-	-	-	-	-	-	-	-
Minimum future lease payments*	12,263	15,524	12,263	15,524	10,855	13,445	10,855	13,445
Less future finance charges	(1,407)	(2,079)	(1,407)	(2,079)	-	-	-	-
Present value of minimum lease payments	10,856	13,445	10,856	13,445	10,855	13,445	10,855	13,445
Included in the financial statements as:								
Current borrowings (Note 20(a))					4,262	3,886	4,262	3,886
Non-current borrowings (Note 20(b))					6,593	9,559	6,593	9,559
	10,855	13,445	10,855	13,445	10,855	13,445	10,855	13,445

* Minimum future lease payments include the aggregate of all lease payments and any guaranteed residual

The consolidated entity leases plant and equipment under finance lease expiring from one to five years. At the end of the lease term, the consolidated entity has the option to purchase the plant and equipment.

	Consolidated	
	2008	2007
	No.'000	No.'000
Weighted average number of ordinary shares for the purpose of basic EPS	340,895	288,795
Diluted Earnings Per Share		
Earnings used in the calculation of diluted EPS reconciles to net profit in the income statement as follows:		
Profit attributable to the equity holders of the parent entity	44,607	65,713
Payments to holders of dilutive securities	8,596	5,208
Earnings used in the calculation of diluted EPS	53,203	70,921
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted EPS reconciles to the weighted average number of ordinary shares used in the calculation of basic EPS as follows:		
Weighted average number of ordinary shares used in the calculation of basic EPS	340,895	288,795
Shares deemed to be issued for no consideration in respect of:		
– Converting Preference Shares	125,813	–
– Reset Preference Shares	105,330	37,523
– Employee options	–	571
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted EPS	572,038	326,889
The number of potential ordinary shares used in the calculation of diluted EPS is based on prevailing market prices in accordance with the terms and conditions of each issue.		
The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted EPS:		
Options to purchase ordinary shares	3,935	3,802
Weighted average number of converted, lapsed, or cancelled potential ordinary shares used in the calculation of diluted EPS:		
Options to purchase ordinary shares	1,116	325

27. Dividends

	Company		Company	
	2008		2007	
	¢ per share	Total \$'000	¢ per share	Total \$'000
Recognised amount				
Fully paid ordinary shares				
Final – 100% franked*	4.00	12,279	5.50	15,295
Interim – 100% franked*	1.50	5,250	3.00	9,144
		17,529		24,439
Adjusted franking account balance (tax paid basis)		110,904		125,113

* These amounts include \$7,444,000 (2007: \$9,058,000) which was reinvested in 5,869,697 ordinary shares (2007: 3,975,695) pursuant to the Timbercorp Dividend Reinvestment Plan.

The directors do not recommend payment of a final dividend in respect of ordinary shares for the year end 30 September 2008.

Dividend reinvestment plan

A dividend reinvestment plan is in place. Shares are issued under the Plan at an effective discount of 5% from the weighted average price of Timbercorp Limited shares traded on the ASX during the 5 trading days immediately following the record date, and will also be free from brokerage and stamp duty costs.

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

24. Reserves *Continued*

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Employee equity settled benefits reserve				
Opening balance	1,312	988	1,312	988
Shares issued under options plans	–	(465)	–	(465)
Employee options lapsed or cancelled	(697)	–	(697)	–
Share based payments – amortisation of employee options	593	789	593	789
Closing balance	1,208	1,312	1,208	1,312

The employee equity benefits reserve is used to recognise the fair value of options granted to executives and senior employees under the employee share option plan. Amounts are transferred out of the reserve into issued capital when the options are exercised. Amounts are transferred out of the reserve into retained earnings when options lapse. Further information about share based payments is made in Note 5.

25. Retained earnings

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Opening balance	309,278	268,004	41,475	32,790
Employee option lapsed or cancelled	697	–	697	–
Net profit attributable to members of the parent entity	44,607	65,713	20,672	33,124
Dividends provided for or paid (Note 27)	(17,529)	(24,439)	(17,529)	(24,439)
Closing balance	337,053	309,278	45,315	41,475

26. Earnings per share (EPS)

	Consolidated	
	2008	2007
	¢ per share	¢ per share
Basic EPS	13.09	22.75
Diluted EPS	9.30	21.70

	Consolidated	
	2008	2007
	\$'000	\$'000
Basic Earnings Per Share		
Earnings used in the calculation of basic EPS reconciles to net profit in the income statement as follows:		
Profit attributable to the equity holders of the parent entity	44,607	65,713
Earnings used in the calculation of basic EPS	44,607	65,713

	Consolidated and Company		Consolidated and Company	
	2008		2007	
	\$'000	Number	\$'000	Number
Fully paid ordinary share capital				
Opening balance	164,722	306,977,988	121,382	277,681,623
Dividend reinvestment	7,444	5,869,697	9,058	3,975,695
Conversion of compound financial instruments to equity	-	-	12,791	16,919,440
Shares issued – employee option plans	-	-	2,106	1,309,031
Share placement (net of issue cost)	55,239	37,000,000	19,385	7,092,199
Share purchase plan	3,391	2,223,744	-	-
Closing balance	230,796	352,071,429	164,722	306,977,988

Fully paid ordinary shares carry one vote per share and the right to dividends.

Fully paid unsecured subordinated Reset Convertible Notes

Opening balance	2,955	830,000	2,955	830,000
Closing balance	2,955	830,000	2,955	830,000

For further details of terms and conditions (contractual agreement) refer Note 34(f)(i).

Options for ordinary shares

Further detail on the number of options on issue is set out in Note 5.

24. Reserves

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Asset revaluation	12,799	23,181	44	-
Hedging	(1,810)	2,776	-	-
Employee equity settled benefits	1,208	1,312	1,208	1,312
	12,197	27,269	1,252	1,312
Asset revaluation reserve				
Opening balance	23,181	36,360	-	453
Gross revaluation of shares in listed entities	(14,831)	(18,827)	63	(647)
Deferred tax impact	4,449	5,648	(19)	194
Closing balance	12,799	23,181	44	-

The asset revaluation reserve arises on the revaluation of shares in listed entities to fair value. Where an asset is sold that portion of the asset revaluation reserve which relates to that asset is effectively realised and is recognised in profit or loss. The reserve can be used to pay dividends in limited circumstances.

Hedging reserve - Cash flow hedge (interest rate exposure)

Opening balance	2,776	(383)	-	-
Gross revaluation interest rate swaps	(4,843)	4,826	-	-
Income tax related to gains / (losses) recognised in equity	1,453	(1,448)	-	-
Transfer to profit and loss – borrowing and financing charges	(1,709)	(313)	-	-
Income tax related to amounts transferred to profit and loss	513	94	-	-
Closing balance	(1,810)	2,776	-	-

The hedging reserve represents gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedge transaction impacts the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

21. Provisions

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
(a) Current				
Employee benefits	1,233	1,152	1,094	1,009
Onerous contract provision (i)	6,820	5,599	–	–
	8,053	6,751	1,094	1,009
(b) Non-Current				
Employee benefits	735	820	713	800
Onerous contract provision (i)	9,580	–	–	–
	10,315	820	713	800
(i) Onerous contract movement				
Opening Balance	5,599	–	–	–
Amount utilised during financial year	(5,599)	–	–	–
Provision for onerous contracts	16,400	5,599	–	–
	16,400	5,599	–	–

The onerous contract provision relates to the 2004 and 2005 Table grape projects (2007: 2004 and 2005 Table grape projects). The provision represents the present value of the unavoidable expenses in relation to farm operating and leasing costs under non-cancellable operating lease agreements. Any expected project crop proceeds have been offset against the unavoidable costs. The fair value has been determined using a discount rate of 12.5% (2007: 12.5%). The estimates may vary as a result of changes in crop proceeds. The unexpired term of the onerous contract ranges from 14 to 15 years.

22. Other financial liabilities

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Derivatives				
Derivatives that are designated and effective as hedging instruments carried at fair value:				
Non-Current				
Fair value interest rate swaps	2,585	–	–	–
	2,585	–	–	–

23. Issued capital

	Consolidated and Company		Consolidated and Company	
	2008		2007	
	\$'000	Number	\$'000	Number
Fully paid ordinary shares	230,796	352,071,429	164,722	306,977,988
Fully paid unsecured subordinated reset convertible notes	2,955	830,000	2,955	830,000
	233,751		167,677	

Changes to the then Corporations Law abolished the authorised capital and par value conception in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued share do not have a par value.

(i) **Compound financial instruments** comprise the following listed securities issued by Timbercorp Limited. For further details in relation to terms and contractual arrangements underlying each instrument refer to Note 35(f).

- *Reset Preference Shares (RPS)* (Classification: 100% debt) – In September 2004, Timbercorp Limited issued 40,000,000 RPS with a face value of \$2 each. The net proceeds from the raising was \$77.113 million after allowing for issue costs. As at the reporting date, there are a total of 34,743,527 (2007: 34,743,527) RPS on issue. The RPS holders are entitled to a fully franked dividend of 6.75% per annum on the face value of the shares, payable in March and September of each year.
- *Unsecured Subordinated Reset Convertible Notes (Notes)* (Classification: 93% debt) – In September 2006, Timbercorp Limited issued 830,000 Notes with a face value of \$100 each. The net proceeds from the raising was \$79.200 million after allowing for issue costs. As at reporting date there are a total of 830,000 (2007: 830,000) Notes on issue. The Note holders are entitled to a cumulative unfranked coupon payable in May and November of each year. The coupon rate is a floating rate and will be set at a fixed margin over the 6 month bank bill swap rate at the beginning of each coupon period. The fixed margin applicable until the first Reset Date (being 30 November 2011) is 2.75% per annum.

(ii) **Wholesale / Institutional debt:**

- direct borrowings from banks and other financial institutions, which are secured by forestry land, horticultural properties, grower investor loans and investment securities held, with maturity dates ranging from 2009 to 2011; and,
- senior notes issued by securitised loan trusts. The nature of the securitisation arrangements are that Timbercorp's initial exposure to the securitised loan pool is generally 25% in the form of a subordinated note compared to a 75% exposure held by the senior note holders. Timbercorp's exposure represents a first loss exposure and this, together with consideration of the de-recognition tests set out in AASB 139, indicate that in substance Timbercorp enjoys the majority of the risks and rewards associated with the securitised loans and Timbercorp has the greatest exposure to variation in the related cash flows. It should be noted that under the securitisation trust structure, Timbercorp has neither any rights to the trust assets nor any obligation to repay the trust debt of \$34.323 million (2007: \$49.413 million) under the heading of current borrowings; and \$68.759 million (2007: \$59.365 million) under non-current borrowings. The current and non-current securitised grower loans are \$45.763 million and \$96.615 million respectively (2007: \$49.413 million and \$100.765 million).

(iii) **Retail debt instruments:**

- *Listed debenture stock* – In April 2003, Timbercorp Limited issued \$40.000 million of 9% per annum debenture stock which was repaid in full on 15 October 2007. The debentures had first mortgage security over a portfolio of Timbercorp Limited's forestry land and horticultural assets, including improvements, capital works and water licences.
- *Listed bond stock* – In December 2005, Timbercorp Limited issued \$50.000 million of 8.9% per annum debenture stock with a maturity date of 1 December 2010. The bonds have first mortgage security over a portfolio of Timbercorp's forestry land and horticultural assets, including improvements, capital works and water licences.
- *Unlisted finance bonds* – The Timbercorp Limited Finance Bond Prospectus was opened in October 2004 and closed in November 2005 after issuing \$25.885 million Class A and Class B, Finance Bonds. The bonds are backed by grower investor loans. Class A bonds paid interest at 8.25% per annum and were repaid on 31 March 2008. Class B bonds pay interest at 8.75% per annum and expire 31 March 2010. The bonds have a face value of \$100 each. There are nil (2007: 167,410) Class A Bonds and 91,440 (2006: 91,440) Class B Bonds on issue.
- *Unlisted indexed annuity bonds* – In February 2001, Timbercorp Limited issued \$11.000 million of bonds. The bonds are repayable in quarterly payments of interest and principal increasing at the CPI rate – the last payment is due in March 2011. The interest rate applicable is 6.25% per annum plus CPI. The bond is secured by a registered first mortgage over the assets of Timbercorp Plantations Pty Ltd and a charge over the applicable rental streams attached to those assets.
- *Unlisted unsecured notes* – The unsecured notes are a debt component of a stapled security issue by Plantation Land Limited (an entity which is not owned, but is deemed to be controlled) in February 2000 to finance the acquisition of a \$26.000 million portfolio of forestry land from Timbercorp Limited. Each stapled security includes one \$100 unsecured debt note and one ordinary share in Plantation Land Ltd at an issue price of \$5. The unsecured notes carry a coupon rate of 9.75% per annum and are repayable by 30 June 2009.

(iv) **Finance lease liabilities:** Secured by the assets subject to finance.

(v) **Loan covenants**

- a) Bank facilities totalling \$235.000 million have been classified as current borrowings as at the reporting date in line with the accounting standards, as the Group was considered to be in breach of certain financial covenants. An agreement was reached on 27 November 2008, after the reporting date, that these covenants would be waived by the relevant banks for the reporting period and revised terms for the facilities were agreed. As at the date of this report, \$100 million of this amount could be reclassified as non current borrowings. A further \$105.000 million could also be reclassified to liabilities directly related to assets classified as held for sale as these borrowings are now required to be repaid from the proceeds of the assets held for sale. After repayment of the \$105.000 million, the facility can be redrawn to fund certain capital expenditure. The remaining \$30 million could subsequently be reclassified to current borrowings – repayable in 12 months.
- b) Bank facilities totalling \$127.368 million have been classified as liabilities directly related to assets held for sale as these borrowings are required to be repaid from the proceeds of the assets held for sale. As at the reporting date, \$122.878 million of these liabilities would have been classified as current borrowings in line with the accounting standards, as the Group was considered to be in breach of certain financial covenants. An agreement was reached on 25 November 2008, after the reporting date, that these covenants would be waived by the relevant banks for the reporting period.

(vi) **Liabilities directly related to assets classified as held for sale:**

The Group intends to sell forestry land and certain almond and olive properties within the next 12 months. A portion of the proceeds from the sale of these assets is required to be used to repay borrowings secured over those assets.

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

18. Assets pledged as security

Assets to the value of \$1,265 million (2007: \$1,166 million) have been pledged as security to the providers of interest bearing debt (Note 20). The holder of the security does not have the right to sell or re-pledge the assets other than in an event of default.

The consolidated entity does not hold title to the equipment under finance lease pledged as security.

19. Current trade and other payables

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Trade payables (i)	939	2,536	939	2,536
Accrued expenses and other payables	53,742	64,547	13,436	13,926
Amount payable under contract	17,811	38,387	–	–
	72,492	105,470	14,375	16,462

(i) Terms of payment for trade payables range from 7 to 30 days from the date of invoice. No interest is charged on trade payables.

20. Borrowings

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000

(a) Current – at amortised cost

Unsecured:

Compound financial instruments (i)	69,015	515	69,015	515
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Secured:

Wholesale / Institutional debt (ii)	470,445	218,223	239,621	35,122
Retail debt instruments (iii)	24,242	57,481	–	57,481
Finance lease liabilities (iv) (Note 29)	4,262	3,886	4,262	3,886
	498,949	279,590	243,883	96,489
Total current borrowing*	567,964	280,105	312,898	97,004

* Classified in the balance sheet as follows:

Current borrowing – repayable in 12 months	205,596	240,605	73,408	97,004
Current borrowing – classified as current (v(a))	235,000	–	235,000	–
Liabilities directly related to assets classified as held for sale (v(b)) (vi)	127,368	39,500	4,490	–
	567,964	280,105	312,898	97,004

(b) Non-current – at amortised cost

Unsecured:

Compound financial instruments (i)	81,300	150,219	81,300	150,219
Retail debt instruments (iii)	–	24,250	–	–
	81,300	174,469	81,300	150,219

Secured:

Wholesale / Institutional debt (ii)	220,751	336,077	–	183,365
Retail debt instruments (iii)	59,124	63,619	57,488	63,619
Finance lease liabilities (iv) (Note 29)	6,593	9,559	6,593	9,559
	286,468	409,255	64,081	256,543
Total Non-current borrowing	367,768	583,724	145,381	406,762

	Other intangibles – software (iii)	Company Total
	\$'000	\$'000
2008		
Gross carrying amount – at cost		
Opening balance	2,841	2,841
Additions	2,233	2,233
Closing balance	5,074	5,074
Accumulated depreciation / amortisation		
Opening balance	(568)	(568)
Depreciation expense	(1,626)	(1,626)
Closing balance	(2,194)	(2,194)

	Other intangibles – software (iii)	Company Total
	\$'000	\$'000
2007		
Gross carrying amount – at cost		
Opening balance	–	–
Additions	2,841	2,841
Closing balance	2,841	2,841
Accumulated depreciation / amortisation		
Opening balance	–	–
Depreciation expense	(568)	(568)
Closing balance	(568)	(568)
Net book value		
Closing balance	2,880	2,880
Opening balance	2,273	2,273

(i) Previously permanent water rights were classified as property, plant and equipment. Following an internal review and consultation with ASIC the permanent water rights are now classified as part of intangibles. This has resulted in a reclassification of the comparative financial information only and did not have any impact on total assets or profit.

(ii) Goodwill largely relates to the acquisition of a Silva-culture and a genetic seed generation business. Goodwill has been allocated for impairment testing purposes to the forestry cash generating unit.

(iii) Development of various software applications. The amounts are being amortised over 2.5 years.

17. Other non-current assets

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Prepayments and other assets	616	648	581	554
Deferred management fees	72,833	38,550	–	–
	73,449	39,198	581	554

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

15. Investment property *Continued*

- (b) inflation of 2.5% (2007: 2.5%) per annum;
- (c) discount rate of 9.0% (2007: 9.0%) per annum;
- (d) average growth rate of land value at 7.0% (2007: 7.0%) per annum, applied to the original cost of the land; and
- (e) Cap on fair value and / or terminal value of land of \$7,800 (2007: no cap).

