

8 August 2007

Dear Auspine Shareholder

### **AUSPINE'S SUPPLEMENTARY TARGET'S STATEMENT**

We enclose Auspine's Supplementary Target's Statement. The statement and the annexure to it contain important information about Auspine's improved business outlook and certain corrective statements. We recommend that you read the entire Supplementary Target's Statement carefully.

**Our improved business outlook, when applied to the methodology used by the independent expert, Lonergan Edwards in valuing Auspine's wood products businesses, indicates a value of \$6.60 to \$7.21 for your Auspine shares. However, Lonergan Edwards has not been requested to review, and has not changed, its valuation of your Auspine shares.**

You will be aware that Gunns complained about some statements in Auspine's Target's Statement and alleged that the independent expert's report (**IER**) prepared by the independent expert, Lonergan Edwards was flawed. Gunns referred its complaints to the Takeovers Panel. The Takeovers Panel declined to proceed with Gunns' application, on the basis that Auspine would include certain clarifications and corrections in the enclosed statement.

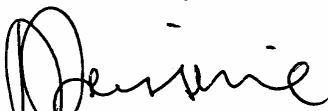
Your Directors maintain their view that **Gunns' offer is not fair or adequate.**

Gunns has claimed that its offer was "fair" when the IER's flaws were corrected. Importantly, Gunns has not demonstrated that the IER was flawed. Clearly, Gunns cannot now sustain that its offer is fair.

**Your Directors continue to recommend that you reject Gunns' offer. To reject Gunns' offer simply do nothing and ignore all correspondence from Gunns.**

If you require further information please email [gtb@auspine.com.au](mailto:gtb@auspine.com.au).

Yours sincerely



**Paul Teisseire**  
**Chairman**



# AUSPINE LIMITED

ACN 004 289 730

## SUPPLEMENTARY TARGET'S STATEMENT

This document (including the accompanying letter to shareholders) is a Supplementary Target's Statement under section 644 of the Corporations Act. It supplements the Auspine Target's Statement dated 12 July 2007 and is to be read together with that statement. A copy of this Supplementary Target's Statement was lodged with ASIC on 8 August 2007. Neither ASIC nor ASX nor any of their respective officers takes any responsibility for the contents of this statement. Words and phrases in the Target's Statement have the same meaning in this statement unless the context otherwise requires.

**THIS IS IN PART A CORRECTIVE STATEMENT.** Parts of this document contain corrections and clarifications to the original Target's Statement resulting from requests by the Takeovers Panel and accordingly, Auspine shareholders should read the Target's Statement as corrected or clarified by this Supplementary Target's Statement.

**YOUR DIRECTORS DO NOT CONSIDER GUNNS' TAKEOVER OFFER TO BE FAIR OR ADEQUATE.**

### Improved Domestic Timber Outlook

Attached as Annexure A to this Supplementary Target's Statement is an announcement released by Auspine to ASX on 24 July 2007. As outlined in that announcement, the improved domestic timber outlook has led your Directors to expect that earnings before interest, tax, depreciation and amortisation (**EBITDA**) of Auspine's wood products business in the financial year ending 30 June 2008 will be at least \$24 million and that it should be higher still in the 2009 financial year. This is above the normalised EBITDA adopted by Lonergan Edwards & Associates Limited (**Lonergan Edwards**) in valuing Auspine's wood products business of \$21 million.

If the weighted average EBITDA multiples and methodology used by Lonergan Edwards in valuing Auspine's wood products business in its independent expert's report (**IER**) are applied to this revised forecast EBITDA:

- the value of Auspine's wood products business would be between \$169.8 million and \$182 million (up from the range set out in the IER of between \$148.8 million and \$159.5 million); and
- **THE VALUE OF AUSPINE'S SHARES WOULD BE BETWEEN \$6.60 AND \$7.21.**

The values outlined above result from your Directors applying Lonergan Edwards' valuation methodology and are consistent with your Directors' view of the value of Auspine's wood products business. However, neither the forecasts on which these values have been calculated, nor the calculation themselves, has been reviewed or checked by Lonergan Edwards and Lonergan Edwards in no way endorses or takes responsibility for the values set out above.

