10 September 2010

Company Announcements Platform
Australian Securities Exchange

CEO SPEECH TO FORESTWORKS CONFERENCE – 9 SEPTEMBER 2010

Please find attached a release to the market.

Yours sincerely

Wayne Chapman
Company Secretary

Australia's Place in the Changing Global Forest Products Market

We are at a defining point for the future of forestry in Australia and our actions over the coming few years will allow us to move this industry to a new and exciting level or we will subject ourselves to the decline that has characterised this past decade.

The future is largely in our hands.

To understand what we might be, it is important for us to understand what has happened to us over the past 30 years, a timeframe consistent with a single softwood rotation.

Native Forests

Although the industry has made some huge concessions over the past 30 years, the debate of Australia's participation in the logging of our natural forests remains unresolved. Some of the impacts of these interactions have been:

1. Regional Forest Agreements (RFA) have been established, with significant compensation packages established to help industry adapt to the changes taking place.
2. About 13.6 million hectares of forests have been added to the nature conservation reserve network since 1990.
3. The area of public native forests for timber production has declined from 13.4 million hectares in 1998 to 9.4 million hectares now.
4. The production of hardwood sawn timber, mainly from native forests, fell from 1.8m m^3 in 1984-85 to about 1.0 million m^3 in 2008-09. The production of softwood sawn timber rose from about 1.2 million m^3 in 1984-85 to nearly 4 million m^3 in 2008-09.
5. The production of hardwood woodchips peaked in 2002-03 at 6.6 million m^3, predominantly from native forests. The Australian plantation hardwood pulpwood harvest is project to achieve 14 million m^3 within the next 5 years.

The outcome of these changes has seen the natural forest industry seriously contract in terms of scale and influence on the end markets. In fact some of the detractors believe that the industry could be replaced by the emerging plantation estate. Of course this is an over simplification of the products and regional influence, but there is a case to be heard.

During this time the industry and the Environmental Non Government Organisations (ENGO's) have been pitted in a fierce battle for the support of the Australian people, who in turn balance the political debate.

In this area I believe that the Industry has been out thought and out played, with the ENGO's using three key leverage points:

1. Public Emotion
2. Multi level government involvement
3. Certification – Market Action

Where as the Industry has maintained a stance that "science" will prevail and that the "feudal lords" will maintain the two hundred year tradition of licence access to crown land for subsidised off take agreements.

The following is an example of the debate, in action.

If the current trajectory of withdraw of crown land for timber production is to be reversed a radical plan is required, because we have lost the public debate and support of the broader community.

A personal example of this happened two weeks ago, while I was inter-state. My partner went into a juice shop, in a relatively small community and was asked where we were living, when the reply was Tasmania the twenty something male's serious reply was "*lovely place Tasmania, I just do not like what they are doing to our forests.*" Upon a further engagement it was a much talked about topic in the shop and they had very firm views on the subject.

