

April 1 2011

Mr. Mike Farrow,
General Manager Operations and Sales,
Forestry Tasmania,
GPO Box 207,
Hobart, TAS., 7001.

WF-918 +

B/S

~~WF-918~~

H011/632



Dear Mike,

Re: Variation Notice

Further to our discussions yesterday and by telephone today I wish to confirm that Gunns Triabunna Mill will be closed for an 8 week period commencing Monday 11th. April and ending Friday 3rd. June, 2011. Resumption of operations will depend upon confirmed shipping and sales of woodchips.

The shutdown is as a result of our Chinese customer cancelling two confirmed vessels in April and withdrawing one unconfirmed vessel in early May. They cite the strong \$A making our chips uncompetitive and high woodchip stocks as the reasons for the sudden cancellation of vessels.

Gunns has already produced the woodchip stock for 3 vessels and we are not able to continue producing stock until existing stock is removed.

We estimate that the volume of pulpwood now not required is 150,000 gmt for that 8 week period. Unfortunately the vessel cancellations have come just when we have closed the Tamar Mill and had planned for Tamar contractor capacity to be diverted to Triabunna and for Triabunna Mill to be the sole supply source to this customer from 1st. April.

Please confirm your receipt of this notice and your agreement to the variation requested.

Yours sincerely,

Bryan Hayes
General Manager-Forest Products
Gunns Limited

917 W/F
918 W/F

Suzy Rodgers - Fwd: China sales - March

From: Mike Farrow
To: Mark Pettit; Steve Whiteley; Suzy Rodgers
Date: 4/04/2011 7:57 AM
Subject: Fwd: China sales - March
CC: Michael Wood

>>> On 4/4/2011 at 7:43 am, in message <OFEB70D271.69F9FCFF-ONCA257865.001BF265-CA257867.00778230@gunns.com.au>, Bryan E Hayes <Bryan.Hayes@gunns.com.au> wrote:
Mike,

Data on China sales in March:

Month -	March
Sales Volume -	92,234gmt
Dry matter -	53.63%
BDT's -	49,462 BDT
Sell Price -	[REDACTED] BDT
Base Price -	[REDACTED] BDT
Differential -	[REDACTED] (whole dollar)
25% of differential	[REDACTED]
Revised Stumpages	[REDACTED] ✓
- Stumpage Zone	[REDACTED] ✓
- Mill Door Zone	[REDACTED] ✓

Sale agreements to update

Regards,

Bryan Hayes
General Manager - Forest Products
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 LAUNCESTON Tas 7250 ☎ +61 3 6335 5497
 ☎ +61 3 6335 5201 switch ✉ bryan.hayes@gunns.com.au
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- ✓ 917C China NIF mds
- ✓ 917C China NIF Stumpag
- ✓ 918C China HJP mds
- ✓ 918C China HJP Stumpag

Making Sustainability Our Business



Updated SR 4/4/11

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Thank You.

Phone: 6235 8158 (Mike Farrow)
Your Ref:
Our File: WF-917-PW and WF-918-PW



(H011/632 notes)



6 April 2011

Mr Bryan Hayes
General Manager, Forest Products
Gunns Timber Products
PO Box 572
LAUNCESTON TAS 7250

Dear Bryan

Re: Variation Notice - 1 April 2011

I acknowledge receipt of your letter to me of 1 April 2011, advising the closure of the Triabunna woodchip mill for eight weeks from 11 April 2011.

You also request my agreement to the variation, however, as your letter is confirming a decision made by Gunns which will be implemented by Gunns on 11 April 2011, I do not understand what it is you seek my agreement to. Would you please clarify what you mean when you refer to a variation. If you are referring to a variation of any contract then we do not agree and we reserve all our rights under those contracts.

Given the action by Gunns, Forestry Tasmania has had no option but to commence work to reschedule its harvesting operations and sales, immediately upon receipt of your letter. This work has already identified a number of issues that I need to communicate to you, or that I need to clarify with you. These are listed below.

1. One probable impact of the Triabunna shutdown is that, with the exception of Gunns' sawmill at the Huon Wood Centre, Forestry Tasmania may not be able to supply hardwood sawlogs to Gunns' sawmills for the period of the shutdown.
2. I require advice from you about the measures that Gunns is taking to implement the withdrawal of its harvesting and transport contractors from State forest for the period of the Triabunna shutdown and, in particular, to ensure that its harvesting contractors will have met their obligations under the Forest Practices Act with respect to the coupes in which they are currently operating, before they withdraw from those coupes.
3. Another impact of the Triabunna shutdown is that the current China sale agreement between Forestry Tasmania and Gunns, scheduled to end at end April 2011, is effectively at an end on Friday 8 April 2011. As documented in the letter from Bob Gordon to Greg L'Estrange of 10 March 2011, we had previously agreed to resolve



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the question of the outstanding [REDACTED] at the expiry of the China sale “following a joint analysis of performance under that agreement and as part of negotiations to achieve agreement about ongoing pulpwood sales in support of Gunns ongoing woodchip sales to Chinese customers.” With the early effective termination of the China sale, I seek your agreement to finalise an agreed procedure for that review immediately, so that it can commence as soon as practicable enabling the matter of the outstanding [REDACTED] to be resolved at the earliest opportunity.

4. I refer to my earlier advice to you, that Gunns’ offtake under Contract 917 during 2010/11 is below the threshold at which the take or pay provisions of that Contract apply. Any advice from Gunns varying its pulpwood requirements during the financial year will not reduce the threshold to which the take or pay provisions of Contract 917 refer.

I will be pleased to discuss these matters with you at the earliest opportunity.

Yours sincerely

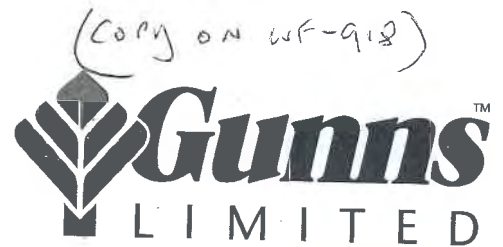


Mike Farrow
General Manager, Operations & Sales

FORESTRY TASMANIA

10 APR 2011

HOBART



April 18, 2011

Mr. Mike Farrow,
General Manager Operations and Sales,
Forestry Tasmania,
GPO Box 207,
Hobart, TAS., 7001.

WF-917-16

H011/712

(F)

Dear Mike,

Variation Notice – 1 April 2011

Further to your letter of April 6th. and our subsequent meeting on Friday 8th. April, I confirm my letter of April 1st. is a notice of variation to the annual supply volume for 2010-11 due to the cancellation of previously confirmed shipping to China and the subsequent closure of Triabunna Mill.