**Lonergan Edwards has not changed its valuation of Auspine shares.**

**LONERGAN EDWARDS HAS EXPRESSED THE VIEW IN THE IER THAT THE GUNNS OFFER WAS NOT FAIR BUT CONSIDERED IT TO BE REASONABLE IN THE ABSENCE OF A HIGHER OFFER.**

Although Lonergan Edwards expressed the view that Gunns' Offer was not fair, it considered the offer to be reasonable for the following reasons:

1. the value of the Gunns' Offer is only marginally below the low end of its valuation range;
2. the Gunns' Offer consideration is identical to the consideration offered by Gunns following a competitive tender for 25.1% of the shares in Auspine;
3. no higher offer or superior proposal from another party has been announced; and
4. the price of Auspine shares is likely to fall below the value of Gunns' Offer consideration if Gunns' Offer lapses and no higher offer or alternative proposal emerges.

Your Directors share Lonergan Edwards' view that Gunns' Offer is not fair. However, your Directors disagree with Lonergan Edwards' view that Gunns' Offer is reasonable. Your Directors are firmly of the view that Gunns' Offer is inadequate for the following reasons:

1. as outlined above, the improved outlook in the domestic timber market implies a higher valuation for Auspine shares than that set out by Lonergan Edwards in its IER and Gunns' Offer is well below the lower end of this implied valuation;
2. although Gunns' Offer is identical to that paid in the competitive tender proposal that does not necessarily mean that it was a good price for those shareholders who elected to sell via that tender process. Your Directors believe that Gunns secured its 25.1% stake in Auspine at a good price for Gunns and not for those shareholders who sold;
3. although there is presently no higher offer or alternative proposal, there are parties still conducting due diligence investigations in relation to Auspine. This does not mean that a higher offer will be made in relation to Auspine but it does indicate additional interest in Auspine;
4. while Auspine's share price may decrease if Gunns' Offer expires, your Directors are of the view that any decrease in the value of Auspine shares would not be indicative of the fundamental value of Auspine shares;
5. Lonergan Edwards has opined that Gunns is likely to be prepared to increase its offer provided it can acquire 100% of the shares in Auspine. This is largely because of the additional benefits which will flow to Gunns if it is able to acquire 100% of Auspine, including tax consolidation benefits and additional synergies. Given that Mr de Bruin has clearly stated that he will not accept the Gunns' Offer at this level, your Directors believe that Gunns may consider an increased bid in the future to secure Mr de Bruin's shares and the additional benefits that flow from 100% ownership of Auspine.

## **Auspine Shares Trading on ASX**

Further, since 15 May 2007, Auspine shares have traded on ASX at a premium to Gunns cash bid price of \$6.15<sup>1</sup>. In your Directors' opinion, this indicates a view in the market that Gunns is underpricing Auspine shares and that a higher bid is possible. Between 15 May 2007 and 3 August 2007, 6,716,501 Auspine Shares were traded and Mr de Bruin has shown his strong support for Auspine by acquiring Auspine Shares at above Gunns' cash price. He has acquired a relevant interest in 397,457 Shares, equal to 5.92% of the Shares trade. As indicated previously, Auspine has permitted 2 parties to conduct due diligence in relation to Auspine and to date, Auspine does not know whether either party will, or will not, make an alternative offer. Auspine will inform shareholders if it becomes clear that either of those parties is not continuing its investigations in relation to Auspine.

## **Independent Expert's Report**

In its Supplementary Bidder's Statement Gunns alleges a number of flaws in the IER by Lonergan Edwards which valued Auspine shares in a range of \$6.21 to \$6.79.

Lonergan Edwards is an expert in company share valuations and, as the description of the IER suggests, is independent of Auspine. Auspine could not direct the manner in which Lonergan Edwards prepared the IER or its conclusion. Lonergan Edwards has reviewed the issues raised by Gunns in the Supplementary Bidder's Statement and has confirmed that in its opinion, the value range for Auspine shares remains between \$6.21 and \$6.79.

