

19 September 2011

Company Announcements Platform
Australian Securities Exchange

MARKET UPDATE

In the company's February 2010 release and subsequent market updates the company has outlined the process and progress of its strategic review. Specifically the review entails:

- The sale of non-core assets.
- Consolidation of timber processing businesses and associated assets.
- Progression of negotiations with potential equity partners for the elemental chlorine free bleached Kraft pulp mill, and associated infrastructure, at Bell Bay in Tasmania (Project), with the aim of advancing to financial close with a selected partner.
- Consolidation of the company's forestry and associated infrastructure assets to facilitate investment in the Project.

Tasmanian Forests Agreement

The announcement by the Tasmanian State Government on 14 September 2011 provides the necessary certainty for the company to continue to progress with the pulp mill project.

It is the company's view that satisfactory settlement of the Tasmanian Forests Agreement (TFA) and the company's exit from operations based on Tasmanian native forests is critical to providing an acceptable investment environment for both a mill equity partner and the company in Tasmania. The change in global customer demands for plantation based products is consistent with stakeholder views and requirements so as to necessitate the company's decision.

Key aspects of the agreement reached with both the Tasmanian State Government and Forestry Tasmania are:

- 1 Payment of \$23 million to Gunns.
- 2 Termination of certain wood supply agreements between the company and Forestry Tasmania and assignment of any subsisting or continuing rights and obligations under those agreements to the Tasmanian State Government.
- 3 Mutual release between the company and Forestry Tasmania from certain current and future claims arising out of those agreements.
- 4 Subject to assignment of the Triabunna wharf lease to Triabunna Investments Pty Ltd, the company will work with the owners of the Triabunna woodchip facility to progress arrangements for operations at the site.

The company ceased receiving wood sourced from native forests in Tasmania in the course of the 2011 financial year. The sale of the remaining assets of this business, primarily the sell down of inventory and sale of decommissioned sites, is expected to generate approximately \$60 million in cash flow in the 2012 year.

Business Restructure

Since February 2010, the company has conducted a structured process to finalise equity investment for the Bell Bay pulp mill project. This process involves engagement and negotiation with a number of parties. Confidentiality is a strict term of this process. Negotiations are now well advanced but not yet complete.

The selection of an investment partner in the Project will lead to a fundamental reshaping of the company. The contemplated transaction structure and the intended transfer of assets into the Project vehicle may include but not be limited to, Gunns' Tasmanian land and forest assets and associated infrastructure. This will materially change the underlying nature and structure of the group business and operations.

The company's announcement of 25 August 2011 included a revaluation of the company's core assets to reflect fair market value. The final agreed values for assets to be vended into the pulp mill project vehicle are material to the company's asset value. These values will be determined in negotiations with the investor parties in the coming weeks. The company will inform the market of the outcome of these negotiations in accordance with the Listing Rules requirements.

Given the nature and scale of the potential changes to the company's operations as currently contemplated, the company intends to seek shareholder approval for implementation of the Project equity investment transaction in due course.

The conclusion of negotiations with an equity partner will determine the outcome of certain restructuring transactions. A number of these transactions were outlined to the market in the recent company year end results release, notably:

- 1 The conclusion of the sale of the Green Triangle Forest estates.
- 2 The consolidation of the company's timber processing operations as a standalone business in order to participate in future industry consolidation or the sale of the company's timber processing business as part of ongoing industry consolidation.
- 3 The sale of the MIS loan book.

Further to these processes the resolution of the pulp mill equity investment will determine whether a process is initiated to sell the company's Tasmanian land and tree assets.

Financing

The company's primary debt facility matures in January 2012 and as a result the company will be required to retire \$340 million of debt. The company has a range of asset sale processes in progress to meet this requirement. Completion of the pulp mill Project equity investment process is a material factor in determining the company's approach to meeting that obligation. If the investment negotiations are not concluded with required certainty in the timeframes outlined, the scope of the company's asset sales program will be expanded to enable it to reduce its core debt level. Completion of key components of the asset sale program will then be integral to the completion of debt retirement.

Until the outcome of the current negotiations with an equity investor is known, the company is not able to inform the market as to which course of action it will follow. The alternatives will have very different outcomes for the value of the company and the nature and scope of its future assets and operations.

Pulp Mill Project Works

The company has executed a contract for bulk earthworks at the site and these works commenced on 29 August 2011. The company has undertaken substantial investment and works on the project. Expenditure of over \$200 million to date has been incurred to finalise approvals, complete site roading and vegetation clearing, prepare construction, operation and monitoring plans and procure equipment.

It is a condition of the State Pulp Mill Permit that "substantial commencement of the project" occurred by 30 August 2011. The Director of the Tasmanian Environmental Protection Authority is currently undertaking an assessment to determine compliance with this condition. The company has provided a detailed submission to the EPA to facilitate the assessment. It is expected that a determination will be made during September 2011.

The status of the pulp mill permit is a significant and material matter for consideration by the Directors in determining asset values in finalising accounts for the year ended 30 June 2011. The company's announcement of 25 August 2011 included a revaluation of the company's core assets to reflect fair market value and a valuation of assets related to the pulp mill based on the view of Directors that it is probable that the pulp mill project will be completed on the assumption that the existing regulatory framework for the project remains effective. These assets include the Tasmanian land and standing timber estate, valued at approximately \$680 million and capitalised investment in the pulp mill project valued at approximately \$217 million.

Trading Outlook

The company has current market guidance of underlying earnings before interest and tax for the 2012 financial year based on the current business structure in the range of \$40-50 million.

Whilst forecast underlying earnings is consistent with the 2011 results, significantly it reflects the completion of the transition of the company's hardwood woodchip business from its historical native forest base to a plantation resource. Based on the current market outlook plantation hardwood woodchip sales volume for the 2012 year is forecast at 2.4 million gmt. This supply will be largely sourced from mainland based operations.

The company confirms it is in compliance with the Listing Rules and in particular Listing Rule 3.1.

Contact

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