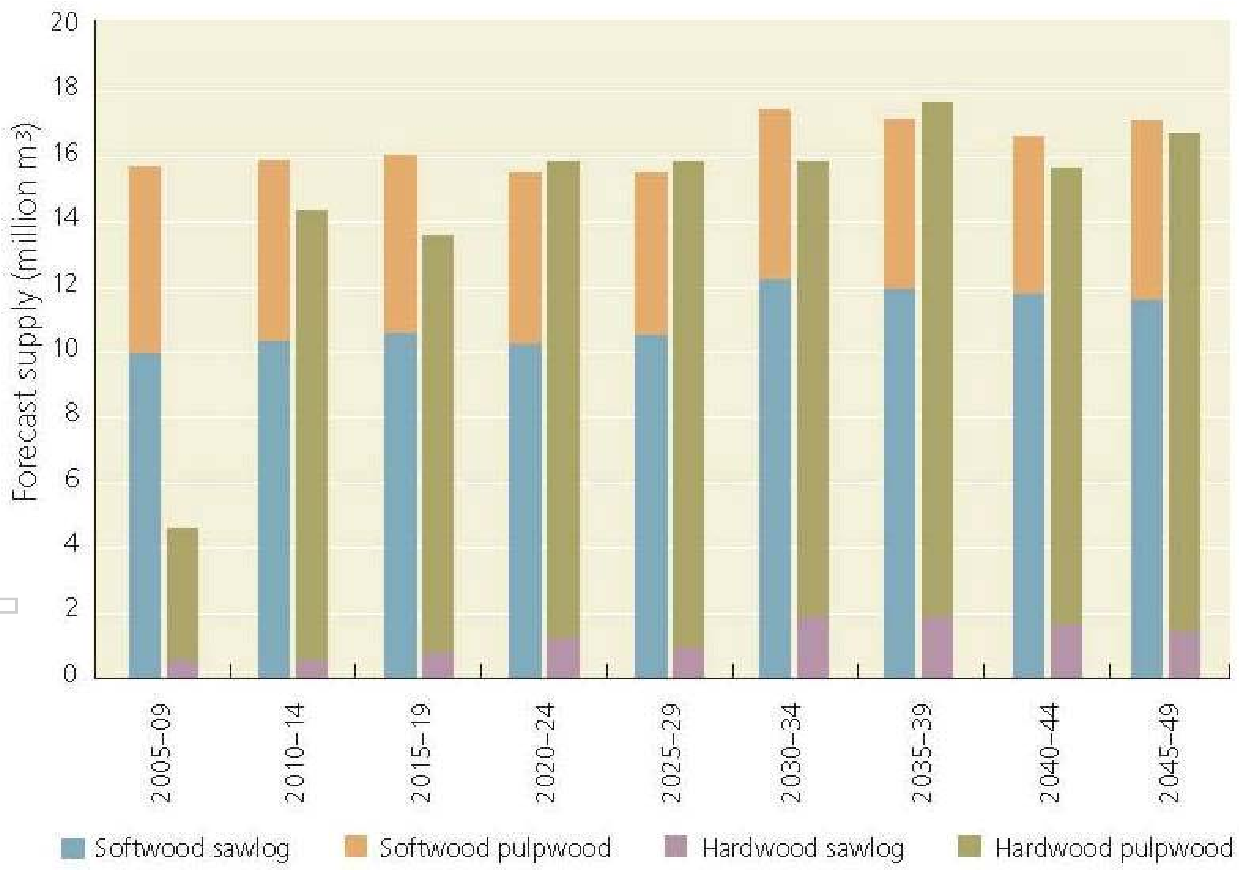
Having been in the industry for some 30 years, I am a believer in the science of Forestry. We have many outstanding contributors to the field, who lead the world in the sustainable management of our Natural Forest areas. I am not certain that the industry will win the community debate and some businesses will have to make decisions to either stay or go for the benefit of their shareholders and employees.

Plantations

This has been a two paced process, with the softwood sector static since 1980 and the hardwood sector driven by the MIS stimulus in the period since the mid 1990's.

After sustained growth in softwood harvesting since its introduction to Australia, the industry is now flat lining and without a significant boost to funding in the sector we will need to be reliant on imports to meet our needs as consumptions moves in line with population growth.

Future wood supplies from plantations



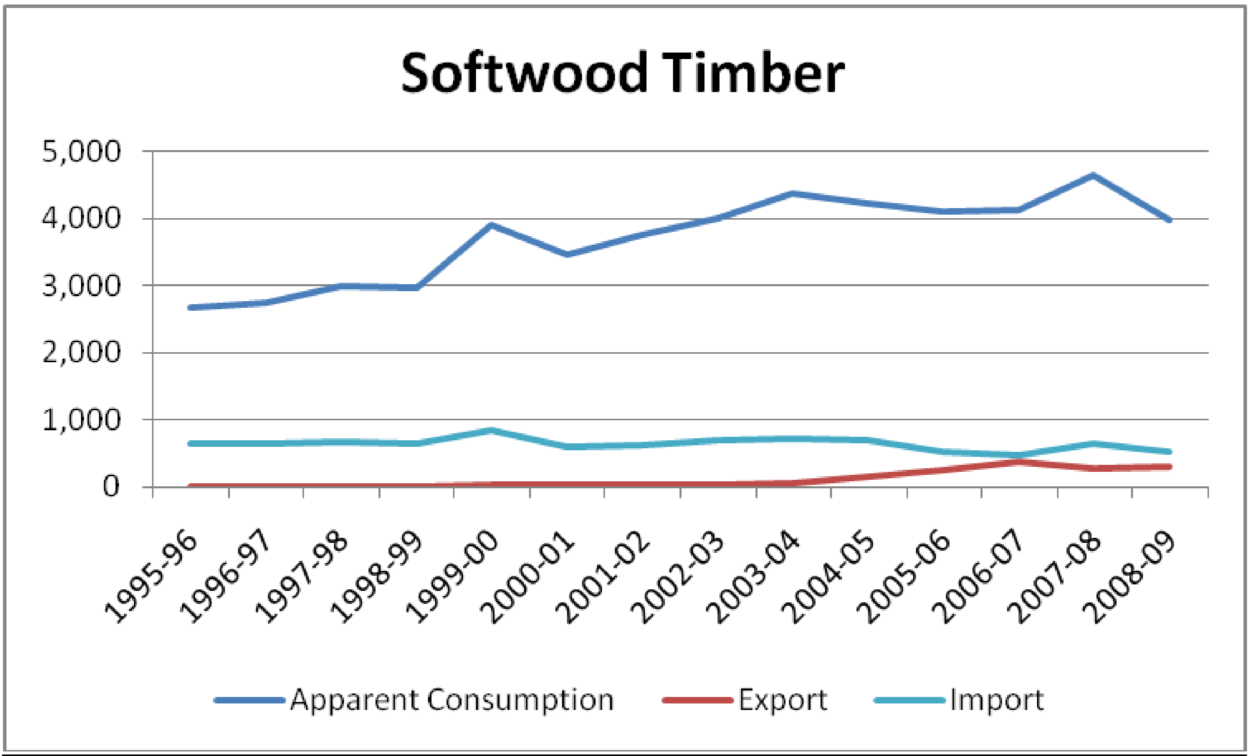
The hardwood plantations are now set to achieve their mature age profile, with the peak to be achieved in 2020, at 16 million m^3 which will far exceed Australia's peak native forest woodchip harvest of 6.586 million m^3 in 2002-03.

