

(41)

**Records - COMMERCIAL IN CONFIDENCE - Gunns correspondence**

wf-917-e

Hou/1049

(copy on wf-918)

**From:** Michael Wood

**To:** alan.morgan@justice.tas.gov.au

**Date:** 30 05 11 5:09 PM

**Subject:** COMMERCIAL IN CONFIDENCE - Gunns correspondence

**CC:** Drielsma, Hans; Gordon, Bob; Records; Stringer, Darrel; Wynter, Michael

**Attachments:** GUNNS 20101025 to BEH re 2009-10 take or pay claim.pdf; GUNNS 20101103 from BEH re 2009-10 take or pay claim.pdf; GUNNS 20101119 to BEH re 2009-10 take or pay claim.pdf; GUNNS 20101201 from G L'Estrange re deferred termination date.pdf; GUNNS 20110104 to G L'Estrange re unpaid amounts.pdf; GUNNS 20110119 to G L'Estrange re meeting outcomes.pdf; GUNNS 20110127 from GL'E re take or pay etc.pdf; GUNNS 20110222 from G L'E re dispute notice.pdf; GUNNS 20110209 to GL'E re 120 day stay on termination rights.pdf; GUNNS 20110209 to GL'E re dispute notice.pdf; GUNNS 20110209 to GL'E re various.pdf; GUNNS 20110310 from G Stevenson re veneer entitlement.pdf; GUNNS 20110310 to GL'E re various.pdf; GUNNS 20110301 2011-12 Annual Supply notice.pdf; GUNNS 20110302 to BEH re Tamar shutdown.pdf; GUNNS 20110322 to GL'E re various.pdf; GUNNS 20110315 from GL'E re various.pdf; GUNNS 20110322 to BEH re take or pay.pdf; GUNNS 20110418 from C Newman to A Kloeden.pdf; GUNNS 20110401 from BEH re Triabunna eight week closure.pdf; GUNNS 20110406 to BEH re Triabunna eight week closure.pdf; GUNNS 20110418 from BEH re take or pay.pdf; GUNNS 20110418 from BEH re variation to Annual Supply.pdf; GUNNS 20110516 from BEH re China sale dispute.pdf; GUNNS 20110516 from BEH re take or pay dispute.pdf; GUNNS 20110504 attachment to letter to C Newman (7 May 2010).pdf; GUNNS 20110504 attachment to letter to C Newman (12 May 2010).pdf; GUNNS 20110504 to C Newman re termination of contracts.docx

Alan -

The attached copies of recent correspondence between Forestry Tasmania and Gunns Limited are forwarded to you herewith in accordance with your request this afternoon, to assist you in the preparation of legal

le to the State government on the matters to which the correspondence refers.

Records -

Please file copies of this email on WF917PW and WF918EU, along with a list of the attachments. Thank you.

- Michael

Michael Wood  
Assistant General Manager, Strategic Business  
Forestry Tasmania  
GPO Box 207  
HOBART TAS 7001 AUSTRALIA  
phone 61 3 6235 8170  
fax 61 3 6235 8156  
mobile 0419 120 231  
email michael.wood@forestrytas.com.au

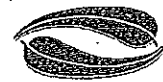
Phone: (02338171 (Marius Neser)

Your Ref:

Our File:

WF-917-PW

FILE



Forestry Tasmania

25 October 2010

Mr Bryan Hayes  
Gunns Limited  
PO Box 572  
LAUNCESTON TAS 7250

Dear Bryan,

re: Contract of Sale 917 - take or pay (2009/10)

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 01 July 2009 to 30 June 2010 was the base quantity (Clause 4.1(a)) of 1,500,000 gmt plus a rollover of 150,000 gmt as requested by Gunns under Clause 4.4 of the Contract. This totalled 1,650,000 green metric tonnes.

The past financial year figures have now been reconciled with the figures Gunns supplied to Forestry Tasmania.

Sales data for 2009/10 show that Gunns fell short of the 85 per cent target for CoS 917, by 542,799.89 tonnes, as summarised below.

Quantity to which Gunns was entitled	1,650,000.00 green metric tonnes
85% "take or pay" threshold	1,402,500.00 green metric tonnes
Actual quantity taken by Gunns	859,744.89 green metric tonnes
Shortfall	542,755.11 green metric tonnes

Using the formula in Clause 4.5(a), and the average stumpage rate paid by Gunns in the Planning Year of \$ [REDACTED] per green metric tonne, Forestry Tasmania is entitled to recover [REDACTED] (excl GST) from Gunns.



