

25 January 2011



Mr Bob McMahon
TAP
150 Frankford Rd
EXETER Tas 7275

Dear Bob

I am writing to you as you or your organisation has a strong interest in Tasmania's future and the forestry sector's part in it. The primary reason for my correspondence is to take the opportunity to provide you with a clear understanding of Gunns Limited's strategic direction in the global forestry and wood products market.

Gunns has articulated a strategy of moving out of its traditional native forest wood supply markets, relying on its mature plantation estate to supply the Bell Bay pulp mill and produce a value-added product for export. This is a deliberate decision by Gunns and is a response to a sector in crisis. We believe this approach is the most appropriate strategy for the long-term survival of Gunns, and the survival of a large part of Tasmania's forestry sector, no matter which forest the wood comes from.

What we face is:

- A decline in the Australian market for Managed Investment Schemes
- A greatly diminished demand for woodchips from our Japanese customers
- Increasing demand from our customers for plantation-sourced and certified timber sources
- Consequent closure of mills and job losses as we restructure to accommodate this changed environment, and focus on core operations
- A commercially compelling need to be internationally competitive in what we do.

Our business strategy is not based on a judgment of the science that underpins native forest management or the long and proud history that we have had within the Tasmanian industry, but a judgment of what is needed to secure Gunns' survival and its future in response to this fundamental shift in the market for forestry products.

Jobs and business opportunities are currently disappearing at an alarming rate. Customers are demanding certified timber sources, and debt and equity markets are turning their backs on native forest-based industries. This is not something we can change, so we must look hard at our business and move with the markets to survive and, in time, thrive.

Out of this adversity, I believe Gunns and the Tasmanian forestry industry will be much stronger and more resilient to fluctuations in commodity prices.

I do understand that when Gunns sneezes, the forestry industry catches a cold. I am hearing of the pain that is being felt as a consequence of some of Gunns' more difficult decisions to support its move to a new industry basis. You will have seen that jobs have had to go and mill shutdowns have been announced at one of the most difficult times of year. This is the hard part of the business re-focusing and debt reduction we have had to do in the short-term to put Gunns on a stronger footing to meet the market challenge, and I appreciate it is hurting some of Gunns' employees and contractors and their employees, in turn.

Our business strategy also relies heavily on the integrity of the claim we make that the pulp mill will be world class. We have done a lot of work to stake this claim, and another reason for this letter is to ask if you would make yourself available for a briefing by Gunns on the status of the project.

There are significant improvements to the pulp mill project design since it was first conceived, that substantiate our claim, and that you should know about and have the chance to question and understand.

Underpinning Gunns' move to a new plantation-based, value-adding business is what we have called gaining our social-licence-to-operate. "Cuddly" it might seem, but it is our response to the other harsh (and reasonable) reality that Gunns can no longer operate as though it need only satisfy commercial interests. We are a company operating within a social and economic context, and we will not be able to deliver long-term shareholder value unless we understand this context and operate successfully within it.

But open engagement with our supporters and critics is far more than a risk management strategy. We see that there are organisations and individuals, like yours, who have real value to add in helping to make the pulp mill project a better project for Tasmania and our local communities.

I have a clear view that the future lies in working together to achieve a revitalised forestry sector and a pulp mill project that gives back more than it takes away. That is the discussion that needs to happen now.

The Tasmanian forestry industry is too important to too many people for us all not to rise to this challenge.

I hope you will consider seriously the offer to brief you on the detail of Gunns' vision for the future, the detail of our world's best pulp mill claim followed by a meaningful and constructive group discussion.

Yours sincerely



Greg L'Estrange
Managing Director