



29 August 2012

Company Announcements Platform
Australian Securities Exchange

GNSPA - CONVERSION OF FORESTS NOTES

The Directors have resolved to effect the conversion of FORESTS notes to ordinary shares. The Company currently has 1,200,000 FORESTS notes (GNSPA) on issue. Details of the conversion process are provided in the attached correspondence which has been mailed to FORESTS noteholders today. The conversion is expected to result in the issue of 506,040,000 Ordinary shares, increasing the number of Ordinary shares on issue to 1,354,441,559. The number of Ordinary shares issued will be confirmed on 15 October 2012, the Exchange Date, at which time the conversion will occur.

Contact

Company: Greg L'Estrange – 03 6335 5211
Media: Barbara Sharp – 0412 266 358



29 August 2012

Dear Holder

Re – Exchange of FORESTS by Issuer

I am writing to inform you that Gunns Limited ABN 29 009 478 148 (the **Company**), the Issuer of your Frankable Optionally Redeemable Equity Settleable Transferable Securities (**FORESTS**), has decided to issue a notice to convert all FORESTS into ordinary fully paid shares in the capital of the Company (**Ordinary Shares**), in accordance with the FORESTS Terms of Issue (**Terms of Issue**).

Under the Terms of Issue, the Company has the right to convert the FORESTS into Ordinary Shares by serving on holders an Issuer Exchange Notice at least 30 Business Days before a Fixed Exchange Date in respect of some or all of their FORESTS. A separate notice issued pursuant to the Terms of Issue is enclosed with this letter (**Issuer Exchange Notice**).

Under the Terms of Issue, the Fixed Exchange Date is 14 October 2012. That is a Sunday, and under the Terms of Issue, the Conversion will occur on Monday 15 October 2012, being the next Business Day.

On 15 October 2012, the Company will issue to you a number of Ordinary Shares for each FORESTS you hold, calculated in accordance with the Terms of Issue. The Schedule to this letter describes the way in which the Company will determine the number of Ordinary Shares to which you will be entitled.

Based on the most recent trading prices of Ordinary Shares (prior to the suspension of Ordinary Shares from quotation on 13 March 2012), it is expected that you will receive 421.7 Ordinary Shares for each of your FORESTS. This figure is the "Maximum Conversion Number" of 400 Ordinary Shares as specified in the Terms of Issue, adjusted (in accordance with the Terms of Issue) to reflect the rights issues undertaken by the Company in 2008 and 2009.

However, the calculation will be made on the Exchange Date. Shortly after the Exchange Date, Gunns will confirm the number of Ordinary Shares you will receive and notify you of this by mail. Gunns will also announce this information to the Australian Securities Exchange (**ASX**) once available.

Given that the Ordinary Shares have been suspended from quotation since 13 March 2012, no current trading price information is available. The latest available market price of the Ordinary Shares was their closing price on the day prior to their suspension, which was \$0.16. In the three month period prior to their suspension, the Ordinary Shares traded at a low of \$0.096 on 12 January 2012 and a high of \$0.205 on 16 February 2012.

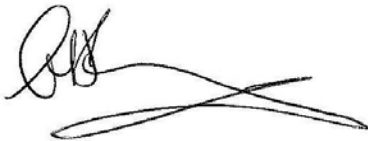
As per the Company's announcement to ASX on 2 July 2012, a distribution was not declared by the Company on the FORESTS for the period to 14 July 2012. The Company now also advises that a distribution will not be declared by the Company on the FORESTS for the period to 14 October 2012. Therefore, no distribution will be payable on the Fixed Exchange Date.

In accordance with the ASX Listing Rules, the quotation of FORESTS will end after market close on Monday 8 October 2012.

If you have served the Company with a valid Holder Exchange Notice in respect of your FORESTS in accordance with the Terms of Issue, the Company will convert your FORESTS in accordance with your Holder Exchange Notice. An earlier Holder Exchange Notice will take precedence over the enclosed Issuer Exchange Notice.

If you have any questions or queries about this notice, please contact the Company at FORESTS@gunns.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'G. L'Estrange', with a long, sweeping horizontal line underneath it.