**COMMERCIAL IN CONFIDENCE**

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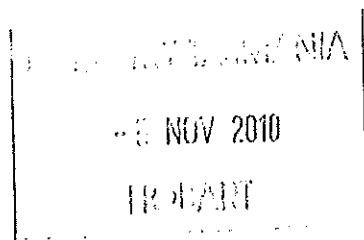
Forestry Tasmania has therefore raised an invoice for the stated amount, which will be due for payment under the contractual commercial arrangements specified in Schedule 13. Interest will be charged on overdue amounts, as specified in Clause 3.5 of Schedule 13.

You are welcome to get more detail regarding the quantities and derived amounts above, upon request to [REDACTED]


Yours sincerely,



Marius Naser  
Manager, Forest products sales



(copy out) WF- 917-  
WF- 918-  
H010/2676

Marius ~~Naser~~   
Forestry Tasmania  
79 Melville Street  
HOBART TAS 7000  
November 3<sup>rd</sup>, 2010.

Dear Marius,

*Contract of Sale 917 – take or pay (2009/10)*

I refer to your letter of 25/10/10.

Gunns Limited (Gunns) disagrees with your assertion of an entitlement to invoke clause 4.5(a) of CoS 917.

1. During calendar 2009 there was a dramatic downturn in the Asian woodchip market in the wake of the global financial crisis and there were permanent pulp mill capacity reductions implemented in the Japanese industry. The reduced market demand has continued into 2010. This was, and is, a Supervening Event under the Contract of Sale over which Gunns had any control;
2. Gunns has kept FTas fully informed of the loss of sales volumes by reason of the position of our Asian customers and our efforts to mitigate the effects of the downturn on FTas. This has involved among other things:
  - 2.1 substantially reducing Freehold and Private Property native forest volumes and replacing with FTas wood;
  - 2.2 seeking alternative new markets in China at loss making or breakeven pricing in order to sell FTas pulpwood;
  - 2.3 harvesting Freehold plantations to blend with FTas native forest pulpwood to make it saleable despite that destroying value;
3. Pursuant to Recital 6 and Clause 12 of Schedule 13, you were made aware of the requirements of a number of our Japanese end customers (whom we are reliant on for sales of our products and which you are fully aware of) that our products be FSC certified. During 2009 the Japanese industry became very selective on which coupes were acceptable for pulpwood supply due to FTas's inability to provide FSC certification.

Old growth and HCVF were deemed unacceptable in the Japanese market and FTas refused to recognise this as a marketing issue requiring a resolution;

4. Also the low quality of native forest pulpwood supplied from State Forest by FTas has adversely impacted upon our Japanese customers and caused them to reduce volumes from Tasmania. Coupled with a strong \$A, this has made Tasmanian native forest woodchip grades the least preferred raw material to Japanese pulp and paper manufacturers.

5. Pursuant to Recital 6 we have attempted to inform and engage with you in good faith on numerous occasions so that collectively we can find a solution to the problems facing all of us in the industry;

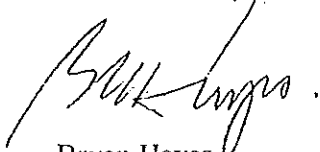
6. It is Gunns view that despite us making you aware of the above circumstances and FTas being able to influence the outcomes resulting from the happening of significant change in markets and circumstances constituting supervening events that you now seek to apply the take or pay provisions of the contract in isolation in seeking to enforce them.

7. You will recall that there have been a number of meetings at various levels between the parties in relation to the matters set out above. At these meetings Gunns personnel raised these issues of concern, which were at the time foreseeable as impacting on our ability to comply with Clause 4.5(a).

8. In light of the matters set out above it is the position of Gunns that Clause 4.5(a) does not apply by reason that the failure to obtain the threshold amount was due to action or inaction FTas such that clause 4.5(b)(ii) applies.

9. Gunns gives notice that it requests that FTas confer with it in good faith to discuss the above.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'Bryan Hayes', is written over the typed name.

Bryan Hayes,  
General Manager-Forest Products  
Gunns Limited

62338171 (Marius Nesor)

FILE 917 PW



Forestry Tasmania

Phone: -

Your Ref: WF-917-PW

Our File:

19 November 2010

Mr Bryan Hayes  
Gunns Limited  
PO Box 572  
LAUNCESTON TAS 7250

Dear Bryan,

re: Contract of Sale 917 - take or pay (2009/10)

We have considered your letter of 03 November 2010, and would like to state the following.