Regarding the 4 points referred to in your letter we respond as follows:

1. We recognise the potential impacts of reduced pulpwood harvesting on the rate of production of sawlog from fully integrated operations. However we do not understand which provision of CoS 918 allows for Gunns to be inequitably treated in regard to the supply of sawlogs as a result. On a year to date pro-rata basis Gunns would have an entitlement to HQSL (excluding Southwood) supply of 85,857 m³ based on the formula at Clause 4.3(b)(i). To date Gunns has received only 51,424 m³ leaving a current shortfall of 34,433 m³ against the pro-rata entitlement to HQSL derived taking account of the reduced pulpwood offtake. Is Forestry Tasmania proposing that your letter of April 6th. constitutes a notice of variation of the base quantity of HQSL or of the annual supply volume? Please clarify your intention in this regard.
2. We have provided to you copies of notices provided to each individual harvesting contractor which details our requirements for an orderly shutdown of forestry operations to ensure the obligations imposed by the Forest Practices Act are met. Our field supervisors have been charged with the responsibility to ensure requirements are met and we are confident that that has been achieved. If you have any concerns to the contrary please ensure appropriate operational staff communicate promptly with Gunns Triabunna management to resolve the issue.
3. We agree that it is prudent for us to agree to bring to an end the current China Sales Agreement. An analysis of deliveries against wood supply zones and contracts of sale has been commenced as a first step and will be provided to you as soon as it is completed. Following that I suggest

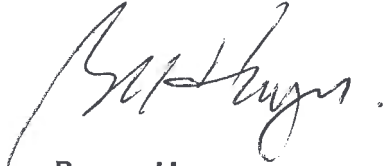
we meet and discuss the volume performance and the various financial matters that arise from it. From Gunns perspective there are several financial matters that need to be resolved in addition to the [REDACTED] of stumpage withheld by Gunns as an offset against these other matters.

4. Gunns will continue to provide variation notices for the 2010-11 annual supply volume that reflect market changes beyond Gunns control that impact our woodchip sales activity levels from time to time.

In addition to the above we have provided to you a formal proposal requesting discussions pursuant to Recital 6 about contract amendments that we believe are necessary to reflect the radically altered operating environment currently being experienced.

We await your response in due course and look forward to commencing those discussions at a mutually acceptable time.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Bryan Hayes', written over a light blue horizontal line.

Bryan Hayes
General Manager-Forest Products
Gunns Limited

WF-917

b/s

WF-918



Hou/725

18 April 2011

Adrian Kloeden
Chairman
Forestry Tasmania
79 Melville Street
HOBART Tas 7000

Dear Adrian

Re - Gunns Limited and Forestry Tasmania

Thank you for taking the time to meet with me on 12 April 2011.

I am encouraged by your comment that FT's official position and history is one of continuing support for our development of the pulp mill.

I reiterate my comment that it is clear to me that the relationship between Gunns' and FT's management has become strained. Efforts to resolve the various disputes between the parties at management level have been unsuccessful. Therefore, while I note that the FT board are precluded from taking a pro-active role in the activities of FT, I propose that we take steps to resolve the dispute at board level. To this end, I set out in this letter Gunns' proposal for the termination of Contracts of Sale 917 (**CoS 917**) and 918 (**CoS 918**) and the resolution of all outstanding issues between our organisations.

I have outlined below some of the developments that have occurred in recent past to provide context for my candid assessment of the current relationship and Gunns' settlement proposal.

Take or Pay

FT has been pursuing a claim for [REDACTED] under the take or pay provision of CoS 917.

It is clear that the combination of global and domestic events has resulted in the decimation of the woodchip export market. Its impact on industry participants in Tasmania is well documented, and in fact was recognised by FT in FT's *Incoming Government Brief* dated March 2010.

We have initiated a number of meetings between the Managing Directors and senior management of Gunns and FT, seeking the cooperation and assistance of FT to address these difficult market conditions. Unfortunately, these meetings have not been constructive.

Gunns has made numerous proposals to protect Tasmania's woodchip export markets but FT management have not been receptive to these proposals, nor have they made any counter proposals. Instead, FT management have been preoccupied with extracting payment from Gunns under the take or pay penalty regime. The result has been the forced closure of sawmills and significant job losses in the industry.

Gunns has had a long and productive relationship with FT. This relationship formed the basis of CoS 917 and 918. The contracts contemplate that the parties will perform their contractual obligations in a cooperative manner, particularly in the face of tough economic conditions. Based on mutual good will, our management have sought to work with FT to resolve any issues that have arisen.

However, Gunns efforts at good faith negotiation have not been reciprocated. FT management have adopted an approach which has strained the relationship between FT and Gunns and could lead to irreconcilable conflict. The initiation of the formal dispute resolution process pursuant to CoS 917 is typical of the hostile approach taken by FT management. The parties' nominated representatives are due to exchange detailed submissions on the sum involved. I will not burden you with our views here but confirm that there are a myriad of factors (most of which are directly due to FT's conduct) which contributed to our inability to take up the volume previously contemplated.

FT's intention to enter the woodchip export market

I note your comment that Gunns has been a large customer of FT and that FT wishes to diversify its customer base. FT has the flexibility to do this under CoS 917 and 918. However, FT must also recognise FT's dominant role in the market place. FT is a large supplier to Gunns and Gunns has been a captive customer, both in terms of available native forest pulpwood and also as a result of Gunns' obligation under the take or pay provisions of CoS 917 and 918.

We have been significantly disadvantaged by FT's decision to sell directly and indirectly into China and Japan in direct competition with us. Our agreement with FT requires that we disclose our selling price into these markets to FT and it appears that FT has inappropriately used that information to undercut Gunns' prices. This has resulted in a deterioration of our market share. Further, FT now seeks to make a windfall from its direct and indirect export sales in competition to Gunns by enforcing the take or pay regime.

We also understand that senior managers of FT have been approaching some of our customers directly, seeking to establish a trading relationship with them. During the course of soliciting our customers, FT management have been making false, adverse comments about Gunns' business which inevitably jeopardises our relationship with those customers and actively dissuades any future business opportunities we may have with them. Gunns' investment in, and capacity to bring the pulp mill development to fruition, has been at the core of FT's adverse comments.

This conduct is misleading and defamatory and is causing Gunns significant embarrassment and prejudice. It is also clearly inconsistent with FT's statements of support for our construction of the pulp mill.

General performances under CoS917 and 918

Since the commencement of CoS 917 and 918, we have been faced with numerous difficulties due to FT's unwillingness and/or inability to comply with its contractual obligations. I will not recount Gunns' various complaints of defective performance and non-performance by FT but I wish to highlight one issue which has caused Gunns significant loss of market share: FT's refusal to assist Gunns obtaining FSC certification.

The ongoing campaign by ENGOs against native and old growth logging in Tasmania posed a clear risk to the brand of Tasmanian native forest woodchip. The reputation and marketability of Tasmanian native forest woodchip products is, and has always been, directly affected by FT's forestry management practices and only FT had the power to alleviate the concerns of our woodchip customers. In the circumstances, it was incumbent on FT to take steps to protect the reputation of Tasmania's woodchip export industry. As I have noted previously, its failure to do so has caused Gunns to lose export sales, resulting in the significant job losses and mill closures that the industry has suffered in recent years.

FT was aware of the damage that its forestry practices were causing to the reputation of Tasmanian woodchip products and had the opportunity to address the problem. Our Japanese customers raised concerns (both with us and FT) over a number of years about the need for our product to be sourced from FSC certified forests. Gunns worked with its customers to achieve an acceptable position but our attempts to do likewise with FT were met with indifference. Notwithstanding the parties express undertaking to adapt CoS 917 and 918 to meet changing market conditions, FT management has taken the position that they are guaranteed sales revenue under the take or pay provision and therefore have no interest in maintaining actual sales volumes.

