



Directors' Report to Members of Gunns Limited and its Controlled Entities for the Half Year Ended 31 December 2009

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial report for the half-year ended 31 December 2009 and the review report thereon.

DIRECTORS

The Directors of the Company at any time during or since the end of the half year ended 31 December 2009 are:

| Name | Age | Period of Directorship |
|----------------------|-----|------------------------|
| John E Gay | 66 | Director since 1986 |
| Robin T Gray | 69 | Director since 1996 |
| Robin TJ Holyman | 71 | Retired November 2009 |
| Christopher J Newman | 66 | Director since 2001 |
| Richard V Millar | 65 | Director since 2007 |
| David J Simmons | 56 | Director since 2009 |
| Paul D Teisseire | 55 | Director since 2008 |

REVIEW OF OPERATIONS

Trading conditions in the group's key markets were extremely difficult throughout the 2009 calendar year and have resulted in depressed earnings for the reported period. The Company has taken important positive steps to return significantly improved profits with a dividend payment for the second half of the FY, and improve the Company's strategic position in forestry, fibre and timber processing for the future. These steps are detailed below covering cost reductions, intended corporate restructuring and industry rationalisation.

The strengthening Australian dollar impacted on competitiveness in the Asian market and the traditional export woodchip market to Japan was affected by reduced demand due to impacts of the global financial crisis. Many of our customers operated at reduced output levels during the period under review. This situation continues. Whilst the Chinese market is growing, pricing remains highly competitive due to the strength of the Australian dollar and short term surpluses of low priced competing products.

The Company recorded a net profit after tax for the six months ended 31 December 2009 of \$0.4 million. Earnings before interest and tax for the period was \$4.8 million. Underlying operational EBIT for the period decreased to \$7.5 million, down 88% on the previous corresponding period.

Group revenue for the period was \$325.9 million, down 24%.

Wood fibre revenue decreased to \$140.6 million, down 38% with earnings decreasing to \$6.9 million. This result is a direct reflection of the trading conditions experienced during the period. Management have retained a strong focus on cost control implementing programs to reduce fixed costs, to allow us to operate efficiently in an environment of reduced volumes.

Timber Products revenue decreased 2% to \$127.7 million with earnings increasing to \$5.5 million. Trading conditions gradually improved through the half, a trend which has continued in the current calendar year. The hardwood timber business of ITC Timber Pty Ltd was acquired in December 2009 for \$88.5 million.

This acquisition provides highly complementary milling and processing operations in Victoria, which is a strategically important location for Gunns. It has created a business with significant scale and a distribution footprint across Australia and South East Asia. The acquired business is expected to deliver an annualised EBIT of approximately \$20 million when all synergies are realised. These savings will be achieved through operational consolidation, optimisation of product between facilities and a reduction in overhead costs. Working capital investment in the combined business will be significantly reduced with a targeted inventory reduction of \$30 million over 18 months. The costs of integration are expected to be approximately \$4 million.

The Tasmanian merchandising business recorded a significant increase in turnover and earnings following completion of the redevelopment of our major Launceston retail operation in September 2009. The construction business experienced a relatively weak first half but has an improved outlook for the second half as a result of contracts secured. Sales volume and earnings for the cool climate wine business were improved, notwithstanding the strength of the Australian dollar which led to reduced export sales.

Earnings from the managed investment business were down \$7.8 million from the prior year. The result reflects the low level of sales achieved following the collapse of a number of major MIS operators late in the 2009 financial year and the resultant reluctance by investors to participate in this market segment. As a result minimal plantation development activity was undertaken in the period.

Earnings per share (EPS) for the half decreased by 6.6 cents to (0.4) cents.

Operating cash inflow of \$19.3 million for the half compares to an operating cash outflow in the prior year first half of \$4.5 million.

DIVIDEND

No interim dividend has been declared.

GREAT SOUTHERN PROJECTS

Gunns Plantations Ltd (GPL) recently received approval to be appointed as the Responsible Entity (RE) for a number of Great Southern pulpwood Managed Investment Schemes.

Great Southern's hardwood pulpwood resources (located in the Green Triangle region of South Australia, in south west Western Australia and in Tasmania) represent one of Australia's largest hardwood plantation estates. These estates are strategically important to the Bell Bay Pulp Mill project as discussed below.

PULP MILL PROJECT

The Bell Bay pulp mill project is being held in a “project ready” status to allow us to immediately commence construction on financial close. Negotiations with Sodra, the Swedish forest products cooperative are continuing in relation to them becoming an industry based equity partner. Investment interest in the project has also been received from a number of purely financial investors. Negotiations with these parties are proceeding and the Company has appointed a financial advisor to bring the equity investment round to a close. We believe that the investment merits of the Pulp Mill project will be enhanced by providing potential investors with the ability to invest in both the Pulp Mill and the underlying forest resource. As a result we intend to restructure the traditional Gunns business to achieve this outcome. This is explained more fully below.