16. Intangibles

	Consolidated			
	Permanent water right (i)	Goodwill (ii)	Other intangibles – software (iii)	Total
2008	\$'000	\$'000	\$'000	\$'000
Gross carrying amount – at cost				
Opening balance	95,809	1,117	2,841	99,767
Additions	24,204	–	2,233	26,437
Disposals	(2,899)	–	–	(2,899)
Transfers to non-current assets classified as held for sale (Note 11)	(13)	–	–	(13)
Closing balance	117,101	1,117	5,074	123,292
Accumulated depreciation / amortisation				
Opening balance	–	–	(568)	(568)
Depreciation expense	–	–	(1,626)	(1,626)
Closing balance	–	–	(2,194)	(2,194)

	Consolidated			
	Permanent water right (i)	Goodwill (ii)	Other intangibles – software (iii)	Total
2007	\$'000	\$'000	\$'000	\$'000
Gross carrying amount – at cost				
Opening balance	58,910	1,117	–	60,027
Additions	54,840	–	2,841	57,681
Transfers to non-current assets classified as held for sale	(17,941)	–	–	(17,941)
Closing balance	95,809	1,117	2,841	99,767
Accumulated depreciation / amortisation				
Opening balance	–	–	–	–
Depreciation expense	–	–	(568)	(568)
Closing balance	–	–	(568)	(568)
Net book value				
Closing balance	117,101	1,117	2,880	121,098
Opening balance	95,809	1,117	2,273	99,199

The significant assumptions made in determining the fair value of the agricultural assets are:

- (a) the horticulture trees reach maturity in 6 to 8 years but start producing in year 3 and will be productive for at least 30 years;
- (b) the eucalypt trees are harvested in year 10;
- (c) inflation will continue at 2.5% (2007: 2.5%) per annum;
- (d) the discount rates attached to the relevant income streams are as follows:
 - fixed licence and establishment fees 12.0% (2007: 12.0%);
 - variable management fees 17.0% (2007: 17.0%);
 - crop and harvest proceeds 17.5% (2007: 17.5%);
- (e) the expected crop / harvest prices are constant in real terms based on current market prices;
- (f) the costs expected to arise throughout the life of the trees are constant in real terms based on the estimated costs included in the project prospectus; and
- (g) cash flows are gross of income taxes and are expressed in real terms.

Sensitivity of the fair value of agricultural assets to changes in significant assumptions and its effect on financial performance

		Consolidated		Company	
		2008	2007	2008	2007
		\$	\$	\$	\$
Discount rates	+ 1%	(7,770)	(4,365)	(771)	(50)
	- 1%	8,467	4,890	571	55
Price	+ 5%	8,502	3,907	1,771	125
	- 5%	(7,359)	(3,903)	(2,046)	(125)
Costs	+ 5%	(3,406)	(2,145)	(995)	(79)
	- 5%	3,189	2,161	766	79

Agricultural assets consist of horticulture and forestry assets as described in Note 2(a).

Refer to note 34 in relation to applicable financial risk management strategies.

15. Investment property

		Consolidated		Company	
		2008	2007	2008	2007
		\$	\$	\$	\$
Cost					
Opening balance		209,981	192,250	-	-
Additions		11,662	19,467	-	-
Disposals		(2,126)	(1,736)	-	-
Transfers to non-current asset held for sale (Note 11)		(219,517)	-	-	-
Closing balance		-	209,981	-	-
Accumulated fair value increments					
Opening balance		66,853	61,737	-	-
Increments in fair value		-	5,116	-	-
Transfers to non-current asset held for sale (Note 11)		(66,853)	-	-	-
Closing balance		-	66,853	-	-
Net book value					
Closing balance		-	276,834	-	-

The fair value of investment property is based on a discounted cash flow model, which reflects the nature and characteristics of the property and the prevailing market conditions at the reporting date.

The significant assumptions made in determining the fair value of the investment property are as follows:

- (a) the lease rental cash flow collections (CPI indexed) from Project investors over the remaining term of the lease;

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

13. Property, plant and equipment *Continued*

	Freehold land	Plant and equipment	Equipment under finance lease	Company Total
	\$'000	\$'000	\$'000	\$'000
2007				
Gross carrying amount – at cost				
Opening balance	513	18,878	12,981	32,372
Additions	121	3,164	3,063	6,348
Disposals	–	–	(218)	(218)
Transfers between asset classes	–	(4,568)	4,793	225
Closing balance	634	17,474	20,619	38,727
Accumulated depreciation / amortisation				
Opening balance	–	(7,976)	(3,539)	(11,515)
Depreciation expense	–	(1,696)	(2,895)	(4,591)
Disposals	–	–	129	129
Transfers between asset classes	–	1,096	(871)	225
Closing balance	–	(8,576)	(7,176)	(15,752)
Net book value				
Closing balance	634	7,852	11,435	19,921
Opening balance	634	8,898	13,443	22,975

Aggregate depreciation allocated during the year is recognised as an expense and disclosed in Note 3 to the Financial Statements.

Refer to Note 16 for description of reclassification of permanent water rights.

14. Agricultural assets

	Consolidated 2008	Consolidated 2007	Company 2008	Company 2007
	\$	\$	\$	\$
Cost				
Opening balance	85,984	55,426	16,195	14,186
Increase due to purchases	12,513	40,978	4,009	2,645
Disposals	(7,145)	(636)	(5,296)	(636)
Transfer between asset classes	(84)	–	–	–
Transfers to non-current assets classified as held for sale (Note 11)	(161)	(9,784)	–	–
Closing balance	91,107	85,984	14,908	16,195
Accumulated fair value increments				
Opening balance	1,432	20,187	994	2,037
Gain / (loss) arising from changes in fair value	579	5,168	2,260	(1,014)
Disposals	(286)	(29)	(285)	(29)
Transfers to Non-current assets classified as held for sale (Note 11)	(7)	(23,894)	–	–
Closing balance	1,718	1,432	2,969	994
Net book value				
Closing balance	92,825	87,416	17,877	17,189

	Consolidated			
	Freehold land \$'000	Plant and equipment \$'000	Equipment under finance lease \$'000	Total \$'000
2007				
Gross carrying amount – at cost				
Opening balance	79,445	152,746	13,707	245,898
Additions	21,005	97,914	3,064	121,983
Disposals	(247)	(12,405)	(285)	(12,937)
Transfers between asset classes	–	(4,568)	4,793	225
Transfers to non-current assets classified as held for sale (Note 11)	(11,046)	(39,079)	–	(50,125)
Closing balance	89,157	194,608	21,279	305,044
Accumulated depreciation / amortisation				
Opening balance	–	(26,292)	(4,265)	(30,557)
Depreciation expense	–	(7,147)	(2,876)	(10,023)
Disposals	–	–	196	196
Transfers between asset classes	–	1,096	(871)	225
Transfer to non-current assets classified as held for sale (Note 11)	–	12,503	–	12,503
Closing balance	–	(19,840)	(7,816)	(27,656)
Net book value				
Closing balance	90,266	204,014	11,418	305,698
Opening balance	89,157	174,768	13,463	277,388

	Company			
	Freehold land \$'000	Plant and equipment \$'000	Equipment under finance lease \$'000	Total \$'000
2008				
Gross carrying amount – at cost				
Opening balance	634	17,474	20,619	38,727
Additions	–	2,833	–	2,833
Disposals	–	(461)	–	(461)
Transfers between asset classes	–	(1,285)	1,285	–
Closing balance	634	18,561	21,904	41,099
Accumulated depreciation / amortisation				
Opening balance	–	(8,576)	(7,176)	(15,752)
Depreciation expense	–	(2,212)	(3,293)	(5,505)
Disposals	–	79	–	79
Closing balance	–	(10,709)	(10,469)	(21,178)

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

12. Investments accounted for using the equity method *Continued*

	Consolidated	
	2008	2007
	\$'000	\$'000
Summary of balance sheet of joint venture entities		
<i>Assets</i>		
Cash	577	9
Plant and equipment	44,856	47,618
Other current assets	2,278	2,223
Other non-current assets	100	157
	47,811	50,007
<i>Liabilities</i>		
Payables	3,064	1,198
Non-current borrowings	-	33
	3,064	1,231
<i>Net assets</i>	44,747	48,776
Group's share of associates' net assets	13,148	17,528

Dividends received from associates and joint ventures

During the year, the consolidated entity received dividends / distributions of \$3.984 million (2007: \$3.975 million) from its associates and dividends of \$0 (2007: \$0) from its jointly controlled entities.

Contingent liabilities and capital commitments

The consolidated entity's share of the contingent liabilities, capital commitments and other expenditure commitments of associates and jointly controlled entities is disclosed in Note 28 and 29.

13. Property, plant and equipment

	Consolidated			
	Freehold land	Plant and equipment	Equipment under finance lease	Total
2008	\$'000	\$'000	\$'000	\$'000
Gross carrying amount – at cost				
Opening balance	89,157	194,608	21,279	305,044
Additions	1,101	42,147	-	43,248
Disposals	-	(478)	-	(478)
Transfers between asset classes	-	(1,200)	1,284	84
Transfers to non-current assets classified as held for sale (Note 11)	(32)	(689)	-	(721)
Closing balance	90,226	234,388	22,563	347,177
Accumulated depreciation / amortisation				
Opening balance	-	(19,840)	(7,816)	(27,656)
Depreciation expense	-	(10,590)	(3,329)	(13,919)
Disposals	-	96	-	96
Closing balance	-	(30,334)	(11,145)	(41,479)

	Consolidated	
	2008	2007
	\$'000	\$'000
Movement in investment in associates		
Opening balance	94,826	37,997
Acquisition of additional interests in associates	1,174	51,059
Share of profit after tax	1,286	9,745
Share of dividends / distributions	(3,984)	(3,975)
Closing balance	93,302	94,826
Summary of income statement of associates		
Income	574,004	512,481
Expenses	(570,444)	(493,245)
Total profit for the year	3,560	19,236
Summary of balance sheet of associates		
<i>Assets</i>		
Cash	64,527	73,719
Agricultural investment property	450,111	442,603
Other current assets	45,531	33,548
Other non-current assets	181,389	174,483
	741,558	724,353
<i>Liabilities</i>		
Accruals and other payables	254,251	263,092
Prepaid rent	8,747	9,017
Current borrowings	46,821	34,255
Non-current borrowings	139,086	114,319
	448,905	420,683
Net assets	292,653	303,670
Group's share of associates' net assets	93,302	94,826
Movement in investment in joint venture entities		
Opening balance	17,528	10,412
Acquisition of additional interests in joint venture entities	847	7,756
Share of distribution	(1,268)	(663)
Share of net profit / (loss)	(1,259)	23
Impairment of investment in joint venture entities	(2,700)	-
Closing balance	13,148	17,528
Summary of income statement of joint venture entities		
Income	16,231	2,244
Expenses	(19,965)	(2,152)
Total profit for the year	(3,734)	92

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

11. Non-current assets held for sale

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Asset held for sale	376,513	89,241	-	-
Represented by (i):				
Intangibles – permanent water rights	17,954	17,941	-	-
Property, plant and equipment	38,343	37,622	-	-
Agricultural assets	33,846	33,678	-	-
Investment property	286,370	-	-	-
Closing Balance	376,513	89,241	-	-

(i) The Group intends to sell forestry land and certain almond and olive properties within the next 12 months. No impairment loss was recognised at the time of the reclassification or as at reporting date.

12. Investments accounted for using the equity method

		Ownership interest		Consolidated carrying amount	
		2008	2007	2008	2007
		%	%	\$'000	\$'000
Associates (ii)					
Orchard Investments Management Limited	Responsible Entity for Primary Infrastructure Funds	45	45	634	484
Timbercorp Orchard Trust	Investment in horticultural assets	47	45	15,901	15,200
Timbercorp Primary Infrastructure Fund	Investment in horticultural assets	46	45	17,739	18,773
Australian Garlic Producers (iii)	Garlic producers	43	11	-	-
d'VeineRipe Pty Ltd	Glasshouse manager	23	23	-	81
CostaExchange Holdings Pty Ltd	Investment in industrial assets	35	35	51,989	54,099
Boundary Bend Ltd	Horticulture management	19	19	7,039	6,159
				93,302	94,796
Joint Venture entities					
Plantation Pulpwood Exports Pty Limited	Woodchip exports	50	50	50	50
Plantation Pulpwood Terminals Pty Limited	Port operations	50	50	8,431	9,699
Glasshouse Manager Pty Ltd	Glasshouse manager	50	50	-	30
Glasshouse Custodian Pty Ltd	Glasshouse custodian	50	50	-	-
Two Wells Glasshouse Joint Venture (iv)	Glasshouse manager	25	25	4,668	7,779
				13,149	17,558
				106,451	112,354

(i) All associates and joint venture entities are incorporated in Australia

(ii) The reporting date for all the above entities is 30 June of each year.

(iii) Timbercorp Limited has entered into an agreement with an entity related to director Robert Hance (Timbercorp (WA) Pty Ltd). Timbercorp Limited has a put option to sell and Timbercorp (WA) Pty Ltd has a call option to buy Timbercorp Limited's interest in Australian Garlic Producers Pty Ltd for \$4.361 million. Timbercorp (WA) Pty Ltd can exercise the call option at any time up to 15 September 2010 and Timbercorp Limited can exercise the put option between 1 July 2009 and 15 September 2010. Timbercorp Limited has recognised a financial asset in relation to the put option (refer Note 8).

(iv) In April 2007, Timbercorp announced that it had entered into a joint venture arrangement over its glasshouse assets. Under the agreement, Timbercorp retained a 25% interest in the glasshouse assets and received \$12.000 million from the joint venture partner as reimbursement for the 75% of capital spend incurred. The assets held by the Two Wells Glasshouse Joint Venture are in excess of \$28.000 million. As part of the transaction, Timbercorp shares its glasshouse management rights equally with the joint venture partner.

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
(b) Non-current				
At fair value:				
Shares in listed entities	24,010	39,923	340	1,358
Derivatives – interest rate swaps	–	3,522	–	–
Other investments	387	1,256	129	68
At cost:				
Shares in controlled entities	–	–	85,578	85,520
Investments in associates	–	–	103,660	104,026
At amortised cost:				
Secured loan receivables (i)	387,892	328,260	256	410
Allowance for doubtful loan receivables	(17,514)	(10,419)	–	–
Loans – Associated entities (ii)	4,362	3,650	4,632	3,650
Non-trade receivables from:				
Wholly-owned controlled entities	–	–	56,000	56,000
	399,137	366,192	250,595	251,032

(i) Secured loan receivables include \$142,378,000 (2007: \$150,178,000) of securitised loans held in a separate trust. The interest rates varies between 0% – 14% (2007: 0% – 14%) and the remaining term varies between 0 – 19 years (2007: 0 – 20 years). Refer Note 20(ii) for further discussion of securitisation agreements.

(ii) The Group has provided some associate entities with loans at commercial rates.

9. Current inventories

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
At cost:				
Contract development work in progress	2,981	3,207	–	–
Water rights and other infrastructure held to offer for resale	–	3,376	–	–
Other inventories and work in progress	3,112	5,814	546	1,164
	6,093	12,397	546	1,164

10. Other current assets

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Prepaid land rentals	10,674	9,454	625	661
Prepaid insurance	915	1,143	85	369
Prepaid temporary water	5,017	–	–	–
Other assets and prepayments	1,521	1,396	251	263
	18,127	11,993	961	1,293

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

7. Current trade and other receivables

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Trade receivables (i)	19,985	21,288	–	–
Accrued income	65,893	50,538	1,580	2,199
Allowance for doubtful debts	–	–	–	–
	85,878	71,826	1,580	2,199
Goods and services tax receivable	2,613	1,990	2,645	2,003
Other receivables	15,534	21,191	9,345	16,782
	104,025	95,007	13,570	20,984

(i) Trade receivables include project grower investors (project receivables) and non-project receivables. Terms of payment are generally 30 days from invoice date and the Company reserves the right to charge penalty interest on outstanding balances. Allowances for doubtful debts are made where appropriate. Refer to Note 34 for details in relation to policies for allowances for doubtful debts.

8. Other financial assets

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
(a) Current				
At fair value:				
Option to convert interest free loan to equity in associated entity	–	717	–	717
Derivatives – interest rate swaps	–	444	–	–
At amortised cost:				
Secured loan receivables (i)	93,357	77,334	154	139
Loans – Associated entities (ii)	–	906	–	906
Loans – Other	–	225	–	225
Non-trade receivables from:				
Wholly-owned controlled entities	–	–	402,394	338,506
Amounts receivable from wholly owned entities within the tax consolidated group arising from tax funding agreements	–	–	27,410	26,118
	93,357	79,626	429,958	366,611

(ii) Options exercised during the financial year

No options were exercised during the year ended 30 September 2008.

Year ended 30 September 2007

Options series	Issue date	Expiry date	Exercise date	Exercise price \$	Number exercised No.	Number of shares issued No.	Fair value received \$	Fair value at date of issue \$
(1)	15 Jan 2002	15 Jan 2007	01 Nov 2006	0.6600	80,000	80,000	52,800	236,000
(1)	15 Jan 2002	15 Jan 2007	15 Jun 2007	0.6600	680,000	680,000	448,800	1,924,400
(2.1)	17 Dec 2004	15 Oct 2007	01 Nov 2006	1.7000	119,000	25,400	202,300	74,930
(2.2)	17 Dec 2004	15 Oct 2008	01 Nov 2006	1.7000	45,000	91,800	76,500	270,810
(2.3)	17 Dec 2004	15 Oct 2008	02 Feb 2007	1.7000	25,400	25,400	43,180	71,882
(2.6)	29 Apr 2005	15 Oct 2006	15 Oct 2007	1.7000	46,800	93,600	79,560	273,312
(3.1)	14 Oct 2005	14 Oct 2007	01 Nov 2006	2.3600	169,311	169,311	399,574	499,467
(3.1)	14 Oct 2005	14 Oct 2007	23 Jan 2007	2.3600	58,860	58,860	138,910	171,871
(3.1)	14 Oct 2005	14 Oct 2007	02 Feb 2007	2.3600	50,000	50,000	118,000	141,500
(3.2)	14 Oct 2005	14 Oct 2008	02 Feb 2007	2.3600	34,660	34,660	81,798	98,088
					1,309,031	1,309,031	1,641,422	3,762,260

The fair value of consideration received for options exercised equals the exercise price times the number of options. The fair value of the shares issued is measured as the market value of the shares at the close of trade on the day of issue. Consideration received on the exercise of options is recognised in issued capital (refer Note 23).

(iii) Options exercised and lapsed after the year-end and before the date of this report.

There were no options exercised after the year-end and before the date of this report. 1,221,000 options were cancelled or lapsed after the year-end, but before the date of this report.