We do not think it will be the useful to assert that reduced market demand is a Supervening Event when the clause is expressly not applicable to financial obligations, nor to claim the benefit of Clause 4.5(b)(ii) by implying that Forestry Tasmania has market influence that it could never hope to have, even if such influence fell within the clause.

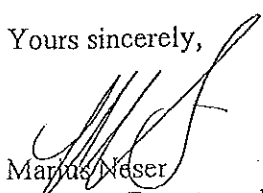
We are not sure what your final paragraph is based on, but as you have earlier referred to Recital 6 we would like to point out that Recital 6 is directed at discussions about changes to the Contract and does not apply to the contractual take-or-pay situation which has already arisen.

This is not to say we are not willing to meet with you pursuant to Recital 6 if you request that, but it is not an avenue available to deal with Gunns' outstanding contractual obligation.

As so many of the issues raised in your letter are outside the realm of the Contract we do not think it will be productive to deal with them individually. For the record, please be advised that this does not mean that we agree with them.

Assuming that your paragraph 9 can be taken as general invitation to discuss payment, we are happy to meet with you.

Yours sincerely,

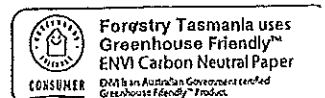
  
Marius Nesor  
Manager, Forest products sales



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1 December 2010

Mr Bob Gordon  
Managing Director  
Forestry Tasmania  
79 Melville Street  
HOBART Tas 7000

Dear Bob

**Re - Contract of Sale No.917 and No. 918 ("Contracts")**

I refer to recent discussions between Mr Frame of Gunns Limited and Dr Drielsma of Forestry Tasmania.

We confirm, in the interest of promoting mutual goodwill and further advancement of the Tasmanian Forests Statement of Principles to Lead to an Agreement, the parties agree not to exercise or purport to exercise their respective rights under clause 3.3(b) of the Contracts identified above for a period of 120 days from the date of this letter, whilst otherwise reserving all their rights under the Contracts.

Please confirm your agreement by signing a copy of this letter.

Yours sincerely

A handwritten signature in black ink, appearing to be "GL", followed by a long, horizontal, slightly wavy line.

**Greg L'Estrange**  
**Managing Director**

Forestry Tasmania confirm and accept the agreement referred to herein:

---

**Bob Gordon**  
**Managing Director**

Dated: \_\_\_\_/\_\_\_\_/2010





22<sup>nd</sup>. February, 2011.

Mr. Bob Gordon,  
Managing Director,  
Forestry Tasmania,  
GPO Box 207,  
Hobart, TAS., 7001.

Dear Bob,

Re: Notice of Dispute – Contract of Sale 917

In response to your letter of 9<sup>th</sup>. February 2011 and pursuant to Clause 13.4 of Schedule 13 of Contract of Sale 917, I hereby advise that Gunns nominates Mr. Bryan Hayes as our representative to progress discussions and negotiations in relation to this matter.

An initial meeting with your Mr. Farrow has been scheduled for 2:00pm Friday 25<sup>th</sup>. February at your office in Hobart.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Greg l'Estrange", with a long horizontal flourish extending to the right.

Greg l'Estrange,  
Managing Director  
Gunns Limited

Phone: 6235 8180

Your Ref:

Our File:



Forestry Tasmania

9 February 2011

Mr Greg L'Estrange  
Managing Director  
Gunns Limited  
GPO Box 572  
LAUNCESTON TAS 7250

Dear Greg

**Re: Contract of Sale No. 917 and No. 918 ("Contracts")**

I refer to your letter of 1 December 2010, seeking our agreement not to exercise our rights under clause 3.3 1(b) of the Contracts above for a period of 120 days.

We do not agree to this request at this time and continue to reserve all rights under the Contracts.

It is possible that our position could alter subject to the outcome of discussions between us on other matters.

Yours sincerely

Bob Gordon  
Managing Director



Phone: 6235 8180  
Your Ref: -  
Our File: WF-917-PW



9 February 2011

Mr Greg L'Estrange  
Managing Director  
Gunns Limited  
GPO Box 572  
LAUNCESTON TAS 7250

Dear Greg

**Re: Notice of Dispute - Contract of Sale 917**

Pursuant to Clause 13.3 of Schedule 13 of Contract of Sale 917 dated 20 December 2007 (the "Contract"), I hereby serve a Notice of Dispute.