As a direct result of gaining access to the Great Southern estates (which flows from GPL’s appointment as RE) the plantation woodflow is available to supply the mill on 100% plantation fibre from day one of operation. It is the Company’s objective for the wood supply to be Forest Stewardship Council (FSC) accredited. We are committed to this outcome. As designed, the Mill will be the most environmentally advanced Mill in the world. The Mill will move Gunns from an exporter of commoditised hardwood chips to a value added processor with direct entry to the Asian pulp market.

Analysis of the market environment for wood fibre and pulp through the course of the recent price cycle has reinforced the investment merits of the project. In a period where wood fibre value has remained static in real terms, pulp value has increased significantly with a strong outlook.

STRATEGIC REVIEW

The landscape for the Gunns business and the broader forest industry has changed significantly, as a direct result of the global financial crisis. The market for our core product – hardwood wood fibre – has been impacted by a prolonged downturn. At the same time significant opportunities for growth and consolidation across the forest products sector have arisen – notably in plantation management and sawmill operations. Gunns has over \$1 billion invested in forest assets – land and trees. This value is not recognised in the Company’s current capitalisation. Recognising these issues the Board has undertaken a strategic review of the group’s operations and structure. As a result of this review it is the Board’s intention to restructure the group to:

- Establish an investment vehicle to facilitate direct investment in our plantation forestry assets. This vehicle will allow the market to more appropriately value Gunns forestry assets and will provide a vehicle for the expansion of this asset base through the further consolidation of hardwood plantation assets across Australia. This vehicle will also allow Gunns to maximise its investment in the Bell Bay Pulp Mill.
- Provide a more compelling investment structure to assist in closing the financing arrangements for the Bell Bay Pulp Mill. The mill is critical to maximising the value of our Australian forest resource, taking a substantial proportion of this resource out of the relatively low value and limited base of the commodity woodchip export market.
- Establish a stand alone timber processing business to build on the merged Gunns/Auspine/ITC operations and participate in future consolidation opportunities.

Advisors have been appointed to fast track this restructure which, although complex, should deliver significant shareholder value if executed in a timely manner. Of critical importance is achieving financial close in relation to the Pulp Mill. The Board acknowledges that this uncertainty must be removed. A market update in respect to the progress of the restructuring initiatives will be provided in late April 2010.

OUTLOOK

Market conditions for the wood fibre business are expected to remain weak although a gradual improvement is expected through the course of the 2010 calendar year. The relative value of the Australian dollar will remain a critical factor in the competitiveness of supply into the growing Asian markets.

Earnings from Gunns' role as a manager of the Great Southern forestry projects will progressively increase through the 2010 year.

Domestic construction continues to show signs of improvement and demand for timber products has improved in the current half, with a general price increase achieved for most products from 1 February 2010. The Timber Products business will show further improvement from the integration of the ITC business which will be completed by 30 June 2010.

The MIS market has changed significantly over the past year with an outlook that remains uncertain. The Company expects to provide guidance in respect of its activity in this sector in the course of the next month.

The Company expects significant earnings improvement and the reinstatement of a dividend payment in the second half. An important factor in the recovery will be the outcome of woodchip price negotiations for the 2010 calendar year and the impact on both price and volume of supply. Further guidance on the full year outlook will be provided on completion of these negotiations.

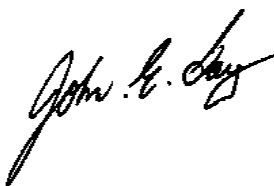
LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set out on page 19 and forms part of the Directors' report for the half-year ended 31 December 2009.

ROUNDING OFF

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Launceston this 21st day of February 2010.



**JE GAY
CHAIRMAN**

Gunns Limited

ABN 29 009 478 148

Appendix 4D
Half year report
Half year ended 31 December 2009
Results for announcement to the market

| | | | \$A'000 |
|---------------------------------------------------|------|------------|---------|
| Revenues | down | (23.8%) to | 325,881 |
| Results from operating activities | down | (93.1%) to | 4,777 |
| Profit after tax | down | (98.7%) to | 420 |
| Net profit for the period attributable to members | down | (98.7%) to | 420 |

| Dividends | Amount per security | Franked amount per security (at 30%) |
|--------------------------------------------------------------------|---------------------|--------------------------------------|
| Interim dividend - ordinary shares | - | - |
| Previous corresponding period (interim dividend - ordinary shares) | 2.0c | 2.0c |

This half year financial report is to be read in conjunction with the 30 June 2009 Annual Financial Report.
 Note: The previous corresponding period is the half year ended 31 December 2008.

