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Company Announcements Platform
Australian Securities Exchange

Gunns announces \$56.2 million full-year profit

- **Acquires ITC Timber for enterprise value of \$100 million**
- **\$145 million, fully underwritten entitlement offer at \$0.90 per share**

Integrated forestry company Gunns Limited (ASX: GNS) today reported a net profit after tax (NPAT)¹ for the 2009 financial year of \$56.2 million, a decline of 4.9% on the previous year.

The result represents earnings per share of 8.1 cents. Earnings before interest and tax (EBIT) for the year was \$110.8 million, a 20% decline on the prior year due to the reduction in global demand for woodchips foreshadowed at the half-year results in February and a decline in sales of plantation managed investment scheme (MIS) products.

The directors declared a final fully franked dividend of 2 cents per share, bringing the annual fully-franked dividend to 4 cents per share.

Gunns also announced the acquisition of ITC Timber Pty Ltd, a subsidiary of Elders Limited, for an enterprise value of \$100 million. The acquisition represents a logical combination of two complementary businesses and is expected to deliver significant, realisable synergies by the end of year one.

The acquisition is being funded via a \$145 million equity raising, structured as a fully underwritten 1 for 4 non-renounceable pro-rata entitlement offer.

¹ Underlying NPAT pre FORESTS distribution

Gunns Chairman John Gay said: "Demand in our key Forest Products business both in export markets and the domestic construction sector weakened throughout the 2009 financial year, particularly in the third quarter."

"These markets have stabilised in the course of the last quarter and are expected to improve progressively through the course of the 2010 financial year."

"The impact of the disruption across the MIS sector was significant in its effect on sales for this business in the critical year-end sales period."

"At the beginning of the financial year, Gunns decided to scale back its plantation MIS activities and conserve balance sheet capacity. However, planned plantation MIS sales declined materially below expected levels due to a material contraction in demand for these products, exacerbated by the negative publicity surrounding the sector in general and Great Southern and Timbercorp in particular."

The company's main business, Forest Products, demonstrated resilience in a challenging operating environment, with revenue declining by a modest 6% and EBIT declining by 13%.

During the year, Gunns significantly strengthened its balance sheet, completing an equity raising and plantation sale transaction to reduce debt levels, with net debt of \$654.3 million as at 30 June 2009. Gearing at 30 June 2009 was approximately 33%² and there are no refinancing commitments required on senior debt facilities until 2012.

In addition, Gunns is actively working on proposals to play a role in the ongoing operation of assets presently managed by Timbercorp and Great Southern Plantations.

"Significant opportunities for expansion of the group's interests in the Australian forestry sector are arising, primarily through the restructure of the MIS sector," Mr Gay said.

² Total debt / (total debt + book equity).

“Gunns is well positioned to capitalise on opportunities that may become available, and is assessing several opportunities to diversify and expand its forestry operations.”

DIVIDEND

The Directors have declared a final fully franked dividend of 2 cents per share, bringing total dividends for the 2009 financial year to 4 cents per share. The final dividend will be paid on 9 October 2009 for shareholders on the register on 11 September 2009.

The dividend payments for the year represent an annual payout ratio of 50%.

REVIEW OF OPERATIONS AND FINANCIAL PERFORMANCE

Group revenue for the 2009 financial year was \$769.3 million, down 10.7% on the prior year. Sales were impacted by challenging industry conditions in the group's export wood fibre and domestic solid timber markets and a significant reduction in plantation MIS activity.

Forest Products

Forest Products revenue for the 2009 financial year was \$597.1 million, a decrease of 5.8% on the prior year. EBIT for the division decreased by 12.6% to \$91.4 million for the year.

The performance for the division was principally driven by weakened conditions in the key Japanese fibre market. As foreshadowed at the half-year results in February, demand for wood fibre weakened significantly in the second half as production activity in the Japanese market declined. Sales volume for the full year was 3.1 million green metric tonne (gmt) compared to 3.6 million gmt in the prior year.

Hardwood fibre prices into the Japanese market have been maintained at 2008 levels for the 2009 calendar year.

The sawn timber business was impacted by weak domestic demand. Whilst an improvement is anticipated with demand for new home stock expected to increase in the 2010 year, there has been no improvement in trading conditions experienced to date.

