

31 August 2012

Company Announcements Platform  
 Australian Securities Exchange

## 2012 PRELIMINARY FINAL REPORT

Gunns Limited ("the Company") has reported a net loss after tax for the year ended 30 June 2012 of \$903.9 million. This compares to a net loss after tax for the previous financial year of \$355.5 million. The net loss after tax reflects the effects of non-cash impairment charges and non-operating costs associated with the Company restructure. Impairment charges in the half reduced the carrying value of forestry assets by \$749.2 million. In addition to these impairment charges the Company has reduced the carrying value of timber processing assets which are held for sale by \$43.8 million.

Unaudited preliminary underlying earnings before interest and tax (and before non-cash items, including impairment charges) ("Underlying earnings") for the year ended 30 June 2012 is reported at \$26.7 million (2011: \$41.6 million). The methodology adopted for determining Underlying earnings is unchanged from the comparative period. Underlying earnings is provided as a reference to the operational results of the business for the period. The reconciliation of Underlying earnings to the Net Loss after tax for the year is detailed below:

	2012 \$m
Net loss after tax	(904)
Income taxation expense	51
Net financing cost	71
Pulp mill cost impairment	217
Interests in MIS harvest proceeds	206
Standing timber impairment	146
Tasmanian forestry land / roads impairment	95
Softwood sawmill impairment	37
Tasmanian woodchip mill impairment	25
Other timber division impairments and closure costs	18
MIS loan book impairments	19
Equity accounted investment impairments	19
Other forest product division impairments and closure costs	14
Other sundry items	12
<b>Underlying earnings</b>	<b>26</b>

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The net tangible asset value of the Company as at 30 June 2012 is reported at \$24.2 million. On 29 August 2012 the Company announced the decision to convert the FORESTS notes to ordinary shares and issued Issuer Exchange Notices to effect the conversion. The conversion will occur with effect from 15 October 2012 and result in the issue of an estimated 506,040,000 new ordinary shares which will rank pari passu with existing ordinary shares.

### **Impact of Changed Market Conditions**

As outlined in the ASX update of 6 August 2012, significant changes in conditions in the export woodchip market have required a comprehensive review of the carrying value of forestry related assets.

This review has resulted in a reduction of the carrying value of forestry assets of \$749.2 million in the half with an expense of \$583 million recorded in the profit and loss account and a \$166 million (pre-tax) reduction in revaluation reserves. Specifically this reduction in value encompasses:

1. A write down of the Tasmanian forestry estate of \$360 million (Full year: \$406 million)
2. A write down of assets associated with Managed Investment Schemes (MIS) of \$172 million (Full year: \$225 million)
3. A write down of the carrying value of expenditure incurred on development of the Bell Bay Pulp Mill project ("Mill Project") of \$217 million (Full year: \$217 million). The adjusted carrying value of this asset of \$38 million represents the estimated recoverable value of equipment and infrastructure assets.

The asset impairments are largely attributable to the substantial decline in stumpage prices achieved in the current woodchip market, a market which is largely denominated in US dollars. The trend in the woodchip markets has been a continued decline over the course of the past 4 months with both the selling price and sales volumes under considerable pressure. The Company does not expect these conditions to improve in the near to medium term, due to the significant and growing oversupply of plantation woodchips available from Australia and an expectation that the Australian dollar will remain around current levels compared to the US dollar.

### **Bell Bay Pulp Mill Project**

The Mill Project has been progressed by the Company over many years and the Company has obtained all of the applicable State and Federal permits for the Mill Project to proceed. In order to continue to value these related assets on the basis of a domestic pulp mill being established, the Company makes a regular determination as to whether the Mill Project is "probable to proceed" or not.

The impact of the decline in stumpage prices on the Company and its asset position has raised material uncertainty regarding the Company's current financing strategy including for the Mill Project. In that context, the Company's board has been unable to reach a view for the purposes of the Company's 30 June 2012 financial accounts that the Mill Project is "probable to proceed" in terms of the concepts defined in relevant accounting standards.

This determination of whether the Mill Project is "probable to proceed" or not is relevant in determining whether the development costs of the Mill Project to date (of \$255 million as at 30 June 2012) are expensed or capitalised. Accordingly \$217 million of the development costs to date have been expensed.

The decision taken by the board does not necessarily mean that the Mill Project will not proceed. Rather, it is an indication of decreased confidence from the Company that it has the ability to influence the Mill Project proceeding.

### **Tasmanian Managed Investment Schemes (Tasmanian MIS)**

The costs to the Company in funding the leasing and management of the Tasmanian MIS estate are significantly greater than its interests in the estimated net harvest proceeds that would be received upon harvesting of the Schemes (based on prices now available in the current woodchip market). In this regard the Company has recorded a provision for such costs of \$101.7 million, of which \$86 million was recognised in the second half of the 2012 year.

### **Engagement with the Company's Lenders/Proposed Capital Raising**

The preliminary final report is prepared on the basis that the Company continues to operate as a going concern, which contemplates the continuity of business operations, realisations of assets and settlement of liabilities in the ordinary course of business.

As announced to the ASX on 6 August 2012, ongoing lender support is required to stabilise the Company's operations, whilst discussions regarding a potential capital raising, restructuring or alternative transaction proceed, and to retain proceeds from planned asset sales to meet the operational and working capital requirements of the business. The Company has continued to engage with its lenders and has also continued its negotiations and diligence process with potential investors regarding a potential capital raising, restructuring or other alternative transaction. The outcome of these discussions remains uncertain and as such the Company is not presently in a position to provide any further details to the market. The ability of the Company to continue as a going concern will depend on a successful outcome to that process, which is ongoing. Pending the outcome of that process, the Directors consider it appropriate to adopt the going concern basis in preparing the preliminary final report.

### **Outlook**

Given the state of the current woodchip markets and domestic timber demand, 2012/13 earnings are likely to be materially less than 2011/12 earnings.