Due to the change in market conditions, CoS 917 and 918 reflect outdated standards and do not permit us to meet our customer needs. We have now lost those customers. While I note that FT has now chosen to go down the same certification path, this decision is 18 months too late and the damage is already done.

Termination of CoS917 and 918

In light of the decimation of the market for Tasmanian native forest woodchip, and the deterioration of the relationship between FT and Gunns, it seems desirable that Gunns and FT separate. Gunns therefore wishes to terminate CoS 917 and 918, noting our agreement that construction of the pulp mill did not commence by 30 November 2010.

To the extent that FT requires formal notice, please treat this letter as notice of termination under clauses 3.3(b)(i) of CoS917 and 3.3(b)(ii) of CoS918.

While Gunns remains ready, willing and able to perform its contractual obligations under CoS 917 and 918 during the notice period, we consider that an immediate separation would be in the best interests of Gunns, FT and the Tasmanian forestry industry generally.

In particular, I am cognisant of the outstanding disputes between the parties and the further disputes that are likely to arise if CoS 917 and 918 continue in force during the notice period. Unless a commercial resolution can be reached, I fear that these disputes will ultimately result in court proceedings. I do not believe that this is the desired course for either of our organisations.

I therefore propose that CoS 917 and 918 be terminated immediately on a full release and indemnity basis in respect of any and all outstanding issues.

Settlement on this basis would immediately free up volumes for FT to utilise in pursuing the Chinese woodchip export market. Gunns is willing to assist FT develop its position in this market by providing FT with introductions to our existing customers if FT requires. At the same time, FT will receive the benefit of substantial infrastructure, worth in excess of \$200 million, established by Gunns in anticipation of harvesting pulpwood from State Forests pursuant to CoS 917 and 918.

If you are open to this proposal please let me know as soon as possible so our respective boards can give appropriate instructions to our senior executives to work together on an end date for all operations.

I look forward to your cooperation in separating the interests of our respective organisations for the mutual benefit of each.

Yours sincerely

A handwritten signature in black ink, appearing to read "C Newman". The signature is fluid and cursive, written in a professional style.

Chris Newman
Chairman

file

H011/7

Phone: (03) 6235 8129

Your Ref: WF-917-PW

Our File:



19 April 2011

Mr Bryan Hayes
General Manager – Forest Products
Gunns Ltd
PO Box 572
LAUNCESTON Tas 7250

Dear Bryan,

**Contract of Sale 917
2009/10 Take or Pay Dispute**

Thank you for your letter of 18 April 2011 on this subject.

Forestry Tasmania will carefully investigate each of the claims in your letter, and respond in due course. For the record, I advise that, at this stage, Forestry Tasmania does not agree with any of your claims.

I note with concern your statement that Gunns will raise separately “Gunns counter claims against Forestry Tasmania arising from Forestry Tasmania’s breaches of CoS 917 and other wrongful conduct.” You have not previously raised this matter, and I seek your urgent advice on a timetable for providing substantiation of this claim to Forestry Tasmania. Early receipt of the details of this claim will facilitate progress on the other matters we have been discussing relating to Contract 917.

Yours sincerely,

Mike Farrow
General Manager, Operations and Sales



File

Hou/734

Phone: (03) 6235 8129

Your Ref:

WF-917-PW

Our File:



Forestry Tasmania

19 April 2011

(copy on WF-918)

Mr Bryan Hayes
General Manager – Forest Products
Gunns Ltd
PO Box 572
LAUNCESTON TAS 7250

Dear Bryan,

**re: Formal proposal of 10 April 2011 by Gunns Limited -
to amend Contracts 917 and 918**

Thank you for your proposal of 10 April 2011, on the above subject.

Forestry Tasmania acknowledges its obligations under Recital 6 of the Contracts to “confer in good faith to discuss...changes...proposed” by Gunns. However, it is appropriate to point out that there is no requirement to change the Contracts and no requirement to refer a stalemate to any form of dispute resolution mechanism.

I also note your quotation from Recital 6 omits the statement that each party to the Contract “relied on its own assessment of the market, economic, political and other conditions which affected or might reasonably affect its performance under this Contract”.

By separate letter, I have noted my concern about the statement in your letter of 18 April 2011, on the current 2009-10 take or pay dispute, that Gunns will raise separately “Gunns counter claims against Forestry Tasmania arising from Forestry Tasmania’s breaches of CoS 917 and other wrongful conduct.” It appears premature and inefficient to commence discussions on varying either Contract, when Contract 917 is the subject of such potential claims.

Accordingly, once Forestry Tasmania has received Gunns’ counterclaims in detail, and had an opportunity to review that information, it will revert in regard to your request of 10 April 2011 to confer in good faith.

Yours sincerely,

Mike Farrow
General Manager, Operations and Sales



W/E 917

Phone: (03) 6235 8129

Your Ref:

WF-917-PW

Our File:



20 April 2011

Mr Bryan Hayes
General Manager – Forest Products
Gunns Ltd
PO Box 572
LAUNCESTON TAS 7250

Dear Bryan,

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Yours sincerely,

Mike Farrow
General Manager, Operations and Sales



Phone: (03) 6235 8129
Your Ref:
Our File: WF-917-PW



W/F 917

20 April 2011

Mr Bryan Hayes
General Manager – Forest Products
Gunns Ltd
PO Box 572
LAUNCESTON TAS 7250

Dear Bryan,

**Contract of Sale 917
2009/10 Take or Pay Dispute**

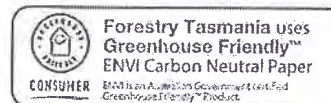
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Yours sincerely,

Mike Farrow
General Manager Operations and Sales



Hon/763



Phone: 62358143
Your Ref:
Our File: WF-917-PW, WF-918-EU



29 April 2011

Mr Bryan Hayes
Gunns Limited
PO Box 572
LAUNCESTON TAS 7250

Dear Bryan,

Contracts of Sale 917 and 918 – Annual Supply Notice for 2011/12

Thank you for your letter to Mike Farrow dated 01st March 2011, followed by a further letter of variation dated 7th March 2011, in relation to the Gunns Annual Supply notice for 2011/12.

Forestry Tasmania has considered your notice under the Long Term Pulpwood Supply Agreement COS 917 and the Sawlog and Other Products Supply Agreement COS 918. Following a review of the resource available, Forestry Tasmania confirms the ability to meet the annual supply notice of **873kt in total** and proposes the following change to the forecast allocation of The Southern Mill Door volume supply to Triabunna:

1. Derwent West: 100kt
2. Huon: 360kt

I trust that the above proposed changes, made with reference to Schedule 11; Clause 1.4 (a) of CoS917, is acceptable to Gunns.

I note that Gunns have not yet requested any eucalypt sawlog supplies for 2011/12.

I propose a meeting of relevant staff to discuss the above.

Forestry Tasmania reserves all of its rights under all of its contracts and agreements with Gunns and nothing in this letter, including the above acceptance of the supply notice volumes which are considerably below the annual base quantity, constitutes a waiver of any of those rights.