6. Remuneration of auditors

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Auditor of the parent entity				
Audit or review of the financial report	481,000	524,400	376,694	420,238
Audit or review of the project agency accounts	64,600	57,900	–	1,750
Taxation services	221,611	47,360	221,611	47,360
Compliance plan audit	45,450	47,390	45,450	47,390
Other accounting and advisory services	40,122	44,539	19,068	839
	852,783	721,589	662,823	517,577

The auditor of Timbercorp Limited is Deloitte Touche Tohmatsu.

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

5. Employee option plan *Continued*

(i) Schedule of movements for each share option series *Continued*

Year ended 30 September 2007

Options series	Issue date	Expiry date	Exercise price \$	Opening balance	Number granted	Number exercised	Number lapsed	Closing balance
(1)	15 Jan 2002	15 Jan 2007	0.6600	800,000	–	(760,000)	(40,000)	–
(2.1)	17 Dec 2004	15 Oct 2006	1.7000	25,400	–	(25,400)	–	–
(2.2)	17 Dec 2004	15 Oct 2007	1.7000	152,800	–	(91,800)	–	61,000
(2.3)	17 Dec 2004	15 Oct 2008	1.7000	152,800	–	(25,400)	–	127,400
(2.4)	17 Dec 2004	15 Oct 2009	1.7000	152,800	–	–	–	152,800
(2.5)	17 Dec 2004	13 Jan 2011	1.7000	152,800	–	–	–	152,800
(2.6)	29 Apr 2005	15 Oct 2006	1.7000	93,600	–	(93,600)	–	–
(2.7)	29 Apr 2005	15 Oct 2007	1.7000	140,400	–	–	–	140,400
(2.8)	29 Apr 2005	15 Oct 2008	1.7000	140,400	–	–	–	140,400
(2.9)	29 Apr 2005	15 Oct 2009	1.7000	140,400	–	–	–	140,400
(2.10)	29 Apr 2005	10 Jan 2011	1.7000	140,400	–	–	–	140,400
(3.1)	14 Oct 2005	14 Oct 2007	2.3600	819,160	–	(278,171)	(24,000)	516,989
(3.2)	14 Oct 2005	14 Oct 2008	2.3600	819,160	–	(34,660)	(52,000)	732,500
(3.3)	14 Oct 2005	14 Oct 2009	2.3600	819,160	–	–	(52,000)	767,160
(3.4)	14 Oct 2005	14 Oct 2010	2.3600	819,160	–	–	(52,000)	767,160
(3.5)	14 Oct 2005	12 Jan 2012	2.3600	819,160	–	–	(52,000)	767,160
(4.1)	14 Nov 2006	16 Oct 2008	2.8700	153,600	–	–	–	153,600
(4.2)	14 Nov 2006	16 Oct 2009	2.8700	153,600	–	–	–	153,600
(4.3)	14 Nov 2006	16 Oct 2010	2.8700	153,600	–	–	–	153,600
(4.4)	14 Nov 2006	16 Oct 2011	2.8700	153,600	–	–	–	153,600
(4.5)	14 Nov 2006	16 Jan 2013	2.8700	153,600	–	–	–	153,600
(5.1)	13 Dec 2007	31 Oct 2008	1.7100	–	207,496	–	–	207,496
(5.2)	13 Dec 2007	31 Oct 2009	1.7100	–	207,496	–	–	207,496
(5.3)	13 Dec 2007	31 Oct 2010	1.7100	–	207,496	–	–	207,496
(5.4)	13 Dec 2007	31 Oct 2011	1.7100	–	207,496	–	–	207,496
(5.5)	13 Dec 2007	31 Oct 2012	1.7100	–	207,496	–	–	207,496
				6,955,600	1,037,480	(1,309,031)	(272,000)	6,412,049

(i) Schedule of movements for each share option series

Year ended 30 September 2008

Options series	Issue date	Expiry date	Exercise price \$	Opening balance	Number granted	Number exercised	Number lapsed / cancelled	Closing balance
(2.2)	17 Dec 2004	15 Oct 2007	1.7000	61,000	–	–	(61,000)	–
(2.3)	17 Dec 2004	15 Oct 2008	1.7000	127,400	–	–	(31,400)	96,000
(2.4)	17 Dec 2004	15 Oct 2009	1.7000	152,800	–	–	(31,400)	121,400
(2.5)	17 Dec 2004	13 Jan 2011	1.7000	152,800	–	–	(31,400)	121,400
(2.7)	29 Apr 2005	15 Oct 2007	1.7000	140,400	–	–	(140,400)	–
(2.8)	29 Apr 2005	15 Oct 2008	1.7000	140,400	–	–	–	140,400
(2.9)	29 Apr 2005	15 Oct 2009	1.7000	140,400	–	–	–	140,400
(2.10)	29 Apr 2005	10 Jan 2011	1.7000	140,400	–	–	–	140,400
(3.1)	14 Oct 2005	14 Oct 2007	2.3600	516,989	–	–	(516,989)	–
(3.2)	14 Oct 2005	14 Oct 2008	2.3600	732,500	–	–	(137,560)	594,940
(3.3)	14 Oct 2005	14 Oct 2009	2.3600	767,160	–	–	(137,560)	629,600
(3.4)	14 Oct 2005	14 Oct 2010	2.3600	767,160	–	–	(137,560)	629,600
(3.5)	14 Oct 2005	12 Jan 2012	2.3600	767,160	–	–	(134,560)	632,600
(4.1)	14 Nov 2006	16 Oct 2008	2.8700	153,600	–	–	(16,000)	137,600
(4.2)	14 Nov 2006	16 Oct 2009	2.8700	153,600	–	–	(16,000)	137,600
(4.3)	14 Nov 2006	16 Oct 2010	2.8700	153,600	–	–	(16,000)	137,600
(4.4)	14 Nov 2006	16 Oct 2011	2.8700	153,600	–	–	(16,000)	137,600
(4.5)	14 Nov 2006	16 Jan 2013	2.8700	153,600	–	–	(16,000)	137,600
(5.1)	13 Dec 2007	31 Oct 2008	1.7100	207,496	–	–	(207,496)	–
(5.2)	13 Dec 2007	31 Oct 2009	1.7100	207,496	–	–	(207,496)	–
(5.3)	13 Dec 2007	31 Oct 2010	1.7100	207,496	–	–	(207,496)	–
(5.4)	13 Dec 2007	31 Oct 2011	1.7100	207,496	–	–	(207,496)	–
(5.5)	13 Dec 2007	31 Oct 2012	1.7100	207,496	–	–	(207,496)	–
				6,412,049	–	–	(2,477,309)	3,934,740

The number of vested options as at 30 September 2008 is 968,940 (2007: 718,389).

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

5. Employee option plan

The Company has an Employee Share Option Plan in place to encourage and reward executives (including executive directors) and other employees as part of its annual performance management program. The plan was established in accordance with the Listing Rules of the Australian Stock Exchange. Options may be issued to executives and employees in accordance with prevailing remuneration policies. Options issued to employees are valued as at grant date which is generally mid October following the end of each financial year. The value of the options issued forms part of the total employee performance incentive payments made during the year. The option exercise prices are generally determined by adding a premium to the prevailing market price as at the grant date.

The options currently on issue vest equally over the five years following the grant date and lapse within one year after each vesting date. Unless the Board determines otherwise, unvested options at the time of ceasing employment will lapse immediately. The options issued have limited rights of transfer and carry no right to dividends or voting.

The maximum aggregate number of options which may be issued by the Company is equal to 15 percent of the total number of ordinary shares on issue or such other number of options approved from time to time by the shareholders of the Company. The issue of options to Executive Directors requires shareholder approval.

No options were granted in relation to the financial year (fair value of options granted and subsequently cancelled in relation to 2007: \$312,000). Options are valued at grant date using the binomial model for valuing a call option on a dividend paying stock. The option values are adjusted in accordance with management's best estimates of exercise restrictions including the probability of meeting vesting conditions.

The key underlying assumptions for the options on issue are set out below:

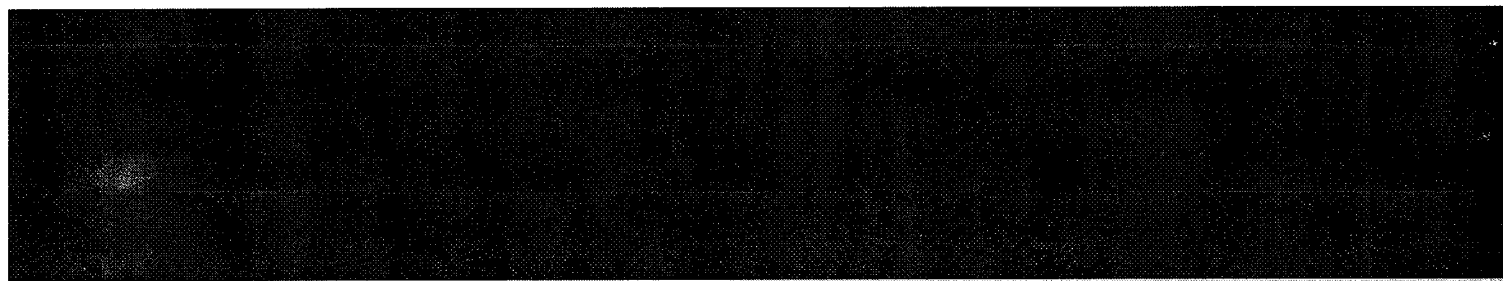
Options series	Series 1	Series 2	Series 3	Series 4	Series 5
Issue date	15 Jan 2002	17 Dec 2004 24 Apr 2005	14 Oct 2005	14 Nov 2006	13 Dec 2007 (now cancelled)
Grant date share price	0.66	1.56	2.20	2.69*	1.60*
Exercise price	0.66	1.70	2.36	2.87	1.71
Expected volatility	69.24%	30.00%	30.00%	30.00%	35.00%
Dividend yield	5.26%	3.00%	3.00%	3.00%	4.50%
Risk-free interest rate	5.16%	5.87%	5.65%	6.35%	6.00%

* Based on volume weighted share trading price 20 days preceding 31 October

A detailed reconciliation of the movements in the executive and employee share option register for the current financial year is set out in the tables below.

Summary of executive and employee share options

	2008	2007
	No.	No.
Opening balance	6,412,049	6,955,600
Granted in relation to the financial year (i)	–	1,037,480
Exercised during the financial year (ii)	–	(1,309,031)
Lapsed or cancelled during the financial year (i)	(2,477,309)	(272,000)
Closing balance (i)	3,934,740	6,412,049



	Opening balance	Charged to Income	Charged to Equity	Company Closing balance
	\$'000	\$'000	\$'000	\$'000
2008				
Inventories	–	(163)	–	(163)
Accrued expenses	311	5	–	316
Provisions – employee benefits	542	–	–	542
Shares in listed entities	300	503	(19)	784
Investments	(934)	(938)	–	(1,872)
Property, plant & equipment	(47)	(245)	–	(292)
Agricultural assets	(1,227)	(774)	–	(2,001)
Other	(188)	158	–	(30)
Net deferred tax balances	(1,243)	(1,454)	(19)	(2,716)
2007				
Accrued expenses	3,013	(2,702)	–	311
Provisions – employee benefits	446	96	–	542
Inventories	(512)	512	–	–
Shares in listed entities	(194)	300	194	300
Investments	(455)	(479)	–	(934)
Property, plant & equipment	(409)	362	–	(47)
Agricultural assets	(1,251)	24	–	(1,227)
Other	(195)	7	–	(188)
Net deferred tax balances	443	(1,880)	194	(1,243)

Tax consolidation system

Relevance of tax consolidation to the consolidated entity

The Company and its wholly owned Australian resident entities formed a tax-consolidated group with effect from 21 October 2002 and are therefore taxed as a single entity from that date. The head entity within the tax consolidation group is Timbercorp Limited. The members of the tax-consolidated group are identified at Note 30.

Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Timbercorp Limited and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

Tax sharing agreements entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this default agreement as payment of any amount under the tax sharing agreement is considered remote.

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

4. Income tax *Continued*

(d) Deferred tax balances

Deferred tax assets (liabilities) arise from the following:

	Opening balance	Charged to income	Charged to equity	Consolidated Closing balance
	\$'000	\$'000	\$'000	\$'000
2008				
Allowance for doubtful debts	3,126	2,128	-	5,254
Investments accounted for under the equity method	59	(452)	-	(393)
Accrued expenses and other payables	3,356	(180)	-	3,176
Provisions – employee entitlements	591	(1)	-	590
Provisions – onerous contracts	825	4,095	-	4,920
Receipts in advance	3,798	94	-	3,892
Deferred management fees	(12,624)	(10,903)	-	(23,527)
Inventories	(125)	(85)	-	(210)
Shares in listed entities	1,138	503	4,450	6,091
Property, plant & equipment	(5,778)	(422)	-	(6,200)
Agricultural assets	(10,683)	(539)	-	(11,222)
Investment property	(20,065)	4,320	-	(15,745)
Other	(1,138)	(1,224)	1,965	(397)
Net deferred tax balances	(37,520)	(2,666)	6,415	(33,771)

	Opening balance	Charged to income	Charged to equity	Consolidated Closing balance
	\$'000	\$'000	\$'000	\$'000
2007				
Allowance for doubtful debts	1,826	1,300	-	3,126
Investments accounted for under the equity method	1,471	(1,412)	-	59
Accrued expenses and other payables	6,649	(3,293)	-	3,356
Provisions – employee entitlements	484	107	-	591
Provisions – onerous contracts	-	825	-	825
Receipts in advance	3,610	188	-	3,798
Deferred management fees	(6,975)	(5,649)	-	(12,624)
Inventories	(728)	603	-	(125)
Shares in listed entities	(4,810)	300	5,648	1,138
Property, plant & equipment	(6,632)	854	-	(5,778)
Agricultural assets	(7,150)	(3,533)	-	(10,683)
Investment property	(18,521)	(1,544)	-	(20,065)
Other	(235)	287	(1,190)	(1,138)
Net deferred tax balances	(31,011)	(10,967)	4,458	(37,520)

4. Income tax

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000

(a) Income tax recognised in profit or loss

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

Profit from continuing operations	59,778	92,264	5,241	20,104
Income tax expense calculated at 30%	17,933	27,679	1,572	6,032
Non-deductible expenses and non-assessable items	2,308	423	1,839	1,810
Non-assessable and non-deductible amounts related to transactions within the tax consolidated group	-	-	(17,158)	(20,097)
Rebateable dividends	(676)	(834)	(68)	(65)
	19,565	27,268	(13,815)	(12,320)
Over provision of income tax in previous year	(1,426)	(1,396)	(1,616)	(700)
Total tax expense / (income)	18,139	25,872	(15,431)	(13,020)
Tax expense / (income) comprises:				
Current tax expense / (income)	16,899	16,301	(15,269)	(14,200)
Deferred tax expense / (income) relating to the origination and reversal of temporary differences	2,666	10,967	1,454	1,880
Over provision of income tax in previous year	(1,426)	(1,396)	(1,616)	(700)
Total tax expense / (income)	18,139	25,872	(15,431)	(13,020)

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

(b) Income tax recognised directly in equity

The following current and deferred amounts were charged directly to equity during the period:

Deferred tax:				
Revaluation of shares in listed entities	(4,449)	(5,648)	19	(194)
Fair value of cash flow hedging (interest rate)	(1,966)	1,190	-	-
	(6,415)	(4,458)	19	(194)

(c) Current tax payable / (refund receivable)

Income tax payable / (refund receivable) attributable:

Parent entity	(19,856)	(33,562)	(19,856)	(33,562)
Entities in the tax-consolidated group	27,410	26,118	27,410	26,118
Timbercorp Limited tax consolidated group	7,554	(7,444)	7,554	(7,444)
Other entities	4,226	80	-	-
	11,780	(7,364)	7,554	(7,444)

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

3. Profit for the year *Continued*

(a) Revenue *Continued*

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Dividends and distributions:				
Wholly-owned controlled entities	-	-	57,194	66,991
Other entities	2,027	2,568	3,987	3,977
Corporate recoveries:				
Wholly-owned controlled entities	-	-	18,593	20,139
Other revenue	13,424	12,268	9,970	9,078
	494,435	453,661	100,889	119,664

(b) Profit before income tax

Profit for the year includes the following expenses:

Cost of sales - asset development activities (which form part of industrial revenue)	5,096	23,869	-	-
Borrowing and financing charges:				
Interest on loans:				
Wholly-owned controlled entities	-	-	-	13,661
Other entities	78,020	55,023	43,987	30,465
Lease finance charges	1,036	830	1,036	830
Dividends on instruments classified as financial liabilities	-	5,208	-	5,208
Other finance charges	2,899	2,526	2,037	1,774
	81,955	63,587	47,060	51,938
Net bad and doubtful debts arising from loans and receivables	7,982	4,359	248	-
Impairment of shares in listed entities	2,147	1,000	1,435	1,000
Direct operating expenses of investment properties	955	904	-	-
Depreciation and amortisation of non-current assets:				
Plant and equipment	10,590	7,147	2,194	1,696
Leased assets	3,328	2,876	3,310	2,895
Intangibles	1,626	568	1,625	568
	15,544	10,591	7,129	5,159
Operating lease rental expenses	51,980	47,292	47,535	43,658
Employee related expenses:				
Post employment benefits:				
Defined contribution plans	1,466	2,357	836	1,423
Share-based payments	593	789	593	789
Other employee related expenses	22,478	23,954	17,477	18,457
	24,537	27,100	18,906	20,669

(c) Sale of assets

Sales of assets have given rise to the following profits and losses:

Gain / (loss) on disposal of non-current assets	1,151	(452)	35	(510)
Cash received on sale of non-current assets	13,989	14,690	5,998	244
Carrying value of non-current assets sold	(12,838)	(15,142)	(5,963)	(754)
	1,151	(452)	35	(510)

(e) Segment assets and liabilities

	Assets		Liabilities		Net Assets/ (liabilities)	
	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Horticulture	629,776	652,051	(23,701)	(41,313)	606,075	610,738
Forestry	315,248	315,019	(33,837)	(34,113)	281,411	280,906
Finance	482,426	406,721	(41,673)	(40,754)	440,753	365,967
Asset development	9,481	7,017	(2,326)	–	7,155	7,017
Total of all segments	1,436,931	1,380,808	(101,537)	(116,180)	1,335,394	1,264,628
Unallocated	292,477	218,524	(1,032,278)	(963,368)	(739,801)	(744,844)
Consolidated	1,729,408	1,599,332	(1,133,815)	(1,079,548)	595,593	519,784

	Horticulture		Forestry		Asset development	
	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying value of investments accounted for using the equity method (Note 12)	97,969	102,605	8,481	9,749	–	–
Share of net profit / (loss) of associates and jointly controlled entities accounted for under the equity method (Note 12)	(2,673)	9,745	–	23	–	–
Onerous contract provision	16,400	5,599	–	–	–	–
Acquisition of segment assets	66,049	200,411	13,826	20,429	6,055	–
Depreciation and amortisation of segments assets	10,008	6,296	3,091	1,742	–	–

3. Profit for the year

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000

(a) Revenue

Revenue consisted of:

Sales and services revenue:

New business	119,780	143,029	–	–
Management fees and licence fees	262,334	194,085	–	–
Rent from investment properties	12,243	12,076	–	–
Industrial and other revenue	41,141	56,698	–	–
Total sales and services revenue	435,498	405,888	–	–

Interest revenue:

Wholly-owned controlled entities	–	–	8,602	15,188
Partly-owned controlled entities	–	–	–	51
Other entities	43,486	32,937	2,543	4,240

Dividends and distributions:

Wholly-owned controlled entities	–	–	57,194	66,991
Other entities	2,027	2,568	3,987	3,977

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

2. Segment information *Continued*

(b) Classes of segment revenues

New business revenue	New business revenue refers to project sales and is recognised in proportion to the work performed in relation to the product development, marketing and distribution functions and the various stages of establishing agribusiness plantations, groves, orchards and vineyards.
Annuity style revenue	Annuity style revenue refers to medium to long term contracted income from the consolidated entity's existing projects. In the case of forestry projects, this refers to rent and management fees generally received over a 10 year project term, and in the case of horticulture projects, this refers to licence fees, rental income and management fees received over a 15 – 23 year project term. It also includes interest income in respect of loans provided to project grower investors for durations of 3 to 19 years, as well as income from temporary sales of water rights and where applicable, recurring earnings derived from agricultural based investments.
Industrial revenue	Industrial income refers to the harvesting and crop processing activities within each of the agribusiness product groups. It also includes income from development of orchards and vineyards on behalf of third parties.