### **Suspension from Trading**

The Company is not aware of any reason why the suspension should not continue.

Until the Company is in a position to provide more specific detail regarding the proposed capital raising, restructuring or alternative form of potential transaction, the Company does not consider it appropriate that the suspension be lifted. It is not feasible to say at this stage when that will be.

### **Contact**

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## Gunns Limited

ABN 29 009 478 148

### Appendix 4E

Preliminary final report  
Financial year ended 30 June 2012  
Results for announcement to the market

			\$A'000
Revenues for the period	down	(34.6%) to	405,673
Profit for the period after tax	down	(154.3%) to	(903,865)
Net profit for the period attributable to members	down	(154.3%) to	(903,865)

Dividends and Distributions	Amount per security	Franked amount per security (at 30%)
Interim dividend - ordinary shares	-	-
Final dividend - ordinary shares	-	-
	-	-
Previous corresponding period		
Interim dividend	-	-
Final dividend	-	-
	-	-

Note: The previous corresponding period is the financial year ended 30 June 2011.

**Condensed consolidated statement of comprehensive income**

For the Year ended 30th June 2012	Note	2012 \$A'000	2011 \$A'000
<b>TOTAL OPERATIONS</b>			
Revenue		405,673	620,682
Other income		41,183	67,665
Expenses		<u>(1,227,311)</u>	<u>(1,127,612)</u>
<b>Profit/(loss) before financing costs</b>		<b>(780,455)</b>	<b>(439,266)</b>
Net financing cost	3	(71,353)	(24,810)
Share of profit/(loss) of equity accounted investees		<u>(896)</u>	<u>686</u>
<b>Profit/(loss) before tax</b>		<b>(852,704)</b>	<b>(463,390)</b>
Income tax benefit/(expense)		<u>(51,162)</u>	<u>107,904</u>
<b>Profit/(loss) for the period</b>		<b>(903,865)</b>	<b>(355,486)</b>
<b>OPERATIONS SPLIT BETWEEN CONTINUING AND DISCONTINUED</b>			
<b>Continuing operations</b>			
Revenue	2(a)	315,558	440,598
Other operating income	2(b)	37,628	60,108
Expenses			
Changes in inventories of finished goods and work in progress		65,329	160,299
Raw materials and consumables used		(133,838)	(328,158)
Employee benefits expenses		(60,444)	(88,455)
Depreciation and amortisation		(14,052)	(6,469)
Freight and shipment costs		(29,875)	(42,980)
Plantation lease and management expenses		-	(5,927)
Sales and marketing costs		(940)	(1,227)
Loss on revaluation of financial instruments		(4,015)	-
Other expenses	3	<u>(953,814)</u>	<u>(603,266)</u>
<b>Profit/(loss) before financing costs</b>		<b>(778,464)</b>	<b>(415,479)</b>
Financial income	3	14,926	20,806
Financial expenses	3	<u>(86,278)</u>	<u>(45,617)</u>
<b>Net financing cost</b>		<b>(71,353)</b>	<b>(24,810)</b>
Share of profit/(loss) of equity accounted investees		(896)	686
<b>Profit/(loss) before tax</b>		<b>(850,713)</b>	<b>(439,603)</b>
Income tax benefit/(expense)	16	<u>(52,959)</u>	<u>100,768</u>
<b>Profit/(loss) for the period from continuing operations</b>		<b>(903,672)</b>	<b>(338,835)</b>
<b>Discontinued operations</b>			
Profit /(loss) from discontinued operations (net of income tax)	18	(194)	(16,650)
<b>Profit/(loss) for the period</b>		<b>(903,865)</b>	<b>(355,486)</b>
Attributable to equity holders of the Company		(903,865)	(355,486)
Attributable to minority interests		<u>-</u>	<u>-</u>
<b>Profit/(loss) for the period</b>		<b>(903,865)</b>	<b>(355,486)</b>
<b>Other Comprehensive Income</b>			
Foreign exchange translation differences		(18)	(455)
Revaluation of property, plant and equipment		<u>(115,643)</u>	<u>(98,746)</u>
Other comprehensive income for the period, net of tax		<b>(115,661)</b>	<b>(99,201)</b>
Total comprehensive income for the period		<u>(1,019,526)</u>	<u>(454,687)</u>
Total comprehensive income attributable to equity holders of the Company		<b>(1,019,526)</b>	<b>(454,687)</b>
<b>Earnings per share (EPS)</b>			
Basic EPS (cents)		(107.8)	(43.9)
Diluted EPS (cents)		N/A	N/A

The statement of comprehensive income is to be read in conjunction with the notes set out on pages 6 to 15.

**Condensed consolidated statement of changes in equity**

For the Year ended 30th June 2012

	Share Capital \$A'000	Revaluation Reserve \$A'000	Other Reserves* \$A'000	Retained Earnings \$A'000	Total \$A'000
Balance at 1 July 2011	1,037,213	152,695	21,537	(156,725)	1,054,720
<b>Total comprehensive income for the period</b>					
Profit or loss				(903,865)	(903,865)
<b>Other comprehensive income</b>					
Foreign exchange translation differences, net of tax	-	-	(18)	-	(18)
Revaluation of property, plant and equipment, net of tax	-	(117,041)	-	1,398	(115,643)
Total other comprehensive income	-	(117,041)	(18)	1,398	(115,661)
Total comprehensive income for the period	-	(117,041)	(18)	(902,467)	(1,019,526)
<b>Transactions with owner, recorded directly in equity</b>					
<b>Contributions by and distributions to owners</b>					
Issue of ordinary shares	-	-	-	-	-
Dividends to equity holders	-	-	-	(10,943)	(10,943)
Total contributions by and distributions to owners	-	-	-	(10,943)	(10,943)
Total changes in ownership interests in subsidiaries	-	-	-	-	-
Total transactions with owners	-	-	-	(10,943)	(10,943)
Balance at 30th June 2012	1,037,213	35,654	21,519	(1,070,135)	24,251

