

25 November 2010



Company Announcements Platform  
Australian Securities Exchange

**ANNUAL GENERAL MEETING**

**MANAGING DIRECTOR'S ADDRESS**

Please find attached the Managing Director's address from the Gunns Limited Annual General Meeting 2010 for release to the market.

Yours sincerely

A handwritten signature in black ink, appearing to read "Wayne Chapman", is positioned above the typed name.

Wayne Chapman  
***Company Secretary***

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25 November 2010

## **ANNUAL GENERAL MEETING 2010**

### **MANAGING DIRECTOR'S ADDRESS**

#### **INTRODUCTION**

We are in the midst of navigating our way through the most difficult period of our company's history. In the past 12 months we have seen the decline of two of the company's major contributors to profit for the past decade, being the Japanese woodchip market and the Australian market for Managed Investment Schemes.

These two businesses contributed 92 per cent of the company's total earnings before interest and tax since 2001.

At June 2009 our overall debt level was \$660 million (down from \$1.058 billion in June 2008) and we were enmeshed in conflict with a range of stakeholders. If there was ever a crisis, we have lived it over the past 12 months and we are emerging stronger and are set to achieve the potential that can be created through the continued deployment of our strategic direction.

#### **SAFETY**

Gunns Limited has had a diverse range of business activities with some areas more advanced in safety than others. There has been a concerted effort to align all business safety activities together and as such a company strategic plan has been developed outlining what the business intent is over the next five year period. This plan remains a 'live' system with reviews and modifications undertaken on a regular basis, aiming for continual improvement. This plan is monitored through the Board to ensure there remains continual progress to agreed actions. Each area of Gunns has developed a specific site business plan aimed to address key criteria as detailed in the overall strategic plan and progression to these plans is measured on a monthly basis.

These processes have assisted in the reduction of the lost time injury frequency rate (LTIFR) for the business during the last 12 month period, as well as a positive response from employees with an active involvement in safety matters.

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## 2010 IN REVIEW

I would now like reflect on the events of the past year.

It started positively with the acquisition of the ITC sawmilling business in Victoria and Tasmania, which complemented our existing operations and provided significant synergies through the amalgamation of sites and the rationalisation of back office processes and distribution costs. The management of our Timber Products business completed the integration to plan and have delivered on their promise of cost reduction.

The increase in the import competition and declining preference for hardwood are areas that are now impacting on that business and its profitability; however, our scale and lower costs are enabling us to be more competitive.

Through the acquisition of Auspine in 2008, Gunns gained a presence in the Green Triangle, on the border of South Australia and Victoria. The area has approximately 180,000 hectares of plantation eucalypts and the Port of Portland was seeking to attract a potential developer of a stockpiling and ship loading facility to allow this resource to be exported.

This port facility would be in a significant strategic position in this region, with access to both Bell Bay and to the Asian market. On 30 July 2009, Gunns successfully tendered to build port facilities with an annual shipping capacity of 1.5 million tonnes at a cost of \$24 million. I am pleased to report that the facility is on schedule for completion in December and is on budget. We will export our first shipments from this location early in the New Year. This has been a great achievement from the local Green Triangle Team who have managed this project locally from start to finish.

By the second quarter of the last financial year we were assessing the potential of adding to our plantations under management through Gunns Plantations Limited being appointed as the Responsible Entity for a number of the Great Southern Plantations pulpwood projects.

This opportunity would expand our hardwood presence outside of Tasmania and provide us with the potential to establish the Bell Bay pulp mill as a plantation only facility meeting the shortfall in the Tasmanian estate in the first few years of operation.

To be appointed as a Responsible Entity is a complex process; however, the team involved in the project worked through a very intense and competitive process that culminated with Gunns Plantations being appointed as the Responsible Entity of eight of the ten schemes, early in 2010. This confirmed our ability to source timber to operate a plantation only pulp mill and we released this positive result to concerned stakeholders at that time.

Operational and corporate activities for the Great Southern schemes have been integrated into the Gunns business and we now operate three defined Regions for plantation management; Tasmania, Green Triangle and Western Australia with management of over 330,000 hectares of high quality eucalyptus plantation fibre. In addition to our operational activities, all grower services have now been consolidated in Launceston for both Gunns and Great Southern Managed Investment Schemes.