Yours sincerely,

Mark Pettit
Manager Domestic Forest Product Sales
Forestry Tasmania

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Phone: 03 6235 8225

Your Ref:

Our File:

PRIVATE &
CONFIDENTIAL



4 May 2011

Mr Chris Newman
Chairman
Gunns Limited
PO Box 572
LAUNCESTON TAS 7250

Dear Chris

Thank you for your letter of April 18, regarding the contractual relationships with Forestry Tasmania (FT). Your letter constitutes a notice to terminate the contracts under their terms or, if FT agrees, to do so under alternative terms that you have proposed. FT acknowledges this notice. Under the terms of the contract, it is incumbent on the parties to attempt to negotiate in good faith terms of a new agreement for supply. It is unclear whether your alternative proposal for "full release and indemnity" envisages such further negotiation or not. In any event, we would be pleased to meet with you to seek to resolve the outstanding issues at Board level. For our part, I would propose to have three directors involved, including the Managing Director.

You have outlined your understanding of various developments that are the basis for your assessment of the current relationship and your decision to terminate the contracts. I can not allow the relevant comments in your letter to go unanswered, as they seriously misrepresent the activities of FT and of its officers. You should be aware that the Board has been fully informed of all aspects of the emerging issues between our two companies, and we have full confidence in, and strongly support the actions taken to date in seeking to resolve them.

We remain gravely concerned at Gunns' apparent casual disregard for FTs entitlements to fair and timely payment under the terms of the contracts, or at the very least the courtesy of timely notice and advice when circumstances prevented such timely payment. I refer in particular to the recurring pattern of failure to pay debts owing by due dates, and then, over the last year at least, only in dribs and drabs...usually without notice or explanation, or contrary to such notice when on occasion it has been given. We have been unable to assess whether this has been a deliberate stratagem to avoid Gunns' commitments or represents a fundamental inability on Gunns' part to pay debts as and when they fall due.

We would be quite justified in interpreting this as a hostile approach, particularly in the context of the numerous, but empty, assurances that have been offered over a period of years to address the situation. In particular, I would draw your attention to the correspondence attached.



The pursuit of our Take or Pay entitlements should be viewed in this context, including the unilateral refusal on Gunns' part to pay monies owed in respect of volumes supplied in good faith under the "China sale". At no stage prior to FT raising these matters has Gunns sought to notify us of its concerns about the structure of the agreement, or to seek a renegotiation, and we find no merit in now attempting to do so. As has already been made clear to Gunns in separate correspondence, we intend to further pursue these matters, together with such Take or Pay entitlements that arise from the 2010-11 year. You should be aware that this further amount is estimated by us as in the order of \$7M.

I assure you that each and every one of your assertions about FTs alleged actions or inactions are false and will be contested vigorously in any forum in which Gunns might choose to repeat them.

1. While there is little doubt that global events have resulted in a significant decline in the Japanese woodchip market, it is not clear that this decline is permanent, nor even that demand for native forest woodchips in Japan might not recover to some extent. While I share your views about the current difficulties of operating in the Japanese market, in particular, I think it is too early to draw the conclusion that you draw. You have also overlooked the significant current potential for growth in woodchip exports into the Chinese market, although I note the challenges in meeting our respective price expectations in that market.
2. It is incorrect to assert that meetings between officers of FT and Gunns "have not been constructive". If you are referring to the past three or four months, for example, then each party has been collating and sharing information related to their respective positions with respect to the disputed matters, more or less in a timely manner. Advice to me is that these discussions have been conducted in good spirit, whether or not they have yet led to agreement on the disputed matters. If you are referring to a longer period, then you must be overlooking the fact that, during the last twelve months, the parties have negotiated, agreed and implemented significant variations to Contracts 917 and 918, in order to assist Gunns to develop its new markets in China.
3. It is incorrect to assert that Gunns has made "numerous proposals" to FT to "protect Tasmania's woodchip export markets". I am advised of no more than three or four such proposals over the past two years, each of which sought FTs assistance to either maintain Gunns' existing woodchip export markets or to develop Gunns' new markets. Each of these proposals has been considered in good faith and some (see 2 above, for an example) have come to fruition by negotiation between the parties. Others, regrettably, have been unsuccessful. This has been as a result of factors that have proven to be beyond either party's control. I absolutely reject any suggestion that FT has either "not been receptive to these proposals", or has "not made any counter proposals". Once again, the China sale agreement to which 2 above refers is a clear example of FTs receptivity to Gunns' proposals and to participation in a series of proposals and counter proposals that led to a significant agreement that was then implemented. Another example, about which you may not be aware, is FTs direct participation in a joint mission with Gunns' officers to address Chubu Power Company, in Nagoya, about the opportunity to purchase hardwood woodchips supplied by Gunns from Tasmania's State forests for use in Chubu's coal fired power station, following a trial shipment conducted with FTs full cooperation. FT was also

instrumental in ensuring that a potential purchaser of hardwood residues for a recently proposed new silicon smelter in Tasmania was introduced to Gunns' officers for them to discuss potential supply. Please be assured that there are many more examples, from the very recent past and from preceding years.

4. It is incorrect to assert that FTs officers have been "preoccupied with extracting payment from Gunns under the take or pay penalty regime". FTs officers have, rightly and with the explicit encouragement of the Board, been pursuing FTs relevant rights under Contract 917, particularly in the context of Gunns' apparent unwillingness or inability to pay its normal monthly accounts to FT as and when they fell due, in almost each month during the term of both contracts. This has not, however, been at the expense of any of the many other aspects of the business relationship between the two businesses, including the many other contractual obligations under that Contract and under other contracts.
5. For similar reasons, and without resorting to a litany of examples, I strongly refute your repeated assertions that FTs officers have not acted in good faith, or have employed a hostile approach in their dealings with Gunns' officers, or have in some way conducted themselves such that Gunns has been unable to "take up the volume previously contemplated".
6. I question your observation that Gunns is in some way "captive to Forestry Tasmania". The facts that have emerged over the past twelve months, as evidenced by Gunns' own pronouncements about using only plantation pulpwood in the proposed pulp mill, show that Gunns' future plans require very little (if any) pulpwood from State forests. Any inference that the take or pay provisions of the Contracts "capture" Gunns is refuted. Gunns agreed to these provisions, as a fair and reasonable consideration in return for a twenty year agreement for 1.5Mtpa of FTs most saleable pulpwood. This was in recognition of the fact that the agreement curtailed FTs future opportunities to sell that pulpwood to any other buyer. Those that were at the table during the relevant negotiations will know how vigorously Gunns sought to capture the potential supply of pulpwood from FT. In fact, Gunns' stated objective was to secure the exclusive rights to 2Mtpa of pulpwood, being all of the pulpwood available from State forests, other than the small amounts then committed to two small domestic pulp and paper mills, for twenty years.
7. Your suggestions that FTs officers may have used information about Gunns' prices in China and Japan, to then offer lower prices to Gunns' customers, and that this behaviour has thereby "resulted in a deterioration of (Gunns') market share" are entirely false. I can assure you that no discussions of this ilk have taken place, at any time. FT has made no direct sales into China or Japan (nor anywhere else), that are in any way in competition with Gunns. In fact, FT has never made any direct sales of woodchips to overseas markets. However, over the past twelve months, FT has been making prudent and discreet enquiries about woodchip market prospects in these (and other) countries. This has been in response to Gunns' announcements, commencing in early 2010, that it would soon be exiting native forests and native forest processing, and indeed Gunns' original indications that it would facilitate FT in an orderly transition to alternative sales arrangements.