Consolidated interim statement of comprehensive income

| | Note | Half year ended Dec 2009 \$A'000 | Half year ended Dec 2008 \$A'000 |
|---------------------------------------------------------------------|------|----------------------------------------|----------------------------------------|
| Revenue | 6(a) | 325,881 | 427,644 |
| Other income | 6(b) | 17,872 | 38,315 |
| Expenses | 6(c) | <u>(338,976)</u> | <u>(396,619)</u> |
| Results from operating activities | | 4,777 | 69,340 |
| Finance costs | 6(d) | (10,121) | (26,702) |
| Share of profit of equity accounted investees | | <u>273</u> | <u>294</u> |
| (Loss)/Profit before tax | | (5,071) | 42,932 |
| Income tax benefit/(expense) | | <u>5,491</u> | <u>(9,365)</u> |
| Profit for the period | | <u>420</u> | <u>33,568</u> |
| Other comprehensive income | | | |
| Hedge revaluation reserve | | - | 2,386 |
| Foreign exchange translation differences | | 981 | 418 |
| Revaluation of property, plant and equipment | | 18 | (293) |
| Fair value reserve adjustment | | <u>-</u> | <u>(10)</u> |
| Other comprehensive income for the period, net of income tax | | 999 | 2,501 |
| Total comprehensive income for the period | | 1,419 | 36,069 |
| Profit attributable to: | | | |
| Equity holders of the Company | | 420 | 33,568 |
| Minority interests | | - | - |
| Profit for the period | | <u>420</u> | <u>33,568</u> |
| Total comprehensive income attributable to: | | | |
| Equity holders of the Company | | 1,419 | 36,069 |
| Minority interests | | - | - |
| Total comprehensive income for the period | | <u>1,419</u> | <u>36,069</u> |
| Earnings per share (EPS) | | | |
| Basic EPS (cents) | | (0.4) | 6.2c |
| Diluted EPS (cents) | 16 | N/A | N/A |

The condensed consolidated interim income statement is to be read in conjunction with the notes set out on pages 10 to 17.

Consolidated interim statement of changes in equity

For the six months ended 31 December 2009

| | Share capital | Revaluation Reserve | Other Reserves * | Retained earnings | Total |
|--------------------------------------------------------------|---------------|---------------------|------------------|-------------------|-----------|
| Balance at 1 July 2009 | 862,504 | 239,665 | 21,159 | 198,569 | 1,321,896 |
| Total comprehensive income for the period | | | | | |
| Profit or loss | - | - | - | 420 | 420 |
| Other comprehensive income | | | | | |
| Foreign exchange translation differences | - | - | 981 | - | 981 |
| Revaluation of property, plant and equipment | - | 18 | - | - | 18 |
| Total other comprehensive income | - | 18 | 981 | - | 999 |
| Total comprehensive income for the period | - | 18 | 981 | 420 | 1,419 |
| Transactions with owners, recorded directly in equity | | | | | |
| Contributions by and distributions to owners | | | | | |
| Issue of ordinary shares | 150,592 | - | - | - | 150,592 |
| Dividends to equity holders | - | - | - | (16,282) | (16,282) |
| Total contributions by and distributions to owners | 150,592 | - | - | (16,282) | 134,310 |
| Total changes in ownership interests in subsidiaries | - | - | - | - | - |
| Total transactions with owners | 150,592 | - | - | (16,282) | 134,310 |
| Balance at 31 December 2009 | 1,013,096 | 239,683 | 22,140 | 182,707 | 1,457,626 |

For the six months ended 31 December 2008

| | Share capital | Revaluation Reserve | Other Reserves * | Retained earnings | Total |
|--------------------------------------------------------------|---------------|---------------------|------------------|-------------------|-----------|
| Balance at 1 July 2008 | 532,501 | 250,239 | 19,498 | 180,006 | 982,244 |
| Total comprehensive income for the period | | | | | |
| Profit or loss | - | - | - | 33,568 | 33,568 |
| Other comprehensive income | | | | | |
| Hedge revaluation reserve | - | - | 2,386 | - | 2,386 |
| Foreign exchange translation differences | - | - | 418 | - | 418 |
| Revaluation of property, plant and equipment | - | (293) | - | - | (293) |
| Revaluation of investment | - | - | (10) | - | (10) |
| Total other comprehensive income | - | (293) | 2,794 | - | 2,501 |
| Total comprehensive income for the period | - | (293) | 2,794 | 33,568 | 36,069 |
| Transactions with owners, recorded directly in equity | | | | | |
| Contributions by and distributions to owners | | | | | |
| Issue of ordinary shares | 325,018 | - | - | - | 325,018 |
| Dividends to equity holders | - | - | - | (20,606) | (20,606) |
| Total contributions by and distributions to owners | 325,018 | - | - | (20,606) | 304,412 |
| Total changes in ownership interests in subsidiaries | - | - | - | - | - |
| Total transactions with owners | 325,018 | - | - | (20,606) | 304,412 |
| Balance at 31 December 2008 | 857,519 | 249,946 | 22,292 | 192,968 | 1,322,725 |

* Other reserves includes; maintenance, foreign currency translation, fair value and hedge revaluation reserves.