At last year's AGM the real issues within the woodchip and MIS markets were just emerging. Subsequently it became apparent that the decline was permanent and that Gunns would need a vastly different business model to be successful into the future.

The strategic review was released to the market with our half yearly results. This review grouped our business into four streams:

- 1 Plantations
- 2 Pulp mill
- 3 Sawmilling
- 4 Other businesses

The review enabled us to clearly define each of the four segments and then define how each would contribute to the future growth in shareholder value.

The review also confirmed that to achieve our strategic objectives we would need to significantly strengthen our balance sheet. A key focus area was to explore all means possible to reduce the high debt levels held by Gunns, which peaked at \$1,058 million in June 2008. As a result of this strategy, a process was put in place to sell all those assets classified in the strategic review, as "Other Businesses".

To date the following businesses have been divested:

- 1 Retail/Mitre 10 Stores in Tasmania to Danks/Woolworths
- 2 Tamar Ridge wine business to Brown Brothers
- 3 Hinman, Wright & Manser construction business to Hazell Bros
- 4 Adelaide prefabrication business to Pine Design
- 5 Surplus native forest land to a range of buyers
- 6 A range of other industrial properties which have yielded nearly \$20 million.

At present we have the following sale transactions under various stages of progress:

- 1 Walnut business
- 2 The balance of the pine plantation estate in the Green Triangle that had not been sold to GMO in 2009
- 3 Jarrah business in Western Australia
- 4 Parts of the loan book, with a current face value of \$225 million.

The proceeds of these transactions will be applied to debt reduction.

During the half we also announced that we would not be making any more Managed Investment Scheme (MIS) offers. This business although primarily responsible for the development of the plantation estate, did not provide satisfactory returns to the Gunns investor and was capital intensive, a significant contributor to the Gunns high gearing levels.

## TRADING IN 2010

The financial result for 2010 was unsatisfactory for all staff and shareholders. As mentioned earlier, the collapse of the woodchip and MIS markets reduced the traditional earning base of the business while our borrowings had continued to grow.

Overall, underlying EBIT for 2010 was \$51.4 million down from \$107.4 million in 2009. This was a reduction of \$56.0 million, with our woodchip and MIS businesses contributing \$68.3 million to this reduction.

In the corresponding period our sawn timber business improved profitability from \$4.5 million to \$15.7 million.

The net interest cost for the business was reduced from \$40.1 million to \$18.6 million reflecting the capital raising and the sale of the Auspine plantations to GMO in 2009.

There were few highlights for the business, as we focussed on implementing a range of initiatives to generate efficiencies throughout the business and reduce overhead and transaction costs. It also became an imperative to improve the financial visibility and accountability within the business to deal with the ever changing business world in which we now operate.

Significant investment has been made in implementing business processes to achieve shared responsibility and accountability for business performance to ensure we manage effectively in a dynamic environment.

## OUTLOOK FOR 2011

As mentioned by the Chairman, 2011 is also forecast to be a very difficult year for the business. Our market conditions are difficult, with all markets either at 2010 levels of demand or weaker.

The woodchip business is faced with the final transition stage of the Japanese market exit from natural forest woodchip to plantations. The Chinese market is emerging but is significantly more price competitive and it will be some years before it provides the volume and the prices to effectively replace Japan.

The principle factors facing the woodchip industry are the lower pulp yields achieved from natural forest compared with plantation forest and the high value of the Australian Dollar. This dynamic is placing pressure on both volume and price.

The sawn timber market has been difficult, with hardwood sales continuing to come under pressure from alternate products and competition from offshore products due to the strength of the Australian Dollar and the decline in demand in competitor's traditional markets. It should be noted that domestic demand for hardwood has declined from a little over 3 million cubic metres in 1980 to a little over 1 million cubic metres last year. The future markets for hardwood will be within the decorative sector, with all traditional construction grade categories being replaced by softwood, engineered products and alternate construction methods.

Our softwood business has been trading at forecast levels, with our Mount Gambier facility operating above plan, reflecting the benefits of focussed efficient operations in this sector. The inclusion of the FEA Bell Bay facility, and the closure of the high cost Scottsdale facility, will deliver lower cost operations in the second half.