For the Year ended 30th June 2011

	Share Capital \$A'000	Revaluation Reserve \$A'000	Other Reserves* \$A'000	Retained Earnings \$A'000	Total \$A'000
Balance at 1 July 2010	1,012,450	251,441	21,992	207,008	1,492,891
<b>Total comprehensive income for the period</b>					
Profit or loss				(355,486)	(355,486)
<b>Other comprehensive income</b>					
Foreign exchange translation differences, net of tax	-	-	(455)	-	(455)
Revaluation of property, plant and equipment, net of tax	-	(98,746)	-	-	(98,746)
Total other comprehensive income	-	(98,746)	(455)	-	(99,201)
Total comprehensive income for the period	-	(98,746)	(455)	(355,486)	(454,687)
<b>Transactions with owner, recorded directly in equity</b>					
<b>Contributions by and distributions to owners</b>					
Issue of ordinary shares	24,763	-	-	-	24,763
Dividends to equity holders	-	-	-	(8,247)	(8,247)
Total contributions by and distributions to owners	24,763	-	-	(8,247)	16,516
Total changes in ownership interests in subsidiaries	-	-	-	-	-
Total transactions with owners	24,763	-	-	(8,247)	16,516
Balance at 30th June 2011	1,037,213	152,695	21,537	(156,725)	1,054,720

\* Other reserves includes maintenance, foreign currency translation and fair value reserves

The condensed consolidated statement of changes in equity is to be read in conjunction with the notes set out on pages 6 to 15.

**Condensed consolidated statement of financial position**

	As at 30 June 2012	As at 30 June 2011
Note	\$A'000	\$A'000
<b>Current assets</b>		
Cash and cash equivalents	7,047	12,067
Trade and other receivables	77,736	102,949
Inventories	13,547	140,524
Biological assets	2,815	1,698
Assets held for sale	14 286,171	952,785
Other	2,970	6,456
<b>Total current assets</b>	<b>390,285</b>	<b>1,216,478</b>
<b>Non-current assets</b>		
Receivables	82,650	91,914
Biological assets	112,976	18,454
Other financial assets	36,767	43,805
Property, plant and equipment	280,834	493,419
Intangible assets	7	48,755
<b>Total non-current assets</b>	<b>513,233</b>	<b>696,347</b>
<b>Total assets</b>	<b>903,518</b>	<b>1,912,825</b>
<b>Current liabilities</b>		
Trade and other payables, including derivatives	172,227	135,820
Interest-bearing loans and borrowings	526,074	593,317
Current tax payable	5,906	5,016
Provisions	13,020	19,089
Liabilities held for sale	-	48,835
Other – deferred revenue	928	2,249
<b>Total current liabilities</b>	<b>718,156</b>	<b>804,325</b>
<b>Non-current liabilities</b>		
Trade and other payables, including derivatives	31,646	556
Interest-bearing loans and borrowings	33,714	35,000
Deferred tax liabilities	13	-
Provisions	95,739	18,226
<b>Total non-current liabilities</b>	<b>161,111</b>	<b>53,781</b>
<b>Total liabilities</b>	<b>879,267</b>	<b>858,107</b>
<b>Net assets</b>	<b>24,251</b>	<b>1,054,719</b>
<b>Equity</b>		
Issued capital	6 1,037,213	1,037,213
Reserves	57,172	174,232
Retained earnings	(1,070,135)	(156,726)
<b>Total equity</b>	<b>24,251</b>	<b>1,054,719</b>

The statement of financial position is to be read in conjunction with the notes set out on pages 6 to 15.

**Condensed consolidated statement of cash flows**

	2012 \$A'000	2011 \$A'000
<b>Cash flows related to operating activities</b>		
Cash receipts in the course of operations	484,779	675,062
Cash receipts - MIS financing unsecured	6,761	4,038
Cash receipts - MIS financing securitised	25,978	28,952
Cash payments in the course of operations	(401,544)	(621,279)
Payments for woodlot lease and maintenance	(24,101)	(20,004)
Dividends received	594	588
Interest received	1,964	5,136
Borrowing costs paid	(47,255)	(48,168)
Income taxes received/(paid)	(89)	12,646
<b>Net cash provided by operating activities</b>	<b>11 47,087</b>	<b>36,971</b>
<b>Cash flows related to investing activities</b>		
Proceeds on disposal of non-current assets	81,004	107,517
Payment for purchases of property, plant and equipment	(33,870)	(42,295)
Payment for standing timber, plantation, orchard & plantation establishment	(11,225)	(20,492)
Payments for investments	-	(48,484)
<b>Net cash provided by/(used in) investing activities</b>	<b>35,909</b>	<b>(3,754)</b>
<b>Cash flows related to financing activities</b>		
Cash payments - MIS financing securitised	(25,978)	(28,952)
Share issue proceeds	-	25,000
Share issue costs	(1,605)	(237)
Proceeds from borrowings	120,000	220,732
Repayment of borrowings	(115,510)	(280,727)
Finance lease payments	(17,241)	(9,897)
Dividends/distributions paid	(10,943)	(8,248)
<b>Net cash (used in)/provided by financing activities</b>	<b>(51,277)</b>	<b>(82,329)</b>
Net increase/(decrease) in cash and cash equivalents held	31,719	(49,112)
Cash and cash equivalents at beginning of period	(59,422)	(10,310)
<b>Cash and cash equivalents at end of period</b>	<b>11 (27,703)</b>	<b>(59,422)</b>

The statement of cash flows is to be read in conjunction with the notes set out on pages 6 to 15.