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes set out on pages 10 to 17.

Consolidated interim statement of financial position

| | As at 31 Dec 2009 | As at 30 Jun 2009 |
|------------------------------------------------|----------------------|----------------------|
| Note | \$A'000 | \$A'000 |
| Current assets | | |
| Cash and cash equivalents | 4,243 | 8,068 |
| Trade and other receivables | 123,357 | 106,361 |
| Inventories | 212,756 | 163,315 |
| Biological assets | 30,848 | 31,005 |
| Other, including derivatives | 4,723 | 11,334 |
| Non-current assets classified as held for sale | - | 1,716 |
| Total current assets | 375,927 | 321,799 |
| Non-current assets | | |
| Receivables | 395,003 | 373,879 |
| Biological assets | 352,413 | 338,597 |
| Investments | 21,576 | 11,847 |
| Investments in equity accounted investees | 7,050 | 7,231 |
| Property, plant and equipment | 14 1,410,863 | 1,347,652 |
| Intangible assets | 60,470 | 55,240 |
| Total non-current assets | 2,247,375 | 2,134,446 |
| Total assets | 2,623,302 | 2,456,245 |
| Current liabilities | | |
| Payables, including derivatives | 164,724 | 138,184 |
| Income tax payable | 26,804 | 18,071 |
| Interest-bearing loans and borrowings | 126,692 | 108,212 |
| Provisions | 15,273 | 14,593 |
| Other – deferred revenue | 5,283 | 4,823 |
| Total current liabilities | 338,776 | 283,883 |
| Non-current liabilities | | |
| Trade and other payables | 54,493 | 55,900 |
| Interest-bearing loans and borrowings | 538,462 | 554,224 |
| Deferred tax liabilities | 222,023 | 228,202 |
| Provisions | 11,923 | 12,140 |
| Total non-current liabilities | 826,901 | 850,466 |
| Total liabilities | 1,165,677 | 1,134,349 |
| Net assets | 1,457,625 | 1,321,896 |
| Equity | | |
| Issued capital | 8 1,013,096 | 862,504 |
| Reserves | 261,822 | 260,824 |
| Retained earnings | 9 182,707 | 198,568 |
| Total equity | 1,457,625 | 1,321,896 |

The condensed consolidated interim balance sheet is to be read in conjunction with the notes set out on pages 10 to 17.

Consolidated interim statement of cash flows

| | Half year ended Dec 2009 \$A'000 | Half year ended Dec 2008 \$A'000 |
|----------------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Cash flows related to operating activities | | |
| Cash receipts from customers | 336,758 | 483,279 |
| Cash receipts - MIS financing unsecured | 4,167 | 23,569 |
| Cash receipts - MIS financing securitised | 24,029 | 14,302 |
| Cash paid to suppliers and employees | (324,171) | (470,318) |
| Payments for woodlot lease and maintenance | (10,555) | (11,962) |
| Dividends received | 449 | 295 |
| Interest received | 2,139 | 757 |
| Borrowing costs paid | (22,433) | (41,356) |
| Income taxes received / (paid) | 8,909 | (3,087) |
| Net cash (used in) / provided by operating activities | 19,291 | (4,522) |
| Cash flows related to investing activities | | |
| Proceeds on disposal of non-current assets | 59 | 283 |
| Payment for purchases of property, plant and equipment | (31,596) | (33,289) |
| Payments for standing timber, plantation, orchard & vineyard establishment | (19,286) | (20,845) |
| Acquisition of investments | (94,834) | - |
| Proceeds from the disposal of investments | 1,560 | - |
| Net cash used in investing activities | (144,097) | (53,851) |
| Cash flows related to financing activities | | |
| Cash receipts from loan securitisation | 16,268 | 33,360 |
| Cash payments - MIS financing securitised | (24,029) | (14,302) |
| Share issue proceeds | 145,814 | 334,281 |
| Share issue costs | (4,343) | (18,058) |
| Proceeds from realisation of financial instruments | - | 1,053 |
| Proceeds from borrowings | 174,951 | 186,563 |
| Repayment of borrowings | (181,000) | (413,118) |
| Finance lease payments | (2,835) | (2,578) |
| Dividends paid | (12,435) | (11,812) |
| Net cash provided by financing activities | 112,392 | 95,388 |
| Net increase/(decrease) in cash and cash equivalents held | (12,413) | 37,016 |
| Cash and cash equivalents at beginning of period | (1,434) | (41,828) |
| Cash and cash equivalents at end of period | (13,847) | (4,812) |
| Cash and cash equivalents at end of period comprises: | | |
| - cash and cash equivalents | 4,243 | 13,943 |
| - short term finance | (18,090) | (18,755) |
| | (13,847) | (4,812) |

The consolidated condensed interim statement of cash flows is to be read in conjunction with the notes set out on pages 10 to 17.

