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## **GUNNS REVISES EARNINGS GUIDANCE**

Gunns Limited Chairman Chris Newman today said the company had revised its earnings guidance, with expected full-year earnings before interest and tax (EBIT) of between \$50 to \$60 million.

"On 23 April 2010 we advised the market that we expected a full year earnings before interest and tax (EBIT) result in the range of \$30 million to \$40 million," Mr Newman said.

"When we prepared our accounts for the six months ended 31 December 2009, we adopted an approach of provisionally accounting for the acquisition of the Great Southern MIS responsibilities."

"This was in line with Accounting Standards in relation to recently acquired undertakings. The accounting treatment for this acquisition and ongoing revenue recognition from the Great Southern MIS responsibilities has now been finalised."

"As a result approximately \$30 million in EBIT, compared to a conservative estimate of approximately \$8 million in EBIT contained in our earlier forecast, will be included in our results for the full year."

"Based on current projections continuing revenue and EBIT will be booked in relation to our plantation management services for the GPL and former Great Southern estates in future years at the rate at approximately \$14 million in EBIT per year out to 2013."

"Our underlying businesses are trading in line with our previous forecast. In conjunction with the EBIT effect of plantation management services, the write

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down of approximately \$9 million in relation to our investment in Forest Enterprises Australia and the gains on the sale of assets of approximately \$4 million we now expect to report a full year EBIT in the range of \$50 million to \$60 million. Reported EBIT for the six months to 31 December 2009 was \$4.8 million."

"Trading conditions in the woodfibre business remain challenging; however, we have now agreed pricing for eucalyptus mixed grade woodchips into the Japanese market at \$189.50 per bone-dry metric tonne for the balance of this calendar year. This provides some certainty."

"The recent weakening of the Australian dollar against the US dollar will assist with our competitive position in the Japanese market and the profitability of future US Dollar denominated sales into Asia."

"The achievement of FSC Controlled Wood certification by a number of our key Japanese customers, as recently announced to the market, will allow us to pursue additional volume into that market."

Mr Newman said the company had also entered into agreements with major Asian pulp producers for the supply of hardwood chips.

The agreements provide for the supply of 290,000 (+/- 20%) bone-dry metric tonnes (BDMT) in the six months to December 2010, with 500,000 (+/- 20%) BDMT in each of the 2011 and 2012 calendar years. Shipments under the agreement will commence in August 2010. Gunns is continuing negotiations with a number of pulp producers in regard to new supply arrangements.

The forecast improvement in trading EBIT, excluding that arising from management of the Great Southern plantations, in the second half compared to the first half, can be attributed to the following factors:

- Improved trading conditions in the sawn timber business in the March quarter, although some softening in the market has been experienced subsequently, with synergies extracted as a result of the acquisition of the ITC saw-milling business (this acquisition completed in December 2009).

- The absence of any loss making hardwood woodchip sales into China. Losses of approximately \$7 million were incurred in the first half, for which the appreciation of the Australian dollar against the US dollar was a significant factor.
- Tight cost control across all business units.

Mr Newman said: "As a result of the recent passing of Federal Legislation clarifying the operation of the tax consolidations regime, we expect to book a positive after tax profit adjustment of approximately \$90 million for the year ended 30 June 2010."

"Approximately \$27 million of this amount is incorporated in current period taxation liabilities, approximately \$12 million relates to tax previously paid with the balance being an adjustment to the deferred tax liability."

"We are currently reviewing the carrying value of a number of non-core assets that have been or are being prepared for sale. We will advise the market further in relation to possible impairment charges once our review is completed."

"We have agreed and initiated a program for the sale of these non-core assets with the objective of using the proceeds to pay down debt. Given this objective no ordinary dividends are forecast in relation to the 2009/2010 financial year."

The company expects to maintain the FORESTS note and continue distributions for the 2011 financial year with a further review to be undertaken by the Board in reviewing the capital structure following completion of the debt reduction program.

We expect to meet all debt covenant measures as at 30 June 2010. Our core debt funding arrangements are due for renewal in January 2012 with a \$10 million debt repayment due on 31 December 2010.

## **SOUTHERN STAR CORPORATION – PULP MILL UPDATE**

Three potential equity participants in Southern Star Corporation (the company established to build and operate the Bell Bay Pulp Mill) have progressed to detailed due diligence having lodged indications of the level of equity they may be prepared to subscribe. A further update will be provided to the market when progress is more definitive.

### **RATIONALISATION OF NON-FORESTRY RELATED ASSETS**

On 1 June 2010 Gunns confirmed that the transaction to sell its Tasmanian hardware retail operation to Woolworths Limited settled as expected on 31 May 2010. From the \$40 million in proceeds (less modest warranty retentions), \$20 million has been used to retire debt with the balance retained for working capital purposes.

### **RATIONALISATION OF FORESTRY RELATED ASSETS**

On 23 April 2010 Gunns advised that 28,000 hectares of native forest land had been identified for sale. Harcourts Rural has been appointed to manage the process with the first lots being offered for sale by auction in late June of this year.

Although it is not possible to accurately estimate the likely value of funds to be received Gunns can advise that there is significant interest in the lots that are being offered for sale. The book value of the land holding (including standing timber and roads) is approximately \$40 million.

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