The dispute concerns the obligations of Gunns Limited pursuant to Clause 4.5(a) of the Contract with respect to the Planning Year 2009/10.

The relevant amount and the matters constituting the dispute are as set out in the following correspondences between representatives of our businesses:

- (i) letter from Marius Nesper to Bryan Hayes dated 25 October 2010;
- (ii) letter from Bryan Hayes to Marius Nesper dated 3 November 2010; and
- (iii) letter from Marius Nesper to Bryan Hayes dated 19 November 2010.

I await your advice pursuant to Clause 13.4 of Schedule 13 of the Contract. In that regard, I nominate Mike Farrow as Forestry Tasmania's representative.

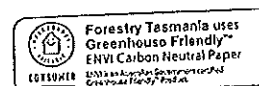
Yours sincerely

A handwritten signature of Bob Gordon.

Bob Gordon  
Managing Director



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10<sup>th</sup> March, 2011

Craig Harrington  
Account Manager  
Forestry Tasmania  
2-4 East Cam Road  
Camdale, Tas, 7320

Dear Craig,


Gunns Veneers is situated at Somerset Tasmania, employs 38 full time staff and is a division of Gunns Timber Products. Gunns Veneers prides itself on the social, environmental and economic benefits of its operation, locally and further afield.

The operation, established in 1943, utilises high end quality logs, eucalyptus, specialty species and pine, to produce veneer for the domestic and export markets.


Gunns Ltd has received genuine interest in the purchase of the Veneer business from parties with considerable experience in the timber veneer industry and with an ongoing relationship with the company. These discussions are, as yet, in the early stages but we foresee that negotiations will progress quickly.

Prior to the current contract No. 918 Gunns Veneers had an autonomous hardwood allocation, that has now been incorporated into the overall Gunns Ltd hardwood allocation. As a distinct entity/business, we envision the incumbent proprietor would require a secure and unencumbered allocation of veneer quality logs, clearly defined and separated from Gunns Ltd.

We are therefore requesting, from Forestry Tasmania, segregation of 7000 m3 of Eucalypt veneer logs for the Somerset veneer business in its own right, with terms similar to those currently in existence.

 Auspine Plantation Pine

 Gunns Sustainably Managed Tasmanian Oak

 Gunns Sustainably Managed Jarrah



Promoting Sustainable Forest Management

Sustainably Managed Tasmanian Oak certified to AFS/PEFC systems



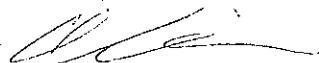
Quality  
ISO 9001  
GLOBAL

Auspine Pinus Radiata

We feel that this long term sustainable business employing 38 direct employees is one which provides significant benefits to the local North West community as well as providing veneer to the world market to support the hardwood sawmilling industry statewide. Without this option for eucalypt veneer many customers may look to other options for sawn timber as they require both timber and veneer to complete their architectural projects and furniture ranges.

We would also very much appreciate your earliest possible response, in principle, in order to progress discussions with you and potential purchasers of the business. As such, please do not hesitate to contact myself with any enquiries.

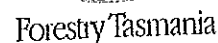
Yours faithfully

Per 

Graeme Stevenson  
GENERAL MANAGER  
SOUTH EAST HARDWOODS

Our File:

WF-917-PW and WF-918-PW



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

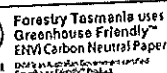
Re: Status report - various matters

I note your preference to deal with these (and other) matters without resorting to the processes arising under a strict legal interpretation of each party's rights under the relevant contracts. Like you, I prefer that we continue to deal with these matters on a less formal basis (as has always been the case in the past), for as long as this approach offers a reasonable prospect of resolving them. However, I have had to put in place the instruments that will enable Forestry Tasmania to deal with those matters strictly in accordance with the contracts, if it becomes necessary to do so.

On the other hand, I remain concerned that Gunns is not applying sufficient thought to the relationship between its requirements for pulpwood supply (under the current China sale agreement, in particular) and its demand for, and offtake of, sawlogs. As documented in my letter of 9 March, Gunns' latest formal advice of its requirements for eucalypt sawlog, for the period January to April 2011, does not represent sufficient demand to acquit its relevant obligations under the China sale agreement. This matter requires urgent attention from Gunns. At the very least, Forestry Tasmania expects that regular delivery requests for pulpwood and for sawlog, received from Gunns, reflect consistency between Gunns' relevant internal business units.