(c) Segment revenues

	New business		Annuity style		Industrial		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Horticulture	69,062	102,312	242,766	177,764	2,243	1,549	314,071	281,625
Forestry	50,718	40,717	35,264	34,472	32,150	31,064	118,132	106,253
Finance	–	–	41,695	29,370	–	–	41,695	29,370
Asset development	–	–	1,791	1,830	6,748	24,085	8,539	25,915
Total of all segments	119,780	143,029	321,516	243,436	41,141	56,698	482,437	443,163
Unallocated							11,998	10,498
Total consolidated revenue							494,435	453,661

(d) Segment results

	New business		Annuity style		Industrial		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Horticulture	46,038	61,166	41,213	41,895	114	(810)	87,365	102,251
Forestry	22,643	17,528	1,679	2,533	3,824	4,640	28,146	24,701
Finance	–	–	28,847	21,605	–	–	28,847	21,605
Asset development	–	–	896	915	(38)	216	858	1,131
Total of all segments	68,681	78,694	72,635	66,948	3,900	4,046	145,216	149,688
Agricultural assets - fair value movement							579	5,168
Investment property - fair value movement							–	5,116
Gain / (loss) on disposal of non-current assets							1,151	(452)
Unallocated							(5,213)	(3,669)
EBIT (i)							141,733	155,851
Borrowing and finance charges							(81,955)	(63,587)
Profit before tax							59,778	92,264
Income tax expense							(18,139)	(25,872)
Profit for the year							41,639	66,392

(i) Earnings before interest expense and income tax expense

(x) Critical accounting judgements and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors.

The consolidated entity makes estimates and assumptions concerning the future. The resulting accounting estimates may, by definition, not equal the actual results. The estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are included in this note.

The following are the critical judgements, estimations and assumptions that management has made in the process of applying the Group's accounting policies:

Agricultural assets

Horticultural and forestry assets are classified as agricultural assets and valued in accordance with AASB 141 'Agriculture'. The consolidated entity's accounting policy in relation to agricultural assets is detailed in Note 1(m). The significant assumptions made in determining the fair value of agricultural assets are disclosed in Note 14. Management reviews these assumptions to ensure they are appropriate at each reporting date.

Investment property

Investment properties are valued in accordance with AASB 140 'Investment Property'. The consolidated entity's accounting policy in relation to investment properties is detailed in Note 1(n). The significant assumptions made in determining the fair value of investment property are disclosed in Note 15. Management reviews these assumptions to ensure they are appropriate at each reporting date.

Non-current assets held for sale

Non-current assets held for sale are measured at the lower of carrying amount and fair value less costs of sale. The consolidated entity's accounting policy in relation to non-current assets held for sale is detailed in Note 1(k). Management reviews the fair value calculations and carrying amount to ensure the assets are value appropriate at each reporting date.

Onerous contract provision

Onerous contract provision is valued in accordance with AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'. The consolidated entity accounting policy in relation to onerous contract provision is detailed in Note 1(t). The significant assumptions made in determining the fair value of onerous contract provisions are disclosed in Note 21. Management reviews these assumptions to ensure they are appropriate at each reporting date.

Employee entitlements

Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at balance date:

- Future increases in wages and salaries;
- Future on cost rates; and
- Experience of employee departures and period of service.

2. Segment information

(a) Business segments

The consolidated entity has the following business segments – Horticulture, Forestry, Finance and Asset Development. The principal activities and services of each segment are set out below:

Horticulture:	Orchard / Vineyard establishment including securing access to land, water rights, and other infrastructure
	Orchard / Vineyard management and collection of licence fees and rental income
	Industrial operations, as applicable, including crop processing
	Timbercorp Horticulture products currently include Almonds, Olives, Citrus, Table Grapes, Mangoes and Avocados
Forestry:	Recurring earnings derived from agricultural based investments
	Land acquisition and management
	Tree-farm establishment, maintenance and collection of rental income
	Harvesting and other forestry related industrial operations
Finance:	Provision of loan finance to new and existing project grower investors
Asset development:	Development and management of orchards and vineyards under contract to third parties
	Acquisition of water rights and other infrastructure which are held to offer for sale to third parties

All business segments operate in Australia.

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

1. Summary of accounting policies *Continued*

(v) Derivative financial instruments

The Group may enter into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange movements including forward foreign exchange contracts, interest rate contracts, swaps and options.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to obtain their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition of profit or loss depends on the nature of the hedge relationship. The consolidated entity designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges) or hedges of highly probable forecast transactions (cash flow hedges).

The fair value of a hedging derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the profit or loss.

(w) Standards and Interpretations issued not yet effective

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue but not yet effective.

Initial application of the following Standard will not affect any of the amounts recognised in the financial report, but will change the disclosure presently made in relation to the Group and the Company's financial report:

AASB 101	Presentation of Financial Statements (revised September 2007)	Effective for annual reporting periods beginning on or after 1 January 2009
Initial application of the following Standards and Interpretations is not expected to have any material impact on the financial report of the Group and the Company:		
AASB 2008-10	Amendments to Australian Accounting Standards – Reclassification of Financial Assets	Effective for annual reporting periods beginning on or after 1 July 2008
AASB Interpretation 12	Service Concession Arrangements	Effective for annual reporting periods beginning on or after 1 January 2008
AASB Interpretation 13	Customer Loyalty Programmes	Effective for annual reporting periods beginning on or after 1 January 2008
AASB Interpretation 14	AASB 119 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Effective for annual reporting periods beginning on or after 1 January 2008
AASB 123	Borrowing Cost (revised)	Effective for annual reporting periods beginning on or after 1 January 2009
AASB 2008-2	Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation	Effective for annual reporting periods beginning on or after 1 January 2009
AASB 8	Operating segments	Effective for annual reporting periods beginning on or after 1 January 2009

The potential effect of the initial application of the expected issue of an Australian equivalent accounting standard to the following Standards has not yet been determined:

IFRS 3	Business Combinations	Effective for annual reporting periods beginning on or after 1 July 2009
IAS 27	Separate and Consolidated Financial Statements	Effective for annual reporting periods beginning on or after 1 July 2009

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to the reporting date.

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when employees have rendered service entitling them to the contribution.

(t) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. The cash flows include unavoidable costs of meeting the obligation less any related economic benefits expected to be received.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that recovery will be received and the amount of the receivable can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable cost of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Dividends

A provision for dividends is only recognised when dividends have been declared, determined or publicly recommended by the directors.

(u) Financial instruments issued by the Group

Debt and equity instruments

Debt and equity instruments are classified either as liabilities or as equity (net of transaction costs) in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Compound financial instruments

The component parts of compound financial instruments are classified separately as liabilities and equity in accordance with the substance of the contractual arrangement.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible debt. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or upon the instruments reaching maturity. The equity component initially brought to account is determined by deducting the amount of the liability component from the amount of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects and is not subsequently remeasured.

Transaction costs incurred on the issue of financial instruments

Transaction costs are the costs that are incurred directly in connection with the issue of those instruments and which would not have been incurred had those instruments not been issued.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 34.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

1. Summary of accounting policies *Continued*

(o) Intangible assets

Water rights

Water rights which are included in intangibles provide the owner an annual allocation of irrigation water for as long as the rights are held. Water rights are not depreciated as they do not have a finite life and are recorded at cost less any impairment. Water rights are assigned to land and are integral to the operation of the associated irrigation systems and the productivity of the trees.

In prior periods water rights were classified as property, plant and equipment. After internal review and consultation with ASIC, the Group changed the classification of permanent water rights from property, plant and equipment to intangibles. The closing balance of permanent water rights at 30 September 2007 of \$95.809 million has been reclassified to intangibles. The reclassification did not have any impact on total assets or profit.

Other intangibles

Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

(p) Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable net assets acquired, is recognised as an asset and not amortised. Goodwill is allocated to the forestry and horticulture segments for the purpose of determining recoverable amount and it is tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in profit or loss and is not subsequently reversed. Refer also Note 1(r).

(q) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Finance lease assets are amortised on a straight-line basis over the estimated useful life of the asset.

Finance lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period.

Operating lease payments are recognised as an expense on a straight line basis over the lease term.

(r) Impairment of long lived assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that that asset may be impaired. An impairment of goodwill is not subsequently reversed. Recoverable amount is the higher of fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately unless the relevant asset is carried at fair value, in which case the reversal of impairment loss is treated as a revaluation increase.

(s) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefit expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on an identified cost basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

The Group's asset development activities involve the development and management of orchards and vineyards under contract to third parties. It also involves the acquisition of water rights and other infrastructure which are held to offer for sale to third parties.

(k) Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs of sale. Assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. The sale of the asset (or disposal group) is expected to be completed within one year from the date of classification.

(l) Property, plant and equipment

Freehold land, plant and equipment and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is provided on property, plant and equipment, excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any charges recognised on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

The following estimated useful lives are used in the calculation of depreciation:

- Plant and equipment 5 – 22 years
- Equipment under finance lease 3 – 22 years

(m) Agricultural assets

The Group follows the Accounting Standard AASB 141 'Agriculture', which requires the measurement of biological assets (from hereon referred to as agricultural assets) at fair value. Agricultural assets include eucalypt and horticulture trees owned by the consolidated entity. Once the tree is established, it is valued at fair value less estimated point of sale costs.

The fair value has been derived using the expected net present value of cash flows that will be generated by the agricultural assets discounted at a current market-determined rate which reflects the risks associated with the various cash flow streams. Costs relating to the maintenance of agricultural assets are expensed as incurred.

(n) Investment property

Investment property, which is property held to earn rentals and / or for capital appreciation, is measured at its fair value at the reporting date.

Forestry plantation land is classified as investment property and carried at fair value as it is held primarily for capital appreciation and rental yields from long term leases (generally 10 to 19 years) with Timbercorp eucalypt and Timberlot project investors.

Investment property does not include horticultural property held primarily for further agricultural development, management and crop sharing activities, nor does it include forestry plantation land interests held under operating lease.

The fair value of investment property subject to long term lease arrangements with project investors is derived from discounting expected future cash flows using discount rates that reflect current assessments of the timing and uncertainty of those cash flows. The discounted cash flow model takes into account:

- expected net lease rental cash flow collections (CPI indexed) from project investors over the remaining term of the lease, and
- expected Terminal Value at the end of the lease, which is based on the original cost of the land increased from the year of purchase by an average land value growth rate factor.

The reported fair values are not based on independent valuations, however the discounted cash flow methodology is similar to that used in independent valuations obtained from time to time where the property is held as security for a debt financing facility. Comparisons can also be made against recent sales of land suitable for forestry plantation activities.

The reported fair values are subject to changes in assessments of market conditions over time.

The gains or losses arising from a change in the fair value of investment property are recognised directly in the income statement for each reporting period.

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

1. Summary of accounting policies *Continued*

(g) Income tax *Continued*

Tax consolidation

The Company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Timbercorp Limited is the head entity in the tax-consolidated group. Tax expense / income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using a 'group allocation' approach based on the allocation specified in the tax funding agreement.

The tax funding arrangement requires a notional current and deferred tax calculation for each entity as if it were a taxpayer in its own right, except that unrealised profits distributions made and received and capital gains and losses and similar items arising on transactions within the tax-consolidated group are treated as having no tax consequence. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity of the tax consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax consolidated group, amounts are recognised as payable to or receivable by the head entity and each member of the tax-consolidated group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax consolidated group in accordance with the arrangement. Where the tax contribution amount recognised by each member of the tax consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

(h) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of acquisition. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(i) Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and at cost in the parent entity's financial statements. Further information regarding equity accounted investments is detailed in note 1(c).

Investments in subsidiaries held by the parent entity are recorded at cost.

Other financial assets are classified into the following specified categories: 'available for sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest rate basis for debt instruments other than those financial assets at fair value through profit and loss.

Available-for-sale financial assets

Certain shares held by the Group are classified as being available for sale and are stated at fair value. Fair value is determined in the manner described in Note 34. Movements arising from changes in fair value are recognised directly in the asset revaluation reserve, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the asset revaluation reserve is included in profit or loss for the period.

Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost using the effective interest method less impairment.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

The carrying amount of financial assets including uncollectible trade receivables and project loans is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit and loss.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an



The net amount of GST recoverable from, or payable to the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from or payable to the taxation authority is classified as operating cash flows.

(e) Revenue

Revenue is measured at the fair value of consideration received or receivable.

Project revenue

New business revenue is recognised in proportion to the work performed in relation to the product development, marketing and distribution functions and the various stages of establishing agribusiness plantations, groves and orchards.

Rent, management, licence fee and crop-share related income is recognised on an accrual basis in accordance with the substance of the relevant contract.

Dividend and interest revenue

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

Rendering of services (including asset management)

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

(f) Share based payments

Equity settled share based payments with employees and others providing similar services are measured at fair value of the equity instrument at the grant date. The fair value of employee options is measured by the use of a binomial model. The expected life used in the model has been adjusted, based on external advice and management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The fair value determined at the grant date of the equity settled share based payments is expensed on a straight line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

For cash settled share based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

(g) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the tax position for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the carrying amount of assets and liabilities in the balance sheet and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination), which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, associates, and joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) where the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

NOTES TO THE FINANCIAL STATEMENTS *Continued*

for the financial year ended 30 September 2008

1. Summary of accounting policies *Continued*

Going concern basis *Continued*

If the sale of selected assets and the consequent repayment of debt do not proceed as planned there is material uncertainty in relation to the Group continuing as a going concern. In this event, other options available to the Group include renegotiating arrangements with its financiers or pursuing alternative funding options whether by way of debt and/or equity.

No adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the classification of liabilities that might be necessary should the Group not continue as a going concern and therefore not realise its assets and extinguish its liabilities in the normal course of business and at amounts stated in the financial statements.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Basis of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company (the parent entity) and entities (including special purpose entities) controlled by the Company (its subsidiaries) (referred to as the 'Group' in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. A list of subsidiaries appears in Note 30 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceed the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interest of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

The consolidated financial statements include the results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions and unrealised profits arising within the consolidated entity are eliminated in full.

(b) Joint venture arrangements

Joint controlled assets

Interests in jointly controlled assets in which the Group is a venturer and has joint control are included in the financial statements by recognising the Group's share of jointly controlled assets, the share of liabilities incurred and the Group's share of expenses incurred by or in respect of each joint venture. The Group also recognises income from the sale or use of output from the joint venture in accordance with the revenue policy in Note 1(e).

Jointly controlled operations

Where the Group is a venturer and so has joint control in a jointly controlled operation, the Group recognises the asset that it controls and the liabilities that it incurs, along with the expenses that it incurs and the Group's share of the income that it earns from the sale of goods or services by the joint venture.

Jointly controlled entities

Interests in jointly controlled entities in which the Group is a venturer are accounted for under the equity method in the consolidated financial statements and the cost method in the Company financial statements.

(c) Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

(d) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

1. Summary of accounting policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial report includes the separate financial statements of the Company and the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ('IFRS').

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes set out below. The Group has also adopted the following Standards as listed below which only impacted on the Group's financial statements with respect to disclosure:

- AASB 101 'Presentation of Financial Statements (revised October 2006)'
- AASB 7 'Financial Instruments: Disclosures'

The financial statements were authorised for issue by the directors on 24 December 2008.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in Australian Securities and Investments Commission (ASIC Class Order 98/0100 dated 10 July 1998) and, in accordance with that Class Order, amounts in the financial report are rounded off to the nearest thousand dollars unless otherwise indicated.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual result may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Refer to section (x) of this note for a discussion of critical judgements in applying the Group's accounting policies, and key sources of estimation uncertainty.

Change in accounting policy – classification of permanent water rights

After an internal review, including consultation with ASIC, the Group changed the classification of permanent water rights from property, plant and equipment to intangibles. The closing balance of permanent water rights at 30 September 2007 of \$95.809 million has been reclassified to intangibles. The reclassification did not have any impact on total non-current assets or profit.

Going concern basis

The financial report has been prepared on the basis that the Company and the Consolidated entity of Timbercorp Limited (collectively defined as the "Group") is a going concern, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Group has reported earnings before interest and tax of \$141.733 million for the financial year ended 30 September 2008 which, in the absence of waivers, would have resulted in a breach of certain bank covenants at balance date. The Group has, subsequent to year end restructured its borrowing arrangements so as to obtain waivers for the covenants at 30 September 2008 and to vary future covenants and terms. The new terms reflect a wider strategic review being undertaken and include an undertaking by the Group to sell selected assets and apply a portion of the proceeds to reduce debt. The terms agreed require principal repayments in line with the asset sale program.