The forgotten opportunity in the plantation expansion has been the development of hardwood plantations for sawlog purposes. Based on ABARE data there will be some 2.0 million m³ become available by 2020; however, significant research is required to ensure that specie selection, processing capability and marketing provides the platform for success. It should however be noted that the 2008-09 harvest volume for Australia was 2.632 m³ and the consumption in Australia has dropped from 1.756 m³ in 1994-95 to 1.021 m³ in 2008-09, a drop in excess of 40%.

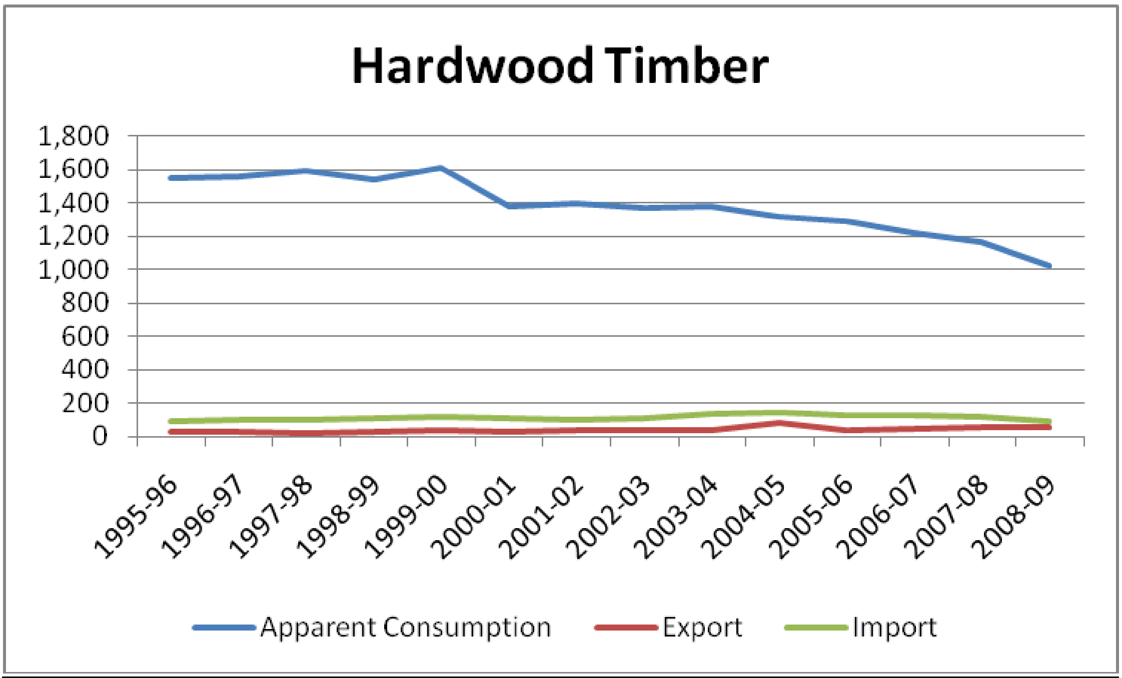
Domestic Consumption

For many of our products we have had a domestic focus and it is interesting to see the trends within the consumption of our product.