The Company has always placed considerable emphasis on cost control. This focus has continued during the current period to ensure margins are maintained through this difficult economic climate. Management have also focussed on inventory management across the group. During the financial year, Gunns also completed the integration of the Auspine business, with synergies realised in line with Gunns' expectations at the time of the acquisition.

Managed Investments

The plantation managed investment business recorded revenue for the year of \$68.4 million, a 45% reduction on the prior year.

This was a result of the significant turmoil across the MIS sector following the corporate failures of Timbercorp and Great Southern in the latter part of the financial year.

The issues surrounding these failures significantly impacted market confidence in MIS products and the support of financial planning groups at a critical stage of the sales cycle. Woodlot development completed for the year totalled approximately 8,000 hectares (16,000 hectares in the prior year).

The underlying operating result for the business of \$16.7 million compares to \$49.8 million in the prior year.

Other Businesses

The Tasmanian-based merchandising, construction and wine business reported revenue of \$103.9 million and underlying EBIT of \$2.2 million for the 2009 financial year. Whilst revenue was consistent with the prior year, earnings were down 48%, with the Tamar Ridge wines business experiencing a poor volume yield from the 2009 vintage due to unseasonal conditions during the fruit set.

Net Financing Costs

Gunns' net financing cost of \$40.1 million comprised interest expense of \$59.3 million on its borrowings, and interest income of \$19.2 million on the MIS loan book. The net financing cost in the second half of the 2009 financial year was \$13.4 million.

Reconciliation of Underlying Profit to Statutory Reported Profit

Gunns reported underlying EBIT of \$107.1 million and underlying NPAT of \$52.5 million.

The reconciling items between the underlying and statutory results were:

- **Restructuring costs:** \$(9.5) million EBIT impact, resulting from integration of Gunns and Auspine's operations. These costs primarily comprise redundancies related to the restructure of our timber businesses and the closure of two manufacturing sites
- **Doubtful debt provision:** \$(8.4) million EBIT impact. The reported EBIT of \$7.4 million for the managed investments business a provision for doubtful debts of \$8.4 million held against the finance loan book (total loan book of \$275 million) for the year. In the event an MIS investor fails to make payments on the loan, Gunns is entitled to enforce its security against that investor's woodlots
- A gain on financial instrument revaluation of \$21.6 million. The financial instruments primarily relate to foreign exchange contracts entered into in relation to the Bell Bay Mill.

The total EBIT impact in the statutory result of these items was \$3.7 million. The NPAT impact was \$2.6 million.

Sale of Plantation Forests

In February 2009 the company completed the sale of a tranche of plantation forest. The proceeds of the sale of \$173 million (pre-tax) were applied to the reduction of corporate debt. Under the terms of the sale Gunns retained the freehold land associated with the standing timber and has a contract for the supply of timber.

Gunns also retains management responsibility for the forests, including retaining responsibility for replanting. The proceeds of the sale approximated the book value of the plantation forest.

FEA Investment

In July 2009 Gunns acquired a 17.9% interest in the equity of Forest Enterprises Australia Limited at a value of 10 cents per share. The purchase was funded through the placement of 5.7 million Gunns shares and a cash payment of \$1.58 million to the vendors. This strategic investment recognised the importance to the forest industry of further consolidation and is in line with the group's strategy to continue to diversify and expand its forestry operations.

BUSINESS STRATEGY

The development of a sustainable plantation resource and fully realising its value through value-added processing is a key priority of the Company.

Gunns' development of its plantation resource commenced in the 1990s and accelerated during the past decade. Development through the planting program has been supplemented by acquisitions such as Boral's Tasmanian forestry assets, North Forest Products and most recently the Auspine business. These acquisitions added more than 100,000 hectares of plantation resource to the group.

Today the group manages over 200,000 hectares of plantation with the capacity to provide more than 4 million gmt of wood supply annually on a sustainable basis.

The current restructure of the hardwood plantation sector in Australia provides the potential to further increase mill plantation input.

The assets which may be sold are located in recognised plantation growth regions, such as the Green Triangle in South Australia/Victoria and the South West of Western Australian.