## 1. Significant accounting policies

### a. Reporting entity

Gunns Limited (the 'Company') is a company domiciled in Australia. The condensed consolidated financial report of the Company for the year ended 30 June 2012 comprises the Company and its subsidiaries (together referred to as the 'consolidated entity') and the consolidated entity's interests in associates and jointly controlled entities. The consolidated annual financial report of the consolidated entity is available on request from the Company's registered office at 78 Lindsay Street, Launceston, Tasmania, 7250 or at [www.gunns.com.au](http://www.gunns.com.au).

### b. Statement of Compliance

The condensed consolidated financial statements are a general purpose financial report which has been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

The condensed consolidated financial report of the consolidated entity also complies with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board.

The condensed consolidated financial report does not include all of the information required for a full annual financial report. This consolidated financial report was approved by the Board of Directors on **31 August 2012**.

The consolidated entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

### c. Significant Accounting Policies

The accounting policies applied by the consolidated entity in this condensed consolidated financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2011.

The preliminary final report is prepared on the basis that the Consolidated Entity continues as a going concern, which contemplates the continuity of business operations, realisations of assets and settlement of liabilities in the ordinary course of business.

As announced to ASX on 6 August 2012, ongoing lender support is required to stabilise the Company's operations whilst discussions regarding a potential capital raising, restructuring or alternative transaction proceed and to retain proceeds from planned asset sales to meet the operational and working capital requirements of the business.

The Company has continued to engage with its lenders and has also continued its negotiations and diligence process with potential investors regarding a potential capital raising, restructuring or other alternative transaction. The outcome of these discussions remains uncertain and as such there exists material uncertainties that cast significant doubt over the ability of the consolidated group to continue as a going concern. The ability of the Consolidated Entity to continue as a going concern will depend on a successful outcome to that process, which is ongoing. Pending the outcome of that process, the Directors consider it appropriate to adopt the going concern basis in preparing the preliminary final report.

The final audited accounts may be significantly different to the preliminary final report if circumstances in the intervening period result in the re-assessment of the going concern basis..

### d. Accounting Estimates and Judgements

The preparation of a financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2011. Note 13 discusses some material effects of changes in estimates and judgements in the current year.

### e. Financial Risk Management

The consolidated entity's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial report as at and for the year ended 30 June 2011.

## 1. Significant accounting policies (continued)

## 2. Revenue and other income

	2012 \$A'000	2011 \$A'000
<b>Continuing operations</b>		
<b>(a) Revenue</b>		
Sale of goods revenue from operating activities	215,769	342,124
Rendering of services revenue from operating activities	99,789	98,473
	<u>315,558</u>	<u>440,598</u>
<b>(b) Other operating income</b>		
Gain from change in net market value of biological assets from unwind of discount rate	11,866	-
Gain on acquisition of Bell Bay sawmill	-	18,848
Gain from sale of non-current assets	1,584	3,025
Gain from change in net market value of financial instruments	-	4,912
Net foreign exchange gain - other	-	3,361
Gain from harmonisation of Green Triangle offtake agreement	-	10,000
Tasmanian Forests Agreement	23,000	-
Other	1,177	19,964
	<u>37,628</u>	<u>60,109</u>
<b>Discontinued operations</b>		
<b>(a) Revenue</b>		
Sale of goods revenue from operating activities	90,116	180,084
	<u>90,116</u>	<u>180,084</u>
<b>(b) Other operating income</b>		
Other	3,555	7,556
	<u>3,555</u>	<u>7,556</u>

## 3. Profit before income tax expense

### Continuing operations

Profit before income tax expense has been arrived at after charging/ (crediting) the following items:

Cost of goods sold	240,734	373,197
Depreciation of:		
Buildings	2,914	2,998
Plant and equipment	9,828	9,705
Amortisation of:		
Forest roads	1,071	5,768
Intangible assets	239	1,469
Total depreciation and amortisation	<u>14,052</u>	<u>19,940</u>
Financial expenses		
Facility extension fees	40,350	-
Bank loans and overdrafts and other loans	43,464	41,277
Finance charges on capitalised leases	1,232	1,435
Capitalised borrowing costs	1,164	1,316
Unwinding of discount on onerous contract	68	1,589
	<u>86,278</u>	<u>45,617</u>
Financial income	<u>(14,926)</u>	<u>(20,806)</u>
Net financial expense	<u>71,353</u>	<u>24,810</u>
Net bad and doubtful debts expense including movements in provision for doubtful debts	<u>(4,056)</u>	<u>8,757</u>
Loss from change in net market value of biological assets due to change in the export woodchip market	13b <u>145,561</u>	<u>24,738</u>
Net expense/(credit) from movements in provision for:		
Employee entitlements	(80)	2,513
Provision for inventory	999	10,585
Operating lease rental expense:		
Minimum lease payments	<u>3,736</u>	<u>4,355</u>
Research expensed as incurred	<u>224</u>	<u>395</u>
Net foreign exchange loss	<u>925</u>	<u>-</u>

### 3. Profit before income tax expense (continued)

Impairment in MIS services receivable	13a	<u>94,294</u>	<u>34,519</u>
Provision for onerous contract	13a	<u>86,962</u>	<u>-</u>
Impairment of equity investments		<u>12,039</u>	<u>-</u>
Impairment and closure costs of forest products assets		<u>25,000</u>	<u>22,868</u>
Impairment of loan receivables	13c	<u>14,213</u>	<u>25,000</u>
Impairment of intangibles	13a	<u>27,694</u>	<u>58,125</u>
Impairment in forestry land and roads	13d	<u>95,023</u>	<u>231,120</u>
Impairment of pulp mill costs	17	<u>216,920</u>	<u>18,465</u>
Movement in fair value of MIS investments	13c	<u>7,078</u>	<u>11,957</u>
Impairment and closure costs of timber products assets		<u>43,812</u>	<u>-</u>
<b>Discontinued operations</b>			
<b>Profit before income tax expense has been arrived at after charging/ (crediting) the following items:</b>			
Cost of goods sold		<u>82,068</u>	<u>163,415</u>
Depreciation of:			
Buildings		153	953
Plant and equipment		1,689	6,279
Amortisation of intangibles		-	23
Total depreciation and amortisation		<u>1,842</u>	<u>7,255</u>
(Profit)/loss from sale of non-current assets		<u>(3,812)</u>	<u>-</u>
Net bad and doubtful debts expense including movements in provision for doubtful debts		<u>(10)</u>	<u>32</u>
Net expense/(credit) from movements in provision for:			
Employee entitlements		<u>(119)</u>	<u>(392)</u>
Net foreign exchange loss - other		<u>8</u>	<u>39</u>