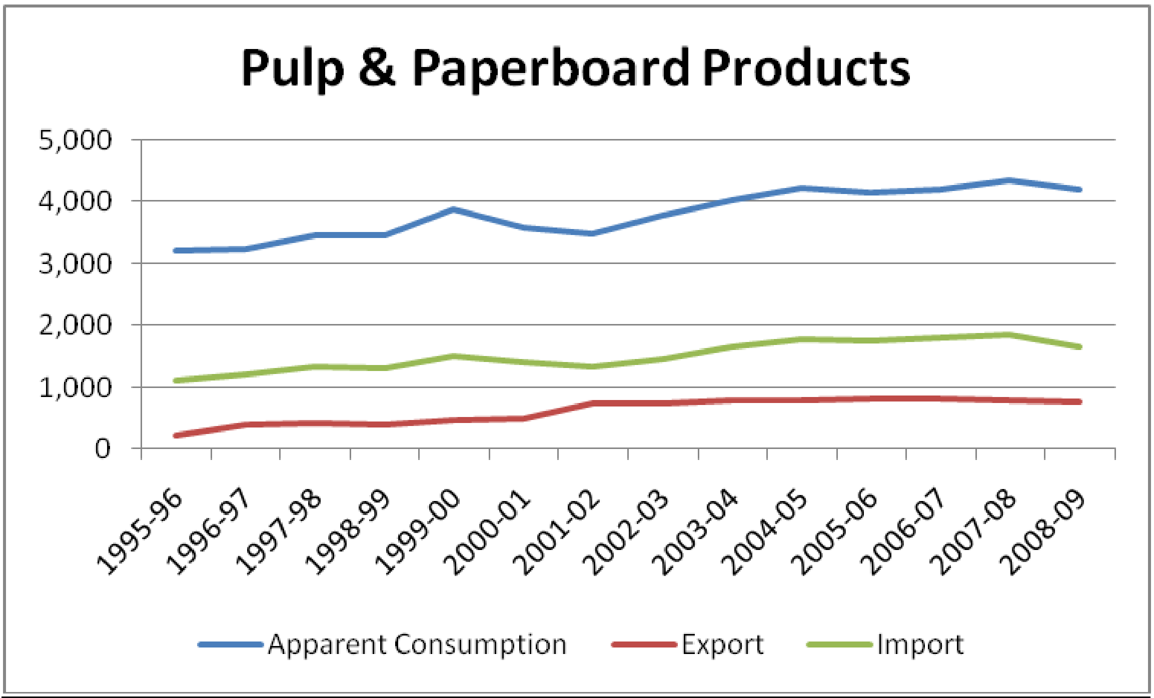
The softwood market within Australia has shown steady growth for the 30 years, which will present an interesting future challenge, as the industry ceases the expanding of the estate in the early 1980's and future growth will have to be supported through imports.



The hardwood consumption within Australia has shown a steady decline over the last 15 years and this would have matched a similar decline in the previous period.



Pulp And Paperboard products have continued to grow, with Australia a major importer of this product.