Imported softwood, particularly from Western Europe continues to increase in volume, driven by slower traditional local markets and the strength of the Australian Dollar. Our ability to deploy volume will be significantly affected by the behaviours of this new entrant to the market.

The Timber Products group is heavily dependent on the housing market and this sector has some near term uncertainty due to the two paced economy in Australia.

The other major business segment is plantation development and management. This category is the major sector on the Gunns Limited balance sheet; however, it will be a relatively minor contributor to EBIT due to the accounting for MIS profits which recognise most of the profit in the year that the woodlot was established, as opposed to being spread over the life of the project.

Gunns will emerge from this year as a focussed plantation based business, with overheads and processes that reflect the future business and debt levels that support this business model.

This is a restructure that must be completed to enable delivery of the future opportunities. Until this is completed the short term trading outlook will be difficult. I take this opportunity to thank our employees, families and contractors for their continued support during what has been a difficult period for the industry and the broader community.

#### **PULP MILL**

The development of the Bell Bay pulp mill remains the greatest potential contributor to shareholder value. We have been engaged in a structured and detailed process to achieve equity and financial closure. The messages from the participants in the process have been clear and consistent:

- 1 That the financial outlook for the project is strong
- 2 That the strategic rationale is compelling
- 3 That the project is globally competitive in the growing Asian eucalyptus pulp markets
- 4 That continued development of plantations in Australia will be dependant on adding value locally
- 5 That the facility, as proposed, will be one of the most environmentally controlled facilities in the world.

I believe that the project meets all of the criteria to be a global player and represents one of the most significant and exciting infrastructure projects for Australia.

Importantly the mill concept allows significant revenues from renewable energy. The facility will generate approximately 180 mega watts of renewable energy from plantation grown fibre, half of which will be placed back into the National Grid for Tasmania to use. This will reduce the State's current need to bring power from non-renewable sources on the mainland, as importantly, this will be "base load" renewable energy.

Realisation of the project will allow many of our employees and contractors to transition into a new phase within the modern plantation industry. In achieving this outcome I believe that 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.

In relation to the equity financing of the project, we remain engaged with a number of parties, who are conducting due diligence. We continue to be encouraged by the level of engagement by those parties in the process, particularly following the recent announcement of the Tasmanian forest agreement. This is a complex project and the parties are cautious given the history of the project, however we remain confident that this process will reach a conclusion soon.

There is a preferred financing strategy which is under an advanced stage of development; however, we are evaluating a number of options to ensure we maximise value to our shareholders.

A key factor in the ongoing operations of this facility will be how we engage with our various stakeholders and the community in which we operate. These conversations will provide critical input to how Gunns and the Tasmanian forestry sector can manage the transition from a native forest industry to a modern, environmentally and socially responsible plantation-based industry.

What we heard through the forest agreement process is that logging native forests is faced with declining and uncertain markets, at a time when the broader Australian community is strongly opposed to the harvesting of our natural forest for woodchip. There is a strong need for us to transition into a modern forest industry that achieves the balance between the environment and industry. We believe that the development of the Bell Bay pulp mill will be the centre piece of this strategy for the modern industry in Tasmania.

The engagement with peak and local stakeholders over the Bell Bay pulp mill is a key opportunity for Gunns to communicate with the community about this transition, to get insight into community concerns and any potential social impacts, and find ways to manage them. This is how - together - we can make the Tasmanian forestry sector vibrant and viable again, on a totally different basis from the past.

It is acknowledged that there are divergent views on the pulp mill but a vast number of people in the middle who would like to understand the project in more details. We will open the dialogue with the community to provide the facts around the project, clear of the distractions of the natural forest debate.

This is the engagement process that we are now embarking on, and we expect to have it well progressed early next year.

## **TASMANIAN FOREST AGREEMENT**

The Tasmanian Forest Agreement which was signed last month is a tangible example of stakeholders working together to achieve long term and sustainable benefits for the industry and the communities in which we operate. Gunns is supportive of this agreement and I believe it demonstrates our commitment to a sustainable forestry industry in Tasmania based on plantation resources. The agreement is about resolution of conflict between industry and the broader Australian community.