### 4. Earnings per share (EPS)

	2012	2011
Weighted average number of shares used as the denominator		
Number for basic earnings per share	848,401,559	829,170,790
Effect of FORESTS	410,256,410	215,924,426
Number for diluted earnings per share	1,258,657,969	1,045,095,216

Effect of FORESTS reflects the number of Gunns shares which would have to be issued if FORESTS were converted to ordinary shares at the start of the year.

	\$A'000	\$A'000
<b>Earnings reconciliation</b>		
Net profit/(loss)	(903,865)	(355,486)
After-tax effect of earnings on FORESTS on issue	(10,944)	(8,247)
Basic earnings	<u>(914,809)</u>	<u>(363,733)</u>
Diluted earnings	<u>(903,865)</u>	<u>(355,486)</u>
Basic earnings per share	(107.8)	(43.9)
Diluted earnings per share (N/A indicates non-dilutive)	N/A	N/A

## 5. Segment Reporting

Primary Reporting Business Segments	Timber Products	Forest Products	Other	Consolidated Total
	June 2012 \$'000	June 2012 \$'000	June 2012 \$'000	June 2012 \$'000
<b>Continuing operations</b>				
<b>Segment Revenue *</b>	162,518	149,095	3,944	315,557
Unallocated revenue				-
				<u>315,557</u>
<b>Discontinued operations</b>				
<b>Segment Revenue *</b>	88,116	2,000	-	90,116
Unallocated revenue				-
				<u>90,116</u>
<b>Continuing operations</b>				
<b>Segment Results</b>	14,992	31,734	(9,593)	37,133
Unallocated revenue/(cost) #				(816,494)
Net financing costs				(71,353)
Profit/(loss) before income tax expense				(850,713)
Income tax benefit				(52,958)
Net profit/(loss)				<u>(903,672)</u>
<b>Discontinued operations</b>				
<b>Segment Results</b>	(5,100)	-	3,297	(1,803)
Loss on sale of discontinued operations				(188)
Profit/(loss) before income tax expense				(1,991)
Income tax benefit				1,797
Net profit				<u>(194)</u>
<b>Segment Assets</b>	127,841	557,511	218,166	903,518
Unallocated assets				-
Consolidated Total assets				<u>903,518</u>
<b>Segment Liabilities</b>	(55,002)	(686,874)	(131,472)	(873,348)
Unallocated liabilities				(5,919)
Consolidated total liabilities				<u>(879,267)</u>
<b>Other Segment Information</b>				
Acquisition of segment assets	2,780	36,405	30,011	69,196
Depreciation and amortisation	7,760	6,857	1,277	15,894
Harvest of biological assets	-	(7,927)	-	(7,927)
Change in fair value of biological assets	-	(133,695)	-	(133,695)
<b>Secondary Reporting</b>				
<b>Geographical Segments</b>	<b>Australia &amp; NZ</b>	<b>Asia</b>	<b>Other</b>	<b>Consolidated Total</b>
	June 2012 \$'000	June 2012 \$'000	June 2012 \$'000	June 2012 \$'000
Segment revenue *	333,038	66,705	5,930	405,673
Segment assets	903,518	-	-	903,518
Acquisition of segment assets	69,196	-	-	69,196

Timber products - processing manufacture and sale of sawn timber, veneer and other timber products

Forest products - forestry and plantation management and the processing and sale of wood fibre

Other - finance, responsible entity services, construction services, vineyard management and wine production and sale

The vineyard and wine business was sold in the prior year.

\* Segment revenue represents external revenue from operating activities. It is reported net of intersegment sales as they are considered immaterial.

# Unallocated revenue/cost includes impairment expense of \$7,173,000 for businesses whose operating results are included in 'Other', \$81,835,000 for businesses whose operating results are included in 'Timber Products', \$485,994,000 for businesses whose operating results are in 'Forest Products' and \$233,951,000 whose operating results are included in unallocated (corporate costs).

5. Segment Reporting (continued)

Primary Reporting Business Segments	Timber Products	Forest Products	Other	Consolidated Total
	June 2011 \$'000	June 2011 \$'000	June 2011 \$'000	June 2011 \$'000
<b>Continuing operations</b>				
<b>Segment Revenue *</b>	167,652	217,678	55,268	440,598
Unallocated revenue				-
				<u>440,598</u>
<b>Discontinued operations</b>				
<b>Segment Revenue *</b>	127,409	50,659	2,016	180,084
Unallocated revenue				-
				<u>180,084</u>
<b>Continuing operations</b>				
<b>Segment Results</b>				
Unallocated revenue/(cost) #	39,831	38,554	(6,957)	71,427
Net financing costs				(486,220)
				<u>(24,810)</u>
Profit/(loss) before income tax expense				(439,603)
Income tax benefit				100,768
Net profit/(loss)				<u>(338,835)</u>
<b>Discontinued operations</b>				
<b>Segment Results</b>				
Gain on sale of discontinued operations	(26,977)	752	2,438	(23,786)
Profit/(loss) before income tax expense				-
				<u>(23,786)</u>
Income tax benefit				7,136
Net profit/(loss)				<u>(16,650)</u>
<b>Segment Assets</b>				
Unallocated assets	419,506	1,318,913	174,406	1,912,825
Consolidated total assets				<u>1,912,825</u>
<b>Segment Liabilities</b>				
Unallocated liabilities	(137,037)	(669,468)	(46,585)	(853,090)
Consolidated total liabilities				<u>(858,106)</u>
<b>Other Segment Information</b>				
Acquisition of segment assets	69,655	60,234	1,386	131,275
Depreciation and amortisation	13,659	12,176	1,359	27,194
Harvest of biological assets	-	(28,468)	-	(28,468)
Change in fair value of biological assets	-	(24,738)	-	(24,738)
<b>Secondary Reporting</b>				
<b>Geographical Segments</b>	<b>Australia &amp; NZ</b>	<b>Asia</b>	<b>Other</b>	<b>Consolidated Total</b>
	June 2011 \$'000	June 2011 \$'000	June 2011 \$'000	June 2011 \$'000
Segment revenue *	377,124	239,556	4,002	620,682
Segment assets	1,912,825	-	-	1,912,825
Acquisition of segment assets	131,275	-	-	131,275