8. Your parallel suggestion that FTs officers may have taken a similar approach to any “indirect sales” in which it has been involved is equally false. Although it is not entirely clear what you might mean by “indirect sales”, I can assure you that FT has not participated in any discussions of this type with the overseas customers of the other Tasmanian woodchip exporters.
9. I refute any suggestion that could be inferred from your letter that FTs officers may have made any “false or adverse comments about Gunns’ business”, nor any “adverse comments” about “Gunns’ investment in, and capacity to bring the pulp mill development to fruition”, to any of Gunns’ customers. I am unable to be more specific, since you have not provided any specific examples in support of your assertion. I therefore refute any assertion in your letter that FTs officers have acted in any way that is misleading or defamatory.
10. I confirm FTs strong and unambiguous support for Gunns’ proposed pulp mill.
11. I refute your assertion of FTs “unwillingness and/or inability to comply with its contractual obligations” under Contracts 917 and 918. While these contracts are complex, and their obligations on each party extensive and demanding, all officers (i.e. FTs and Gunns’) have generally worked diligently and in good faith to resolve any operational difficulties that have arisen. The contracts represented a significant shift in management responsibilities, and each party recognised at the time that it would take some time, and goodwill on both sides, to achieve the changes. The changes also involved third parties (e.g. contractors), whose cooperation had to be achieved by consensus rather than by direction. These factors, recognised at the time, together with the ongoing delays in the commencement of the pulp mill development and, more recently, volatility in Gunns’ demand for pulpwood, have led to a very difficult operating environment that has tested all officers directly involved. It is a credit to each of them (including both Gunns’ and FTs officers) that they have been able to work through the great majority of the issues that have arisen over the period since the contracts commenced in January 2008.
12. I do not accept your assertions that FT has in some way failed in its obligations to Gunns (and to the Tasmanian woodchip export industry) by not achieving FSC certification, or by “refusing to assist Gunns obtaining FSC certification”, or by “indifference”, given that Gunns itself has equally been unable to achieve such certification for any of its forest assets in Tasmania. I refute any such assertions, in the strongest possible terms. Despite this, FT has actively cooperated with Gunns’ only recently initiated attempts to achieve FSC certification, and can in no way be held responsible for Gunns’ own failure to do so. You may be unaware that FT has, in fact and for some time, been supplying pulpwood from State forest to Gunns that meets FSC requirements for controlled wood, and has in fact gone to some lengths to facilitate specific sourcing strategies within State forest to achieve it. FTs officers have worked very closely with Gunns’ relevant officers and its Japanese customers on this matter, for many years. I need not add that FTs forests, and their management, are certified under the Australian Forestry Standard. When it comes to market preferences for FSC or PEFC (including AFS), there are many complex external factors influencing the relevant market behaviour. Most of these are beyond the control of any law abiding citizen, and none can be laid at Forestry Tasmania’s door. At a broader level, FT has

consistently co-operated with Gunns in addressing customer concerns, including participating, at its own expense, in in-market visits and presentations, the hosting of customer visits to Tasmania and the implementation of active communication programs. Your suggestions to the contrary are wrong.

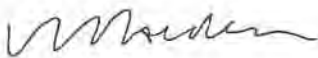
13. I strongly refute any assertion or inference that FT has any sort of contractual obligation to pursue FSC certification. In fact, Recital 4 of the Contracts acknowledges the following.

The forest management practices of each of the Parties are certified under the Australian Forestry Standard. Each of the Parties is committed to maintaining its certification under that standard.

14. Finally, you have attributed a value of \$200M to various infrastructure that might be transferred to FT upon the termination of the contracts. In the first instance, the observation is irrelevant as there is no link between the reversion of assets to FT following conclusion of the contract, and the financial obligations that arise under the contract, including Take or Pay liabilities. Irrespective of any other matters, the contracts make clear that on termination, any assets remaining on State forest after a period of 45 days, revert, as of right, to FT. In the second instance, the valuation is without factual basis. It overlooks the current condition of many of the roads and bridges built and used by Gunns on State forest, and Gunns' contractual obligations with respect to the care and maintenance of those roads and bridges. It also bears no relation to the value of those assets based on their ability to generate income. Suffice to say that FT attributes little value to these assets, and in fact is concerned at the liability they would represent should Gunns fail to rehabilitate or restore them to a stable condition within the requirements of the Forest Practices Act.

On behalf of the FT Board, we remain available at short notice to meet with Gunns' directors, as outlined at the beginning of this letter to seek to resolve the matters between us on fair commercial terms, consistent with our rights and responsibilities under the two contracts in question.

Yours sincerely



Adrian Kloeden
Chair, Forestry Tasmania

BRIEFING NOTE

Bryan Green MP
Minister for Energy and Resources

NOTED.....
(Minister)

Date: / / 11

SUBJECT: Termination of Gunns Contracts of Sale 917 & 918**Purpose:**

To inform the Minister that Gunns Limited has provided formal notice of termination for CoS 917 and CoS 918, and to provide copies of an exchange of letters between Gunns and Forestry Tasmania regarding same; and

To advise the Minister of Forestry Tasmania's intended communications strategy to deal with the termination.

Background:

Gunns' chairman Chris Newman wrote to FT's chairman Adrian Kloeden on April 18 2011 advising the following:

- That the letter constituted formal notices of termination for contracts 917 and 918.
- That Gunns proposes, as an alternative, the contracts be terminated immediately on a full release and indemnity basis in respect of any and all outstanding issues.

Mr Kloeden responded with a letter to Mr Newman on May 4 2011, advising the following:

- Under the terms of the contracts, it is incumbent on the parties to attempt to negotiate in good faith terms of a new agreement for supply. This obligation to negotiate is extinguished if Gunns' alternative proposal (above) is accepted.
- That FT is prepared to meet Gunns at Board level to explore whether outstanding issues can be resolved.

The terms of the contracts provide a 180 day period during which the parties would seek to negotiate a new supply agreement. Unless otherwise negotiated, the contracts remain "on foot" until October.

The 918 contract also covers supply to Gunns' sawmills and it's unclear whether Gunns intends to:

- Negotiate new supply contracts for sawmills
- Sell the sawmills without a wood supply
- Close the sawmills.

However, the termination of CoS 917 and 918 means that from October, there is no contractual obligation to supply any Gunns' sawmills.

In fact, that situation currently exists. Under these contracts, sawmill supply is directly linked to pulpwood. There is no obligation on FT to supply Gunns' sawmills, while it is not taking pulpwood.

Communications:

It is unlikely the exchange of letters between Gunns and FT will become public. However, it is possible that stakeholders will be informed that Gunns Limited has provided contract termination notice.

In the event that stakeholders become aware of the termination notice, Forestry Tasmania intends to release the following statement.

Gunns to terminate wood supply contracts

Forestry Tasmania has received written notification from Gunns Limited that it intends to terminate its wood supply agreements.

Chairman Adrian Kloeden said the FT Board had resolved to publicly announce the notice of termination, consistent with FT's commitment to transparency.

"When the contracts were negotiated four years ago, Gunns and FT agreed to make the documents public and available through our website.

"It is therefore appropriate that the notice of termination is also made public."