The Directors believe the going concern basis of preparation to be appropriate after consideration of the following factors:

- The Group has appointed an investment bank to undertake a tender process to sell and leaseback forestry land and selected horticultural assets. The assets to be sold have already attracted interest from a number of prospective buyers. The proceeds of sale will be applied to substantially reduce outstanding debt in accordance with the debt reduction schedule agreed to by the Group's financiers;
- The cash flow forecasts which indicate that the Group is able to pay its debts as and when they fall due on the basis of the asset sale and debt reduction program in place;
- In the event that the asset sales do not proceed as planned, or only proceed in part, management are confident of the continued support of its financiers subject to agreeing alternative plans acceptable to its financiers; and
- In addition to the asset sale and debt reduction program, the Group, as part of the wider strategic review is, with the assistance of external advisers, also considering alternative debt and equity proposals.

Having assessed the uncertainties relating to the matters noted above, the directors believe that the Group will continue as a going concern.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 September 2008

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CASH FLOW STATEMENT

for the financial year ended 30 September 2008

		Consolidated		Company	
	Note	2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
Cash flows from operating activities					
Receipts from customers		356,959	334,970	40,509	21,764
Payments to suppliers and employees		(356,133)	(328,142)	(46,329)	(47,603)
Dividends / distributions received		6,551	6,543	61,181	70,968
Interest received		41,429	32,937	11,145	19,479
Interest and other borrowing costs paid		(82,251)	(55,017)	(45,126)	(44,074)
Income tax (paid) / refunded		3,670	(36,016)	30,593	19,896
Net cash (used in) / provided by operating activities	33(d)	(29,775)	(44,725)	51,973	40,430
Cash flows from investing activities					
Proceeds/(payments) for other financial assets		534	(1,920)	148	(1,500)
Payments for investments in listed securities		(348)	–	(348)	–
Payments for investments in associates and joint ventures		–	(58,152)	–	(50,498)
Payments for property, plant and equipment		(47,329)	(152,761)	(2,832)	(6,797)
Payments for agricultural assets		(12,604)	(40,978)	(4,009)	(2,645)
Payments for investment property		(6,366)	(19,467)	–	–
Payments for intangibles – permanent water rights		(45,902)	–	–	–
Payments for intangibles – software acquisition and development		(2,233)	(2,841)	(2,233)	(2,841)
Proceeds from sale of non-current assets	3(c)	13,989	14,690	5,998	244
Amounts advanced to related parties		–	–	(63,888)	(250,790)
Net cash used in investing activities		(100,259)	(261,429)	(67,164)	(314,827)
Cash flows from financing activities					
Proceeds from issues of shares under option plans		–	1,641	–	1,641
Proceeds from share placement		59,816	20,000	59,816	20,000
Payments of share issue costs		(1,186)	(615)	(1,186)	(615)
Proceeds from borrowings		143,968	258,734	15,759	172,581
Repayments of borrowings		(74,967)	(61,955)	(63,181)	(5,611)
Dividends paid		(10,085)	(15,381)	(10,085)	(15,381)
Net cash provided by financing activities		117,546	202,424	1,123	172,615
Net increase / (decrease) in cash and cash equivalents		(12,488)	(103,730)	(14,068)	(101,782)
Cash and cash equivalents at the beginning of the financial year		45,123	148,853	42,228	144,010
Cash and cash equivalents at the end of the financial year	33(a)	32,635	45,123	28,160	42,228

Notes to the financial statements are included on pages 50 to 105.

STATEMENT OF CHANGES IN EQUITY *Continued*

for the financial year ended 30 September 2008

		Issued capital	Reserves	Retained earnings	Company Total equity
	Note	\$'000	\$'000	\$'000	\$'000
Balance at 1 October 2007		167,677	1,312	41,475	210,464
Revaluation of shares in listed entities	24	–	44	–	44
Interest rate swap - fair value movement	24	–	–	–	–
Net income recognised directly in equity		–	44	–	44
Profit for the period	25	–	–	20,672	20,672
Total recognised income and expense		–	44	20,672	20,716
Proceeds from share placement	23	56,425	–	–	56,425
Shares issued under share purchase plan	23	3,391	–	–	3,391
Payment of dividends (net of reinvestment)	23,25,27	7,444	–	(17,529)	(10,085)
Employee option lapsed	24,25	–	(697)	697	–
Recognition of share based payments	24	–	593	–	593
Share issue costs	23	(1,186)	–	–	(1,186)
		66,074	(60)	3,840	69,854
Balance at 30 September 2008		233,751	1,252	45,315	280,318
Balance at 1 October 2006		124,337	1,441	32,790	158,568
Revaluation of shares in listed entities	24	–	(453)	–	(453)
Net income recognised directly in equity		–	(453)	–	(453)
Profit for the period	25	–	–	33,124	33,124
Total recognised income and expense		–	(453)	33,124	32,671
Proceeds from share placement	23	20,000	–	–	20,000
Payment of dividends (net of reinvestment)	23,24,27	9,058	–	(24,439)	(15,381)
Conversion of compound financial instruments to equity	23	12,791	–	–	12,791
Shares issued under option plans	23,24	2,106	(465)	–	1,641
Recognition of share based payments	23,24	–	789	–	789
Share issue costs	23	(615)	–	–	(615)
		43,340	(129)	8,685	51,896
Balance at 30 September 2007		167,677	1,312	41,475	210,464

Notes to the financial statements are included on pages 50 to 105.

STATEMENT OF CHANGES IN EQUITY

for the financial year ended 30 September 2008

				Consolidated		
		Issued capital	Reserves	Retained earnings	Minority interests	Total equity
	Note	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 October 2007		167,677	27,269	309,278	15,560	519,784
Revaluation of shares in listed entities	24	–	(10,382)	–	–	(10,382)
Interest rate swap - fair value movement	24	–	(4,586)	–	–	(4,586)
Net income recognised directly in equity		–	(14,968)	–	–	(14,968)
Profit for the period	25,31	–	–	44,607	(2,968)	41,639
Total recognised income and expense		–	(14,968)	44,607	(2,968)	26,671
Proceeds from share placement	23	56,425	–	–	–	56,425
Shares issued under share purchase plan	23	3,391	–	–	–	3,391
Payment of dividends (net of reinvestment)	23,25,27	7,444	–	(17,529)	–	(10,085)
Employee option lapsed	24,25	–	(697)	697	–	–
Recognition of share based payments	24	–	593	–	–	593
Share issue costs	23	(1,186)	–	–	–	(1,186)
		66,074	(15,072)	27,775	(2,968)	75,809
Balance at 30 September 2008		233,751	12,197	337,053	12,592	595,593
Balance at 1 October 2006		124,337	36,965	268,004	14,881	444,187
Revaluation of shares in listed entities	24	–	(13,179)	–	–	(13,179)
Interest rate swap - fair value movement	24	–	3,159	–	–	3,159
Net income recognised directly in equity		–	(10,020)	–	–	(10,020)
Profit for the period	25,31	–	–	65,713	679	66,392
Total recognised income and expense		–	(10,020)	65,713	679	56,372
Proceeds from share placement		20,000	–	–	–	20,000
Payment of dividends (net of reinvestment)	23	9,058	–	(24,439)	–	(15,381)
Conversion of compound financial instruments to equity	23	12,791	–	–	–	12,791
Shares issued under option plans	23,25,27	2,106	(465)	–	–	1,641
Recognition of share based payments	24	–	789	–	–	789
Share issue costs		(615)	–	–	–	19,385
		43,340	(9,696)	41,274	679	75,597
Balance at 30 September 2007		167,677	27,269	309,278	15,560	519,784

Notes to the financial statements are included on pages 50 to 105.

BALANCE SHEET

as at 30 September 2008

		Consolidated		Company	
	Note	2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
Current assets					
Cash and cash equivalents	33(a)	32,635	45,123	28,160	42,228
Trade and other receivables	7	104,025	95,007	13,570	20,984
Other financial assets	8(a)	93,357	79,626	429,958	366,611
Inventories	9	6,093	12,397	546	1,164
Current tax assets	4(c)	-	7,364	-	7,444
Other	10	18,127	11,993	961	1,293
		254,237	251,510	473,195	439,724
Non-current assets held for sale	11	376,513	89,241	-	-
Total current assets		630,750	340,751	473,195	439,724
Non-current assets					
Investments accounted for using the equity method	12	106,451	112,354	-	-
Other financial assets	8(b)	399,137	366,192	250,595	251,032
Property, plant and equipment	13	305,698	277,388	19,921	22,975
Agricultural assets	14	92,825	87,416	17,877	17,189
Investment property	15	-	276,834	-	-
Intangibles	16	121,098	99,199	2,880	2,273
Other	17	73,449	39,198	581	554
Total non-current assets		1,098,658	1,258,581	291,854	294,023
Total assets		1,729,408	1,599,332	765,049	733,747
Current liabilities					
Trade and other payables	19	72,492	105,470	14,375	16,462
Borrowings-repayable in 12 months	20(a)	205,596	240,605	73,408	97,004
Borrowings-classified as current	20(a)	235,000	-	235,000	-
Current tax payables	4(c)	11,780	-	7,554	-
Provisions	21(a)	8,053	6,751	1,094	1,009
Receipts in advance		23,891	26,044	-	3
		556,812	378,870	331,431	114,478
Liabilities related to assets classified as held for sale	20(a)	127,368	39,500	4,490	-
Total current liabilities		684,180	418,370	335,921	114,478
Non-current liabilities					
Borrowings	20(b)	367,768	583,724	145,381	406,762
Deferred tax liabilities	4(d)	33,771	37,520	2,716	1,243
Other financial liabilities	22	2,585	-	-	-
Provisions	21(b)	10,315	820	713	800
Receipts in advance		35,196	39,114	-	-
Total non-current liabilities		449,635	661,178	148,810	408,805
Total liabilities		1,133,815	1,079,548	484,731	523,283
Net assets		595,593	519,784	280,318	210,464
Equity					
Issued capital	23	233,751	167,677	233,751	167,677
Reserves	24	12,197	27,269	1,252	1,312
Retained earnings	25	337,053	309,278	45,315	41,475
Parent entity interest		583,001	504,224	280,318	210,464
Minority interests	31	12,592	15,560	-	-
Total equity		595,593	519,784	280,318	210,464

Notes to the financial statements are included on pages 50 to 105.

INCOME STATEMENT

for the financial year ended 30 September 2008

	Note	Consolidated		Company	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
Revenue	3(a)	494,435	453,661	100,889	119,664
Agricultural assets - fair value movement	14	579	5,168	2,260	(1,014)
Investment property - fair value movement	15	-	5,116	-	-
Share of profits / (losses) of associates and joint venture entities accounted for using the equity method	12	(2,673)	9,768	-	-
Gain / (loss) on disposal of non-current assets	3(c)	1,151	(452)	35	(510)
Project management and operating costs		(274,618)	(239,152)	(7,809)	(6,093)
Employee related expenses	3(b)	(24,537)	(27,100)	(18,906)	(20,669)
Marketing costs		(21,451)	(21,604)	(4,756)	(3,823)
Corporate and other expenses		(15,609)	(18,963)	(12,283)	(10,354)
Depreciation and amortisation expenses	3(b)	(15,544)	(10,591)	(7,129)	(5,159)
Borrowing and financing charges	3(b)	(81,955)	(63,587)	(47,060)	(51,938)
Profit before income tax expense		59,778	92,264	5,241	20,104
Income tax (expense) / income	4(a)	(18,139)	(25,872)	15,431	13,020
Profit for the year		41,639	66,392	20,672	33,124
Loss / (profit) attributable to minority interests	31	2,968	(679)	-	-
Profit attributable to equity holders of the parent		44,607	65,713	20,672	33,124
Earnings per share					
- Basic (cents per share)	26	13.09	22.75		
- Diluted (cents per share)	26	9.30	21.70		

Notes to the financial statements are included on pages 50 to 105.

DIRECTORS' DECLARATION

The directors declare that:

- a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company and the consolidated entity; and
- c) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



Sol C Rabinowicz

Director

Melbourne, 24 December 2008

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte

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The Board of Directors
Timbercorp Limited
Level 8
461 Bourke Street
MELBOURNE VIC 3000

24 December 2008

Dear Board Members

Timbercorp Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Timbercorp Limited.

As lead audit partner for the audit of the financial statements of Timbercorp Limited for the financial year ended 30 September 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

SPe

S PELUSI
Partner
Chartered Accountants

Member of
Deloitte Touche Tohmatsu

Liability limited by a scheme approved under Professional Standards Legislation.

DIRECTORS' REPORT *Continued*

Remuneration Report

Retiring allowances

No retiring allowances are paid to non-executive directors.

Superannuation

The total fees paid to non executive directors include any applicable statutory guarantee charges.

(ii) Remuneration policy - Executive directors and other key management personnel

The board has a Remuneration Committee which sets Timbercorp Limited's overall remuneration policy for executive directors and other key management personnel (senior executives).

The senior executive remuneration policy is intended to be consistent with the remuneration recommendations and guidelines set down in Principle 7 of the Australian Securities Exchange's 'best practice' corporate governance guidelines. Broadly, the policy is intended to ensure:

- for each role, that the balance between fixed and variable (performance) components is appropriate having regard to both internal and external factors;
- that individual objectives set will result in sustainable beneficial outcomes;
- that all performance remuneration components are appropriately linked to measurable personal, business unit or Timbercorp Limited performance; and
- that total compensation (that is the sum of fixed and variable remuneration) for each executive is fair, reasonable and market competitive.

The Remuneration Committee annually reviews the amount and nature of executive remuneration with due regard to market benchmarking and performance incentive plans as applicable. The Remuneration Committee also from time to time seeks independent external advice in order to complete their annual review of executive remuneration.

Generally, the components of senior executive remuneration provided are as follows:

Fixed annual remuneration

Senior executives are offered market competitive base salaries (including benefits). Fixed annual remuneration is reviewed periodically against market data for comparable positions provided by independent remuneration consultants and selected survey data. Any adjustments are based on promotion or significant role responsibility changes, pay relativities to market and relative performance in the role. Fixed annual remuneration generally represents 55% to 80% of total remuneration.

Performance linked incentives

Performance linked incentives may be paid to executives for reaching or exceeding a range of performance measures set at the beginning of each financial year. Performance incentive payment conditions or measures selected for individual executives are, where possible, aligned with the interests of shareholders. The Remuneration Committee makes recommendations to the board each year in relation to total incentive payments payable to each executive based on a review of company performance targets together with applicable qualitative and quantitative performance targets for each executive.

Typically, for each financial year, performance incentive payments include:

- consideration of Company performance;
 - Diluted earnings per share; and
 - Shareholder returns including Return on Equity and Total Shareholder Return calculations;
- consideration of specific divisional financial targets and goals; and
- a discretionary component for each senior executive.

Within the total incentive pool, individual amounts are generally determined by a mix of financial measures as well as individual and divisional performance. In isolated cases, one off adjustments may be applied to reflect specific market conditions or changes in job roles and responsibilities. In 2008, in view of the challenging environment a higher weighting was applied to the discretionary component of performance incentive payments.

In August and September of each year, performance reviews are completed for all employees including executives. This process, together with consideration of company performance as a whole, is used to determine whether executive performance conditions have been met.

The terms of the existing Employee Option Plan do not allow option holders to sell, transfer, mortgage, charge or otherwise deal with or encumber (or attempt to do any of those things) in respect of any Options, without the prior written approval of the Board, to be provided or withheld in its absolute discretion. However, once options have vested they may be transferred from the holder to a Nominee providing the option has not lapsed.

Employment contracts

There were no executive employment contracts in place during the financial year ended 30 September 2008, however this has been a matter of on-going consideration by the board and subsequently the board have resolved to offer contracts to key executives on terms to be agreed.

Signed in accordance with a resolution of the directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors



Sol C Rabinowicz

Director

Melbourne, 24 December 2008

- (b) The fair value of employee options granted in previous years was independently determined at the date of issue, usually occurring in the period between October to December following completion of annual performance reviews and is allocated equally to the intervening financial periods up to the vesting date. As these options were issued in relation to past performance, other than continued service, there are no further performance conditions. The options vest equally over the ensuing 5 year period and with exercise prices set at a premium to the volume weighted share trading prices during the October following the end of the financial year in respect of which they were granted. Fair values are based on a binomial option pricing model that takes into account the exercise price, the expected life of the option, the impact of dilution, the non-tradeable nature of the option, the volume weighted average share price, the expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the expected life of the option. The fair values are adjusted to reflect vesting conditions and the probability of vesting.
- (c) Other long-term employee benefits include accrued long service leave benefits (vested and non-vested) for the financial year.
- (d) Post employment benefits include superannuation contributions required by law and any benefits paid upon ceasing employment.

Value of options issued to directors and other key management personnel

The following table discloses the value of options, granted, exercised or lapsed in relation to the financial year ended 30 September 2008. For more information in relation to the employee option plan, refer to Note 5 of the financial statements.

	Options granted (i) Value at grant date	Options exercised Value at exercise date	Total value of options granted, exercised and lapsed (ii)	Value of options included in remuneration for the year	Proportion of remuneration for the year that consists of options		Number of options granted		Number of options vested (ii)
	\$	\$	\$	\$	%	2008	2007	2008	2007
R J Hance	-	-	-	19,562	4.6%	-	-	105,660	-
S C Rabinowicz	-	-	-	130,062	17.3%	-	237,590	142,860	46,800
J M Vaughan*	-	-	-	19,562	3.2%	-	-	105,660	152,460
T Browning	-	-	-	66,501	16.4%	-	118,800	-	200,120
D Lipton	-	-	-	72,043	16.6%	-	130,670	80,460	125,400
G Meltzer	-	-	-	59,482	14.9%	-	106,920	67,320	150,520
J Murray	-	-	-	77,398	17.5%	-	136,610	95,460	100,000
M Worthington*	-	-	-	18,885	4.7%	-	-	66,960	-
TOTAL	-	-	-	463,495		-	730,590	664,380	775,300

* Ceased employment during the year

- (i) There were no options granted in respect of the 2008 financial year. As noted above the options granted in relation to 2007 financial year were not issued in the case of an executive director or otherwise cancelled.
- (ii) The number of options which were cancelled, lapsed or forfeited during the year by directors or key management personnel was 1,860,670 (2007: Nil). Options cancelled during the year are not included in the number of options vested as stated above.

e. Remuneration policies

(i) Remuneration policy - non-executive directors

Non-executive director remuneration is set by the Company's board in consultation with the Remuneration Committee and is determined by reference to market comparisons, generally based on independent external advice which takes into consideration the size of the board and the fees paid to directors of similar sized listed companies, the skills and experience of the directors including director duties and accountability, and the anticipated time commitment.