These plantations are close to maturity and are capable of producing a sustainable supply of more than 4 million gmt annually.

BELL BAY MILL UPDATE

The Bell Bay Mill is a critical infrastructure project to provide capacity to add value to the plantation resource in Australia and to provide a world scale, environmentally sound pulp supply to the Australian market.

The majority of the hardwood plantation resource in Australia is grown specifically for the pulp production process. The Bell Bay Mill project is being progressed to process and maximise the value of this resource.

Gunns' objective is that the mill become 100% plantation based. Access to the mainland-based plantation resource provides an opportunity to further accelerate the transition to a plantation base for mill operations.

In June the Company announced it had selected a preferred joint venture partner for the mill. Negotiations are continuing positively. In parallel with the joint venture process, Gunns has continued to progress negotiations with project finance banks.

BOARD RENEWAL

Mr Gay retired as Managing Director at 30 June 2009 with Mr Greg L'Estrange appointed as Chief Executive Officer of the group from that date.

Mr Gay continues in his role as Chairman and in an executive capacity in managing the development of the Bell Bay Pulp Mill project.

"Greg L'Estrange is a highly talented executive with more than 20 years' experience in the timber and manufacturing sectors," Mr Gay said.

"His broad range of experience adds significant value to the company as it continues to grow."

The Board appointed Mr David Simmons as a director of the company in February 2009.

OUTLOOK

Mr Gay said the outlook for markets for Gunns' forest products business remains difficult.

"Wood fibre sales are largely dependant on the Japanese market and economic conditions which are expected to remain weak through at least the course of the first quarter of the 2010 financial year with the strengthening Australian dollar adversely impacting our competitive position," he said.

"Our timber operations are well positioned to benefit from any recovery in the domestic construction industry."

"The integration of the Auspine and Gunns timber operations has improved our cost structure and provides an efficient platform for growth as markets improve."

"While there are uncertainties around the outlook for the MIS sector, our view is that there is potential for the industry to grow from the base maintained in 2009 and for Gunns to capitalise on its market leadership in this sector."

The Company will continue to focus on reducing debt and cost control to manage the business through the current economic environment and take advantage of ongoing opportunities.

ACQUISITION OF ITC TIMBER

Gunns announced today that it has acquired ITC Timber Pty Ltd, a subsidiary of Elders Limited for an enterprise value of \$100 million. The acquisition is subject to regulatory approval and other customary conditions.

The business includes:

- Two manufacturing locations in Victoria and two manufacturing locations in Tasmania
- A sales base throughout Australia and targeted export markets
- A 50% stake in Smartfibre, a joint venture with FEA, which exports hardwood chips

Mr Gay said the acquisition provides highly complementary manufacturing assets in a strategically important location for Gunns.

“This acquisition creates a business with significant scale and a distribution footprint across Australia and Southeast Asia and the ability for the group to strengthen its presence in the most viable ‘wood baskets’ in Australia,” he said.

The transaction is expected to deliver annualised EBIT of approximately \$20 million, post-assumed synergies of approximately \$18 million. The acquisition price represents a multiple of approximately 5.0 times enterprise value to EBIT, post assumed synergies.

The acquisition is being funded via a \$145 million fully underwritten 1 for 4 non-renounceable pro-rata entitlement offer at \$0.90 per New Share. The balance of the funds will provide Gunns with the flexibility to pursue other potential acquisitions in the plantation sector or alternatively reduce debt.

Synergies

Gunns expects to achieve significant synergies as a result of the transaction. These synergies will be realised through operational consolidation, optimisation of product between facilities, and a material reduction in overhead. Additionally, Gunns believes inventory in the combined business can be reduced by in excess of \$30 million over 18 months. The costs of integration are expected to be approximately \$4 million.

Financial impact

The acquisition is expected to improve Gunns' financial position, through fully equity funding the acquisition of a business with no interest bearing debt.

CAPITAL RAISING

Gunns will raise approximately \$145 million of equity through a fully underwritten non-renounceable pro rata entitlement offer at \$0.90 per New Share.

The entitlement offer is comprised of an Institutional Entitlement Offer (the "Institutional Entitlement Offer") and a Retail Entitlement Offer (the "Retail Entitlement Offer").