Mr Kloeden said the contracts remain in force for 180 days after a formal notice of termination had been received, during which time the parties are obliged to negotiate in good faith terms of a new agreement for supply, but are not obliged to agree.

"If an agreement is not reached, wood supply to four of Gunns' sawmills and its veneer mill will terminate in October when 918 contract terminates.

"The notice of termination does not in any way absolve Gunns of its financial obligations to FT."

Recommendation:

For the Minister to note.





WF-917
WF-918

H011/833

10 May 2011

Mr Mark Pettit
Manager Domestic Forest Products Sales
Forestry Tasmania
GPO Box 207
Hobart TAS 7001

Dear Mark

Re - Contracts of Sale 917 and 918 – Annual Supply Notice for 2011/12

Thank you for your prompt response and proposed pulpwood allocation under the contracts for 2011/12.

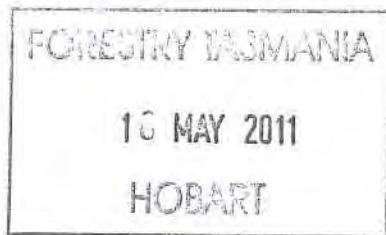
Since I wrote to you with our initial proposal and subsequent notice of variation I have been advised that the ongoing tenure of the contracts is now the subject of Board to Board discussion that may obviate this process entirely.

Notwithstanding that we do agree to meet when convenient to discuss the proposed volumes, the pricing mechanism for China sales, the sourcing and details of the classes of pulpwood and harvest systems in accordance with Schedule 6.

Please advise when you would be ready to discuss this level of detail and unless events overtake us we shall meet at an agreed time.

Yours sincerely

Bryan Hayes
General Manager
Forest Products



16 May 2011

B/S

WF-917-PW

WF-918

Hou 1900

Mr Mike Farrow

General Manager Operations and Marketing
Forestry Tasmania
GPO Box 207
Hobart TAS 7001

Dear Mike

Re - Reconciliation of China Sales Agreement volume and value

Please find attached our reconciliation of the volume and value of pulpwood supplied to Gunns under the 2010 China Sales Agreement up to end April 2011.

In summary, Gunns has sold 952,861gmt of chips to the Chinese customer at the discounted sales price in the period, well in excess of the agreed 800,000gmt supply volume.

FTas has supplied only 573,959gmt of discounted price pulplogs in the period, and the quantum of the discount did not meet the target provided for under the agreement causing direct loss to Gunns.

The volume shortfall of discounted pulplogs has been replaced by fully priced pulplogs, causing further loss to Gunns.

We have calculated the direct financial loss to Gunns [REDACTED]. That amount is claimed by Gunns from FTas consistent with the terms of the China Sales Agreement. We have withheld payment of [REDACTED] against this cost to date so the nett amount of the claim is [REDACTED].

Please provide a response to our claim within 14 days in order to close this matter in a timely manner.

Yours sincerely

Bryan Hayes
General Manager
Forest Products

Attachment

ACTUAL SALES													
South		41,641		41,847	42,342	39,757	41,803		41,456	41,127	51,215	0	341,588
North West								54,283					54,283
North East	42,354	44,840	49,218	133,048	53,206		52,968	42,896	45,355	51,886	41,019	0	556,790
	(April)												
	42,354	86,481	49,218	174,895	96,148	39,757	94,571	97,279	86,811	93,113	92,234	0	952,861
Cumulative	42,354	128,835	179,053	352,948	449,096	488,853	583,424	680,703	767,514	860,627	952,861		

Forestry Tasmania China Sales Adjustment as at:

Apr-11

	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	TOTAL
Volumes sold to China	42,354	86,481	49,218	174,895	96,148	39,757	94,571	97,279	86,811	93,113	92,234	0	952,861	
Expected Volumes	36,000	25,000	73,900	73,900	73,900	73,900	73,900	73,900	73,900	73,900	73,900	73,900	73,900	800,000
Expected Unit Cost	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Expected Total Cost	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cumulative	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Actual China Volume	27,409	14,447	29,822	28,672	45,859	63,104	65,376	63,830	52,246	80,301	84,584	18,907	573,959	
Actual Unit Cost	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Actual Total Cost	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cumulative	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Additional Volume at Full Cost														
Volume Adjustment	8,591	10,553	44,078	45,228	28,041	10,794	8,524	10,070	21,654	-6,401	-10,684	53,993		
Actual Unit Cost	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Full Unit Cost Adjustment	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Adjusted Additional Unit Cost	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Adjusted Total Additional Cost	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Cumulative	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Total Actual Volume	36,000	25,000	73,900	73,900	73,900	73,900	73,900	73,900	73,900	73,900	73,900	73,900	73,900	
Total Actual Cost	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Effective Actual Unit Rate	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Variance Until	Apr-11													

Variance Analysis

Price Variance	\$	Unfavourable
Volume Variance	\$	Favourable

WEIGHTED AVERAGE VALUE OF STUMPAGE AND TOLL DISCOUNT					
	Agreed Vols	Agreed Stumpage	Mid Stumpage	Road Toll Discount	Road Toll Discount Value
Stn Mill Door	918	350000 \$			\$
	917	80000 \$			\$
Stn Stumpage	917	100000 \$			\$
Stn Mill Door	918	80000 \$			\$
	917	80000 \$			\$
NE Stumpage	918	100000 \$			\$
	917	100000 \$			\$
Wte Ave		\$			\$
Total Value of Stumpage and Tolls discount					



BS

WF-917-PW
WF-918-

H011 | 893

(F)

16 May 2011

~~MF Mike Farrow~~

General Manager Operations and Sales,
Forestry Tasmania
GPO Box 207
Hobart TAS 7001

Dear Mike

Re - Formal proposal to amend Contracts of Sale 917 and 918

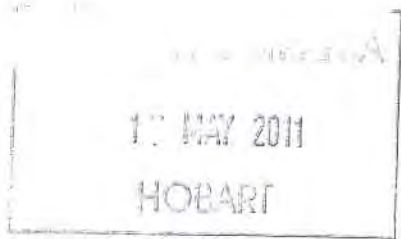
Thank you for your letter of 20 April 2011 in response to our proposal.

When we met on 8 April 2011 we agreed to provide to you a formal proposal for your consideration. This is what we have done.

I have subsequently been advised that the ongoing tenure of the contracts between Gunns and Forestry Tasmania is the subject of Board to Board discussions and for that reason we believe that the issue of contract amendments should be deferred until we better understand the outcome of those discussions.

Yours sincerely

Bryan Hayes
General Manager
Forest Products



B/S

WF-917-10

4011/892

16 May 2011

Mr Mike Farrow

General Manager Operations and Sales
Forestry Tasmania
GPO Box 207
Hobart TAS 7001

Dear Mike

Re - Contract of Sale 917 – 2009/10 Take or Pay Dispute

Thank you for your letter of 20 April 2011 in reply to my letter of 18 April 2011.

I understand that these matters were the subject of recent correspondences between our Boards. As such I believe it is prudent to await the final outcome of all discussions at that level before proceeding further with ours.

Notwithstanding, we will await your response to our detailed offset amounts and we remain ready to meet at an appropriate time to further progress those aspects of this matter.

