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Company Announcements Platform
Australian Securities Exchange

GUNNS PROPOSES TO MANAGE GREAT SOUTHERN PLANTATIONS FOR INVESTORS

Gunns Limited has today signed an Implementation Agreement with Great Southern Limited (in liquidation) (receivers and managers appointed) (GSL) and Great Southern Managers Australia Limited (in liquidation) (receivers and managers appointed) (GSMAL) in relation to a proposal to replace GSMAL as responsible entity of the 1998-2006 forestry managed investment schemes (Pulpwood Schemes).

The proposal is subject to various conditions, including approval of resolutions by growers and appropriate court directions.

Gunns Chief Executive Officer Greg L'Estrange said the proposal was a compelling offer that would provide certainty to Great Southern grower-investors.

"Our proposal will cause minimal disruption to the operation of the schemes, supported by Gunns' strong financial position and experience in the management and operation of plantations under managed investment schemes," he said.

Under the proposal, Gunns as responsible entity would receive a percentage of the 1998 – 2006 Pulpwood Schemes' Net Harvest Proceeds when the timber is harvested.

Gunns may investigate the 2007 Pulpwood Scheme and make a proposal involving, amongst other things, the replacement of GSMAL by Gunns as the responsible entity of the 2007 Pulpwood Scheme.

Proposed acquisition of related assets

In addition, Gunns has substantially agreed, but not yet finalised or signed, an asset sale agreement with GSL, GSMAL and the Receivers, McGrathNicol, to acquire certain forestry assets of the Great Southern group for approximately \$8.7 million. The assets

comprise property, plant and equipment, water licences, insurance payment receivables and inventory.

Gunns will make offers of employment to the forestry management personnel of the Pulpwood Schemes (other than those located in the Northern Territory). All sales contracts between the current responsible entity and the Great Southern group will be terminated.

Gunns has agreed terms to acquire the right of the Receivers to be indemnified out of scheme property for costs incurred in their receivership with the value of this to be determined at a later date following a court determination, and to extinguish any amount that GSMAL may otherwise be entitled to (in its capacity as the outgoing R.E.) for a payment of \$4.0 million. In addition, Gunns will make a \$1.0m payment for the termination of an agreement with a group company for woodchip marketing.

Gunns is also in discussions with Ferrier Hodgson, the Administrator of several of the Great Southern group companies, to potentially acquire certain ownership interests that the Great Southern group has in its Pulpwood Schemes acquired as a result of Project Transform and certain ancillary forestry infrastructure assets of the Great Southern Group for an amount yet to be determined.

Gunns has no specific proposal to acquire any freehold land owned by Great Southern group entities used in connection with the Pulpwood Schemes or other assets, but it intends to work co-operatively with the Receivers and Managers to seek a satisfactory long-term solution for all stakeholders regarding that freehold land.

Funding of the proposal

If the proposal is approved by growers, Gunns will fund the acquisition of the assets described above from cash at hand and existing facilities. The funding requirement of the potential acquisition of assets from the Administrator is yet to be determined.

Gunns would fund the costs of managing the plantations and operating the schemes through to harvest (described below) from internally generated cash flows. The fees payable by growers would be increased as described below.

Growers meetings

Growers meetings to vote on resolutions relating to the proposal are proposed to be held on 23 December 2009. Further details will be released shortly. The proposal is not conditional upon any regulatory approvals.

Overview of Proposal

Great Southern's hardwood pulpwood resources represent one of Australia's largest hardwood plantation estates. The proposal would provide highly complementary hardwood operations for Gunns, resulting in a significant increase in scale and access to additional plantation timber.

The proposal offers significant advantages for growers. If approved by growers, it will allow growers to retain an interest in their woodlot during the life of the Pulpwood Schemes and preserve growers' ability to receive a portion of the proceeds of the sale of their trees following harvest.

The proposal, if approved by growers, would help ensure the ongoing survival of the Pulpwood Schemes, eliminating the risk that they will be wound up, and avoiding a distressed sale which may deliver less than full value to growers.

