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# Gunns Half Year Results Briefing 2011

February 2011



## Earnings

- Underlying earnings (EBIT) up by \$12.7 million (169%) on the prior year comparative period
- Competitive position impacted by currency value
- Operating cost improvements being realised

## Repositioning Gunns business

- Completion of the exit from a number of non core businesses
- Investment in softwood sawmilling
- A defined path for the exit from native forest based operations in Tasmania
- Advancement of the pulp mill investment

## Restoring the balance sheet

- Processes commenced to realise the value of plantation forest assets whilst retaining resource access

*“Strategic realignment of Gunns’ existing businesses will realise the inherent value of the current business, enhance the pulp mill investment profile and allow Gunns to participate in the “once in a generation” industry consolidation*

- Through the course of the 2010 calendar year the Company has substantially advanced the implementation of the strategic review announced in February 2010.
- The Company has exited non core operations in merchandising, wine, walnuts and construction.
- The transition from native forest to plantation based resource is proceeding. Native forest land holdings in Tasmania have been sold and the Company has committed to participate in the Tasmanian forest industry restructure. Gunns’ exit from native forest operations in Tasmania will be completed either through the industry restructure process or through the sale of assets.
- Re-allocation of invested capital from capital intensive land and forest assets to operating assets.
- Focus on developing businesses based on sustainable inputs, exposed to growing markets with low relative cost positions. Identified investment opportunities are the Bell Bay pulp mill project and in softwood sawmilling.

## Summary of Gunns' FY10 and 1H11 statutory results

A\$ million (YE 30 JUNE)	1 <sup>st</sup> HY 10	2 <sup>nd</sup> HY 10	1 <sup>st</sup> HY 11	% change on p.y.c.p.
Revenue	325.9	378.5	363.4	+11.5
Underlying EBIT	7.5	43.9	20.2	+169.3
Reported EBIT	4.8	(90.1)	(5.0)	-204.2
Net interest	9.8	8.8	12.4	+26.5
Tax expense	5.5	137.3	12.4	+125.5
Reported NPAT (incl associates)	0.4	28.1	(4.6)	
Adjust non-operating items	2.7	2.2	12.0	
NPAT (before non-operating items)	2.3	31.1	7.4	+221.7
Reported EPS (cents)	(0.4)	3.2	(1.1)	
EPS (before non-operating items) (cents)	(0.2)	3.6	0.4	
Dividend (cents)	0.0	0.0	0.0	

Source: Gunns Appendix 4d

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# Earnings Reconciliation

Strategic transition impacting reported earnings

## Reconciliation of statutory to underlying results

A\$ million (YE 30 June)	1 <sup>st</sup> HY 10	2nd HY 10	1 <sup>st</sup> HY 11
<b>Underlying EBIT</b>	7.5	43.9	20.2
Unrealised gain / (loss) on financial instruments	(0.7)	(8.0)	5.2
Doubtful debt provision – MIS loans	-	(9.0)	-
Business acquisition and restructuring costs	(3.0)	(12.3)	(9.5)
Gain on acquisition of assets	2.8	4.6	18.8
Impairment provisions	(1.8)	(138.3)	(30.8)
Gain/(Loss) on sale of assets	-	4.5	(8.9)
MIS Fee income	-	24.5	-
<b>Reported EBIT</b>	<b>4.8</b>	<b>(90.1)</b>	<b>(5.0)</b>

Source: Gunns management accounts

- Impairment provisions in 1H 2011 comprise Alexandra Mill (\$2.2m), Scottsdale Mill (\$17.5m) and Jarrah assets (\$11.1m).