In particular, Lonergan Edwards has rejected the assertion made in section 1 of the Supplementary Bidder's Statement that it made simple errors in its treatment of the deferred tax liability and the capitalisation of corporate costs.

Lonergan Edwards has advised that Gunns' comments with respect to its allowance for deferred tax liability (**DTL**) imply that a purchaser would attribute a value to Auspine based on:

1. a low value for plantations and land and a high allowance for DTL; and/or
2. a high value for plantations and land and a low allowance for DTL.

In Lonergan Edwards' opinion, Gunns' approach is not commercially realistic and is inconsistent with the fact that the DTL would increase at higher asset values. In Lonergan Edwards' view, a purchaser adopting higher values for plantations and land would also increase the DTL allowance. This is consistent with the approach adopted in the IER.

With respect to the capitalisation of corporate costs, Lonergan Edwards has advised that capitalised corporate costs have been correctly treated in the valuation. As Lonergan Edwards' high point value of \$6.79 per Auspine share reflects a higher implied earnings multiple than its low point value of \$6.21 per Auspine share, it is appropriate to apply the higher multiple when capitalising corporate costs in the high value.

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<sup>1</sup> Since Gunns' announcement on 15 May 2007, ANE shares closed at \$6.11 on 15 May and \$6.15 on both of 16 May and 27 June 2007. For all other days since 15 May 2007, ANE shares have traded above \$6.15 with a peak of \$6.70 on 10<sup>th</sup> July 2007.

## **Chairman's Letter dated 12 July 2007**

In Auspine's Chairman's letter dated 12 July 2007 forming part of the Target's Statement, the Chairman commented to the effect that if Gunns acquired 100% of Auspine, Gunns "can eliminate Auspine's Deferred Tax Liability of \$74.2 million, which is worth \$1.38 per share". Insofar as that comment may be interpreted as suggesting that the elimination of Auspine's DTL would add \$1.38 to the value of Auspine shares, this is incorrect and the Chairman did not intend to give that impression. The Chairman's intention in making the statement was to indicate the potential impact on the balance sheet value of the net tangible assets of Auspine if Gunns acquired 100% of Auspine. If that occurred, Auspine would become part of Gunns' consolidated group under the tax consolidation regime, with the result that the tax base of Auspine's assets would be restated. As a consequence of any increase in the tax base of an asset, the associated DTL will be reduced or may be eliminated entirely. If Auspine's DTL of \$74.2 million is eliminated entirely from the consolidated balance sheet, that would equate to an increase in the net tangible assets of Auspine for accounting purposes of an amount equivalent to \$1.38 per Auspine share. In arriving at a range of values for Auspine Shares in the IER, Loneragan Edwards deducted \$9 - \$16 million with respect to the DTL rather than the \$74.2 million book value DTL. It is not the case and the Chairman did not intend to convey that \$1.38 should be added to the share valuation range of between \$6.21 and \$6.79 arrived at in the IER.

## **Loneragan Edwards Forestry Plantation Valuations**

In response to the issues raised by Gunns in relation to the use of the Poyry report, Loneragan Edwards has advised that it has undertaken a number of other forestry plantation valuations on behalf of major institutional investors in forestry plantation assets in Australia and therefore has the necessary experience to assess the Poyry valuation and amend it as appropriate.

Loneragan Edwards adopted the Poyry valuation in its low point valuation but amended the Poyry valuation in its high point valuation as the Poyry valuation was conservative, having adopted a high discount rate described by Poyry as a "pre-cautionary" approach. In addition, Poyry adopted log price assumptions which, in Loneragan Edwards' view, were unduly conservative given likely demand for softwood structural timber. This view has been borne out by recent trends in the domestic timber market as outlined in the attached announcement.

## **Gunns Has Not Publicly Ruled Out Increasing Its Takeover Offer**

Under ASIC's "Truth in Takeovers" policy<sup>2</sup>, ASIC has stated that a bidder that makes a last and final statement and then departs from it risks regulatory action from ASIC or an application by ASIC to the Takeovers Panel. An example of a last and final statement is where a bidder states that it will not improve the consideration offered under the bid. By stating that it has *not considered* increasing its offer, Gunns has left the door open to a further increase in its bid if it wishes to do so.