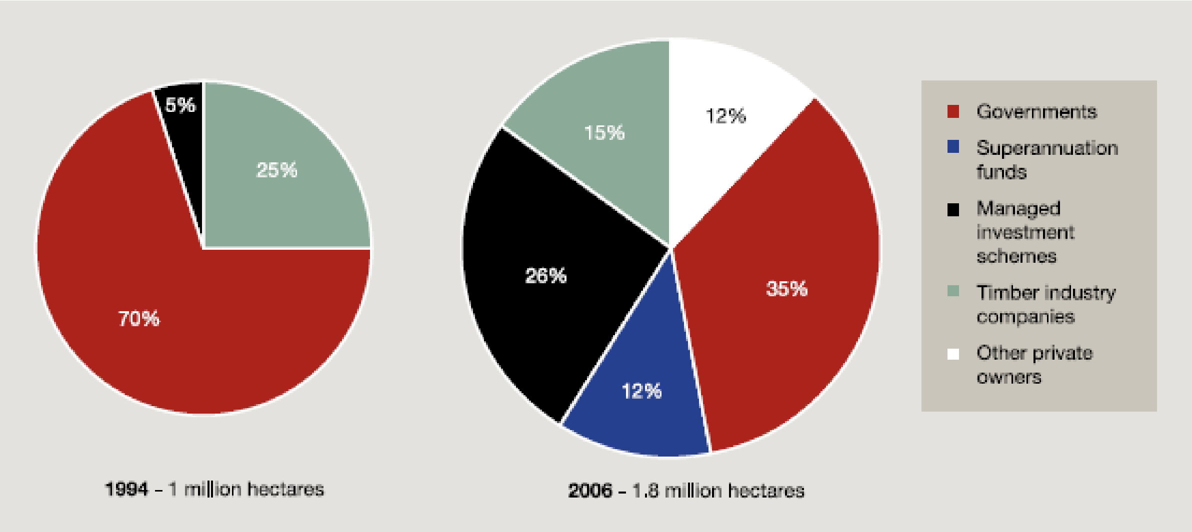


- Imports printing and writing
- Exports growth demand by packaging and industry growth

Plantation Ownership

While a huge amount of energy has gone into the Natural forest debate, the financial landscape of our industry has reshaped the ownership of the plantation sector, with more to come.

Comparison of plantation ownership, 1994 and 2006:



Source: BRS 2008, The Changing Face of Australia's forests.

Within this decade Government will cease direct ownership of plantation estates, ensuring that the industry is financially driven for supply arrangements and pricing of contracts. The owners of these estates in turn will be held accountable for the financial viability of these investments by their shareholders.

The owners of these assets will be global by nature, pressured for returns, with a range of options for their funds in other geographies or investment classes.

Should a plantation estate not be competitive through the supply chain on a global basis for the product that it has chosen, there will be no future.

What does this mean?

Whilst we have been locked into the debate around native forest, two major structural changes have occurred:

1. That plantations are now the predominant part of the Industry.
2. That we have moved from an Industry that is almost totally reliant on Government intervention for supply, to an Industry that must be able to support transparent returns for the plantation owner.

How we respond to these matters will determine what Australia's place in the Global Forest Industry will be. This response needs to include:

Native Forest Logging

- Whilst the industry has been in conflict with the broader Australian community, our people and the local communities in which they operate have been collateral damage. This is not sustainable nor is it good leadership; we need to negotiate an outcome that provides for some form of future for these communities.
- The vast support of the Australian population is with the ENGO's, this commands us to work with them to create a future without this conflict that moves them from being in opposition to our products and process to being supportive.
- This may well mean transitioning to plantations, but move we must, for the conflict must end. Too many people have been financially and emotionally injured in the Australian Forest Wars.
- Without resolution it will also continue to harm broader industry's reputation in the Global market place.

Plantation

- We have created a vast tract of plantations, particularly in hardwood pulpwood, during the MIS experiment. Many of these areas will not be replanted at all, whilst some will be better suited to softwood.
- The coming decade will determine if we are at all Globally competitive as a plantation grower, for the funding for the next rotation will be driven by global capital markets. The comparison will not be Western Australia, Green Triangle, Tasmania, Victoria, Queensland or NSW. It will be Brazil, Uruguay, Chile, Thailand or Vietnam.
- We will need to work hard to ensure that we select the right areas, the right product and rapidly expand our seed development programs to keep pace with competing areas.
- The larger question is whether we will be able to attract local capital into this sector or will we remain reliant on offshore, long term investors.

Domestic Processing

- Australia can function within the Global market; however, it must make wise choices on how to do this. We are exposed to the international market place and if you are not cost competitive, you have no future.

- The successful operators of the future will develop facilities of global scale, within regions that provide them with a competitive fibre input cost. It goes without saying that the fibre input cost must also provide the grower with a competitive return.
- Australia can meet these near term challenges in the softwood sawmilling and pulp production. Whilst over the longer term there may be opportunities in the hardwood sawmilling and engineered wood products if we are able to create plantations of sufficient scale for the products to compete internationally.

People

- For Australia to be successful we need to develop our existing people and give them the skills and opportunities to compete internationally. We have not been a fashionable industry and we would certainly not be the first choice for many. I would also go as far as to say that many of us are not looking at ways to encourage our own children to join the industry.
- Within the new modern forest industry we will be competing daily with the rest of the world and our success will largely be in the hands of the employees we select and develop. We will need to value these people in a way that is largely different from the past.