Fee pool

Non-executive directors' fees are determined within the aggregate directors' fee pool limit approved by shareholders. Shareholders at the 2005 Annual General Meeting approved the current pool limit of \$400,000. For the year ended 30 September 2008, \$245,000 (61.3%) of the fee pool was utilised.

Fees

The non-executive directors' base fee is \$60,000 per annum. The chairman's base fee is \$110,000 per annum. No committee or other additional fees are paid to non-executive directors. During the year ended 30 September 2008 the Company held a total of 20 formal meetings, including committee, board and shareholder meetings.

Equity participation

Non-executive directors may receive options subject to shareholder approval or be issued shares as part of their remuneration. However it should be noted that no options have been issued to non-executive directors since March 1999 and there is no scope to do so under the existing performance incentive plan which applies to executive directors and other key management personnel only. At the date of this report 270,180 options were held by non-executive director R J Hance. These options were granted to R J Hance in previous years in his former capacity as an executive director.

DIRECTORS' REPORT *Continued*

Remuneration Report

Other key management personnel remuneration

The following table discloses the remuneration of other key management personnel paid and payable by the consolidated entity and the Company for the financial year ended 30 September 2008.

	Salary and fees	Short term employee benefits Cash bonuses (a)	Non- monetary	Post employment benefits (d)	Share based payments Options (a) & (b)	Other long term employee benefits (c)	Total	Proportion which is performance related
	\$	\$	\$	\$	\$	\$	\$	%
2008								
T Browning	216,212	56,250	49,924	13,129	66,501	3,744	405,760	30.3%
D Lipton	268,304	61,875	13,916	13,129	72,043	5,832	435,099	30.8%
G Meltzer	247,345	50,625	23,232	13,129	59,482	5,664	399,477	27.6%
J Murray	282,493	64,688	-	13,129	77,398	5,633	443,341	32%
M Worthington*	213,160	-	33,288	153,583	18,885	(21,280)	397,636	4.7%
TOTAL	1,227,514	233,438	120,360	206,099	294,309	(407)	2,081,313	25.4%

* Ceased employment during the year. The post employment benefits include a discretionary termination benefit of \$141,426.

The following table discloses the remuneration of other key management personnel paid and payable by the consolidated entity and the Company for the financial year ended 30 September 2007.

	Salary and fees	Short term employee benefits Cash bonuses (a)	Non- monetary	Post employment benefits (d)	Share based payments Options (a) & (b)	Other long term employee benefits (c)	Total	Proportion which is performance related
	\$	\$	\$	\$	\$	\$	\$	%
2007								
T Browning	209,310	70,000	48,692	13,129	38,236	5,703	385,070	28.1%
D Lipton	259,702	77,000	13,916	13,129	40,423	7,432	411,602	28.5%
G Meltzer	239,914	63,000	22,400	13,129	34,134	11,218	383,795	25.3%
J Murray	273,883	80,500	-	13,129	45,507	5,536	418,555	30.1%
M Worthington	222,054	-	35,948	13,129	28,211	5,014	304,356	9.3%
TOTAL	1,204,863	290,500	120,956	65,645	186,511	34,903	1,903,378	25.1%

(a) Discretionary bonuses were paid on 31 October 2008 (2007: 31 October 2007). The bonuses paid represent the maximum entitlement for each individual. The maximum entitlement was capped at 80% of the prior year bonus.

This year cash bonuses represented 75% of the total short term performance incentives granted. The balance is intended to be paid in the form of equity benefits; however at the date of this report the terms of the benefit have not yet been determined. There were no options granted during the year. In the previous year cash bonuses represented approximately 80% of total performance incentives granted, the remaining 20% was to be paid in the form of options which as noted above (refer update from previous year section) were subsequently cancelled and paid in the form of cash. The share based payments column includes the unvested value of the 2007 options series cancelled, effective 21 February 2008 for the executive director and effective 31 May 2008 for the senior executives. The prevailing weighted average market price of the ordinary shares was \$1.04 and \$1.11 respectively. These options would have otherwise expired between 31 October 2008 and 31 October 2012.

	Number of options cancelled	Cash consideration paid	Value of options at cancellation date	Share based payment expense attributed to accelerated vesting	Share based payment attributed to cancellation of options
		\$	\$	\$	\$
S C Rabinowicz	237,590	60,000	22,080	42,900	37,920
T Browning	118,800	30,000	11,040	21,400	18,960
D Lipton	130,670	33,000	12,144	23,600	20,856
G Meltzer	106,920	27,000	9,936	19,300	17,064
J Murray	136,610	34,500	12,966	24,600	21,084
TOTAL	730,590	184,500	67,896	131,800	116,604

d. Details of remuneration paid for the year compared to the previous year

Directors' remuneration

The following table discloses the remuneration of directors paid and payable by the consolidated entity and the Company for the financial year ended 30 September 2008.

	Salary and fees	Short term employee benefits Cash bonuses (a)	Non- monetary	Post employment benefits (d)	Share based payments Options (a) & (b)	Other long term employee benefits (c)	Total	Proportion which is performance related
2008	\$	\$	\$	\$	\$	\$	\$	%
K A Hayes	110,000	-	-	-	-	-	110,000	-
R M Fitzroy	55,046	-	-	4,954	-	-	60,000	-
G W Liddell	55,046	-	-	4,954	-	-	60,000	-
R J Hance **	403,857	-	2,400	11,085	19,562	6,700	443,604	4.6%
S C Rabinowicz	477,791	112,500	11,732	13,129	130,062	7,716	752,930	32.2%
J M Vaughan *	285,552	-	2,625	291,965	19,562	5,863	605,567	3.2%
TOTAL	1,387,292	112,500	16,757	326,087	169,186	20,279	2,032,101	13.9%

* Ceased employment during the year. The post employment benefits include a discretionary termination benefit of \$282,118.

** This includes \$15,000 attributable to payments service as a non executive director for the quarter ended 30 September 2008.

The following table discloses the remuneration of directors paid and payable by the consolidated entity and the Company for the financial year ended 30 September 2007.

	Salary and fees	Short term employee benefits Cash bonuses (a)	Non- monetary	Post employment benefits (d)	Share based payments Options (a) & (b)	Other long term employee benefits (c)	Total	Proportion which is performance related
2007	\$	\$	\$	\$	\$	\$	\$	%
K A Hayes	110,000	-	-	-	-	-	110,000	-
W E Bessemer	22,936	-	-	2,064	-	-	25,000	-
R M Fitzroy	55,046	-	-	4,954	-	-	60,000	-
G W Liddell	55,046	-	-	4,954	-	-	60,000	-
R J Hance	504,501	200,000	3,200	13,129	29,543	13,314	763,687	30.1%
S C Rabinowicz	430,582	140,000	11,732	13,129	69,403	13,302	678,148	30.9%
J M Vaughan	369,162	180,000	3,500	13,129	29,543	7,809	603,143	34.7%
TOTAL	1,547,273	520,000	18,432	51,359	128,489	34,425	2,299,9788	28.2%

DIRECTORS' REPORT *Continued*

Remuneration Report

The Company also reported that with the assistance of an external remuneration consultant, it was working on updating the existing incentive plan, to more closely align shareholder interests with executive performance by including an appropriate balance between short term and long term executive performance hurdles.

The Company plans to put a revised equity incentive plan before shareholders at the next Annual General Meeting scheduled for 27 February 2009.

In terms of executive remuneration, the 2008 financial year was a year of transition, whilst the Company revised its performance incentive plan, it granted short-term incentives for the 2008 year albeit at considerably reduced levels in comparison to previous periods.

c. Commentary on Company performance, shareholder wealth and remuneration

In 2008 the senior executives managed the Company's operations in an increasingly challenging environment which included regulatory uncertainty, on-going and intensifying drought conditions, rising farm management costs, and a substantial deterioration in economic conditions characterised by volatility in equity markets. For the second successive year, the Company recorded reduced diluted earnings per share, returns on equity, dividends and overall negative total shareholder returns. Fixed salary increases for the senior executives were generally capped at the rate of CPI increases with exception of promotions. The short-term executive incentives approved for the 2008 financial year represent a balance between acknowledgement of the financial performance deterioration and the objective of retaining, attracting, and motivating appropriately qualified and experienced executives to achieve long-term strategic strategies and protect the long-term interests of shareholders.

The 2008 short-term incentives for executives were allocated based upon individual performance assessments subject to a cap at 80% of the previous year. The "cap" applied on an individual basis where appropriate and also on a total pool basis. By comparison, in 2007, the short-term incentive performance pool was limited to 50% of the pool available for the 2006 financial year.

The cash component of the 2008 short term incentives represented 75% of the total approved incentives and was paid on 31 October 2008. The remaining 25% is to be taken as an equity benefit which will vest over the ensuing two financial years, under a proposed Deferred Employee Share Plan (DESP), accordingly 37.5% of the value has been included in share based payment remuneration. The DESP will form part of the updated equity incentive plan to be put to shareholders at the February 2009 Annual General Meeting. At the date of this report the value and hence the number of shares to be issued under the DESP in relation to the remaining 25% of the 2008 executive performance incentives had not been determined.

Fixed salary increments during the year were generally capped at CPI increases, subject to individual performances and with exception to the current CEO who stepped up from the position of deputy CEO with effect from 1 July 2008.

Historically, director and senior executive remuneration and its relationship to actual company performance have not been closely aligned. The table below highlights company performance over a five-year period in terms of net profit after tax (NPAT), earnings per share, dividends and total shareholder returns compared to increases in director and other key management personnel remuneration.

Company performance	2004	2005	2006	2007	2008	Annual change %	3 year change %	5 year change %
NPAT (\$'m)	41.1	55.8	79.6	65.7	44.6	(32.1)	(44.0)	8.5
Basic EPS (cents)	17.2	23.7	29.7	22.8	13.1	(42.5)	(14.9)	3.6
Diluted EPS (cents)	14.7	20.5	27.0	21.7	9.3	(57.1)	(18.2)	(1.4)
Dividends (cents)	5.50	7.75	9.50	7.00	1.5	(78.6)	(84.2)	(72.7)
Share price (\$) (a)	1.52	2.16	2.79	1.89	0.66	(65.1)	(76.3)	(56.6)
TSR (b) (%)	16%	47%	34%	(30)%	(64)%	N/A	N/A	N/A
Total remuneration cost (\$M) (c)	3.2	4.3	5.2	4.3	4.1	(4.7)	(21.2)	28.1

(a) Opening share price in 2004: \$1.36

(b) Total shareholder return (TSR) is calculated as the percentage movement in the share price plus the dividend paid per share for the period.

(c) Total remuneration cost includes remuneration paid to directors and other senior management personnel of the Group.

The Board recognises that inter-period anomalies may arise from time to time, when comparing company performance measures with total executive remuneration, but overall the remuneration policies reflect Timbercorp's relative conservative remuneration positioning whilst continuing to encourage strong organisational performance outcomes.

DIRECTORS' REPORT *Continued*

Remuneration Report

Introduction

The Directors present the Remuneration Report prepared in accordance with section 300A of the Corporations Act for the year ended 30 September 2008.

The Remuneration Report covers key management personnel, which includes the directors of the Company and senior executives including the five most highly remunerated executives of the Company and its consolidated entities.

The Company's remuneration outcomes for the 2008 financial year are covered in this report under the headings set out below.

- a. Key management personnel
- b. Update from the previous report
- c. Commentary on Company performance, shareholder wealth and remuneration
- d. Details of remuneration paid for the year compared to the previous year
- e. Remuneration policies

The Company's Remuneration strategies and policies are designed to attract, retain and motivate appropriately qualified and experienced directors and senior executives to achieve long-term strategic objectives and to protect the long-term interests of shareholders.

a. Key management personnel

The key management personnel of the Group are the Non-Executive Directors, the Executive Directors and those senior executives who present their reports to the board on a regular basis and report directly to the Chief Executive Officer (CEO).

Directors

Mr R M Fitzroy	Non-Executive Chairman – appointed 1 October 2008
Mr K A Hayes	Non-Executive Director – resigned as Chairman 1 October 2008
Mr G W Liddell	Non-Executive Director
Mr R J Hance	Chief Executive Officer – until 30 June 2008 Non-Executive Director – from 1 July 2008
Mr S C Rabinowicz	Deputy Chief Executive Officer – until 30 June 2008 Chief Executive Officer – from 1 July 2008
Mr J M Vaughan	Executive Director (resigned 30 June 2008)

The directors listed above have acted as directors during and since the end of the financial year except as otherwise noted.

Senior executives

The term "senior executives" as used in this report refers to the following persons:

Mr T Browning	General Manager - Forestry
Mr D Lipton	General Manager - Horticulture
Mr G Meltzer	Group General Counsel and Company Secretary
Mr J Murray	Chief Financial Officer
Mr M Worthington	General Manager - New Business (ceased employment 3 September 2008)

The persons listed above have acted as senior executives during and since the end of the financial year except as otherwise noted.

b. Update from the previous report

Leading up to the February 2008 Annual General Meeting, the directors became aware of a strong institutional proxy vote against a proposal to issue options to an executive director. In effect the options represented a deferred short-term incentive which was realisable over the ensuing five years provide the executive continued as an employee throughout that period and that the ordinary share price increased after the grant date. The Company subsequently withdrew the proposal following consultation with proxy organisations representing major shareholders. These discussions indicated that the existing performance incentive plan was out of step with "best practice" whereby the vesting of equity incentive benefits for executives should be subject to the attainment of appropriate long term performance hurdles. Consequently the balance of the short term incentives payable to the Executive Director was paid in cash. The executives, who were issued with options on the same terms in respect of the Company's and their own performance during the 2007 financial year, were also able to elect to have those options cancelled and by way of compensation receive that portion of their short term incentive as a cash payment.

DIRECTORS' REPORT *Continued*

- (1) R J Hance became a non-executive director member of the audit committee following his resignation as Chief Executive Officer on 30 June 2008.
- (2) Resigned as director on 30 June 2008.
- (3) Whilst the Remuneration Committee had only one formal meeting, its Chairman and the CEO project managed a review of the Executive Performance Incentive Plan and reported directly to the Board.
- (4) As a result of changes in the board structure during the year, the work of the Nomination Committee was conducted at board level.

Directors' interests

The following table sets out each director's relevant interest in shares, debentures, and options in shares of the Company as at the date of this report.

	Fully paid ordinary shares	Executive share options	Reset Preference shares
K A Hayes	635,066	–	–
R M Fitzroy	4,440,494	–	–
G W Liddell	361,329	–	–
R J Hance	52,353,961	270,180	–
S C Rabinowicz	783,765	418,980	20,000
Total	58,574,615	689,160	20,000

Indemnification of officers and auditors

During the financial year, the Company paid an insurance premium in respect of a contract insuring the directors, secretaries and executive officers of the Company, against a liability incurred as a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 6 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in Note 6 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit Risk and Compliance Committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 'Code of Ethics for Professional Accountants' issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Auditor's independence declaration

The auditor's independence declaration is included on page 43 of the financial report.

Company Secretaries

Mark Pryn BEc ACA

Gideon Meltzer LLB, BEc, Grad Dip Laws (Tax)

For details of the Company Secretary's qualifications and experience refer to pages 24 and 25 of the annual report.

Rounding off of amounts

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial report are rounded off to the nearest thousand dollars, unless otherwise stated.

Investment in listed entities

The Group's major listed entity investment is a holding of 4,500,000 shares in Select Harvests Limited. The carrying value of the shares as at 30 September 2008 is \$5.26 per share based on a 60 day weighted average market price, in accordance with the Group's accounting policy. Subsequent to year end there has been a significant fall in the share price of Select Harvests Limited which in the month of December 2008 (up to the 18th December) generally traded below \$2.50 per share. Whilst the share price remains above the Group's cost price of \$2.07 per share, any movements in the market price will impact net assets via the asset revaluation reserve and will not impact earnings.

Future developments

Information in relation to future developments is set out in the review of operations – operations environment and strategic review. Disclosure of additional detailed information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Group.

Environmental management

The operations of the Group are subject to a number of environmental regulations. To the best of the directors' knowledge, all activities are performed in accordance with the requirements of relevant environmental regulations. Timbercorp Limited remains committed to active participation in sustainable plantation and horticultural practices and responsible resource management across its operations. Details of our environmental management practices are also provided in the body of the annual report.

Dividends

Dividends paid or declared by the Company since the end of the previous financial year are as follows:

Ordinary shares	Amount per share Cents	Total amount \$'000	Franked	Date of payment
<i>Declared and paid during the year:</i>				
Final dividend in relation to 2007	4.00	12,279	100%	16 Jan 2008
Interim dividend in relation to 2008	1.50	5,250	100%	15 Sept 2007

No dividend was paid or declared after year end.

Share options

In relation to the financial year no options were granted pursuant to the Employee Share Option Plan.

As at 30 September 2008, there were 3,934,740 options outstanding with entitlement to 3,934,740 ordinary shares. These options do not entitle the holder to participate in any subsequent share issue of the Company.

During the financial year, no options were exercised in accordance with the provisions of the employee share option plan. Details of the movements in the option register and details of option expiry dates and exercise prices are included in Note 5 to the financial statements.

Directors' meetings

The number of meetings held during the year the director was a member of the board and/or committee and the number of meetings attended during the year the director was a member of the board and/or committee was as follows:

	Board		Audit Risk and Compliance Committee		Remuneration Committee (3)		Nomination Committee (4)	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
K A Hayes	12	12	6	6	1	1	–	–
R M Fitzroy	12	12	6	6	1	1	–	–
G W Liddell	12	11	6	6	1	1	–	–
R J Hance (1)	12	12	1	1	–	–	–	–
S C Rabinowicz	12	11	–	–	–	–	–	–
J M Vaughan (2)	8	6	–	–	–	–	–	–

DIRECTORS' REPORT *Continued*

certain financial covenants. However, subsequent to year end, these covenants were waived by the relevant banks for the reporting period. As at the date of this report \$100 million of this amount can be reclassified as non current borrowings following the waiver and revised covenants. The current ratio adjusted for this subsequent event is 1.08 compared to 0.81 previously. For further details on financing facilities refer to balance sheet notes 16(b) and the subsequent events note 17.

Assets held for sale include the Boort Olive Grove, two small almond properties and the forestry land portfolio. Current liabilities include the Reset Preference Shares (RPS) totalling \$69.015 million which are repayable within 12 months as the first reset date is 30 September 2009. The RPS can be redeemed by Timbercorp, extended on new terms as advised to the holders or be converted into fully paid ordinary shares.