# Core Business

Returns slightly better but near cycle lows

## Divisional Results

A\$ m (6 months to 31 Dec)	Revenue	Underlying EBIT	% Margin	Revenue	Underlying EBIT	% Margin
	H1 2010	H1 2010	H1 2010	H1 2011	H1 2011	H1 2011
Forest Products	140.6	6.9	4.9	177.6	20.6	11.6
Sawn Timber	127.7	5.5	4.3	155.2	6.2	4.0
<b>Total from Core operations</b>	<b>268.3</b>	<b>12.4</b>	<b>4.6</b>	<b>332.8</b>	<b>26.8</b>	<b>8.1</b>
Other and discontinued operations	57.6	(0.2)		30.6	(2.9)	
Corporate costs		(4.7)			(3.7)	
<b>Group Total</b>	<b>325.9</b>	<b>7.5</b>	<b>2.3</b>	<b>363.4</b>	<b>20.2</b>	<b>5.6</b>

Forest products business comprises: Export woodchips, Plantation management and Forest valuation

Sawn Timber business comprises: Hardwood and softwood timber and veneer production

Other operations comprise: MIS administration and finance, Merchandising (discontinued May 2010), Wine (discontinued August 2010), Walnut MIS (discontinued January 2011) and Construction (wind down in progress)

# Forest Products

## Transition to sustainable model

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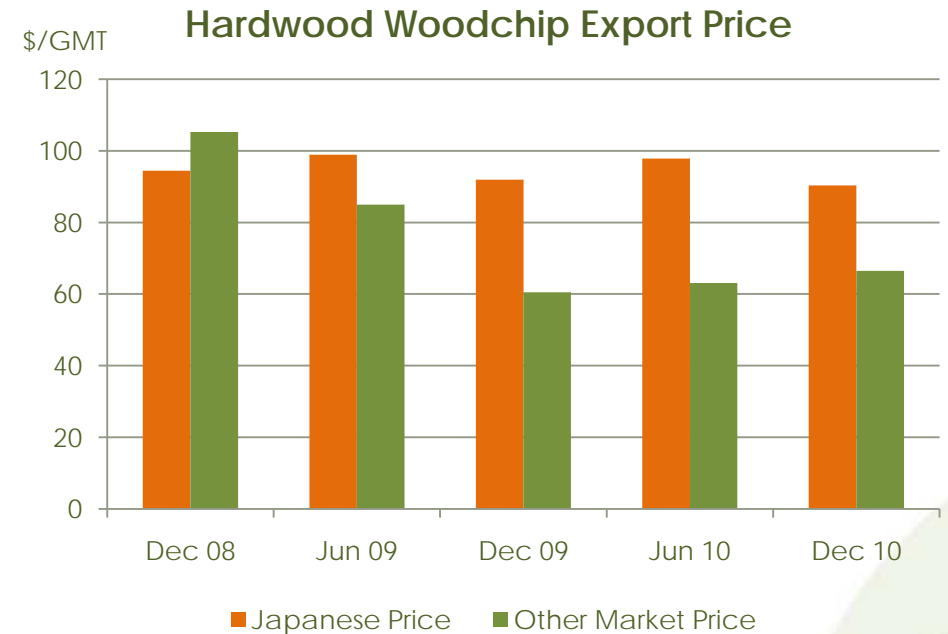
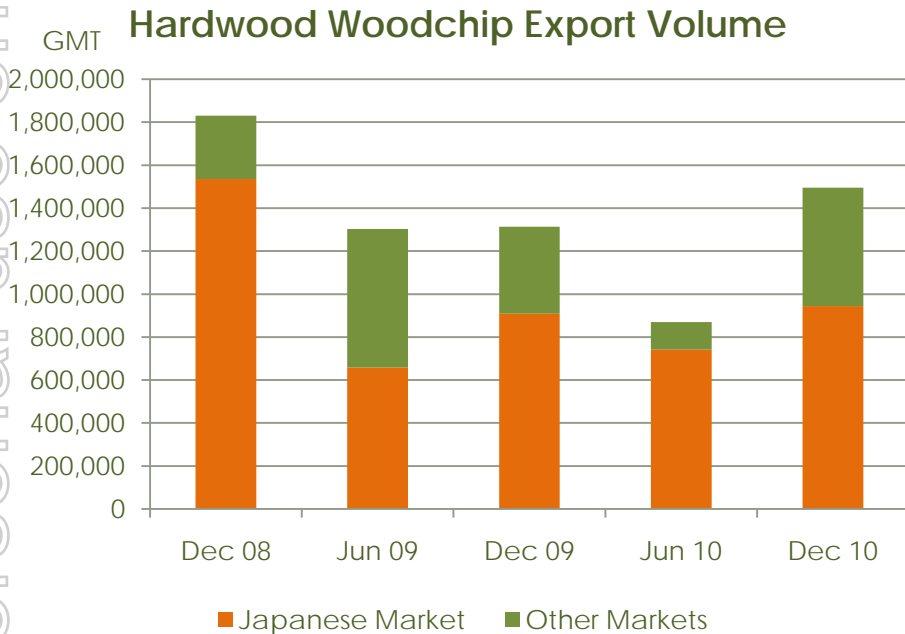
A\$ million	1 <sup>st</sup> HY 10	2 <sup>nd</sup> HY 10	1 <sup>st</sup> HY 11	% change on p.y.c.p.
Revenue				
Woodchips	137.2	172.8	166.3	+21.2
Plantation Management	3.4	-	11.3	232.4
Other	-	-	-	
<b>Total</b>	<b>140.6</b>	<b>172.8</b>	<b>177.6</b>	<b>+26.3</b>
Underlying EBIT				
Woodchips	1.3	9.7	5.3	+307
Plantation Management	0.5	48.1	4.4	+780
Forest valuation	5.1	4.5	10.9	+113
<b>Total</b>	<b>6.9</b>	<b>62.3</b>	<b>20.6</b>	<b>+198</b>