ENGO Engagement

- As an industry group we have been in conflict with the ENGO's for decades. The opportunity exists to work with them to provide our industry with the right brand recognition to our markets. Our products are the most renewable, but we do not receive that recognition in the domestic or international community.
- The opportunity is there to work with the ENGO's to establish a sustainable framework that will move us from CONFLICT to RESOLUTION and PROMOTION. Through this inclusive approach, we will find joint solutions to age old conflicts and move beyond a real sustainable forest industry.

Government

Government's role is profoundly changing, as it moves away from direct ownership of the resource. Concessions, allocations and stumpages will in future be market related, not subject to historical influence.

They will however have a much more important role. They will have to develop policy that goes to the core of our survival and our ability to compete in this Global Market. I see the following policy areas as "game breakers" for our industry:

1. Carbon Trading and timber's place in that world
2. Water - Forestry vs. Agriculture vs. Availability
3. Taxation and Superannuation Fund support for infrastructure projects like plantation development, ports and roads.
4. Trade - what is the level playing field?
5. Support for the Forest Industry in Regional Communities.

The Industry will have to work constructively together to achieve the right outcome in these areas. This will not be achieved if the native forest conflict remains unresolved and dominates the Government agenda.

In conclusion to the question "*What is Australia's place in a Global Forest Industry*", I would say that it is challenging, but we have the opportunity to be a Global player of relevance in both softwood and hardwood plantations development and processing. We have a start through the size of the plantation estate created, but it requires a radical reshape and the development of a range of globally competitive processing facilities.

Gunns

In closing I would like to touch on how the Gunns organisation may play a role in the future direction of the Industry.

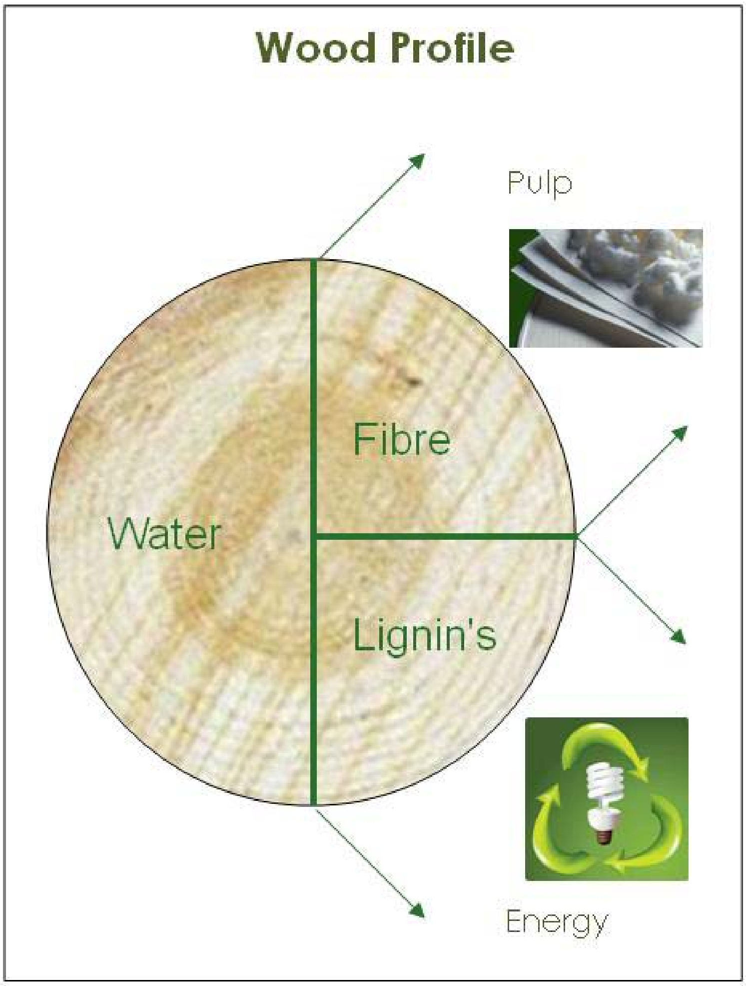
Over the past year we have made a clear directional statement that our future will be in the development and use of plantation based products. This does not mean that we do not value our past or those people in our business that are still with the natural forest sector, for they have allowed Gunns to develop the level that it has. But we must change in order to achieve broader community and investor support for our activities.