Condensed notes to the consolidated interim financial report

1. Reporting entity

Gunns Limited (the 'Company') is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2009 comprises the Company and its subsidiaries (together referred to as the 'consolidated entity') and the consolidated entity's interests in associates and jointly controlled entities.

The consolidated annual financial report of the consolidated entity is available on request from the Company's registered office at 78 Lindsay Street, Launceston, Tasmania, 7250 or at www.gunns.com.au.

2. Statement of Compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2009.

This consolidated interim financial report was approved by the Board of Directors on 21 February 2010.

The consolidated entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

3. Significant Accounting Policies

The accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2009 except as described below.

i) Accounting for business combinations

The Group has adopted AASB 3 Business Combinations (2008) for business combinations occurring in the financial year starting 1 July 2009. All business combinations occurring after that date are accounted for using the acquisition method. The change in accounting policy was applied prospectively and had no material impact on earnings per share. The most significant practical implication of this accounting policy change is that transaction costs, in connection with a business combination are expensed as incurred.

ii) Determination and presentation of operating segments

As of 1 July 2009, the Group determines and presents operating segments based on the information that internally is provided to the CEO, who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of AASB 8 Operating Segments. Comparative segment information has been re-presented in conformity with the transitional requirements of AASB 8. Since the change in accounting policy only affects presentation and disclosure aspects, there is no impact on earnings per share.

iii) Presentation of financial statements

The Group applies revised AASB 101 Presentation of Financial Statements (2007) which became effective on 1 July 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. This presentation has been applied in these condensed interim financial statements as of and for the six months ended 31 December 2009. Comparative information has been re-presented in conformity with the revised standard. Since the change in accounting policy only affects presentation and disclosure aspects, there is no impact on earnings per share.

4. Estimates

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2009 other than as described in Note 20.

5. Financial Risk Management

The consolidated entity's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial report as at and for the year ended 30 June 2009.

6. Revenue and expenses from ordinary activities

| | Half year ended Dec 2009 \$A'000 | Half year ended Dec 2008 \$A'000 |
|---------------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| (a) Revenue | | |
| Sale of goods | 307,310 | 392,105 |
| Rendering of services | 18,571 | 35,539 |
| Total revenue | <u>325,881</u> | <u>427,644</u> |
| (b) Other income | | |
| Gain from change in fair value of biological assets | 9,460 | 19,885 |
| Gain from change in fair value of financial instruments | - | 11,958 |
| Gain on acquisition of ITC Timber | 2,829 | - |
| Profit/(loss) from sale of non-current assets | (322) | (121) |
| Other income | 5,905 | 6,594 |
| Total other income | <u>17,872</u> | <u>38,315</u> |
| (c) Expenses | | |
| Changes in inventories of finished goods and work in progress | 2,719 | 4,014 |
| Raw materials and consumables used | a) (226,926) | (247,279) |
| Employee benefits expenses | (63,588) | (65,244) |
| Depreciation and amortisation | (13,805) | (14,835) |
| Plantation establishment expenses | (6,473) | (11,279) |
| Freight and shipment costs | (19,080) | (24,089) |
| Selling and marketing expense | (4,030) | (5,765) |
| Loss from change in fair value of financial instruments | (654) | - |
| Other expenses | b) (7,139) | (32,141) |
| Total expenses | <u>(338,976)</u> | <u>(396,619)</u> |
| (d) Financing costs | | |
| Financial income | 11,369 | 12,326 |
| Financial expenses | c) (21,490) | (39,028) |
| Net financing costs | <u>(10,121)</u> | <u>(26,702)</u> |

Note a)

The value of timber harvested from Group owned plantations included in 'Raw materials and consumables used' is \$13.6m (2008:\$23.5m).

Note b)

Fair value adjustment of the investment in Forest Enterprises Australia Limited resulted in an expense of \$1.8m (2008: nil) for the period.