**If Gunns is serious about this being its last and final offer, it should say so publicly in clear and unequivocal terms.**

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<sup>2</sup> ASIC Regulatory Guide 25 "Takeovers: false and misleading statements."

## **Total Shareholder Return**

On pages 16 and 17 of the Target's Statement, Auspine made comments about total shareholder returns (**TSR**) for Auspine shareholders and for Gunns shareholders. Gunns has objected that those comments were misleading because, amongst other reasons, they did not take into account dividends paid by the companies. Gunns objected that the comparison of TSR made by Auspine incorporated a period from 18 April to 30 April 2007 when it was possible that speculation in relation to the tender process and a potential takeover was affecting Auspine's share price. In a comparison of TSR based on the 2 years finishing just prior to the announcement of the tender process on 18 April 2007, Auspine's TSR was 7.60% and Gunns' TSR was 1.42%. Accordingly, even on this basis, Auspine outperformed Gunns in TSR to shareholders over the 2 years prior to the announcement of the tender process.

As stated in section 4 on pages 17 and 18 of the Target's Statement, your Directors consider that in the months prior to the announcement of the Tender Process, there had been an adverse price movement in Auspine Shares, partly due to the loss of Tasmanian saw log supply contracts and the consequential write down of the Scottsdale processing assets announced on 29 January 2007. Since January 2007, Auspine's business outlook is improved as indicated in the annexure and Auspine has been able to make substantive alternative arrangements for saw log supply to the Scottsdale facilities. Your directors consider that Auspine's TSR prior to the log supply contracts announcement was more illustrative of Auspine's performance in recent times. For the 2 years prior to 29 January 2007, Auspine had positive TSR to its shareholders of 22.08%.

## **CGT Rollover Relief**

In its Supplementary Bidder's Statement, Gunns stated that "other shareholders intentions of no concern" (sic). This statement is completely incorrect. The intentions of Mr de Bruin are crucial to any decision to accept scrip as consideration for Gunns' Offer. If Mr de Bruin and the entities connected with him do not accept Gunns' Offer, then **SCRIP FOR SCRIP ROLLOVER RELIEF WILL NOT BE AVAILABLE TO AUSPINE SHAREHOLDERS** and that makes Mr de Bruin's intentions of legitimate and important concern to all shareholders.

As outlined in Mr de Bruin's letter sent to shareholders dated 24 July 2007, Mr de Bruin has stated that he will not sell his Auspine shares into the Gunns takeover bid at its present level.

## **Gunns' Assessment of the Premium**

Gunns' continues to feature a statement that it is offering a 116% premium to the average Auspine share price of \$2.85 over the last 10 years. While this statement may be technically accurate, it is a measure which is completely irrelevant to any assessment of whether Gunns' offer is reasonable and is intended to create a misleading impression of the premium being offered to shareholders.

Auspine shares have not traded at or below \$2.85 for over 3 years and for the most part have traded well above that price. Auspine is a unique forestry company in the Australian context, having significant land and plantation holdings, together with a sawmill and wood products business. Your Directors believe that it is only in recent years that the Australian investment market has begun to recognise the value of Auspine's business and plantations. By using the 10 year average, Gunns is attempting to avoid reference to Auspine's outstanding performance over the last 3 years and this increased market recognition.

## **Restatement of Tax Cost Base of Land and Plantations**

In paragraph 2 of its Supplementary Bidder's Statement, Gunns disagreed with Auspine's view on the application of certain tax laws. Your Directors have reviewed the Target's Statement based on Gunns' comments and remain of the view that the Target's Statement correctly outlined the position having regard to existing law. Further, what Gunns omitted to mention in its Supplementary Bidder's Statement is that on 1 December 2005 the Federal Government announced that the relevant laws would be amended with effect from 1 July 2002 to ensure clarity in relation to the application of those laws (Gunns presumably reached a different conclusion based on the matter of clarity). Some of the amending legislation required to clarify this matter came into force on 12 December 2006 and it is reasonable to expect that all necessary changes to the law will come into force. Once these amendments are passed, the resultant tax treatment will undoubtedly be as stated in Auspine's Target's Statement effective as from 1 July 2002. Nevertheless, as outlined above, your Directors consider that the existing legal position is as described in Auspine's Target Statement. Accordingly, your Directors remain of the view that if Gunns acquires 100% of Auspine, it will become part of Gunns' consolidated group under the tax consolidation laws, with the result that the tax base of the assets of Auspine would be restated. As a consequence of any increase in the tax base of an asset, the associated DTL will be reduced or may be eliminated entirely. If Auspine's DTL of \$74.2m is eliminated entirely from the consolidated balance sheet, that eliminated DTL equates to \$1.38 per Auspine share.