Greg L'Estrange
Managing Director

SCHEDULE

The Conversion Ratio of the FORESTS to Ordinary Shares is determined by reference to the Volume Weighted Average Price (**VWAP**) (as defined in the Terms of Issue) of Ordinary Shares in the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding but not including the Exchange Date (the **Reference Period**) subject to a cap (the **Maximum Conversion Number** as adjusted in accordance with the Terms of Issue (**Adjusted Maximum Conversion Number**)). As the calculated Conversion Ratio of 551.1 is greater than the Adjusted Maximum Conversion Number, then in accordance with the Terms of Issue, the conversion will be undertaken at the Adjusted Maximum Conversion Number of 421.7 Ordinary Shares for each FORESTS.

Calculations of the Adjusted Maximum Conversion Number and Conversion Ratio are detailed below:

(1) Adjusted Maximum Conversion Number

Under the Terms of Issue, the Maximum Conversion Number is 400 Ordinary Shares for each FORESTS; however, under the Terms of Issue, the Maximum Conversion Number is subject to adjustment on the occurrence of certain corporate actions, including rights issues.

The Maximum Conversion Number for the FORESTS was adjusted following rights issues completed by the Company in September 2008 and October 2009. The adjusted Maximum Conversion Number for the exchange is calculated as 421.7 Ordinary Shares.

The values applied in determining the respective adjustments are detailed in the table below:

	September 2008	October 2009
Maximum Conversion No. pre issue (MaxCNo)	400	407.9
Applicable VWAP (P)	1.5872	1.076
No. of Ordinary Shares pre-issue (RD)	406,561,405	642,570,064
Ordinary Shares issued under rights issue (RN)	222,854,325	160,643,732
Issue price (A)	1.50	0.90
Adjusted Maximum Conversion No. (Max CN)	407.9	421.7

The Adjusted Maximum Conversion Number (MaxCN) is calculated as:

$$\text{MaxCN} = \text{MaxCNo} \times P \times \frac{(\text{RD} + \text{RN})}{(\text{RD} \times P) + (\text{RN} \times A)}$$

(2) Conversion Ratio

As the Ordinary Shares have been suspended from quotation (and therefore not traded) from 13 March 2012 the VWAP for the purposes of determining the Conversion Ratio is the VWAP for the last 20 days on which the shares traded prior to the suspension date (\$0.1861). In accordance with the Terms of Issue, a Conversion Discount (CD) of 2.5% is applied in the calculation with the Redemption Amount being the Face Value of each FORESTS (\$100).

The Conversion Ratio of 551.1 is calculated as:

$$\frac{\text{Redemption amount}}{\text{VWAP} \times (1 - \text{CD})}$$

29 August 2012

Registered Name(s)	
Registered Address	
Holder Identification Number (HIN) or Securityholder Reference Number (SRN)	
Number of FORESTS held on date of notice	

Re - Issuer Exchange Notice – FORESTS

On 29 August 2012 Gunns Limited ABN 29 009 478 148 (the **Issuer**) announced to the market its intention to convert the Frankable Optionally Redeemable Equity Settleable Transferable Securities (**FORESTS**) into ordinary fully paid shares in the capital of the Issuer (**Ordinary Shares**).

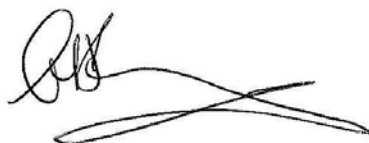
The Issuer hereby serves this notice on you, as a person whose name is at the date of this notice registered in the register maintained by the Issuer as a holder of FORESTS (**Holder**), under clause 3.2(a)(i) of the terms of issue for FORESTS (**Terms of Issue**) in respect of all of your FORESTS (**Issuer Exchange Notice**).

Unless otherwise defined, words and expressions defined in this Issuer Exchange Notice have the meanings given to them in the Terms of Issue.

In accordance with clause 3.2(b)(i) of the Terms of Issue, the Issuer gives notice that it intends to Convert each FORESTS the subject of this Issuer Exchange Notice into Ordinary Shares in accordance with clauses 3.6 and 3.7(a) of the Terms of Issue.

Under the Terms of Issue, the Fixed Exchange Date is 14 October 2012. That is a Sunday, and under the Terms of Issue, the Conversion will occur on Monday 15 October 2012, being the next Business Day.

Signed for and on behalf of **Gunns Limited** by:



Greg L'Estrange
Managing Director



Wayne Chapman
Company Secretary