

29 October 2010



Company Announcements Platform
Australian Securities Exchange

MARKET UPDATE

Please find attached a release to the market.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Wayne Chapman', is written over a faint, light grey rectangular background.

Wayne Chapman
Company Secretary

29 October 2010

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MARKET UPDATE

Integrated forestry company Gunns Limited (ASX GNS) advised the market on 18 August 2010 that its underlying EBIT for the 2011 financial year was expected to be in the range of \$50-\$60 million with a stronger second half result based on the progressive effects of cost savings and market improvements.

Since that time a number of significant events have occurred which have resulted in a revision to our earnings forecast. These matters are detailed below. We now expect full year underlying EBIT in the range of \$40-\$50 million with approximately 65% of earnings reported in the second half.

Although we acknowledge that the full year guidance is a wide range, timing uncertainty around significant potential developments across our business in what is a year of transition precludes a more precise forecast. As events unfold we will update the market accordingly.

Significant matters considered in the Company's outlook for the current year are:

- The strength of the Australian dollar versus the US dollar has significantly impacted the competitiveness of hardwood chip exports into our key markets of China and Japan. Japanese demand in particular remains depressed. We do not expect any currency relief in the period to June 2011 and have adjusted our forecast accordingly.
- The high Australian dollar has resulted in an increase in imports and further margin pressure in our timber distribution business where housing driven demand remains inconsistent.
- The announcement that we will review the Jarrah sawmilling, processing and retail sales operation in WA which is not viable in the long term as currently structured. A final decision on the continued operation of this business will be made by 15 November 2010.
- The announcement that we will acquire the FEA softwood sawmill in Launceston (which has now been cleared by the ACCC) and the planned closure of our softwood sawmill at Scottsdale. This rationalisation of softwood mills will deliver improved production efficiencies in the second half.

- Most significantly, the announcement that we are a party to the Tasmanian Forest Statement of Principles agreement. As a party to this agreement we are committed to prompt action to demonstrate good faith. This will result in the following actions:
 - Restricting our woodchip export business to plantation woodchips as soon as possible.
 - Reviewing all of our Tasmanian operations that are involved in processing timber from native forests and, as a priority, exiting the processing of timber sourced from High Conservation Value Forests.
- Cost reductions have been implemented across our business and we plan further reductions to ensure that costs are consistent with our simplified business model.

UPDATE ON OTHER ISSUES

- We expect to commission the Portland woodchip export facility in the current quarter.
- Bank covenants and obligations as at 31 December 2010 and 30 June 2011 will be met based on current forecasts.
- The walnut business has been formally placed on the market with final binding offers due on 7 December 2010.
- Other sales of non-core assets as previously announced are progressing according to plan.

PULP MILL UPDATE

The due diligence process in respect of the pulp mill investment has progressed satisfactorily. The most pleasing outcomes to date are as follows:

- Confirmation that commitment to applying the most modern technology will result in a facility that will be ranked in the top five mills in the world as far as environmental outcomes is concerned.
- Confirmation that the mill will be capable of generating a minimum of 180 megawatts of Green energy per year with 90 megawatts returned to the national grid. To put this in perspective, the electricity returned to the grid will be sufficient to power the majority of Launceston (approximately 90,000 people).
- Confirmation that the quality and location of the plantation resource coupled with natural freight advantages into Asian markets will result in the pulp produced being in the lowest quartile from a cost perspective when landed into Asia.

We are applying significant effort to achieving dual certification for the plantation resource. The Tasmanian Forest Statement of Principles is a major step forward but we acknowledge the need to consult with the community and other groups not party to the Statement in respect of the environmental credentials of the pulp mill as now planned.

Significant progress has been made in relation to the hydrodynamic modelling which has been carried out in Bass Straight over the last 12 months. Work on the submissions relating to the remaining environmental conditions mandated by the Federal Government is nearing completion.

Contact

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