Our traditional industry has been native forest sawmilling and woodchip exports. For all the reasons I gave earlier we will not be part of this sector in the future. Our customers, shareholders, employees, contractors and other stakeholders have given us a clear message.

Over the past 20 years the Company and its predecessors have established a hardwood plantation estate of quality and we will be focussing on how we can use it to create the most robust business.

We believe that the greatest value, for all the stakeholders, will be the development of the Bell Bay Pulp Mill. We can be a high quality supplier to the regional market and provide great certainty to all our partners rather than remaining solely focussed on woodchip exports.

- *Mill concept involves downstream processing to maximise shareholder value from the extensive plantation resource developed by the Company*
- *Modern processing model entails:*
  - *pulp mills being located close to the forest resource and paper manufacturing facilities close to the customer*
  - *an integrated utilisation of fibre and energy that allows extraction of full value from the plantation resource*
- *Gunns has access to over 300,000 hectares of high quality eucalyptus fibre and extensive associated infrastructure within a logical catchment of the proposed mill*

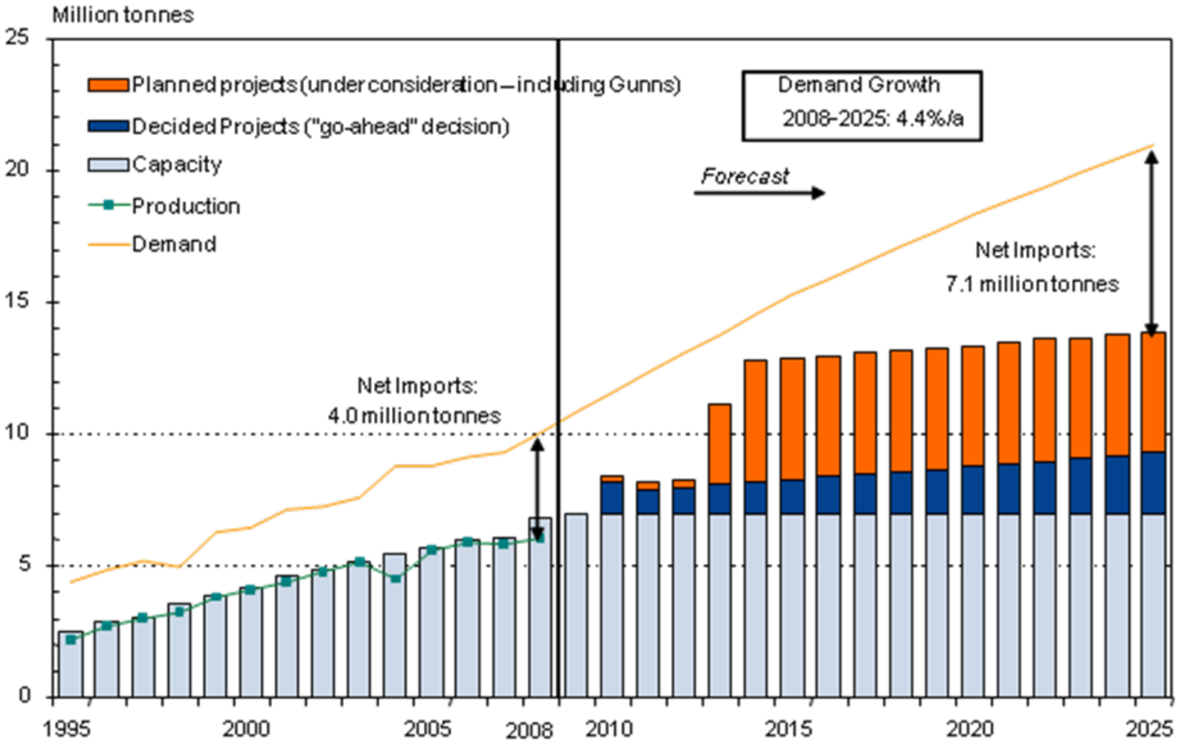


We believe that the project can tick all the boxes to be a Global player.

There is a need.