The Forest Agreement provides the framework in which we will create long term sustainable employment within the plantation sector and the Pulp Mill. In the process we will have moved away from exporting lower value woodchips to exporting high value paper pulp with the support of a more highly skilled workforce utilising the renewable plantation resource.

We have placed considerable emphasis over the past 12 months on working with environment groups to create a future without conflict, and in our view the ratification of the Tasmanian Forest Agreement will be a landmark step in ensuring an improved reputation for the industry and our renewable products in the global market place.

Implementation of the agreement will involve substantial change for Gunns as an organisation and for many of our staff and contractors. We are committed to working through this process openly and equitably to provide a long term sustainable basis for future employment.

It is acknowledged that these changes will require some of our businesses to close and for us to sell others. This is not a reflection on the dedication or skill of those affected employees or contractors, but a reflection of a profound shift in both the economics of the sector and the social requirements of the broader community in which we operate.

## **ACQUISITION OF THE BELL BAY SAWMILL**

In October we reached an agreement with the FEA receivers to purchase the Bell Bay plantation based softwood sawmill. This facility was commissioned in 2008, with a construction cost of \$84 million. The acquisition cost was \$40 million, plus inventory.

Gunns also announced the closure of the smaller uncompetitive Scottsdale facility with all of our future Tasmanian softwood sawmilling to be consolidated at Bell Bay.

This facility will be cost competitive through the cycle, both in Tasmania and on the mainland. It will also complement our operation at Tarpeena, in South Australia which also has the potential to increase its capacity by 60% over the next 2 years should we be successful in purchasing sawlogs in the region which are available and commit the capital required to process this volume.

This acquisition demonstrates Gunns commitment to the development of a plantation based forestry business, which is competitive through the cycle by operating in the right sectors, with the right cost structures and access to quality raw materials.

## CONCLUSION

It has been a difficult year for all at Gunns, our shareholders, our contractors and our employees. We have been focused on reducing debt, repositioning the business from the traditional natural forest business to a modern plantation based business. We are on track to achieve this within this financial year.

In making this transition we will have transformed the business from one that attracted controversy and negative brand image to a more transparent organisation, which will attract a new and broader range of investors.

By completing these tasks, we believe that the maximum shareholder value will be delivered and a solid foundation will be in place for the Company's future.

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Gunns Limited  
Annual General Meeting  
25 November 2010

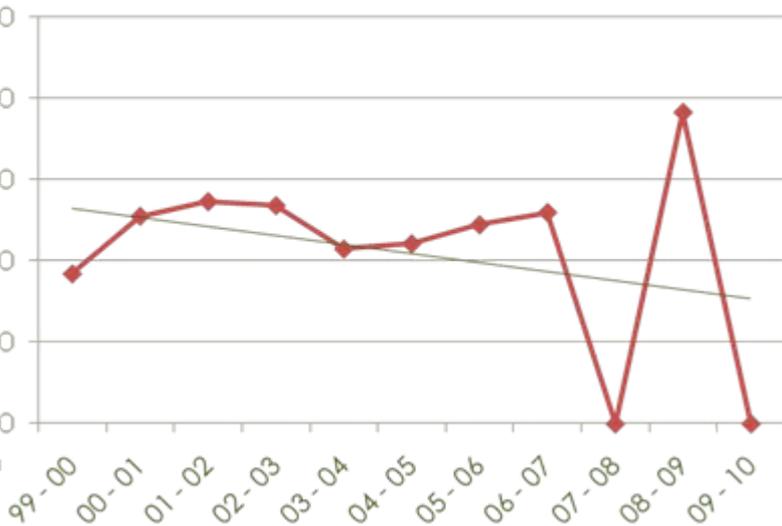


- Alignment of business safety activity
- Positive employee engagement
- Reduced lost time injury frequency rate