Note c)

Additionally, finance expenses totalling \$6,852,700 were included in property, plant and equipment additions during the period (2008:\$7,648,563)

Gunns Limited - Half year report

**7. Segment Reporting
Primary Reporting
Business Segments**

| | Wood Fibre | Timber Products | Managed Investment Schemes | Other | Consolidated Total |
|--------------------------------|----------------------------|----------------------------|-------------------------------------------|----------------------------|-------------------------------|
| | Dec 2009 \$'000 | Dec 2009 \$'000 | Dec 2009 \$'000 | Dec 2009 \$'000 | Dec 2009 \$'000 |
| Segment Revenue * | 140,592 | 127,721 | 5,768 | 51,800 | 325,882 |
| Segment Results | 6,930 | 5,524 | (3,704) | 2,961 | 11,711 |
| Unallocated revenue/(cost) | | | | | (6,661) |
| Net financing costs | | | | | (10,121) |
| Loss before income tax expense | | | | | (5,071) |
| Income tax expense | | | | | 5,491 |
| Net profit | | | | | 420 |

**Primary Reporting
Business Segments**

| | Wood Fibre | Timber Products | Managed Investment Schemes | Other | Consolidated Total |
|--------------------------------|-----------------------------------------|-----------------------------------------|-------------------------------------------|-----------------------------------------|-------------------------------|
| | Dec 2008 Restated \$'000 | Dec 2008 Restated \$'000 | Dec 2008 Restated \$'000 | Dec 2008 Restated \$'000 | Dec 2008 \$'000 |
| Segment Revenue * | 225,208 | 130,686 | 19,202 | 52,548 | 427,644 |
| Segment Results | 57,435 | 2,398 | 4,077 | 1,481 | 65,390 |
| Unallocated revenue/(cost) | | | | | 4,243 |
| Net financing costs | | | | | (26,702) |
| Loss before income tax expense | | | | | 42,931 |
| Income tax expense | | | | | (9,365) |
| Net profit | | | | | 33,567 |

* Segment revenue represents external revenue from operating activities.

The consolidated entity comprises the following main business segments:

Wood Fibre - Processing, manufacture and sale of hardwood and softwood wood fibre. In the 30 June 2009 financial statements, this segment was reported as part of Forest Products.

Timber Products - Processing, manufacture and sale of hardwood and softwood sawn timber. In the 30 June 2009 financial statements, this segment was reported as part of Forest Products.

Managed Investment Schemes - Establishing and financing of woodlots, vinelots and orchards and related services.

Other - Merchandising, construction services, vineyard management and wine production and sale.

Gunns Limited - Half year report

8. Contributed equity

| | Half year ended Dec 2009 \$A'000 | Year ended June 2009 \$A'000 |
|------------------------------------------------------|-------------------------------------------|------------------------------------|
| Issued and paid-up share capital | | |
| 806,734,892 (June 2009: 636,869,428) ordinary shares | 897,567 | 746,975 |
| 1,200,000 (June 2009: 1,200,000) FORESTS | <u>115,529</u> | <u>115,529</u> |
| | <u>1,013,096</u> | <u>862,504</u> |
| Share movement | | |
| Balance at the beginning of the half year | 862,504 | 532,501 |
| Securities issued | | |
| -Shares issued as FEA Limited consideration | 5,273 | - |
| - Shares issued under rights offer | 141,472 | 321,208 |
| - Shares issued under dividend reinvestment plan | <u>3,847</u> | <u>8,795</u> |
| Balance at end of the half year | <u>1,013,096</u> | <u>862,504</u> |

Capital raising via a non-renounceable pro rata entitlement offer was conducted during the period. The entitlement offer consisted of Institutional and Retail Entitlement Offers. The Entitlement Offer entitled eligible shareholders to subscribe for 1 new share for every 4 shares held on 3 September 2009 at an issue price of \$0.90 per new share.

9. Statement of retained profits

| | Notes | Half year ended Dec 2009 \$A'000 | Year ended June 2009 \$A'000 |
|---------------------------------------------------------|-------|-------------------------------------------|------------------------------------|
| Retained profits at beginning of the half year | | 198,569 | 180,006 |
| Opening retained profits adjustment | | - | (156) |
| Net profit attributable to members of the parent entity | | 420 | 56,236 |
| Dividends recognised during the year | 10 | <u>(16,282)</u> | <u>(37,518)</u> |
| Retained profits at the end of the half year | | <u>182,707</u> | <u>198,569</u> |

10. Dividends and distributions

The Dividend Reinvestment Plan was active for the October 2009 final ordinary dividend. The closing dates for participation election notices to be received was 11 September 2009.

Dividends paid or provided for in the current and comparative periods by Gunns Limited are:

| | Cents per security | Total amount \$'000 | Date of payment | Percentage franked |
|-------------------|-----------------------|---------------------------|--------------------|-----------------------|
| 2009 | | | | |
| Interim - FORESTS | 142.15c | 1,706 | 14 Jul 09 | 100% |
| Final - ordinary | 2.0c | 12,851 | 9 Oct 09 | 100% |
| Interim - FORESTS | 143.74c | <u>1,725</u> | 14 Oct 09 | 100% |
| | | <u>16,282</u> | | |
| 2008 | | | | |
| Interim - FORESTS | 180.37c | 2,164 | 14 Jul 08 | 100% |
| Final - ordinary | 4.00c | 16,262 | 3 Oct 08 | 100% |
| Interim - FORESTS | 181.67c | <u>2,180</u> | 14 Oct 08 | 100% |
| | | <u>20,606</u> | | |

Franked dividends were franked at the tax rate of 30%.