Yours sincerely

Bryan Hayes
General Manager
Forest Products



WF- 917-Pw/2

WF - 918

Ho 11/899

16 May 2011

Mr Mark Pettit
Manager Domestic Forest Product Sales
Forestry Tasmania
GPO Box 207
HOBART TAS 7001

Dear Mark

Re - Contracts of Sale 917 and 918 – Annual Supply Notice for 2011/12

I refer to my letter to you of 10 May 2011 entitled: Re - Contracts of Sale 917 and 918 – Annual Supply Notice for 2011/12.

As canvassed then, given that there are ongoing discussions between our respective Boards and consistent with the proposal in my other two letters to you of even date, I believe that it is prudent that we hold in abeyance any further discussion on this issue until we are better informed as to the final outcome of the discussions between our respective Boards.

Yours sincerely

Bryan Hayes
General Manager
Forest Products

file
H011/999

Phone:
Your Ref:
Our File:

File WF-918-PW



(copy
WF-917)

A

24 May 2011

Mr Bryan Hayes
Gunns Limited
PO Box 572
LAUNCESTON TAS 7250

Dear Bryan,

Reconciliation of China Sales Agreement volume and value

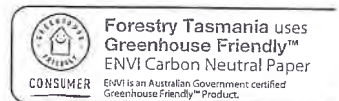
I acknowledge your letter of 16 May 2011.

For the record FT refutes any claims made by Gunns against it under this sale, and considers your analysis flawed and biased.

I will respond in more detail addressing your claims in due course.

Yours sincerely

Mr Mike Farrow
Chief Operating Officer
Forestry Tasmania



COPY

Phone: (03) 6235 8143

Your Ref:

Our File:

Gunns Limited
78 Lindsay Street
LAUNCESTON TAS 7250



Forestry Tasmania

10 June 2011

Attention: Graeme Stevenson

Dear Sir

**Forestry Tasmania and Gunns Limited – Sawlog and other products Supply Agreement
Suspension of Supply**

We refer to Supply Agreement No. 918 dated 20 December 2007.

In accordance with the above Agreement, Invoice number 95552 for a total of [REDACTED] was issued on 30 April 2011 and due for payment on 30 May 2011 ('Invoice').

As of the date of this correspondence, payment of the Invoice has not been rendered and such payment is now overdue. This is despite numerous verbal assurances by Gunns' representatives given over the past weeks that payment was imminent.

In accordance with clause 3.12(a) of Schedule 13 of the Supply Agreement, Forestry Tasmania hereby suspends forthwith the supply of the following "Supply Products" as defined in the Supply Agreement on and from the date of this correspondence:

- Sliced Veneer and Category 1 and 3 Sawlog ("HQSL");
- Category 2 Sawlog ("Cat 2SL"), and
- Category 8 Sawlog ("Cat 8SL").

Supply of the identified products will resume when payment of that portion of the Invoice relating to these products being a total of [REDACTED] is rendered to Forestry Tasmania in full.

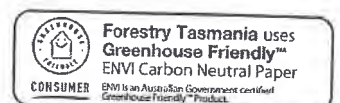
Kind regards,


Mark Pettit

Manager – Domestic Forest Product Sales

79 Melville Street Hobart TAS 7000. GPO Box 207 Hobart TAS 7001.
Phone (03) 6235 8333 International 61 3 6235 8333 Facsimile (03) 6235 8223
ABN 91 628 769 359

www.forestrytas.com.au



Records.

Phone: 03 6235 8370

Your Ref: #1011/1264

Our File: WF-917-PW



(copy on WF-918)

20 June 2011

Mr G L'Estrange
Managing Director
Gunns Limited
PO Box 572
LAUNCESTON TAS 7250

Dear Sir

Tax Invoice from Gunns CHN2011

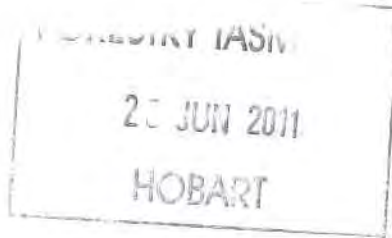
Forestry Tasmania does not accept tax invoice CHN2011 for [redacted] issued by Gunns Limited to Forestry Tasmania.

As set out in the attached letter of 24 May 2011 from our Mike Farrow to your Bryan Hayes, Forestry Tasmania refutes any claim made by Gunns against it under the China sale, and considers the analysis forming the basis of invoice CHN2011 as flawed and biased. Mr Farrow intends to follow up his views of the analysis with Mr Hayes.

Yours faithfully

Sue Shoobridge
Chief Financial Officer





WF-917-pw/2

WF-918-

H011/1302

27 June 2011

Mr Mike Farrow
General Manager Operations and Sales
Forestry Tasmania
GPO Box 207
Hobart TAS 7001

Dear Mike

Re – Variation Notice

Further to our advice of 1 April regarding the Triabunna Mill being forced to close due to market related issues I wish to advise that Gunns has entered into an agreement to sell that Mill effective 29 June 2011.

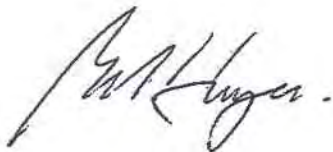
Consequently the Triabunna Mill will not reopen in June under Gunns ownership and we will work to liquidate woodchips stocks on site as quickly as possible to enable the business ownership to transfer.

Gunns therefore formally advises of a further variation to our volume requirement under CoS 917 to reduce the 2010-11 pulpwood volume by an additional 80,000 gmt.

Gunns also formally advises that its pulpwood requirement under CoS 917 and CoS 918 for the financial year 2011-12 is zero. Other processes to terminate these contracts are in train and will take effect in due course.

Please confirm your receipt of this notice and your agreement to the variations requested.

Yours sincerely



Bryan Hayes
General Manager
Forest Products

BRIEFING NOTE

Bryan Green MP
Minister for Energy and Resources

NOTED.....
(Minister)

Date: / / 11

SUBJECT: NEGOTIATIONS WITH GUNNS RE CONTRACTS 917 & 918**Purpose:**

To inform the Minister that Gunns Limited has advised that it intends to negotiate terms for new agreements to replace Contracts 917 and 918, which Gunns previously gave notice of its intention to terminate.

Background:

Gunns Managing Director Greg L'Estrange contacted his Forestry Tasmania counterpart Bob Gordon by phone on 30 June 2011 to advise that Gunns wished to commence negotiations for new agreements, as provided for in Contracts 917 and 918.

This verbal advice has now been confirmed by Mr L'Estrange in writing.

Under the terms of Contracts 917 and 918, Forestry Tasmania is obliged to enter into negotiations for new wood supply arrangements.

Clause 3.3 (d): If this Contract is terminated pursuant to Clause 3.3(b), then the parties will negotiate in good faith about the terms of a new agreement for the supply of Pulpwood to Gunns.

An agreement between FT and Gunns might be considered to be contrary to the Statement of Principles.

Recommendation:

For noting.

Name: Mr Bob Gordon
Title: Managing Director

Date: 30 June 2011



30 June 2011

Mr Bob Gordon
Managing Director
Forestry Tasmania
GPO Box 207
HOBART Tas 7001

Dear Bob

I refer to Mr Kloeden's letter to our Chairman of 4 May 2011 and subsequent conversations between Mr Kloeden and Mr Newman.