\* Segment revenue represents external revenue from operating activities. It is reported net of intersegment sales as they are considered immaterial.

# Unallocated revenue/cost includes impairment expense of \$51,327,000 for businesses whose operating results are included in 'Other', \$54,949,000 for businesses whose operating results are included in 'Timber Products' and \$348,632,000 for businesses whose operating results are in 'Forest Products'.

## 6. Contributed equity

	2012 \$A'000	2011 \$A'000
<b>Issued and paid-up share capital</b>		
848,401,559 (2011: 848,401,559) ordinary shares	921,684	921,684
1,200,000 (2011:1,200,000) FORESTS	<u>115,529</u>	<u>115,529</u>
	<u>1,037,213</u>	<u>1,037,213</u>
<b>Movement in share capital</b>		
Balance at the beginning of the year	1,037,213	1,012,450
Securities issued		
- Ordinary share transaction costs	-	(237)
- Shares issued to partially fund Bell Bay sawmill	-	<u>25,000</u>
Balance at end of the year	<u>1,037,213</u>	<u>1,037,213</u>

## 7. Divestments

In March 2012, Gunns sold its interest in its Green Triangle forest estate to Funds managed by New Forests. As consideration for this disposal, Gunns received units valued at \$118.9m in the Funds and cash of \$34m.

The Heyfield sawmilling operation was disposed of in May 2012 for \$24m.

The Southwood sawmilling operation was disposed in April 2012 for \$3m.

The Triabunna woodchip mill operation was disposed in July 2011 for \$10m.

In the prior period, the wine business was sold to Brown Brothers Milawa Vineyards Pty Ltd for \$31.0m. The transaction involved the sale of all of Gunns' wine interests including vineyard management of MIS projects and was effective 31 August 2010.

The walnut business was sold to Webster Ltd for \$23m. The effective date of the transaction was 22 December 2010.

Also refer note 18 below.

## 8. Dividends and distributions

Dividends paid or provided for in the current and comparatives periods by Gunns Limited are:

	Cents per security	Total amount \$'000	Date of payment	Percentage franked
<b>2012</b>				
April quarter - FORESTS	239.25c	2,856	18 Apr 12	0%
January quarter - FORESTS	237.13c	2,826	16 Jan 12	0%
October quarter - FORESTS	251.55c	3,183	14 Oct 11	0%
July quarter - FORESTS	173.21c	2,079	14 Jul 11	100%
<b>2011</b>				
April quarter - FORESTS	172.78c	2,073	14 Apr 11	100%
January quarter - FORESTS	172.91c	2,075	14 Jan 11	100%
October quarter - FORESTS	172.43c	2,069	14 Oct 10	100%
July quarter - FORESTS	169.20c	2,030	14 Jul 10	100%

Franked dividends were franked at the tax rate of 30%.

## 9. Control gained or lost over entities during the period

Name of entity (or group of entities)	N/A
Date of the gain of control	N/A
The contribution of the entities to the reporting entity's profit from ordinary activities during the period attributable to members	N/A
The profit or loss of such entities during the whole of the previous corresponding period	N/A

## 10. Investments in associates and joint venture entities

Name	Principal activity	Ownership interest		Share of net profits	
		2012	2011	2012 \$'000	2011 \$'000
Tamar Tree Farms	Plant'n establishment	62%	62%	-	-
Plantation Platform of Tas	Plant'n establishment	15%	15%	-	-
Green Triangle Forest Trusts	Land and tree investor	39.8%	0%	2,592	-
Australian Forestry Plantations Trust	Land leasing	30%	30%	(3,488)	686

## 11. Notes to the statement of cash flows

	2012 \$A'000	2011 \$A'000
Reconciliation of cash		
Cash assets	7,047	12,067
Bank overdraft	(34,749)	(71,489)
Total cash at end of period	(27,702)	(59,422)

(b) Reconciliation of profit after income tax to net cash provided by

Profit/(loss) after income tax	(903,865)	(355,486)
<i>Add/(less) items classified as investing/ financing activities:</i>		
(Profit)/loss on sale of non-current assets	(5,396)	3,903
(Profit)/loss on sale of investments	-	7
Net (increment)/decrement - NMV of standing timber and grape vines	(15,193)	14,415
<i>Add/(less) non-cash items:</i>		
Share of profit of equity accounted investees	896	(686)
Amortisation of intangibles	239	1,491
Profit on acquisition of controlled entities	-	(19,100)
Hedge revaluation	4,753	(4,912)
Other income	-	(10,032)
Cost of financing extension	40,350	-
Impairment of assets through profit and loss statement	642,325	405,495
Impairment of intangible assets	-	58,125
Deferred tax impact of asset revaluations	50,168	42,083
Amounts set aside to provision for doubtful debts and loans	4,452	21,125
Depreciation and amortisation of property, plant, equipment and forest roads	15,655	25,702
Amortisation of borrowing costs	1,164	1,316
Dividends from controlled entities	594	588
(Increase)/decrease in income taxes payable	890	17,789
(Decrease)/increase in deferred taxes payable	13	(155,071)
<i>Net cash provided by operating activities before change in assets and liabilities</i>	(162,955)	46,752
Change in assets and liabilities during the financial year:		
(Increase)/decrease in inventories	62,436	41,242
(Increase)/decrease in prepayments	4,876	2,616
(Increase)/decrease in receivables	56,338	38,730
(Increase)/decrease in other assets	15,534	(47,758)
(Decrease)/increase in accounts payable	(8,889)	(40,719)
(Decrease)/increase in deferred revenue	435	(1,371)
(Decrease)/increase in provisions	79,312	(2,521)
Net cash provided by operating activities	47,087	36,971

