



6 August 2012

Company Announcements Platform  
Australian Securities Exchange

## MARKET UPDATE

### Impact of changed market conditions

As outlined in its update to the market on 2 July 2012, Gunns Limited ("**Company**") has been reviewing its asset values with regard to the analysis it has been undertaking on the impact of the sudden and substantial decline in stumpage prices achieved in the export woodchip market.

Although the Company's analysis is currently incomplete and indefinite, based on analysis undertaken to date, the Company estimates that it will record an impairment in the range from \$700-800 million in its financial statements for the financial year ended 30 June 2012. The impairment is expected against a range of the Company's forestry related assets including its Tasmanian land and plantation estate, its interests in Managed Investment Schemes (**MIS**) and the development costs associated with the Bell Bay Pulp Mill Project (**Mill Project**).

Reflecting this estimated impairment, and subject to end of financial year adjustments, the Company presently expects that its net tangible assets (**NTA**) value will be in the range of negative \$50 million to negative \$150 million as at 30 June 2012 (including FORESTS securities as liabilities of \$120 million, and otherwise \$70 million to negative \$30 million if FORESTS securities are treated as equity for the purposes of this calculation).

The high value of the estimated impairment charge is largely attributable to the substantial decline in stumpage prices achieved in the current woodchip market, a market which is largely denominated in US dollars. 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.

In addition, in recent reporting cycles the Company has valued key components of its asset base (including Tasmanian land, plantations and interests in MIS) on the basis of a domestic pulp mill being established, which would maximise the value from those related assets. 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 this basis, 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. Accordingly these key related assets will now need to be valued by reference solely to the current export woodchip market.

This determination of whether the Mill Project is “probable to proceed” or not is also relevant in determining whether the development costs of the Mill Project to date (of approximately \$250 million as at 30 June 2012) are expensed or capitalised. Accordingly, a significant component of the development costs to date will now be 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.

Historically, the decision whether to value Tasmanian forestry assets on a pulp mill versus a woodchip export basis was of lesser significance because there was not a material difference between the stumpage prices available in the woodchip market and the value of woodchips to the Company on the basis that the Mill Project proceeds. Should the mill project proceed then a number of these potential impairments would be reversed.

A significant component, (approximately \$200 million) of the total impairment that is likely to be brought to account, relates to the Company’s interest in MIS, and in particular 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 approximately negative \$100 million, which is reflected in the NTA value referred to earlier. 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).

The total impairment over the past 2 years in relation to the Company’s interests in Tasmanian MIS is now approximately \$425 million. In addition to this the Company has impaired its Tasmanian land value (which supports a significant component of MIS plantations) by approximately \$400 million over the past 2 years.

The Company will make a further announcement to the market once it has determined a specific impairment value, with this likely to be in conjunction with the lodgement of its June 2012 results in late August 2012.

### **Engagement with the Company's lenders / proposed capital raising**

In the circumstances described above, the Company has continued to engage with its lenders and has also continued its negotiation and diligence process with potential investors regarding a potential capital raising, restructuring or other alternative transaction. Given the confidential and preliminary nature and uncertain outcome of these discussions, the Company is not presently in a position to provide any further details to the market; however, the Company notes that it has the continued support of its lending group relating to its ongoing asset sale program and that it is engaged with its lending group with a view to retaining some of the proceeds from these planned sales to meet the operational and working capital requirements of the business.

It is further noted that the consent of the lending group has now been obtained for the Company to retain some of the proceeds from the sale of the Portland woodchip export facility announced to the market on the 3 August 2012. Given the current difficult trading environment, further requests to retain some proceeds from planned future asset sales will be made to the lending group as those sales proceed.

Ongoing lender group support is required to stabilise the Company's operations whilst discussions in relation to a potential capital raising, restructuring or alternative transaction proceed.

### **2011/2012 Full Year Earnings**

The Company advises that it has recorded preliminary underlying earnings before interest and tax (and before non-cash items, including the impairment mentioned above) for the year ended 30 June 2012 of approximately \$26 million. This result is unaudited at this stage and will be confirmed when the annual accounts are finalised.

Given the state of the current woodchip markets, 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**

Company: Greg L'Estrange – 03 6335 5211

Media: Michelle Hindson – 0414 207 049