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10. Dividends and distributions (continued)

| Cents per security | Total amount \$'000 | Date of payment | Percentage franked |
|--------------------|------------------------|-----------------|--------------------|
|--------------------|------------------------|-----------------|--------------------|

Subsequent events

Since the end of the half year, the directors have declared:

| | | | | |
|-------------------------------------|---------|-------|-----------|------|
| - quarterly distribution on FORESTS | 155.62c | 1,867 | 14-Jan-10 | 100% |
| - quarterly distribution on FORESTS | 159.20c | 1,910 | 14-Apr-10 | 100% |

The financial effect of the above have not been brought to account in the consolidated entity's financial statements for the half year ended 31 December 2009 and will be recognised in subsequent financial reports.

11. Investments in joint venture entities

| <u>Name</u> | <u>Principal activity</u> | <u>Ownership interest</u> | | <u>Share of net profits</u> | |
|-----------------------------------------|---------------------------|---------------------------|------|-----------------------------|----------------|
| | | 2009 | 2008 | 2009 \$'000 | 2008 \$'000 |
| Tamar Tree Farms | Plantation establishment | 62% | 62% | - | - |
| Australian Forestry Plantations Trust 2 | Land leasing | 100% | 30% | - | 102 |
| Australian Forestry Plantations Trust | Land leasing | 30% | 30% | 267 | 192 |
| Plantation Platform of Tasmania | Plantation establishment | 15% | 15% | - | - |
| | | | | 267 | 294 |

The group acquired 100% of the units in Australian Forestry Plantations Trust 2 during the six months ended 30 June 2009.

12. NTA backing

| | | |
|----------------------------------------------------|-------------|-------------|
| Net tangible asset backing per ordinary share (\$) | 2009 | 2008 |
| | 1.59 | 1.82 |

Net tangible assets are determined by deducting from total tangible assets all claims on those assets ranking ahead of the ordinary securities.

13. Seasonality

The consolidated entity's managed investment scheme (MIS) business is subject to seasonal fluctuations. The majority of MIS sales occur in the second half of the financial year. Revenue from these sales is recognised in the financial period of the sale except for woodlot sales where revenue is recognised in the period in which the woodlot establishment services are provided which may be in the period of the sale or the following financial year. Thus it is expected that the first half revenue and result would generally be lower than that of the second half.

14. Capital expenditure

In the six months to December 2009, additions to property, plant and equipment totalled \$42.4m (2008: \$48.8m)

15. Related party transactions

The character and nature of related party transactions for the six month period are consistent with those described in the 30 June 2009 financial report.

16. Earnings per share

Basic earnings per share is adjusted to reflect the treatment of FORESTS distributions as interest. In the current period, FORESTS have an antidilutive effect on earnings per share and thus no diluted earnings per share is disclosed.

17. Pulp Mill Project

Capital works in progress includes \$183.7 million (June 2009: \$149.7 million) relating to the proposed Bell Bay mill. The project is the construction of a bleached kraft pulp mill in Tasmania. The costs capitalised are those costs incurred after establishing the commercial viability of the project and which are directly attributable to the development of the project. They include preliminary environmental monitoring and engineering work, costs associated with the planning approval process for the mill and equipment purchases. The Directors have considered the probability of the project proceeding by assessing the commercial viability of the project, the expectation of obtaining finance and the requirements of the regulatory processes. The Directors are of the opinion that the proposed mill will be financed and that it is probable that the project will proceed to completion.

If the project were not probable, this would involve the expensing of a substantial proportion of the \$183.7 million included in capital work in progress at 31 December 2009 through the profit and loss.

18. Control gained or lost over entities during the period

| | |
|---------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| Name of entity (or group of entities) | GTP Holdings Pty Ltd and its controlled entities |
| Date of the gain of control | 4-Dec-09 |
| The contribution of such entities to the reporting entity's profit from ordinary activities during the period attributable to members | Loss of \$226,000 |
| The profit or loss of such entities during the whole of the previous corresponding period | Nil |

19. Subsequent Events

At the meeting for the Great Southern 2006 scheme, held on 4 January 2010 (which was adjourned on 23 December 2009), Growers voted to accept Gunns' proposal for Gunns Plantations Ltd to become the Responsible Entity of the 2006 scheme and to effect a restructure of the 2006 scheme.

Other than as mentioned above, there have been no material events subsequent to balance date.

20. Acquisitions

ITC Timber

ITC Timber comprises GTP Holdings Pty Ltd and its controlled entities. This group was acquired on 4 December 2009.

The consolidated financial statements have been prepared on a provisional basis subject to any changes to purchase price allocations identified, such as any tax issues not currently identified.