## 12. NTA backing

	2012	2011
Net tangible asset backing per ordinary share treating FORESTS as debt (\$)	(0.11)	1.04
If FORESTS were converted to ordinary shares on the basis of the calculation expected for the 15 October 2012 conversion, the net tangible asset backing per ordinary share as at 30 June 2012 would be 1.8 cents per share.		

### 13. Impairment, movement in fair value and restructuring

In the current period, the review of asset valuation identified a number of material asset impairments primarily arising through a significant change in the export woodchip market. Woodchip markets have continued to decline over the course of the past 3 months with both the selling price and sales volumes under considerable pressure. The Company does not expect these conditions to improve in the near to medium term, due to the significant and growing oversupply of plantation woodchips available from Australia and an expectation that the Australian dollar will remain around current levels compared to the US dollar.

(a) \$206m of the total impairment, relates to the Company's interest in MIS, primarily the Company's interest in Tasmanian based Gunns Plantations Limited MIS. The net present value of the Company's interests in Tasmanian MIS is now negative \$101 million. This means that the costs to the Company in funding the leasing and management of the Tasmanian MIS estate are significantly greater than its interests in the estimated net harvest proceeds that would be received upon harvesting of the Schemes (based on prices now available in the current woodchip market). This impairment has led to the reduction in non-current receivables and intangibles and the increase in provision for onerous contracts. The onerous contract provision calculations are based on discounted cash flows.

(b) Standing timber is valued based on the present value of net cash flows expected from the management and harvest of Company-owned timber. The reduction in Gunns' assumptions on the hardwood woodchip price outlook for plantation has impacted the valuation in the current period by \$145.6m in the profit and loss.

(c) The Group has loans receivable from MIS investors. The loans are on a full recourse basis to the borrowers with the interest in the MIS schemes held as a primary security. The value of interests in MIS schemes affects both direct investments in MIS scheme interests of defaulting growers as well as the value of security for loans which are overdue. The changed assessment of hardwood woodchip price outlook for plantation timber has resulted in a reduction in the value of investments and an increase in the provisions for doubtful loans in the current period of \$28m, through the profit and loss. The loans were transferred from assets held for sale during the period resulting in an increase in their value of \$9m.

(d) During the current period, there were material impairments of land and roads. A directors' valuation of the Tasmanian forestry land portfolio was undertaken. The value of these assets as recorded in the financial statements reflects the value that a plantation grower seeking a reasonable return would pay to purchase the land in the current market/forest sector environment. As in the prior year, there is a further adjustment to reflect the impairment represented by the MIS scheme leases which encumber the land value. This resulted in an impairment through the profit and loss of \$75m and the asset revaluation reserve of \$165m. Additionally there was \$20m of sundry land and road impairments.

In the current period, the market value of the softwood sawmilling business as a going concern was assessed to be below its carrying value. This led to an impairment of these assets of \$37m.

For information on the prior year impairment, movement in fair values and restructuring costs, refer note 4 of the 2011 financial statements.

#### 14. Assets held for sale

At year end, the units in the Green Triangle Forest Trusts, the softwood sawmilling business and various Forest Products sites are for sale. These properties are at various stages of the sale process, but all are expected to be completed within 12 months of balance date.

Fair value adjustments recorded through profit & loss in the year ended 30 June 2012 to restate assets held for sale:

	\$'000
Units in Green Triangle Forest Trusts	8,900
Great Southern management rights	28,989
Timber operating sites	43,796
	<u>81,685</u>

#### 15. Acquisitions

During the prior period, Gunns acquired the Bell Bay Softwood Sawmill from the receiver and manager of Forest Enterprises Australia Ltd. The purchase was made for consideration which was lower than the fair value of the assets and liabilities. Thus a gain on bargain purchase was recorded. The reason for the acquisition was to own and operate a modern and efficient softwood mill with a sustainable wood supply volume with throughput and scale to operate in a competitive market.

Gunns acquired the business assets and employee liabilities on 20 December 2010 and it made \$2,919,000 contribution to the Gunns result for the year ended 30 June 2011.

The cost of the combination is \$47,565,000. This cost was 100% cash.

The acquisition had the following effect on the Group's assets and liabilities:

	Pre-acquisition carrying amounts \$'000	Fair value adjustments \$'000	Recognised values on acquisition \$'000
Inventories	6,040	-	6,040
Property, plant and equipment	41,870	26,934	68,804
Employee benefits	(493)	-	(493)
Deferred tax liabilities	-	(7,894)	(7,894)
Net identifiable assets and liabilities	47,417	19,040	66,413
Gain on bargain purchase			18,848
Consideration payable			47,565

#### 16. Taxation

Deferred tax assets on unutilised tax and capital losses have only been recognised to the extent of temporary differences that are expected to reverse in the future. The balance of the Company's unutilised tax and capital losses have not been recognised. Given the negative results in the past two financial years, no further tax losses have been recognised in the period ended 30 June 2012. Changes in estimates of profitability may result in the future recognition of these tax and capital losses.