New Agreements

We agree that under the terms of Contracts of Sale 917 and 918 it is incumbent on the parties to negotiate in good faith for the terms of new agreements for the supply of the Supply Products and Pulpwood to Gunns (New Agreements).

So that there is continuity (operationally or otherwise) in Contracts of Sale 917 and 918, we should commence intended negotiations as soon as possible. Bryan Hayes will be in contact with the relevant Forestry Tasmania staff to begin this process.

As you are aware we are exiting all our hardwood processing facilities as a going concern and the New Agreements will form part of that process.

Yours sincerely

A handwritten signature in black ink, appearing to be "GL", with a long horizontal flourish underneath.

Greg L'Estrange
Managing Director

BRIEFING NOTE

Bryan Green MP
Minister for Energy and Resources

NOTED.....
(Minister)

Date: / / 11

SUBJECT: GUNNS' WOOD SUPPLY AGREEMENTS**Purpose:**

The purpose is to inform the Minister that Forestry Tasmania and Gunns Limited will hold preliminary talks on Monday for new wood supply agreements to replace the 917 and 918 contracts.

Negotiations to replace Contracts 917 and 918

Gunns issued Forestry Tasmania with a notice to terminate Contracts 917 and 918 on 18 April 2011. The notice has two effects:

- (a) the Contracts thereby terminate 180 days hence, i.e. on 15 October 2011; and
- (b) the parties are obliged to negotiate in good faith about the terms of new agreements for the supply of logs.

On 30 June, Greg L'Estrange wrote to Bob Gordon, acknowledging that it was "*incumbent on the parties to negotiate in good faith for the terms of new agreements*" (etc) and requesting that the relevant negotiations commence "*as soon as possible*" so that there is "*continuity (operationally or otherwise) in the contracts*". Mr L'Estrange nominated Bryan Hayes as the Gunns representative.

On 7 July, Bryan Hayes contacted Forestry Tasmania to arrange an initial meeting.

The meeting will take place on the morning of 11 July, with senior representation from each party. Neither Greg L'Estrange nor Bob Gordon is attending.

Conclusion/Summary

To note.


Cleared by: Bob Gordon
Managing Director

Date: 8 July 2011

Handwritten: (C) & enter

Phone: 6235 8170

Your Ref: -

Our File: WF-917-PW



Handwritten: 4011/1474

21 July 2011

Mr Bryan Hayes
Gunns Limited
PO Box 572
LAUNCESTON TAS 7250

Dear Bryan,

re: Contract of Sale 917 - take or pay (2010/11)

Clause 4.5(a) in CoS 917 states that, if the actual quantity of pulpwood in any Planning Year is less than 85 per cent of the total quantity of pulpwood to which Gunns is entitled in that Planning Year, then Forestry Tasmania is entitled to issue a tax invoice to Gunns for the difference between the actual quantity and the threshold quantity.

The entitlement for the Financial Year 1 July 2010 to 30 June 2011 was the base quantity of 1,500,000 gmt (Clause 4.1(a)).

A statement of Gunns' actual offtake for 2010/11 has been collated by Forestry Tasmania. The shortfall, relative to the take or pay threshold, is [redacted] green metric tonnes.

On this basis, at the relevant average stumpage of [redacted] per green metric tonne, Forestry Tasmania is entitled to recover [redacted] (excluding GST) from Gunns.

An invoice for the relevant amount is attached, along with the relevant data.

Yours sincerely,

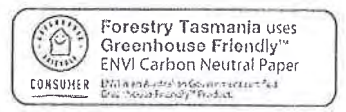
Handwritten signature: Mike Farrow

Mike Farrow
CHIEF OPERATIONS OFFICER



79 Melville Street Hobart TAS 7000. GPO Box 207 Hobart TAS 7001.
Phone (03) 6235 8333 International 61 3 6235 8333 Facsimile (03) 6235 8223

ABN 91 628 769 359
COMMERCIAL IN CONFIDENCE
www.forestrytas.com.au



**Summary of pulpwood supplied to Gunns Limited under Contract 917 -
Planning Year 2010/11**

All figures in green metric tonnes, unless stated otherwise

Entitlement (Clause 4.1(a))

[REDACTED]

Threshold (Clause 4.5(a))

[REDACTED]

Month	Non JV plantation	JV plantation	Native forest	Total
July 2010	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
August 2010	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
September 2010	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
October 2010	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
November 2010	[REDACTED]	-	[REDACTED]	[REDACTED]
December 2010	[REDACTED]	-	[REDACTED]	[REDACTED]
January 2011	[REDACTED]	-	[REDACTED]	[REDACTED]
February 2011	[REDACTED]	-	[REDACTED]	[REDACTED]
March 2011	[REDACTED]	-	[REDACTED]	[REDACTED]
April 2011	[REDACTED]	-	[REDACTED]	[REDACTED]
May 2011	[REDACTED]	-	[REDACTED]	[REDACTED]
June 2011	-	-	-	-
TOTAL 2010/11	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Shortfall amount (Clause 4.5(a)(ii), i.e.

[REDACTED]

[REDACTED]

Average stumpage (Clause 4.5(a)(iii)), in AUD per green metric tonne

[REDACTED]

Additional costs (Clause 4.5(a)(iv))

-

Amount due and payable (Clause 4.5(a)(i)), in AUD excluding GST

[REDACTED]

Note that the quantities shown for "JV plantations" (i.e. Joint Venture Plantations) have been discounted from the actual amounts supplied from the relevant coupes, by 50%, to reflect the share of the actual quantity supplied that is owned by Forestry Tasmania.



Forestry Tasmania

TAX INVOICE

GPO Box 207
Hobart TAS 7001
ABN: 91 628 769 359

Issued To:

GUNNS LIMITED
PO BOX 572
LAUNCESTON TAS 7250

Invoice No: DI021974

Date: 21/07/2011

Debtor Id: GUNNK01F

Due Date: 31/08/2011

Document File No: 00097861

ATTN: BRYAN HAYES

Particulars	Quantity	Incl. Rate	Excl. Amount
Period of service / Date of service: JULY 2011 CONTRACT OF SALE 917 - TAKE OR PAY (2010/11) (QUANTITY - GREEN METRIC TONNE)	[REDACTED]	[REDACTED] EACH	[REDACTED]
PAYMENT TERMS - PLEASE PAY BY THE DUE DATE UNLESS OTHER TERMS APPLY. INTEREST WILL BE CHARGED ON OVERDUE ACCOUNTS			

Your Order / Reference Number:

Exclusive Amount

Enquiries to :

GST

FORESTRY TASMANIA CONTACT NAME: VICKY KIRITSIS
PHONE No.: 6235 8130

Total Incl. GST

Issued on behalf of Forestry Tasmania, 79 Melville St, Hobart, 7000. Fax: 03 6235 8223.

Please view our OHS and SFM Policies at www.forestrytas.com.au

Please detach and return with your remittance to: FORESTRY TASMANIA, GPO BOX 207, HOBART, TAS. 7001

FORESTRY TASMANIA CONTACT NAME: VICKY KIRITSIS

Debtor Id.: DS GUNNK01F

Account Name: GUNNS LIMITED

Invoice No.: DI021974

Date: 21/07/2011

Amount Due: [REDACTED]