The consolidated financial statements include 100% of the loss after tax of GTP Holdings Pty Ltd and its controlled entities for December 2009.

On 100% acquisition of GTP Holdings Pty Ltd, its wholly owned group joined the Gunns tax consolidated group. This required a reset of the tax values of certain assets and liabilities. These adjustments to tax values of assets affected the consolidated deferred tax balances. The preliminary calculation of the effect of this change has been recorded in the period ended 31 December 2009.

The cost of the combination is \$88,465,000. This cost was 100% cash.

Had Gunns owned 100% of GTP Holdings and its controlled entities for all of the six months to December 2009, consolidated revenue would have been \$30.5 million higher and consolidated profit after tax would have been \$0.7million higher.

The acquisition had the following effect on the Group's assets and liabilities:

| | Recognised values on acquisition \$'000 |
|-----------------------------------------|--------------------------------------------|
| Cash and cash equivalents | 3,198 |
| Trade and other receivables | 13,739 |
| Inventories | 56,199 |
| Investments | 30 |
| Property, plant and equipment | 31,095 |
| Intangible assets | 4,005 |
| Other non-current assets | 57 |
| Trade and other payables | (8,255) |
| Interest bearing loans and borrowings | (3,757) |
| Employee benefits | (2,873) |
| Deferred tax liabilities | (2,144) |
| Net identifiable assets and liabilities | <u>91,294</u> |
| Discount on acquisition | <u>(2,829)</u> |
| Consideration paid | 88,465 |

The following fair value adjustments to assets have been identified during the provisional accounting for this acquisition:

| | |
|-------------------------------|---------|
| Inventory | (9,986) |
| Property, plant and equipment | (1,142) |

Great Southern Projects

During December 2009, a member of the Gunns Group became responsible entity for eight Great Southern woodlot MIS projects (1998 - 2005). The Gunns group also acquired certain assets from the receiver of the Great Southern Group.

The consolidated financial statements have been prepared on a provisional basis subject to any changes to purchase price allocations identified, given the complex nature of the transaction and that neither the consideration nor the net assets acquired have been finalised.

The consolidated financial statements are based on acquisition occurring at the end of December 2009 and thus no profits or losses for the acquired business were included in the results for the six months.

The cost of the combination is \$10,600,000. This cost will be 100% cash.

20. Acquisitions (continued)

The acquisition had the following effect on the Group's assets and liabilities:

| | Recognised values on acquisition \$'000 |
|-----------------------------------------|--------------------------------------------|
| Trade and other receivables | 1,600 |
| Inventories | 400 |
| Deferred tax assets | 249 |
| Property, plant and equipment | 3,226 |
| Intangible assets | 1,600 |
| Non-current receivables | 24,353 |
| Trade and other payables | (20,000) |
| Employee benefits | (828) |
| Net identifiable assets and liabilities | <u>10,600</u> |
| Goodwill on acquisition | <u>-</u> |
| Consideration paid | 10,600 |

No fair value adjustments to assets have been identified during the provisional accounting for this acquisition:

Directors' Declaration

1. In the opinion of the directors of Gunns Limited ("the Company"):

- (a) the financial statements and notes, set out on pages 5 to 17 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2009 and of its performance, as represented by the results of its operations and cash flows, for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Act 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Launceston this 21st day of February 2010.

Signed in accordance with a resolution of the directors:



J. E. GAY
Executive Chairman



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the directors of Gunns Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 31 December 2009, there have been:

- a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Leigh Franklin
Partner

Launceston
21 February 2010





Independent auditor's review report to the members of Gunns Limited

We have reviewed the accompanying half year financial report of Gunns Limited, which comprises the consolidated statement of financial position as at 31 December 2009, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a statement of accounting policies and other explanatory notes 3 to 20 and the directors' declaration set out on pages 6 to 18 of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half year period.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation and fair presentation of the half year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2009 and its performance for the half year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Gunns Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.





Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of Gunns Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2009 and of its performance for the half year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Carrying value of capitalised Bell Bay pulp mill costs included in capital work in progress subject to significant uncertainty arising from the current global financial environment

Without qualification to the above opinion, we draw attention to Note 17 to the financial statements.

The recoverability of the \$183.7 million of capitalised pulp mill expenditure is dependent on a number of key assumptions, including that financing will be obtained for the project and that the project is commercially viable.

The Group is currently in negotiations with a number of potential financiers and investors to obtain financing to complete construction of the Bell Bay pulp mill. The outcome of these negotiations cannot presently be determined with certainty in the current global financial environment.

Accordingly there is material uncertainty as to whether the carrying value of capitalised pulp mill expenditure can be recovered for the amount stated and as to whether additional obligations will be incurred in relation to committed project costs.

KPMG

Leigh Franklin
Partner

Launceston

21 February 2010