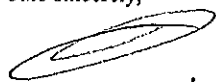
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I would also like to take this opportunity to put on record the important issue of forest roads for which Gunns is currently responsible under Contracts 917 and 918. I seek your earliest advice of Gunns' intentions with respect to such roads, in the light of its announced withdrawal from native forest harvesting. This is to enable each party to address any relevant obligations under Schedule 12 of the Contracts, in a timely manner.

I am available to meet with you, to discuss any of these matters that requires further discussion between us. Alternatively (and preferably), I am happy for Mike Farrow and Bryan Hayes to continue their work to address each of them.

Yours sincerely,



R. L. Gordon  
(Bob Gordon)  
MANAGING DIRECTOR

cc: Bryan Hayes

COMMERCIAL IN CONFIDENCE



15 March 2011

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

Dear Bob

I refer to your letter of 10 March. As I have advised previously, it is our intent to pay due accounts on time. We are going through a difficult period of adjustment caused by the collapse of our traditional markets in Japan and a shift to the low margin business in China.

The various matters of significance which remain unresolved between us will require careful consideration and I am encouraged by your willingness to apply fairness and reasonableness in seeking resolution. From our perspective, we are concerned that the extent and impact of the international market conditions we are facing are not being fully recognised by Forestry Tasmania. Gunns has made considerable efforts to maintain volume wherever possible and kept you informed of the difficulties we have faced and continue to endure. A less rigid application of technical contract terms and conditions would be helpful as we seek to adjust to changed circumstances and optimise what sales volumes are available.

Gunns is considering other significant issues which are related to, and to some extent interwoven with, these current issues. It is not appropriate to raise those issues at this stage of the current process whereby this outcome will determine how we progress those issues.

Regarding your summary of outstanding issues I provide my understanding as follows:



### **1. Contract of Sale 917 - 2009/10 Take or Pay**

Gunns has questioned a portion of the claimed volume shortfall as being due to the non-performance of Forestry Tasmania mill door deliveries against the quotas allocated for the period. Also, we are compiling a summary of instances when coupes on State Forest were not available and which caused Gunns contractors to be stood down or relocated to private property for a period until FPP's were certified or access to coupes provided.

We will provide details to Mike Farrow as soon as the work is complete and continue discussion to resolve the extent of any mitigation of the claimed Take or Pay volume.

It is sensible in these circumstances to agree to the variation in the contract timetable for resolution whilst retaining all of our rights under the contract.

### **2. 2010/11 Take or Pay**

Gunns has advised Forestry Tasmania of the impact on sales of adverse market circumstances on a number of occasions over the last year. We have provided formal notification of mill closures and our staff have been in constant contact with your officers to adjust wood supply to the changing circumstances.

A formal Notice of Variation to the volumes for 2010/11 was provided to Mike Farrow on 8 March, following on from our advice in December 2010 of imminent mill closures and massive job losses for Gunns employees and contractors in 2011 due to lack of export sales.

In our view it is neither fair nor reasonable for Forestry Tasmania to propose another Take or Pay claim for 2010/11 based on technical contract terms when external market factors beyond Gunns control have caused the loss of markets.

### **3. China Sale Agreement - Amount Withheld by Gunns Limited**

Gunns will cooperate with the review of the initial China sales agreement for 800,000gmt at the end of April. Deliveries to end February were 458,837gmt leaving a balance of 341,163gmt to achieve supply of the volume by end April. We believe there will be a significant shortfall to be reconciled against the actual sales volume, which would have been supplied with fully priced pulpwood. This financial loss to Gunns must be part of the review and reconciliation process.

We propose to commence negotiations of the new China supply agreement as soon as practicable as we have shipping scheduled for calendar 2011 and it is not possible to wait until the first agreement is completed before commencing on-going supply negotiations. I understand Bryan Hayes has raised this with Mike Farrow and that options are being explored.

#### 4. Native forest seed stock

We have commenced a review of the seed stock and will provide our response as soon as our internal work is completed.

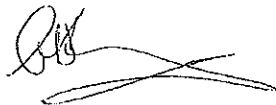
#### 5. Impact of mill closures

We will cooperate to ameliorate the impact of mill closures where it is practicable and reasonable to do so. However it is our view that the magnitude of the changes confronting us are of a scale and nature that was not contemplated by the existing contracts and therefore we should both be willing to be flexible in finding solutions and that may require agreement to simply waive express contractual terms from time to time.