Positive market supply/ demand dynamics in the region based on:

- *Demand growth will outstrip supply in the region*
- *Limited worldwide land availability and growing conditions that support growing plantation fibre on a sufficient scale*
- *This limited availability, combined with the time to establish a critical mass of resource, creates a significant barrier to entry for additional supply from competing sources*

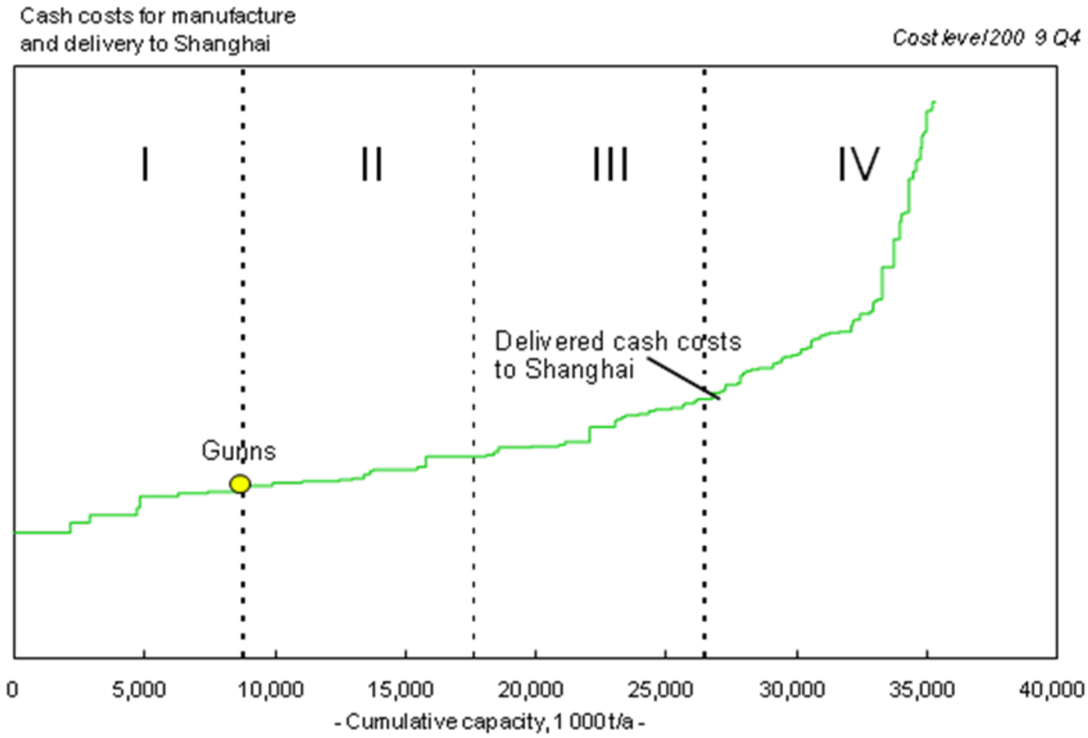


Note: Estimated pulp capacity may vary depending on pulp and paper market conditions. Supply data current as at May 2010 and includes only producers in Asia Pacific (including Australia). Forecasts have been prepared in good faith and with reasonable care but should not be relied on as a promise of the future.

We can be competitive.

Strong competitive position based on:

- *Close proximity of the forest resource to the mill location*
- *Proximity of the mill to the main demand growth centres in Asia compared to other predominant supply regions in South America*
- *Modern technology and mill size providing for significant economies of scale and cost efficiency*
- *Mill concept allows significant revenues from renewable energy*



Costs estimated using Pöyry's cost-competitiveness modeling. Based on forward exchanges rates predicted for 2016 as at March 2010. AUD rate used: AUD1 = USD0.77. Forecasts have been prepared in good faith and with reasonable care but should not be relied on as a promise of the future.

Woodchip exporters are subservient to the pulp producers.

This is a large project, with some of the facts.

1. The facility has a capital cost of $2.3 billion.
2. It will take some 26 months to construct.
3. There will be approximately 2,000 people engaged through the construction phase.
4. It will produce 1.1 million Air Dried tonnes of pulp.
5. Green Power will be generated, approximately 180 mega watts.
6. 90 mega watts of power will be put into the national grid.
7. 3.8 million green metric tonnes of woodchips will be consumed per annum.

It has been a project that has been in development for a long period of time. It has been captive to both the native forest debate and our own engagement processes.

Delivering this project will require Gunns to demonstrate that it is capable of operating within a modern society, with a modern facility. It will require engagement and an openness to improve how we do things for the life of the project.

I believe that we can be this type of company and that this facility will allow many of our employees and contractors to transition into a new phase in the industry.

In doing so, we will be the example of how Australia can compete in the Global Forest Products market and create a vibrant future for our employees in a modern industry.