A final dividend has not been declared leaving the full year dividend at 1.5c (2007: 7.0c)

Operating environment and strategic review

During the financial year, the Company faced a substantial deterioration in economic conditions characterised by volatility in equity markets. These conditions were exacerbated by continued drought affecting the majority of the Company's managed estate and regulatory restrictions following the ATO review of non forestry managed investment schemes. These factors led to a more difficult investment environment resulting in reduced new sales and delays in the planned sale of assets to associated trust vehicles. These sales would have released cash to retire debt and meet future capital expenditure.

In line with this strategy and in order to achieve the outcomes identified during the strategic review so far, the Company has decided to:

- Stand out of the MIS market in 2009 due to a combination of regulatory constraints in non-forestry MIS and the current economic environment. The Company will reconsider MIS in the context of the full review and prevailing market conditions;
- Sell its forestry land portfolio through a sale and leaseback transaction, with a portion of the proceeds from the sale to be used to repay a substantial portion of its debt and to fund Timbercorp's capital commitments in FY2009 and FY2010. Under the leases, the land will remain available to the Company for use in its existing forestry business and for successive rotations;
- Rationalise horticultural assets, by selling selected sites through a sale and leaseback transaction, with the proceeds used to reduce debt and pursue growth options. Horticultural assets considered to be strategic will be retained;
- Introduce new skills in agribusiness to the Board and executive team and reduce corporate costs further in FY2009; and
- Investigate further a number of other options that have been identified in order to accelerate its strategy to focus on and grow its horticultural business.

Timbercorp has appointed Goldman Sachs JBWere to assist it in implementing its strategic plan, to facilitate the sale of the land portfolio and selected horticultural assets and to assess how best to fund the future growth strategy.

Changes in state of affairs

During the year, there was no other significant change in the state of affairs of the Group other than that referred to in the financial statements or notes thereto.

Subsequent events

Revised banking term sheets

The Group agreed on revised bank facility term sheets including waivers of certain covenants in relation to the following bank facilities after the reporting date:

- \$200.000 million facility – an agreement was reached on 27 November 2008 to obtain waivers for certain covenants as at the reporting date and to vary future covenants and terms of the loan. Without the waiver, the Group would have been in breach of these covenants. As a result of the revised terms, \$65.000 million of this amount can be reclassified as non-current borrowings;
- \$35.000 million facility – an agreement was reached on 27 November 2008 to obtain waivers for certain covenants as at the reporting date and revise the terms of the loan. Without the waiver, the Group would have been in breach of these covenants. As a result of the revised terms, \$35.000 million can be reclassified as non-current borrowings;
- \$132.900 million facilities – an agreement was reached on 25 November 2008 to obtain waivers for certain covenants as at the reporting date. Without the waiver, the Group would have been in breach of these covenants. The potential breach did not affect the classification of the facilities as at reporting date as they were already included as current liabilities directly related to assets classified as held for sale.

Test case decision

On 19 December 2008, the Full Bench of the Federal Court of Australia handed down its decision in the case of the Australian Taxation Office (ATO) vs Hance and Hannebery (the test case).

By a unanimous decision, the court allowed the appeal against the ATO. This means that participants in non-forestry managed investment schemes (MIS) should be entitled to an allowable deduction for rent, management and other expenses incurred in carrying on their business of primary production as participants in agribusiness managed investment schemes. The ATO has a period of 28 days to lodge any appeal against the decision to the High Court.

Timbercorp welcomes the decision as it confirms the Company's own view and is consistent with what has been commonly practiced over many decades.

The decision will have no impact in the current year as the Company has announced that it will stand out of the MIS market in 2009 and will reconsider MIS in the context of the full review the Company is undertaking and the prevailing market conditions. The decision also has no impact on existing non-forestry managed investment schemes in respect of which products rulings have been issued. Participants in these projects will continue to be able to claim allowable deductions for business expenses in accordance with the terms of the product rulings.

Table grape provision: The table grape provision relates to two table grape projects offered by the Company in 2004 and 2005, covering an area of 412 hectares. Table grapes comprise less than 5% of the total horticultural investment offerings. Over the past two years, Timbercorp has removed and replaced most of the varieties initially planted to improve performance of the table grape assets, however further capital works are still required. Given mature crops for the new varieties will not be achieved for up to three years and during the intervening period there will be on-going farm management and rental obligations, an onerous contract provision of \$16.400 million (2007: \$5.599 million) has been raised.

CostaExchange: This year a \$2.239 million loss was recorded against the 35% holding in CostaExchange Holdings Pty Ltd. The share of CostaExchange earnings before goodwill impairment was \$4.072 million representing a 31.7% increase on the prior year. The goodwill impairment was \$6.311 million for our 35% share (total goodwill impairment of \$18.031 million). The goodwill impairment is a one-off charge that relates to two businesses which were transferred to CostaExchange Limited in July 2008 as part of an internal restructure. The restructure is seen as a positive transaction which will generate operational efficiencies within the CostaExchange Group.

Glasshouse tomatoes: The 25% joint venture interest in a tomato glasshouse at Two Wells, South Australia, produced operating losses of \$1.259 million for Timbercorp in 2008. In addition, the carrying value of the joint venture investment was written down by \$2.700 million, largely as a result of capital cost overruns on stage one of the glasshouse. Despite some initial operational problems in the first full year of production, the joint venture partners are confident in relation to the long term prospects of this venture which include a proposed stage 2 expansion to increase glasshouse operations from 8.2 hectares to between 12 and 16 hectares.

Doubtful debts: The provision for doubtful debts stands at \$17.514 million representing 3.5% (2007: 2.5%) of total grower loan and project receivables. Doubtful debts expense increased to \$7.982 million from \$4.359 million in 2007 reflecting the tightening economic conditions.

Overall the annuity revenue EBIT margins were 22.6% after taking into account the aforementioned items, compared to 27.5% recorded in the previous year.

Industrial segment revenues were down 27.4% at \$41.141 million largely due to an expected reduction in asset development activity on behalf of the Timbercorp Orchard Trust and the Timbercorp Primary Infrastructure Fund, which generate low margins. Forestry and olive industrial processing revenues however were up 5.5% on the previous year and it is pleasing to note a positive EBIT contribution from olive oil processing activities due to volume increases. The forestry industrial EBIT margins were a satisfactory 11.9%, with overall industrial EBIT margins increasing to 9.5% from 7.1% in 2007.

Agricultural assets and investment property are recorded at fair value, with any increments or decrements taken to the profit and loss account. Agricultural assets include Timbercorp owned lots in various horticultural and forestry projects, trees relating to assets leased to growers in various horticultural projects and horticultural and forestry Company plantings. Investment property relates to freehold forestry plantation land, which this year has been reclassified to assets held for sale. The total fair value increments taken to the profit and loss account were \$0.579 million, compared to \$10.284 million in the previous period. The key factors affecting the measurement of fair value included holding investment property values at levels well below the current values of unencumbered land suitable for forestry plantations. Fair value increments were also affected by allowing for temporary water costs attributable to horticulture company plantings and owned lots, together with a review of carrying values of horticulture tree stocks.

Borrowing and finance charges increased from \$63.587 million to \$81.955 million based on an average cost of debt of 9.3% per annum (2007: 8.6% per annum) and a net \$71.903 million increase in overall debt. This additional debt was largely used to finance further increases in the grower loan book of \$75.655 million. Gearing levels (net debt/equity) were slightly lower at 151.6% (2007: 157.5%) on a basis of 61.1% (debt / debt + equity) (2007: 62.4%). However, challenging market conditions delayed the planned sale of assets to the Timbercorp Primary Infrastructure Fund preventing the reduction of gearing to lower levels. Simple interest cover calculated by taking EBIT/Total Borrowing Costs is 1.7 times (2007: 2.4 times).

The loss attributable to minority interests of \$2.968 million relates to the Plantation Land Limited (PLL) shareholders. PLL owns forestry land that is leased to Timbercorp (or its wholly owned subsidiary Timbercorp Securities Limited) which is sub-let under its forestry projects. The initial purchase of the land by PLL was financed by the issue of stapled securities comprising unsecured notes (Notes) and ordinary PLL shares. As a result of Timbercorp providing a guarantee on the value of land held by PLL in favour of the PLL security holders, among other factors, PLL is considered to be a controlled entity and therefore forms part of the Timbercorp consolidated financial statements. The Notes matured on 30 June 2008 and are fully repayable by 30 June 2009 from the proceeds from the sale of each property in the land portfolio. Timbercorp guarantees any shortfall of initial cost to sale price. Timbercorp also held an option to acquire all or some of the land portfolio which it has exercised in relation to all but five of the properties.

In September 2008, Timbercorp entered into an unconditional contract to purchase the majority of the land portfolio at the independent valuation of each property. For some properties, the valuation is lower than the carrying value of the land (but still well above the original cost of the land). The loss attributable to minority interests this year reflects a partial reversal of fair value increments recognised in previous financial periods in the PLL accounts. Timbercorp's carrying value of the PLL land portfolio does not reflect the internal leasing arrangements between a parent and controlled entity and therefore differs from the independent valuation referred to above. The PLL Notes are included as a current liability and the land is included with the balance of Timbercorp forestry land under the heading of assets held for sale.

Operating cash outflows of \$29.775 million compare favourably to the \$44.725 million outflow recorded in 2007. This is largely due to a significant reduction in income tax payments. The negative operating cash flows principally reflect lower earnings and the continued investment in the grower loan book of \$75.655 million and deferred management fee receivables of \$34.283 million. Net assets increased to \$595.593 million, up \$75.809 million or 14.6% from 30 September 2007. Net tangible asset backing per share now stands at 130.4 cents compared to 131.0 cents previously. It is important to note that following consultation with the Australian Securities and Investment Commission and an internal review, the Group changed the classification of permanent water rights to intangibles, from the property plant and equipment category. Net tangible asset backing calculations this year and the comparative have been adjusted to exclude permanent water rights held. Net asset backing per share (including permanent water rights) stands at 164.8 cents compared to 163.3 cents previously.

The current ratio (current assets / current liabilities) is 0.92 compared to 0.81 previously. Current assets of \$630.750 million include \$376.513 million of assets held for sale, whilst current liabilities of \$684.180 million include borrowings repayable within 12 months of \$205.596 million, liabilities directly related to assets held for sale of \$127.368 million and borrowings classified as current of \$235.000 million. Bank facilities totalling \$235.000 million have been classified as current borrowings in line with the accounting standards, as at the reporting date the Group was considered to be in breach of

DIRECTORS' REPORT

The Directors of Timbercorp Limited (the Company) submit this financial report for the Company for the year ended 30 September 2008. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

The Board

The names of the directors of the Company during or since the end of the financial year are set out below. For details of directors' qualifications and experience, refer to page 23 of this annual report.

Rodney M Fitzroy AAPI, FREI

Robert J Hance (resigned as Chief Executive Officer 30 June 2008 and became a non executive director)

Kevin A Hayes

Gary W Liddell CA

Sol C Rabinowicz LLB, BEc, ASIA, FTIA (appointed Chief Executive Officer effective 1 July 2008)

John M Vaughan FCPA (resigned 30 June 2008)

Directorships of other listed companies

Name	Company	Period of directorship
Robert J Hance	CostaExchange Limited	Since 20 November, 2006
Sol C Rabinowicz	CostaExchange Limited	Since 22 February, 2008

Remuneration of directors and senior management

Information about the remuneration of directors and senior management is set out in the remuneration report of this Directors' Report on pages 37 to 42.

Principal activities

The principal activities of the Company and its controlled entities (the Group or consolidated entity) during the financial year were the establishment, development, marketing and management of primary industry based projects, the acquisition of land, water rights and infrastructure to support these projects and the provision of finance to growers in these projects. The Group is also involved in eucalypt and olive oil processing operations, asset development, asset management, the sale of mature agricultural assets and holding strategic investments in agricultural related enterprises. There have been no significant changes in the nature of activities during the financial year.

Review of operations

Financial

For the year ended 30 September 2008, net profit after tax and minority interests for the year fell 32.1% to \$44.607 million. The lower profit led to a fall in basic earnings per share (EPS), which is down 42.5% to 13.09 cents. Diluted EPS decreased by 57.1% to 9.30 cents after taking into account the potential dilutionary impact of the Reset Preference Shares and Subordinated Unsecured Notes on issue (both based on conversion at 66c per share). Return on equity was 7.5% compared to 13.8% previously.

New business segment revenues and EBIT contributions were down 16.3% and 12.7% respectively. Horticulture new business revenues were down due to reduced horticultural project offerings this year (with the project offerings being the balance of the 2007 almond and olive plantings). Forestry new business revenues were up 24.6%, despite the challenging sales environment. New business margins improved from 55.0% to 57.3% this year, as a result of forestry plantation cost efficiencies and the utilisation of the balance of the 2007 horticultural plantings, although this benefit was partly offset by increased product selling and distribution cost.

Annuity-style segment revenues continued to grow, increasing 32.1% to \$321.516 million, and EBIT contributions increased by 8.5% to \$72.635 million after allowing for the following significant items:

- Table grape operating losses including onerous contract provisions
\$22.200 million (2007: \$13.200 million)
- Share of losses – CostaExchange Holdings Pty Ltd
\$2.239 million (2007: \$3.091 million profit)
- Glasshouse tomato write downs and share of operating losses
\$3.959 million (2007: Nil)
- Doubtful debt expense (loan and project receivables)
\$7.982 million (2007: \$4.359 million)

Importantly, annuity-style revenues are expected to increase to more than \$360 million in 2009.

FINANCIAL SECTION

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management and internal control system. Management reports to the ARCC on the key risks and the extent to which they are being managed. This is performed on a biannual basis or more frequently as required by the Board or ARCC.

A standardised approach to risk assessment is used to ensure risks are consistently assessed and reported on. This is based upon likelihood and consequence criteria with residual and mitigated risk ratings recorded.

Timbercorp's risks are classified into three core areas:

- Strategic
- Operations
- Regulatory (reporting and compliance)

Risks are allocated to divisions with General Managers allocated responsibility for particular risks. The ARCC operates to assist the Board by monitoring risk management. Risk dashboard reporting is provided to the ARCC.

Internal audit conducts routine reviews based upon a plan agreed with management and the ARCC.

Management certification

In accordance with section 295A of the Corporations Act and Recommendation 7.2 of the ASX CGC, prior to approving the financial reports of the Company, the Board receives from the Chief Executive Officer and Chief Financial Officer certification that:

- The Company's financial statements present a true and fair view, in all material aspects, of the Company's financial position and performance in accordance with the Corporations Act and relevant Accounting Standards and that there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- the statements made above regarding the integrity of the financial statements and notes thereto is founded on a sound system of risk management and internal control;
- the risk management and internal control systems, to the extent they relate to financial reporting, are operating effectively in all material aspects, based upon the risk management framework; and
- where the above statements cannot be made in an unqualified manner, an explanation will be provided of the facts contributing to such a circumstance and the implications of these facts for both the financial reports and the Company.

The Board has received this certification from the Chief Executive Officer and the Chief Financial Officer in respect of the financial year ended 30 September 2008.

Part 7: Continuous disclosure and shareholder communication

Each year the Company communicates to its shareholders and investment markets through a program of regular announcements to fulfil its periodic reporting obligations, supplemented by announcements on an ad-hoc basis to fulfil continuous disclosure obligations.

The Company has a Board approved Continuous Disclosure Policy which reflects ASX continuous disclosure requirements.

The Chief Executive Officer and Chief Financial Officer are responsible for implementing and monitoring the Company's disclosure policy and procedures. The Company Secretaries are responsible for communications with the ASX.

The Board aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs. We employ a wide range of communication approaches including direct communication with shareholders and publication of all relevant information in the shareholder section of our website. Shareholders are also given the option to receive company information in print or electronic format.

The Board encourages full participation of shareholders at the AGM to ensure a high level of involvement and to deepen understanding of our strategy and goals. Shareholders are invited to put forward questions that they would like addressed at the AGM at the time of receipt of the Notice of Meeting. All relevant shareholder information can be accessed at the shareholder site of our website www.timbercorp.com.au.

The Annual Report and ASX announcements are also published on our website.

Remuneration committee

The Remuneration Committee comprises the four non-executive directors. The chair of the committee is Mr K Hayes.

The Remuneration Committee is responsible for reviewing the remuneration policies and practices of the Company including:

- assisting the Board in the formation, adoption and disclosure of appropriate remuneration policies for executive and non-executive directors and senior executives;
- ensuring executive remuneration is balanced between fixed and variable components, market competitive and aligned to the creation of shareholder wealth.

The Remuneration Committee has authority to access independent external advice, which it did so during 2008 in relation to short term and long term incentive payments and current best practice. As a result, the Committee recommended to the Board a revised remuneration structure which more closely aligns shareholder interests with executive performance by including an appropriate balance between short term and long term executive performance hurdles. The Company plans to put a new equity incentive plan before shareholders at the next Annual General Meeting scheduled for 27 February 2009.

The structure and details of the remuneration paid to Directors, Chief Executive Officer and other senior executives during the period are set out in the Remuneration Report commencing on page 37 of this Annual Report and note 32 to the financial statements commencing on page 89 of this Annual Report.

Nominations Committee

The Nominations Committee comprises of the four non-executive directors. The chair of the Committee is Mr K Hayes. It is the responsibility of the Nomination Committee to:

- periodically review the composition of the Board, including the number of directors, casual vacancies, the need for additional directors and an assessment of the current skill set of the Board;
- identify individuals suitably qualified to become Board members; and
- establish a framework for performance evaluation of the Board, its members and its committee.

Where a Board vacancy exists or where it is considered that the Board would benefit from the services of a new director with particular skills, the Nominations Committee has responsibility for proposing candidates for consideration by the Board and, where appropriate, engages the services of external consultants.

In 2008, given the changes to the composition of the Board, the work of the Nominations Committee was undertaken by the Board.

Part 5: Audit governance and independence

Engagement and rotation of the external auditor

Our independent external auditor is Deloitte Touche Tohmatsu (DTT).

The present DTT lead partner for our audit is Ms S Pelusi, who assumed this responsibility effective as of the half year ended 31 March 2007. The present review partner is Ms J West who also assumed responsibility effective as of the half year ended 31 March 2007.

The external auditor attends the ARCC at least three times per annum.

The external auditor has the opportunity to meet with the ARCC without management present and has direct access to the chair of the ARCC.