The proceeds will be used to fund Gunns' acquisition of ITC Timber and to provide financial flexibility to pursue other acquisitions in the plantation sector or alternatively reduce debt.

Eligible shareholders are invited to subscribe for 1 new Gunns ordinary shares (the "New Shares") for every existing 4 Gunns shares held as at 7pm (Australian Eastern Standard Time "AEST") on 3 September 2009 ("Record Date"), at an Offer price of A\$0.90 per share.

The offer price represents 16.7% discount to the theoretical ex-rights price ("TERP") of A\$1.08, ex the FY09 final dividend.³

³ Based on a closing share price of \$1.145 on Thursday 27 August 2009, adjusted for the 2 cps dividend.

The Entitlement Offer is non-renounceable and the entitlements will not be tradeable on the ASX or be otherwise transferable. Shareholders who do not take up their full entitlement will not receive any value in relation to entitlements they do not take up and their percentage shareholding will be diluted.

Each New Share will rank equally with existing shares from allotment. New Shares issued under the Entitlement Offer will not be entitled to the final FY2009 dividend of 2 cents per share (payable in October 2009).

The Entitlement Offer is fully underwritten by Credit Suisse (Australia) Limited.

Institutional Entitlement Offer

Existing Eligible Institutional Shareholders will be invited to participate in the Institutional Entitlement Offer which will open on 31 August 2009 and close on 1 September 2009.

Eligible Institutional Shareholders can choose to take up their entitlement in whole, in part, or not at all. In addition, under the Institutional Entitlement Offer, New Shares equal in number to those attributable to entitlements not taken up by Eligible Institutional Shareholders, together with New Shares attributable to entitlements which otherwise would have been offered to Ineligible Shareholders if they had been eligible to participate in the Institutional Offer, which collectively form the institutional shortfall, will be offered to Eligible Institutional Shareholders who apply for new shares in excess of their entitlement, and to certain other eligible institutional investors.

Retail Entitlement Offer

Eligible retail shareholders will be invited to participate in the Retail Entitlement Offer on the same terms as the Institutional Entitlement Offer. The Retail Entitlement Offer will open on 7 September 2009 and close at 5:00 pm (AEST) on 25 September 2009.

Eligible Institutional Shareholders can choose to take up their entitlement in whole, in part, or not at all. Eligible Retail Shareholders who take up their entitlement in full can also apply for New Shares in excess of their entitlement. The issue of New Shares in excess of entitlements is dependent on the availability of additional New Shares as a result of other Eligible Retail Shareholders not taking up their Entitlement (in whole or in part), and Gunns retains final discretion to scale back applications as appropriate to ensure equity for all shareholders.

Stock lending and other transactions

Eligible shareholders will be entitled to apply for 1 New Share for every 4 Shares held as at 7.00pm (AEST) on the Record Date, 3 September 2009. In the event a Gunns shareholder has Gunns ordinary shares out on loan, the borrower will be regarded as the shareholder for the purposes of determining the Entitlement (provided that those borrowed shares have not been on-sold).

Summary of key dates

Event	Date
Institutional Entitlement Offer (open)	Monday 31 August 2009
Institutional Entitlement Offer (close)	Tuesday 1 September 2009 (midday)
Shares recommence trading on ASX	Wednesday 2 September 2009
Record date for Entitlement Offer	Thursday 3 September 2009 (7:00pm)
Retail Entitlement Offer opens	Monday 7 September 2009
Settlement of Institutional Entitlement Offer	Monday 7 September 2009
Normal trading of New Shares issued under the Institutional Entitlement Offer expected to commence on ASX	Tuesday 8 September 2009
Retail Entitlement Offer closes – last date for receipt of applications	Friday 25 September 2009
Settlement under the Retail Entitlement Offer	Tuesday 6 October 2009
Normal trading of New Shares issued under the Retail Entitlement Offer expected to commence on ASX	Thursday 8 October 2009

All times and dates in this announcement refer to Australian Eastern Standard Time. The timetable above is subject to change without notice. Gunns reserves the right to amend any or all of these dates and times, subject to the Corporations Act, the ASX Listing Rules and other applicable laws.

Contact

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