## **Managed Investment Schemes**

Gunns has stated in its Supplementary Bidder's Statement that it does not sell existing plantations to retail investors. However, this does not make the valuations placed on plantations held in managed investment schemes irrelevant to an assessment of the value of Auspine shares. The value placed on new plantations by retail investors in managed investment schemes is clearly a consideration that is appropriate for shareholders to take into account when considering the potential value of Auspine's mature plantations and Auspine's shares.

## **Valuation of Tasmanian Sawmill Business**

Since the decision was taken in December 2006 to write down the value of Auspine's Tasmanian sawmill business in accordance with accounting standards regarding asset impairment, Auspine has entered into arrangements to secure significant saw log supply to its Tasmanian sawmilling operations. The 2008 financial year budgeted log intake significantly exceeds that originally forecast in December 2006 when the asset impairment testing was undertaken. That is likely to continue to be the position under current arrangements for at least the next 3 years. Information regarding the improved saw log supply position was made available to Lonergan Edwards and was taken into account by Lonergan Edwards in preparing its report. Additionally, Lonergan Edwards' valuation was conducted using a different methodology from that employed with respect to the December 2006 asset impairment, as set out in the IER. Lonergan Edwards has confirmed that it remains of the view that its assessed value of the Tasmanian business was appropriate.

## **Colliers and Poyry Reports**

The valuation reports by Colliers and Poyry referred to in the Target's Statement can be viewed by visiting Auspine's website at [www.auspine.com.au](http://www.auspine.com.au).

Colliers has confirmed to Auspine that the rental value of \$177.33 per hectare utilised by Poyry in its report (page 56) is correctly based on Colliers' assessment of Auspine's annual plantation rent.

## **Consents**

Lonergan Edwards has consented to the inclusion in this Supplementary Target's Statement of statements by or concerning it in the form and context in which they appear.

Valuation reports by Colliers and Poyry were referred to in the Target's Statement and are referred to above. Auspine has the consent of Colliers and Poyry to the inclusion those references and to the above confirmation by Colliers in the form and context in which those references were and are included.

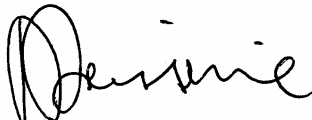
Your Directors have consented to the inclusion in this Supplementary Target's Statement of statements by or concerning them in the form and context in which they appear.

## **Authorisation**

This Supplementary Target's Statement has been approved by a resolution of the Directors of Auspine. All Directors of Auspine voted in favour of this resolution.

**Dated 8 August 2007**

Signed for and on behalf of Auspine Limited

A handwritten signature in black ink, appearing to read 'Paul Teisseire', with a large, stylized initial 'P'.

**Paul Teisseire**  
**Chairman**



## ANNEXURE A

### Auspine Announcement to ASX 24 July 2007



CORPORATE OFFICE  
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24 July 2007

**VIA: Electronic Lodgement Program**  
**PAGES: 3**

Australian Stock Exchange  
"CAO" (Company Announcement Office)  
Level 10  
20 Bond Street  
**SYDNEY NSW 2000**

Dear Sir / Madam

In accordance with Listing Rule 3.1, the Directors of Auspine Limited ("Auspine") hereby make the following announcement.

#### **Domestic Timber Market Outlook**

On 5 June 2007 Auspine informed the ASX it was experiencing increased demand for structural timber products and, as a result, pricing of these products was recovering strongly.