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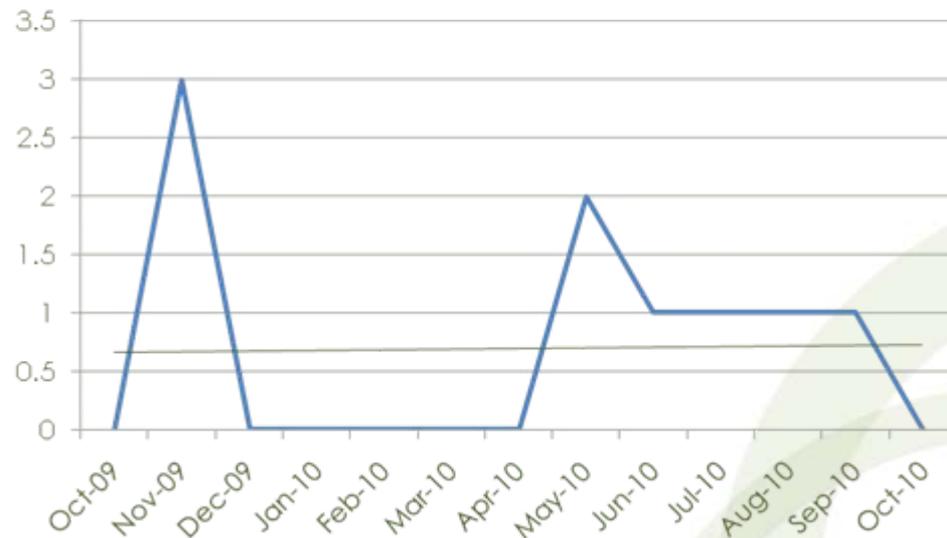
**Gunns Timber Products  
LTIFR YTD**

—◆— LTIFR  
— Linear (LTIFR)



**Gunns Forest Products  
LTIs YTD**

— LTIs



- ITC acquisition
- Portland woodchip export facility development
- Expansion of plantation management
- Strategic review

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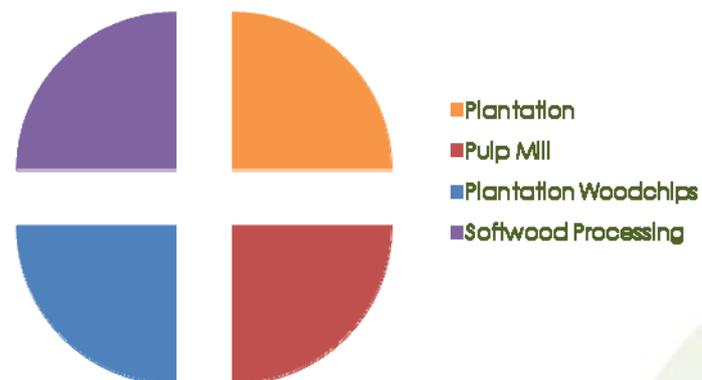
## Conglomerate

Long life low yielding assets

- Natural Forests
- Industrial Properties
- Wine
- Construction
- Walnuts
- Auspine Land
- Tasmanian Pine Land
- NSW Pine Land
- Adelaide Prefab
- Gunners Arms
- Commodore Motel
- Jarrah
- Veneer
- Tasmanian Native Woodchip
- Tasmanian Hardwood
- Victorian Hardwood
- Softwood
- MIS



## Integrated Plantation Grower and Processor



- Underlying EBIT \$51.4 million
- Woodchip and MIS earnings reduced by \$68.3 million on prior year
- Sawn timber up by \$11.2 million on prior year
- Net interest down by \$21.5 million on prior year
- Focus on efficiency of business and integration

- Difficult market conditions
- Transition of woodchip market
  - Natural forest to plantation
  - Broader Asian market
- Impact of \$A appreciation
- Integration of FEA Bell Bay mill
- Housing starts a key driver

- The financial outlook for the project is strong
- The strategic rationale is compelling
- The project is globally competitive in the growing Asian eucalyptus pulp markets
- Continued development of plantations in Australia will be dependant on adding value locally
- That the facility, as proposed, will be one of the most environmentally controlled facilities in the world.

- Equity investor engagement continuing
- Focus on stakeholder engagement
- Cornerstone for industry transition
- Committed to worlds best practice

- Supported by Gunns
- Essential for industry sustainability
- Focus on a future without conflict
- Significant change for Gunns, its employees and contractors

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- Acquisition at \$40 million
- Integration of Scottsdale operations
- To complete in December 2010

# Conclusion

- Completion of restructure to deliver value and sustainability
- Reduced debt
- Transparency
- Core business

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