Gunns believes the proposal will provide certainty for Great Southern growers. The increased grower charges under Gunns' proposal are less than those sought by the only other public proposal. Gunns' proposal will cause minimal disruption to the operation of the Pulpwood Schemes, supported by Gunns' strong financial position and experience in the management and operation of MIS plantations in the forestry sector.

Under the proposal, Gunns as responsible entity would receive a percentage of the 1998 – 2006 Pulpwood Schemes' Net Harvest Proceeds when the timber is harvested. The percentage varies by Scheme and ranges between a total of 4.5% and 55.0% of Net Harvest Proceeds.

The increased charges enable Gunns to meet the expenditure required to properly manage the plantations through to harvest. It is also proposed that additional flexibility be provided to manage harvest scheduling to address matters such as the effect of drought and market conditions.

Gunns has also agreed with the Receivers to propose to reduce the rental on freehold land under the control of the Receivers in respect of some of the land used in the

Pulpwood Schemes, in return for termination of any potential option to extend the leases to enable a second rotation of timber, where the right to exercise is in doubt following the receivership of the group.

The percentage impact of this varies based on the amount of freehold land in a particular MIS scheme year. While this would mean that Gunns would not be able to offer a further investment opportunity to growers to extend their investment for a further period, the return to growers from their current investment would be improved.

Scheme	Net Planted Area (Hectares)	Additional % of Net Harvest Proceeds (excludes GST)	Waiver of rental on freehold land under the control of the Receivers (%)	Total % of Net Harvest Proceeds (excludes GST) ⁽¹⁾
1998	616	1.50	(2.50)	4.50
1999	3,900	7.00	(2.50)	10.00
2000	15,564	12.00	(2.50)	15.00
2001	4,737	15.00	(2.25)	18.25
2002	6,438	22.00	(2.00)	25.50
2003	20,005	27.00	(2.25)	30.25
2004	21,345	32.00	(2.50)	35.00
2005	26,039	44.50	0.00	50.00
2006	23,171	49.50	0.00	55.00

(1) Total % of Net Harvest Proceeds includes the 5.5% fee the R.E. is currently entitled to.

Operational metrics

Gunns expects the harvest profile from the Pulpwood Schemes estate to increase from approximately 540,000 green metric tones (GMT) in the 2010 financial year progressively to approximately 2,800,000 GMT in the 2017 financial year.

This will build on Gunns' existing substantial sales volumes of plantation fibre and further enhance Gunns' leading market position as producer and exporter of wood fibre, consistent with Gunns' strategy that focuses on plantation-based fibre.

The estate includes approximately 42,000 hectares of plantation in the Green Triangle region which is expected to generate an annual woodflow of approximately 100,000-1,000,000 GMT through the Portland Loading facility currently under development by Gunns.

Gunns, in its proposed role as RE of the Pulpwood Schemes, would incur an estimated aggregate of approximately \$100 million gross cash operating costs up to and including the year of harvest of the timber spread across a period of approximately 11 years.

The gross operating costs are predominantly in relation to maintenance, land lease, and overhead. Annual gross operating cash costs from these activities are not expected to exceed approximately \$20 million in any given year.

On the basis that the proposal is approved by growers and associated agreements with the Receivers and Administrator are completed Gunns expects the transaction to be EPS accretive in the 2010 financial year.

Information about Great Southern Pulpwood Schemes

The Pulpwood Schemes comprise a net planted area of approximately 122,000 ha of predominantly hardwood pulpwood plantations in some of Australia's prime forestry regions in Albany, Bunbury and the Green Triangle (SE South Australia and SW Victoria).

In May 2009, Receivers and Managers, and Administrators were appointed over Great Southern Limited and related entities. Some of the group companies are now in liquidation as of 19 November 2009.

Information about Gunns

Gunns is Australia's largest fully integrated hardwood-based forest products company currently managing over 300,000 hectares of land for forestry use, Gunns Plantations Limited has established 15 managed investment schemes in wood, wine grapes and walnuts with approximately \$620 million of funds under management.

Further information for growers

Growers who would like further information on Gunns' Proposal can call the information line 1800 24 23 00.

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