

Date: 6 August 2009

To: Mark Korda (Liquidator of Timbercorp Group of Companies)
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From: URS Forestry

Subject: Summary of Productivity Review report

Executive Summary:

In relation to Timbercorp's mapping processes, the methodology used is systematic and appears reasonable pursuant to the URS review.

In relation to Timbercorp's inventory processes, the methodology used is consistent with good forestry practice pursuant to the URS review.

With respect to site productivity estimates, Timbercorp determines expected productivity at age 10 years through the use of inventory at age 7.5 years and 4.5 years, both then extrapolated to age 10 years, and a pre-plant determination.

In relation to Timbercorp's site productivity estimates using age 7.5 inventory data, the URS review found that Timbercorp's approach is robust.

In relation to Timbercorp's site productivity estimates using age 4.5 inventory data, the URS review found that the Western Australian model is a reasonable predictor of current growth, while the Green Triangle model over-predicted volumes to age 7.5 by an average of 16%.

In relation to Timbercorp's site productivity estimates made prior to establishment, the URS review found that the estimates are on average 26% higher than the projected age 10 volumes derived from other plantations in the same region where inventory data or actual harvest yields was available. URS considers the pre-plant estimates are generally higher than are likely to be realised.

Scope:

URS were employed by Timbercorp Ltd prior to the appointment of the Voluntary Administrators, and subsequently KordaMentha, to complete the following tasks with respect to the hardwood pulpwood plantations managed by Timbercorp:

- Review the methods used by Timbercorp to determine site productivity for Tasmanian blue gum;
- Review Timbercorp's mapping and inventory processes;
- Conduct in-field audits within each major plantation region to confirm that the inventory procedures have been followed; and
- Report on the findings.

Limitations:

KordaMentha have received the full report dated 31 July 2009, titled Final Report - Updated Review of Productivity Estimates on Timbercorp Land.

URS Australia Pty Ltd (URS) has prepared the report in accordance with the usual care and thoroughness of the consulting profession for the use of Timbercorp and only those third parties who have been authorised in writing by URS to rely on the report. It is based on generally accepted practices and standards at the time it was prepared. No other warranty, expressed or implied, is made as to the professional advice included in this report. It is prepared in accordance with the scope of work and for the purpose outlined in the Proposal dated 15 June 2009.

The report was prepared between 15 June and 31 July 2009 and is based on the conditions encountered and information reviewed at the time of preparation. URS disclaims responsibility for any changes that may have occurred after this time.

The report should be read in full by KordaMentha. No responsibility is accepted for use of any part of this report in any other context or for any other purpose or by third parties. The report does not purport to give legal advice. Legal advice can only be given by qualified legal practitioners.

Our conclusions are based upon a range of variables and assumptions. Changes to any of these variables and assumptions may have a material effect on expected outcomes. Actual events and results are likely to be different from those set out in this report, as future events are by their very nature incapable of independent substantiation.

Summary of findings:

Mapping processes

With respect to the mapping processes, Timbercorp's mapping methodology uses a systematic approach to data collection. The procedures clearly identify mapping requirements and appropriate technologies are used for collecting and updating spatial information. Plantation maps are created prior to establishment and Timbercorp has a process of updating maps post planting.

From our review process, nothing has come to our attention to indicate that these mapping processes are not reasonable.

Inventory processes

With respect to inventory processes (i.e. the implementation of designing and collecting inventory information from sample plots), the processes used by Timbercorp are consistent with good forestry practice.

Site productivity estimates

With respect to site productivity estimates Timbercorp uses three different approaches to determine age 10 productivity with each approach dependent on the age of the plantation:

- At age 7.5, following a late rotation inventory;

- At age 4.5, following a mid-rotation inventory; and
- Prior to establishment (for first and second rotation land) with an in-house developed process.

Note: Inventory of stands younger than age 4.5 years does not provide reliable indications of long term growth (i.e. through to 10 years) at the property level.

Late rotation inventory

URS tested the late rotation inventory processes comparing estimated volumes at age 10 with actual volumes harvested or with actual inventory volumes at age 10.

The results of our analysis indicate that Timbercorp's approach to updating its productivity estimates using late rotation inventory appears to be robust across a broad productivity range in both Western Australia and the Green Triangle. No testing was undertaken by URS to determine the suitability of applying the growth function beyond age 10 as insufficient data was available for this analysis.

Mid-rotation inventory

With respect to the mid-rotation inventory, URS reviewed the robustness of the growth models used by Timbercorp by projecting the age 4.5 inventory to age 7.5 (for both the Green Triangle and WA) or to age 10 (where this information was available from plantations in WA) and comparing the predicted results to the actual inventory volume at the latter age.

Based on the data available for this analysis, it appears that the Western Australian model is a reasonable predictor of growth from mid-rotation inventory for the range of productivities that have been achieved to date in Western Australia.

The results from a sample area of 36,271 ha showed that the Green Triangle model over-predicted stand volume at age 7.5 by an average of 16%.

An analysis of the rainfall patterns in the Green Triangle since the plantations were established showed that below average rainfall in 2005 and 2006 has impacted negatively on tree growth. It is reasonable to conclude that these low rainfall years would be one of the key drivers of variation between the projected and actual volumes. Further analysis is required to confirm whether there are other factors impacting on the variation, including model refinement, and whether a compensating trend (i.e. under-prediction) exists during periods of above-average rainfall.

Pre-plant determination

With respect to pre-plant productivity determination, Timbercorp's land evaluation methodology is largely consistent with the processes used by other companies for determining the suitability of agricultural land for plantation forestry. However, the extent to which factors, such as the availability of groundwater or previous land use influence growth is not yet fully understood and this could lead to variations between pre-plant estimates and realised yields.



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URS compared the pre-plant estimates for plantations that have not yet been inventoried to the projected age 10 volumes derived from other plantations in the same region where inventory data or actual harvest yields were available. The results showed that at an estate level Timbercorp's pre-plant productivity estimates are on average 26% higher than the realised outcomes in both the Green Triangle (32% higher) and Western Australia (21% higher).

There are a number of possible reasons for the difference between Timbercorp's pre-plant estimates and the most recent inventory data. However URS's opinion is that the pre-plant productivity estimates are generally higher than are likely to be realised. In particular, Timbercorp's site evaluation procedures are based on average climatic conditions and optimal stand management and nutrition. Plantation productivity will be influenced by a range of factors, some of which are out of the control of Timbercorp.