Attendance at AGM

Our external auditor attends the AGM and is available to answer questions from shareholders on:

- the conduct of the audit;
- the preparation and content of the audit report;
- the accounting policies adopted by us in relation to the preparation of the financial statements; and
- the independence of the auditor in relation to the conduct of the audit.

Internal audit

Ernst & Young have been appointed as internal auditors to the Company. They have completed their final year of a three year internal audit plan and have reported to the ARCC.

Recommendations for improvement have been included in action plans for the responsible executive managers.

Part 6: Risk management

The Company has in place a risk management framework to assist it in achieving its risk management objectives – to effectively identify, evaluate, mitigate and monitor the risks the Company faces during the course of its operations. Management, through the Chief Financial Officer, is responsible for monitoring the implementation of the risk

The Board is mindful of its obligations to ensure that Directors avoid conflicts of interest between their duties as Directors and their other interests and duties. A standing conflicts of interest register is maintained and at all Board meetings directors are required to disclose any actual or potential conflicts of interest.

Boards of other entities in which the Company has an interest

In some cases non-executive directors are asked to sit on the boards of other entities in which the Company has a significant interest to extend oversight down to those boards. Mr Hance sits on the board of Australian Garlic Producers Pty Ltd, Boundary Bend Ltd and CostaExchange Holdings Pty Ltd. Mr Rabinowicz sits on the board of Orchard Investments Management Ltd and CostaExchange Holdings Pty Ltd.

Review of board, director and executive performance

The Board undertook a review of its performance in 2008. The entire process was conducted on an open basis. The outcome of the self assessed Board performance, including areas of improvement was presented to Directors and supported by a written report. A major outcome from the review was a recognition that the Board needs to increase the number, diversity and expertise of directors. The Board has agreed to implement an action plan to address the key findings of the report. In 2009, the Board will undertake a review of individual directors. Thereafter, Board and individual director evaluations will be carried out on each alternate year.

In August and September 2008 performance reviews are completed for all staff including senior executives. This process, together with consideration of the Company's performance as a whole, is used to determine whether executive performance conditions have been met.

Independent professional advice

For the purposes of proper performance of their duties, directors are entitled to seek independent professional advice at the Company's expense. Before doing so, a director must notify the Chairman or Chief Executive Officer, and must make a copy of the advice available to all directors.

Part 3: Ethical standards and dealings in Timbercorp shares

The Board has adopted a code of conduct, which sets out expected standards of behaviour for the directors, Chief

Executive Officer and executive management team. In addition to conducting themselves ethically at all times, directors must keep the Board advised, on an ongoing basis, of any interests that could potentially conflict with those of the Company. In compliance with section 195 of the Corporations Act 2001, any director with a material personal interest in a matter is required to declare the interest and abstain from voting on that matter. Timbercorp has a formal securities trading policy, which is provided to all directors, senior executives and applicable employees. Directors, senior executives and applicable employees are prohibited from trading in the Company's shares if they possess unpublished price sensitive information.

The policy includes the profit releases (half year and full year) and the new sales announcements made at the end of June each year as examples of major announcements. Directors and senior management must receive the approval of the Chairman or the Chief Executive Officer prior to buying or selling Company shares outside the defined share trading windows. Employees are advised of these windows through internal company bulletins.

A Margin Loan register is maintained that includes details of whether a director has a margin loan and details of any Company securities pledged to a lender. The Board determined during the year that it will be left to each director to determine whether his individual circumstances warrant disclosure to the Company of the key terms of the margin loan and whether a margin call, if made, is material.

Part 4: Committees

Role and membership

The Board has three standing committees. All committees comprise of the four non-executive Directors, the majority of whom are independent. The Committee charters describe their roles and powers. Details of Directors' qualifications are set out on page 23. Details of the Board and Committee meetings held and attendance at those meetings appear in the Directors' Report on page 35 of this Annual Report.

Audit, Risk and Compliance Committee

The Board has established an Audit, Risk and Compliance Committee (ARCC) which operates under a formal charter approved by the Board. The Chair of the Committee is Mr G Liddell, who is not the Chair of the Board. The Audit, Risk and Compliance Officer attends all meetings, with the Chief Executive Officer, Chief Financial Officer, Company Secretaries, General Counsel, external and internal auditors attending by invitation.

- **Governance** – determining the scope of authority which is delegated to the Chief Executive Officer and any other officer.

The Board has delegated to management, responsibility for:

- **Strategy** – developing and implementing corporate strategies and making recommendations on significant corporate initiatives.
- **Senior management selection** – making recommendations for the appointment of senior management, determining terms of appointment, evaluating performance, and developing and maintaining succession plans for senior management roles.
- **Financial performance** – developing our annual budget and managing day-to-day operations within the budget.
- **Risk Management** – maintaining effective risk management frameworks.
- **Corporate responsibility** – managing day-to-day operations in accordance with standards for social, ethical and environmental practices which have been set by the Board.

Board size, composition and selection

The constitution of the Company specifies:

- there must be a minimum of four and a maximum of twelve directors.
- one-third of the directors (excluding the Chief Executive Officer) must retire each year, with the longest-serving director required to retire first.
- a retiring director may offer himself or herself for re-election.

The Board comprises four non-executive directors and one executive director, being the Chief Executive Officer. The names and details of the experience and qualifications of each Director are set out on page 23 of this Annual Report. Mr K Hayes has informed the Directors that he will be retiring from the Board effective 31 January 2009.

The Board is currently assessing its composition with the view to increasing its size and introducing additional skills commensurate with a fully integrated agribusiness company. Board composition was also a major finding from the Board review undertaken during the 2008 financial year.

Director independence

The Board has adopted the definition of independence set out in the ASX Principles. Having regard to this definition, the Board generally considers a Director to be independent if he or she is not a member of management and is free of

any interest and any business or other relationship which could reasonably be perceived to materially interfere with the Director's ability to act in the best interests of the Company. The Board will assess the materiality of any given relationship that may affect independence on a case-by-case basis and has adopted materiality guidelines to assist in that assessment.

During the year the Directors reviewed the materiality guidelines which previously were based upon a monetary value. Under the revised guidelines the following interests are regarded as material:

- where the business relationship with the director accounts for more than 1% of Timbercorp's consolidated gross revenue per annum; or
- a holding of 5% or more of the Company's voting shares or a direct association with an entity that holds 5% or more of the Company's voting shares.

In this context, the Board includes three independent directors and one non-independent director.

Chairman

Mr Fitzroy was appointed Chairman on 1 October 2008 and has been a director since 14 October 2005. Prior to his appointment as Chairman, a consultancy agreement was in place between the Company and Cranley Nominees Pty Ltd, a company in which Mr Fitzroy has a beneficial interest and is also a director. This prior contractual relationship was not considered to interfere with Mr Fitzroy's ability to exercise independent judgement. In addition, the contractual amount was not material based upon the revised materiality guidelines. The contract has since been terminated.

Other directors

Mr Hayes and Mr Liddell are considered independent directors. Mr Hance is not considered independent by virtue of being a substantial shareholder in the Company and the prior Chief Executive Officer of the Company.

The Board has determined that there should not be any arbitrary length of tenure that should be considered to materially interfere with a Director's ability to act in the best interests of the Company, as it believes this assessment must be made on a case-by-case basis with reference to the length of service of all members of the Board.

Details of director, and where applicable, key management personnel, related party transactions with the Company are set out in note 32 to the financial statements commencing on page 89 of this Annual Report.

CORPORATE GOVERNANCE STATEMENT

Part 1. Introduction

Date of statement

This statement reflects our corporate governance framework, policies and procedures as at 24 December 2008.

Compliance with the ASX Corporate Governance Council's (ASX CGC) Corporate Governance Principles and Recommendations

In August 2007 the ASX CGC released revised Corporate Governance Principles and Recommendations (Principles). The effective date for the revised ASX Principles is the first full financial year starting on or after 1 January 2008. For Timbercorp, this means the financial year commencing 1 October 2008, however, as the ASX CGC has encouraged companies to make an early transition to the revised Principles and Recommendations, the Company is reporting against the revised Principles. The following table indicates where specific Principles are dealt with in this Statement:

Principle 1 Lay solid foundations for management and oversight	Parts 2 and 3
Principle 2 Structure the Board to add value	Part 2
Principle 3 Promote ethical and responsible decision making	Part 3
Principle 4 Safeguard integrity in financial reporting	Parts 2, 5 and 6
Principle 5 Make timely and balanced disclosure	Part 7
Principle 6 Respect rights of shareholders	Part 7
Principle 7 Recognise and manage risk	Part 6
Principle 8 Remunerate fairly and responsibly	Part 4

Access to information on the website

This Corporate Governance statement, and the following documents referred to in the statement, are available for viewing on our website in the corporate responsibility section at www.timbercorp.com.au:

- A detailed table comparing the Company's governance practices with the ASX CGC's Principles.
- Board charter.
- Directors' Code of Conduct.
- Committee charters – Audit, Risk and Compliance, Remuneration and Nominations Committees.
- Continuous Disclosure policy.
- Shareholder Communication policy.

Part 2: The Board of Directors

The Board is accountable to shareholders for the performance of the Company. It sets the strategic direction and delegates responsibility for the day-to-day operations of the Company to the Chief Executive Officer who, with the executive management team, is accountable to the Board. Executives are involved in Board discussions where appropriate, and the directors have other opportunities, including visits to operations, for contact with a wider group of employees.

Responsibilities

The Board has formalised its role and responsibilities into a charter, which also defines the matters reserved for the Board and those that the Board has delegated to management. In summary, the Board is accountable to the shareholders and its responsibilities include:

- **Strategy** – providing strategic guidance and direction for management and to approve significant corporate initiatives.
- **Board performance and composition** – evaluating the performance of non- executive directors, determining the number and composition of the Board and planning for Board and Executive succession.
- **Finance** – approving the annual budget, monitoring financial performance against the approved budget and to approve final dividend payments.
- **Financial reporting** – considering and approving the half-yearly and annual financial statements.
- **Risk management** – approving the risk management strategy and various risk management frameworks and monitoring their effectiveness.
- **Audit** – selecting and recommending to shareholders the appointment of the external auditor. Determining the duration, remuneration and terms of appointment of the external auditor and evaluating its performance and ongoing independence. Maintaining a direct and ongoing dialogue with the external auditor.

EXECUTIVES

Andrew Ashbolt

General Manager, Commercial

BEC (Hons), FCA

Joined Timbercorp in 2004. He is responsible for project development and the coordination of growth opportunities throughout the Group and the provision of finance and administration services to the Timbercorp Primary Infrastructure Fund and Timbercorp Orchard Trust. Mr Ashbolt has more than 28 years executive experience in corporate, finance and agribusiness operations in a listed company environment.

David Landry

Chief Information Officer

BSc(Comp), Grad Dip IT

Joined Timbercorp in 2006. Mr Landry is responsible for the management of the Company's information systems and related technology. David has 30 years experience in the IT industry in a number of key management roles and has worked across a range of industries covering civil engineering and construction, finance and manufacturing.

Andrew Peterson

General Manager, Distribution

LLB, BEc

Joined Timbercorp in 2004 as National Alliance Manager and appointed General Manager, Distribution in 2007. Mr Peterson is responsible for the Company's sales and distribution, marketing and research operations. With a corporate and taxation law background, Mr Peterson brings over 10 years of experience in the financial services sector, having held senior distribution positions with other financial institutions.

Mark Pryn

General Manager, Accounting and Treasury and Company Secretary

BEC, ACA

Joined Timbercorp in 2001. Mr Pryn is responsible for accounting, treasury management and corporate tax, and was appointed Company Secretary in November 2001 (a role he undertakes jointly with Mr Meltzer). He is a chartered accountant with over 20 years experience in both commercial and professional accounting environments, including a number of senior financial management roles.

Matthew Trewin

General Manager, Communications, Branding and Sustainability

BA/Ed

Joined Timbercorp in 2006. Responsible for management of all the corporate communications and relationships with stakeholder groups. Mr Trewin also oversees the Company's social and environmental sustainability programs. He has more than 10 years experience in policy and communications relating to agriculture, rural issues and commodity trade in both the corporate and public sectors.

EXECUTIVE MANAGEMENT

SENIOR EXECUTIVES

Tim Browning

General Manager, Forestry

BBus, DipCM

Joined Timbercorp in 1996 and was appointed General Manager, Forestry in 2002. He is responsible for the Company's integrated forestry operations encompassing planting, maintenance, harvesting, processing and wood sales. Mr Browning has been actively involved in the development of the Australian blue gum industry since the late 1980s and has extensive experience in international wood fibre marketing. He represents Timbercorp on the National Association of Forest Industries and the industry-wide cooperative research centre, the CRC for Forestry.

Darren Lipton

General Manager, Horticulture

BEC, ACA, FFin

Joined Timbercorp in 1999. Mr Lipton is responsible for the management of the Company's almond, olive, citrus, avocado, mango and table grape properties, the largest horticultural estate in Australia. He oversees the operations of these orchards, groves and vineyards and the marketing of the end products they produce. He has more than 12 years experience in corporate finance, agribusiness and project management.

Gideon Meltzer

General Counsel and Company Secretary

LLB, BEc, Grad Dip Laws (Tax)

Joined Timbercorp in 1999 and appointed General Counsel in March 2003 and joint Company Secretary in July 2008. Mr Meltzer is the principle legal advisor to the Timbercorp group and responsible for advising the board on corporate governance. Mr Meltzer brings to the role more than 15 years experience with a focus on corporate and taxation law. He oversees the development of Timbercorp's corporate transactions, capital raisings and compliance. Prior to joining Timbercorp, Mr Meltzer has advised a range of private, investment and institutional clients in corporate reconstructions, business sales and acquisitions and capital raisings.

John Murray

Chief Financial Officer

BCom, FFin

Joined Timbercorp in 2001 and appointed Chief Financial Officer in January 2006. Mr Murray is responsible for accounting and treasury, management of bank relationships, financial relationships with project investors and borrowers, and the corporate finance team. Areas of responsibility include all financial aspects, bank debt, hedging, the Company's securitisation program, risk analysis, financial modelling, asset management and operating division analysis. Mr Murray brings more than 15 years of financial and commercial experience across institutional, corporate and investment sectors.

BOARD OF DIRECTORS



Rod Fitzroy

Chairman

Age 61, AAPI FREI

Appointed a Director in October 2005 and Chairman in October 2008. Mr Fitzroy is a member of the Remuneration, Nomination and Audit, Risk and Compliance Committees. Mr Fitzroy is Chairman of Capital Star Motors (Canberra), Chairman of the Victoria Racing Club and Vice-Chairman of Epworth Medical Foundation Board of Trustees. In 2005, Mr Fitzroy retired from Fitzroys, the prominent Melbourne commercial real estate consultancy he founded in 1973. He continues to act as a consultant to his former firm. Mr Fitzroy has a unique blend of expertise in commercial and agribusiness property, with experience in the development of a large-scale almond orchard development prior to becoming a founding Director of Timbercorp's almond subsidiary, Almonds Australia Pty Ltd.

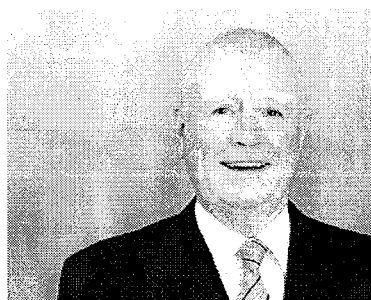


Robert Hance

Non-Executive Director

Age 65

Appointed a Director in August 1997. Held the position of Chief Executive Officer in June 2000 until June 2008. Mr Hance is a Director of Boundary Bend Limited, CostaExchange Limited and Australian Garlic Producers. Mr Hance is a member of the Remuneration, Nomination and Audit, Risk and Compliance Committees. Mr Hance co-founded Timbercorp in 1987 and jointly owns Timbercorp WA Pty Ltd, a substantial shareholder of Timbercorp Limited. He has extensive experience in the agribusiness sector and has led the development and marketing of Timbercorp's investment projects since incorporation.

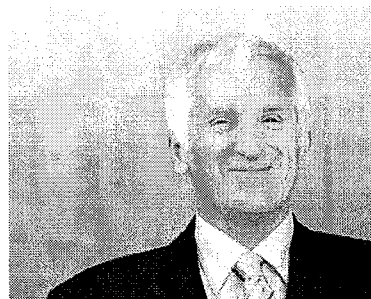


Kevin Hayes

Non-Executive Director

Age 73

Appointed a Director in October 2002. Mr Hayes is a member of the Audit, Risk and Compliance Committee and the Remuneration and Nomination Committees. He was the Chairman of Timbercorp from 2002 until October 2008. Mr Hayes has held various senior roles including Managing Director with Cadbury Schweppes Australia Limited from 1980 and was responsible for all Cadbury Schweppes' Confectionery operations in the Asia-Pacific region until retirement in 1999. Previously a Director of Colonial Limited and Victoria TAB (before it became Tabcorp), Chairman of Snackfoods Limited, Chairman of Cadbury Schweppes Australia Limited and Chairman and Managing Director of Campbell Soup Australia Limited. Mr Hayes will retire from the Timbercorp board on 30 January 2009.

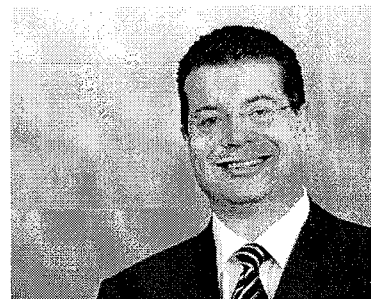


Gary Liddell

Non-Executive Director

Age 68, CA

Appointed a Director in August 1997. Chairman of the Audit, Risk and Compliance Committee and a member of the Remuneration and Nomination Committees. Previously Chairman of Timbercorp Limited from 29 June 2001 to 14 October 2002. Mr Liddell is an associate of the Institute of Chartered Accountants in Australia and is a partner in chartered accounting firm Liddell Weight & Co. Mr Liddell has a long professional background in financial management and compliance work and has a detailed knowledge of primary production structures and operations.



Sol Rabinowicz

Chief Executive Officer

Age 42, LLB, BEc, FFin

Appointed a Director in July 2000 and Chief Executive Officer in July 2008. Mr Rabinowicz joined Timbercorp following its ASX listing in May 1996 and has served as Company Secretary, General Manager Corporate, Chief Financial Officer, Marketing Director and most recently Deputy Chief Executive Officer. Mr Rabinowicz is also a Director of CostaExchange Limited. He has a unique mix of experience in the agribusiness sector covering investment, the law, agricultural production, marketing, international trade and taxation. Mr Rabinowicz is now responsible for the day-to-day management of all areas of Timbercorp's business.