- Competitive position for hardwood sales determined by pricing (USD v AUD).
- Business is proceeding to exit from native forest wood sourcing.
- Plantation fibre capacity available to meet demand. Portland export facility operational.
- Restructure of Tasmanian forestry operations to be implemented in current half. Conversion to in field chipping for plantation operations, significant reduction in forestry operations with exit from native forests.
- Value of forest products harvested (included in cost of production) - \$18.5 million; Revaluation of forest - \$10.9 million
- Dual certification (AFS and FSC) being progressed across Gunns managed plantation estate.

# Woodchips

## Demand and currency pressures

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- Hardwood woodchip sales volume of 1.55 million gmt (Revenue: \$127.6 million FOB)
- Hardwood sales mix 35% ex Japan
- Softwood woodchip sales volume of 0.29 million gmt (Revenue: \$29.1 million FOB)



# Timber Products

## Demand and currency pressures

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A\$ million	1 <sup>st</sup> HY 10	2 <sup>nd</sup> HY 10	1 <sup>st</sup> HY 11	% change on p.y.c.p.
<b>Revenue</b>				
Oak and Ash	28.3	53.7	60.1	+112.4
Softwood	66.4	64.2	68.6	+3.3
Jarrah	12.0	10.1	11.4	-5.0
Other (veneer and other products)	21.0	14.6	15.1	-28.1
<b>Total</b>	<b>127.7</b>	<b>142.6</b>	<b>155.2</b>	<b>+21.5</b>
<b>Underlying EBIT</b>				
Oak and Ash	2.2	6.9	3.4	+54.5
Softwood	3.7	5.3	5.8	+57.7
Jarrah	0.1	(0.9)	(1.6)	..
Other	1.3	(0.1)	0.3	-76.9
Overheads	(1.8)	(0.9)	(1.7)	-5.5
<b>Total</b>	<b>5.5</b>	<b>10.3</b>	<b>6.2</b>	

Source: Gunns Appendix 4D, Gunns management information

## ○ **SOFTWOOD**

- Softwood sales volume up on prior half by 7%; consistent with pycp at 141,000m<sup>3</sup>. Import competition is significant due to high \$A value.
- Tarpeena mill earnings improvement from cost efficiencies and product yield.
- EBIT loss at Scottsdale operation in last half of \$616k. Integration of Tasmanian softwood operations to the newly acquired Bell Bay mill to be completed in the current half.

## ○ **HARDWOOD**

- Hardwood site closures being implemented to rationalise production. Hardwood gross contribution down \$6.5m on prior half.
- WA Jarrah log intake ceased in February 2011 with green mill closed from February 2011. Sales volume decreasing at 8% annually with collapse of domestic market.
- Hardwood sales volume up by 12% with volume increase in low grade export sales. Domestic market is weak.
- Hardwood (Oak/Ash) stock reduction of \$10.9m over twelve months. A further reduction of inventory in excess of \$10m is planned by 30 June 2011.

