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.

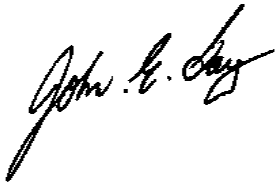
LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

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)	(338,976)	(396,619)
Results from operating activities		**4,777**	**69,340**
Finance costs	6(d)	(10,121)	(26,702)
Share of profit of equity accounted investees		273	294
(Loss)/Profit before tax		**(5,071)**	**42,932**
Income tax benefit/(expense)		5,491	(9,365)
Profit for the period		**420**	**33,568**
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		-	(10)
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		**420**	**33,568**
Total comprehensive income attributable to:			
Equity holders of the Company		1,419	36,069
Minority interests		-	-
Total comprehensive income for the period		**1,419**	**36,069**
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

	Note	As at 31 Dec 2009 $A'000	As at 30 Jun 2009 $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 unsecuritised	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		**325,881**	**427,644**
(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		**17,872**	**38,315**
(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		**(338,976)**	**(396,619)**
(d) Financing costs			
Financial income		11,369	12,326
Financial expenses	c)	(21,490)	(39,028)
Net financing costs		**(10,121)**	**(26,702)**

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)

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.

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	115,529	115,529
	1,013,096	862,504
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	3,847	8,795
Balance at end of the half year	1,013,096	862,504

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	(16,282)	(37,518)
Retained profits at the end of the half year		182,707	198,569

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	1,725	14 Oct 09	100%
		16,282		
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	2,180	14 Oct 08	100%
		20,606		

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

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

Name	Principal activity	Ownership interest 2009	Ownership interest 2008	Share of net profits 2009 $'000	Share of net profits 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

	2009	2008
Net tangible asset backing per ordinary share ($)	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	91,294
Discount on acquisition	(2,829)
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 entitiy 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	10,600
Goodwill on acquisition	-
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

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

KPMG

Leigh Franklin
Partner

Launceston

21 February 2010