As stated in the company's announcement to the ASX on 10 July 2012, Gunns Limited has been issued with amended assessments by the Australian Taxation Office (ATO) in relation to a sale and leaseback transaction in the 2007 income year. Gunns reiterates that it believes its treatment of the transaction is correct and is supported by both existing case law and the ATO's published guidelines on sale and leaseback transactions. Gunns has lodged objections against those assessments and will pursue vigorously all necessary avenues of challenge. Resolution of this matter is likely to take some time. Gunns has also entered into discussions with the ATO involving part payment pending resolution of the dispute. Those discussions have focussed on the part payment being calculated by reference to a denial of only part of the deduction for the lease rental paid (the denial being calculated by reference to a notional interest cost). It is to be expected that those discussions will be finalised in the near future following which the agreed payment will be made to the ATO. That payment is fully refundable in the event the matter is resolved in Gunns' favour.

#### 17. Pulp Mill Project

The impact of the decline in stumpage prices on the Company and its asset position (as noted in Note 13) has raised material uncertainty regarding the Company's current financing strategy including the Pulp Mill Project.

In that context, the Company's board has been unable to reach a view for the purposes of the Company's 30 June 2012 financial accounts that the Pulp Mill Project is "probable to proceed" in terms of the concepts defined in relevant accounting standards.

Accordingly these key related assets have been valued by reference solely to the current export woodchip market.

Accordingly, \$216.9m of the development costs to date will now be expensed.

The decision taken by the board does not necessarily mean that the Pulp Mill Project will not proceed.

Rather, it is an indication of decreased confidence from the Company that it has the ability to influence the Pulp Mill Project proceeding.

## 18. Discontinued operations

In March 2012, Gunns sold its interest in its Green Triangle forest estate to Funds managed by New Forests. As consideration for this disposal, Gunns received units valued at \$118.9m in the Funds and cash of \$34m. Gunns discontinued its hardwood sawmilling and veneer businesses in Tasmania, Victoria and Western Australia in the 2012 financial year. The Triabunna woodchip mill operation was disposed in July 2011 for \$10m.

In the prior period, the wine business was sold to Brown Brothers Milawa Vineyards Pty Ltd for \$31.0m. The transaction involved the sale of all of Gunns' wine interests including vineyard management of MIS projects and was effective 31 August 2010. The walnut business was sold to Webster Ltd for \$23m. The effective date of the transaction was 22 December 2010. The comparative information has been restated to include the businesses discontinued during the 2012 financial year as discontinued operations in the 2011 financial information. Also refer note 7 above.

## 19. Contingent liabilities

### Shareholder class action

The legal action was commenced by the applicant in the action in April 2011. The applicant alleges that the Company failed to disclose material information during the period 31 August 2009 to 19 February 2010 in breach of its continuous disclosure obligations under section 674 of the Corporations Act. The applicant also alleges that the Company engaged in misleading and deceptive conduct in breach of section 1041H of the Corporations Act, section 12DA of the Australian Securities and Investments Commission Act 2010 and section 52 of the then Trade Practices Act 1974.

The legal action is a representative proceeding, commonly referred to as a class action under Part IVA of the Federal Court of Australia Act. The class comprises the persons who allegedly acquired an interest in the Company's shares between 31 August 2009 and 19 February 2010 and suffered loss as a result of the alleged contraventions by the Company, which are denied. The members of the class have also entered into a litigation funding agreement with IMF (Australia) Ltd.

There are a number of factors influencing any reliable assessment of potential financial exposure of the Company in relation to the entire class. The key factors are:

- whether the Company is found to be liable for all or part of the alleged claim in relation to the applicant's individual claim or the claim by class members;
- the period (if any) for which the Company is found to be in breach of its continuous disclosure obligations, which is denied by the Company;
- the appropriate method of assessing the amount of damages claimed, as the applicant has articulated various methods of calculating loss and a number of categories of loss in its statement of claim; and
- the applicant has not quantified the amount of loss claimed by the class. The applicant's lawyers have informed the Company that no quantification of loss can be provided until after discovery is completed and a loss analysis has been undertaken.

The Company has filed a defence denying liability and is vigorously defending the claim. Key pleadings have been filed by both parties and further and better particulars have been exchanged. The case is now in the discovery phase. The Company does not know when the matter will be listed for trial. Given the stage of the proceeding and from the information presently available the Company is not able to reliably quantify any potential financial exposure. Further, in Australia there has been no judgment in respect of shareholder class actions, and accordingly there is uncertainty as to how important legal issues in these types of actions will be determined by Australian Courts.

## 20. Subsequent Events

### Portland woodchip export facility

The sale of the Portland woodchip export facility completed in July 2012 at a value of \$61.8m.

### Green Triangle investment units

In August 2012, Gunns disposed of 58.18% of its units in the Green Triangle Forest Trusts at a value of \$64m.

### Lindsay Street site sale

In July 2012, Gunns disposed of its land and buildings at Lindsay Street, currently occupied by a sawmill and its Head Office at a value of \$13m.

### FORESTS securities

In August 2012, the Company announced that it would convert the 1,200,000 FORESTS securities on issue into Gunns ordinary shares. FORESTS holders will be entitled to 421.7 Gunns ordinary shares for each FORESTS. The exchange will occur on 15 October 2012.

## 21. Annual meeting

The annual meeting will be held on the following date

27 November 2012

Approximate date the annual report will be available

30 September 2012

## 22. Compliance statement

1. This report, and the accounts upon which the report is based, use the same accounting policies.
2. This report does give a true and fair view of the matters disclosed, however attention is drawn to the matters regarding the use of the going concern basis in note 1c.
3. This report is based on accounts to which one of the following applies:
 

The accounts have been audited.	<input type="checkbox"/>	The accounts have been subject to review.	<input type="checkbox"/>
The accounts are in the process of being audited.	<input checked="" type="checkbox"/>	The accounts have not yet been audited or reviewed.	<input type="checkbox"/>
4. If the audit report or review by the auditor is not attached, details of any qualifications will follow immediately they are available.
5. The entity has a formally constituted audit committee.



Chairman

Date: 31 August 2012