# Other Businesses

Exiting non-core businesses

## Other (includes discontinued operations and MIS management and finance)

A\$ million	1 <sup>st</sup> HY 10	2 <sup>nd</sup> HY 10	1 <sup>st</sup> HY 11	% change on p.y.c.p
Revenue	57.5	51.0	30.5	-46.9
EBIT	(0.2)	0.5	(2.3)	..
EBIT margin	(0.1).%	1.0%	(7.5)%	..

Source: Gunns Appendix 4D, Gunns management information

- Merchandising, Wine and Walnut businesses have been exited
- Exit from Construction by June 2011 with completion of current projects
- MIS administration costs in 1H 2011 \$1.8m (net) (2H 2010 \$2.3m)
- Continuing operations are MIS administration and finance

# Financial Position

## Balance sheet improving

### Gunns' financial position

	31 December 2009	30 June 2010	31 December 2010	% change on prior period end
Total assets (\$m)	2,623.3	2,564	2,532	-1.2
Net debt (\$m)	661.0	659.0	630.0	-4.4
Net equity (\$m)	1,457.6	1,492.8	1,504.9	+0.1
Gearing (%) <sup>(3)</sup>	31.2%	30.6%	29.5%	-3.6
NTA per share <sup>1</sup> (\$)	1.6	1.59	1.56	-1.8
Net interest <sup>2</sup> (\$m)	9.8	8.8	12.4	+40.9

Source: Gunns Appendix 4D

<sup>1</sup> Number of shares based on closing issued and paid up capital: FY11: 848 million FY10: 637 million; FORESTS treated as debt (at \$120 million face value)

<sup>2</sup> Net interest includes MIS financing revenue of \$8.0 million in Dec10 ; \$9.2 million in Dec09.

<sup>3</sup> Gearing is defined as net debt/(net debt + equity)

# Debt Utilisation

Refinancing planning underway

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A\$ million	31 Dec 2009	30 June 2010	31 Dec 2010	TERM
Senior facility	400	380	370	Refinance due January 2012 <sup>1</sup>
Working capital facilities	76	108	115	Annual review
Forestry land trust	12	12	12	June 2013 review
Securitised loan facility	91	76	65	
Lease facilities				
- Woodchip assets	49	41	33	Term to Dec 2011 Residual of \$10m
- Woodchip vessel	18	17	17	Term to March 2016
- Sundry equipment	16	25	19	2-4 year term
<b>TOTAL</b>	<b>662</b>	<b>659</b>	<b>631</b>	

Source: Gunns Appendix 4D

<sup>1</sup> \$10m quarterly repayments commenced 31 December 2010

# Bell Bay Mill Acquisition

## Asset utilisation strategy

- Acquisition of the Bell Bay sawmill provides an opportunity to integrate sub-scale operations at two sites to one modern mill.
- Gunns existing mill at Scottsdale to be closed in this half (EBIT loss of \$616K in last half).
- Consolidation to two shift operation at Bell Bay to be completed by March 2011.
- Input log supply for single site of 450,000m<sup>3</sup> per annum.
- Softwood timber demand has been in steady growth for 30 years with domestic log supply now at peak sustainable level.
- Independent Market Value of acquisition \$68.8m. Modern, recently commissioned plant.

	Acquisition cost	Valuation
Land and buildings	\$7.0m	\$11.0m
Plant	\$35.0m	\$57.7m
Stock	\$6.0m	\$6.0m
Provisions/Costs	\$0.4m	\$0.4m

# Pulp Mill Update

## Fundamentals remain attractive

- The Bell Bay pulp mill is the single most earnings accretive project available to Gunns. The project captures the value of the company's plantation resource which will not be achieved through the export of unprocessed woodchips.
- Pulp Mill will operate on 100% plantation resource from commencement.
- ECF lite bleaching technology to be implemented – 40% reduction in chlorine dioxide consumption.
- Final Federal government operating modules submitted for approval which is due by 4 March 2011.
- Community and stakeholder engagement process has been strengthened consistent with our social sustainability framework.
- Equity investment process has been delayed by the slower than anticipated progress of the Tasmanian Forests agreement.
- At a production level of 1.1m ADT per year with at current list pulp price and currency exchange (\$US825 list at a parity exchange rate) Mill EBITDA is projected at \$A475m - 500m.