Economic forecasters such as Commonwealth Bank Research continue to revise up levels of underlying housing demand in Australia to levels significantly above the current rate of construction.



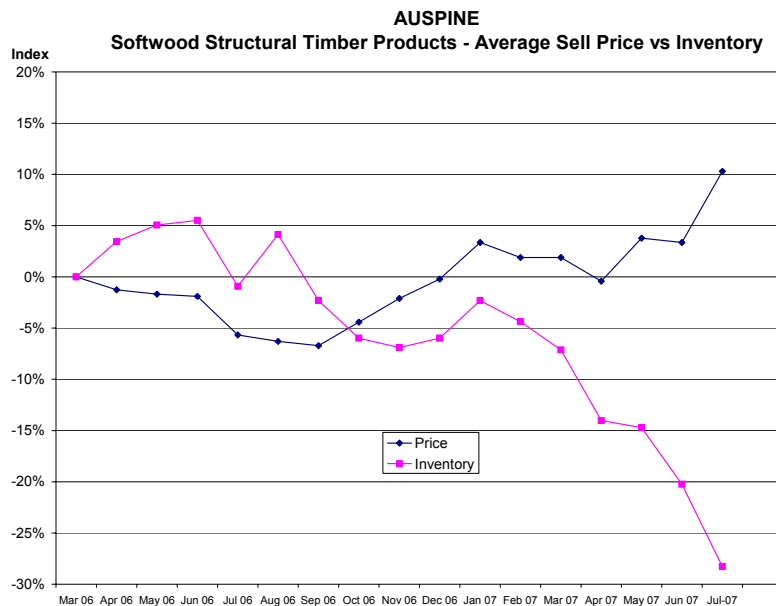
In its Target's Statement, Auspine stated that housing construction is forecast to move from 149,000 starts in 2007 to 158,000 starts in 2008 and 167,000 starts in 2009.

Already these figures have been updated so that new dwelling construction is running at about 155,000 starts currently and is expected to rise towards 182,000 starts in 2008 and higher in 2009.

Producers of softwood structural timber products are constrained by finite plantation softwood sawlog availability and as a consequence are only able to make moderate production increases to meet this increased demand. Auspine production plants are expected to operate at similar levels in 2008 as in the previous year.

Finished goods inventories of softwood structural timber have fallen significantly to levels not seen for many years while at the same time pricing has continued to increase.

This trend is depicted in the chart below.



Auspine anticipates further price increases throughout 2008.

Other softwood timber producers have announced price increases. Auspine is also aware that other softwood timber producer's inventories are reducing.

### **Auspine Wood Products Businesses**

For the 5 years to June 2007 Auspine, like most softwood timber producers in Australia, produced unsatisfactory returns on their funds employed.

In the IER, Expert Lonergan Edwards in arriving at a valuation of the Auspine wood products businesses adopted an EBITDA of \$21 million based on the 5 years to 2007 and the budget for 2008.

Based on the above market outlook, current demand and sales performance, Auspine expects its wood products businesses to achieve EBITDA of at least \$24 million for 2008 and higher in 2009.

An EBITDA of \$24 million is indicative of an additional 39 to 42 cents per Auspine share using Lonergan Edwards's valuation methodology.

### **Portland Woodchip Loader**

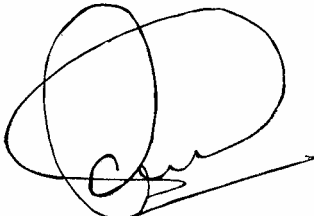
On 5 July 2007 the Auspine ship conveyor/loader at the Port of Portland was extensively damaged while loading the MV Forest King.

This was caused by the vessel moving off its mooring.

The loader is currently being rebuilt by a local engineering firm and is expected to be out of action for approximately 4 to 6 weeks.

The Port of Portland and another woodchip exporter are assisting Auspine load vessels scheduled during the rebuild period, thus minimising business interruption.

**For and on behalf of the Board**

A handwritten signature in black ink, appearing to read 'Adrian de Bruin', with a large, stylized loop at the beginning and a horizontal line extending to the right.

**Adrian de Bruin  
Managing Director**