- Gunns balance sheet assets include \$1.53 billion of land and forest related assets
- Processes have been initiated to realise the value of these assets
- **Sale of the Green Triangle pine plantation estate (\$254 million)**
  - Adviser appointed
  - Sale process commenced
  - IM released to selected parties
  - Indicative bids due mid February
  - Contract execution target date 31 March 2011
  - Settlement prior to end of financial year
- **Tasmanian plantation forest assets (\$826 million)**
  - Alternative options under review are to vend into pulp mill joint venture or sell down equity to institutional investors



## MIS related assets (\$400m)

- Gunns capital is invested in MIS assets through
  - Loans to investors
  - Rights to management fees as a share of harvest proceeds
- The recapitalisation of the Australian plantation sector following the collapse of the MIS industry is likely to see offers to growers for MIS investments
- Gunns is reviewing options for realising capital invested in MIS related assets (loan book and deferred management costs)
- Great Southern land has been sold by Receivers. The purchaser has expressed an interest in developing an offer for woodlot investors to acquire timber interests. Gunns interests in such a transaction are aligned with growers in maximising the return for the plantation wood.
- Acquisition offers for managed investment scheme assets will require assessment by Gunns Plantations Limited in its role as the Responsible Entity for a range of woodlot projects to realise the best value for growers.

# Gunns Asset Allocation

- 31 December 2010

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	Forest Products	Hardwood	Timber Softwood	Softwood Plantation	MIS Wood	MIS Wine/Walnut	Other	Pulp	TOTAL
Land – Industrial	5	24	4						33
Forestry - Land and Roads	52			222				585	859
Buildings, Plant & Equipment	22	25	128				2	320	497
SGARA	32			88				241	361
Intangibles	3		59						62
Inventory	29	98	36						163
Receivables	18	37	27		38	20	8		148
Prepayments							11		11
Loans (net)					173	27			200
Assets for resale		5					1		6
Woodlot maintenance					155				155
Investments/Cash				13	7		10	7	37
<b>TOTAL ASSETS</b>	<b>161</b>	<b>189</b>	<b>254</b>	<b>323</b>	<b>373</b>	<b>47</b>	<b>32</b>	<b>1,153</b>	<b>2,532</b>
Payables and accruals	60	26	20	68	20	0	13	0	207
<b>NET OPERATING ASSETS</b>	<b>101</b>	<b>163</b>	<b>234</b>	<b>255</b>	<b>353</b>	<b>47</b>	<b>19</b>	<b>1,153</b>	<b>2,325</b>
Interest Bearing Liabilities									631
Provisions									47
Deferred Tax Liabilities									143
<b>NET ASSETS</b>									<b>1,506</b>

- Total funding applied to support MIS project development and maintenance is \$400 million.
- This funding comprises:
  - Investor Loans and Receivables of \$265m
    - Wood \$218 million
    - Wine \$7 million
    - Walnuts \$40 million
      - Of these loans \$65m is funded through a securitisation program.
  - Management expenses and fees receivable on harvest/sale of wood
    - Gunns projects \$105 million
    - Former Great Southern projects \$50 million

# Operating Outlook

## Maintaining earnings guidance



- Woodchip sales volume to Japan for 2011 will be influenced by the price negotiation outcome. Australian woodfibre is not competitive at current pricing/currency levels.
- Volume to China contracted at 1m gmt for 2011 calendar year.
- Timber earnings to increase with Bell Bay mill integration.
- Cost and working capital control will remain a high priority.
- Underlying EBIT guidance of \$40-50 million for full year.

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# Summary

## Business priorities for 2011

- Continued focus on balance sheet improvement
  - Sale of non core and surplus assets
  - Targeted debt reduction of \$200 million
- Resolution of pulp mill equity investment process
- Progressing industry repositioning and community engagement
  - Improved stakeholder engagement process
  - Plantation based processing
- Operational improvement from core businesses
  - Working capital reduction
  - Margin improvement