It is in this context that we contend your consideration of invoking Take or Pay mechanisms for 2010-11 is not reasonable.

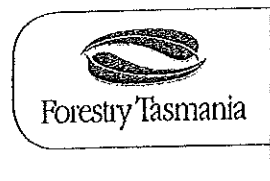
I agree we should allow our nominated representatives to continue discussions until such time as relevant detail is compiled to enable settlement of the outstanding matters.

Yours sincerely



**Greg L'Estrange**  
*Managing Director*

Phone: 6235 8158  
Your Ref: .  
Our File: WF-917-PW



22 March 2011

Mr Bryan Hayes  
Gunns Limited  
PO Box 572  
LAUNCESTON TAS 7250

Dear Bryan

Re: Contract of Sale 917 - take or pay (2009/10)

Thank you for meeting with me on 8 March 2011 and 16 March 2011 to discuss take or pay and other matters. Attached for your information are notes taken by our David Smyth and myself at the meetings. Let me know if you believe the notes require any amendment.

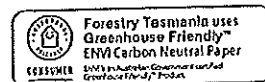
My purpose in writing this letter is to seek clarification and detail of Gunns' position on this matter. This will assist both parties to help fully explore the opportunity to reach an agreement. The effort seems justified before committing to the likely cost (in dollars and staff time) and uncertainty of referring the matter to a third party process. FT does this whilst reserving all its rights under Contract 917, and accepts that Gunns will respond under a similar proviso.

My understanding is that Gunns is arguing that it should not pay the amount of the take or pay invoice raised by FT under Clause 4.5 of Contract 917, because:

1. actions or inactions by FT (reference Clause 4.5(b)(ii)) contributed in part or in whole to Gunns' inability to purchase the threshold quantity; and
2. a change in market conditions prevented Gunns from buying the quantity of pulpwood required to meet the take or pay threshold (the "threshold quantity").

With respect to the first point, I note that you have undertaken to provide FT with specific actions or inactions by FT which contributed to Gunns' inability to purchase the threshold quantity. I look forward to the receipt of that information, so that FT can review the actions or inactions on a case by case basis.

I also note your advice that, whilst Gunns sought 1.65Mt, the Annual Supply was set at 1.474Mt. However, I point out that the Annual Supply quantity was more than the threshold quantity of 1.4025 M t.



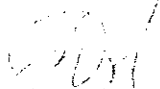
With respect to the second point, our impression is that you do not seek to rely on any provision of the contract, but that you assert that FT's reliance on the contract is unreasonable because of market changes.

May I suggest that our next meeting is likely to make better progress:

- (i) if FT first has an opportunity to review the information that Gunns is to provide with respect to any claims of actions or inactions by FT which contributed to Gunns' failure to purchase the threshold quantity; and
- (ii) if you would confirm our understanding of the preceding paragraph about FT's reliance on the contract, so that we may identify (and, hopefully, clarify) any differences of opinion about what is reasonable.

I look forward to hearing from you, and I remain ready to meet with you to progress this matter at a mutually convenient time.

Yours sincerely



Mike Farrow  
General Manager, Operations & Sales

Meeting Gunns/FTas – Lindsay St. 8/3/11 10.30 am

Present: Bryan Hayes, Mike Farrow, David Smyth

Agenda:

1. Notice of Dispute – Take or Pay 2009/10
2. Notice of Variation – COS 917/918 2010/2011
3. China Sale Agreement post April 2011

1. Notice of Dispute – Take or Pay 2009/10

- Bryan queried FT's initial response to only supply 1.476m against Gunns' requested 1.65m. Mike agreed this was FT's first counter offer and was replaced subsequently with 1.68 m. Mike to confirm file details for Bryan.
- Gunns' given annual FT mill door quota = 462,275 only 376,412 delivered with an 85,863 shortfall. Bryan to complete an analysis on the ratios between 917/918 volumes.
- Bryan contended Gunns delivered annual volumes were short by 207,027 and related to scheduled coupes being unavailable, (15 occasions) to Gunns contractors in a timely fashion. Bryan to supply a coupe analysis/when/why to support this volume shortfall. (Also 917/918 implications?)
- Bryan suggested FT experienced planning issues with 18% of Gunns' pulpwood supplied outside the 3 yr plan. Mike to respond once details received from Gunns.
- Bryan considers Gunns' inability to meet Take or Pay criteria is market related, outside Gunns' control and is a continuing problem (supervening event).
- Bryan reiterated that FT's stance on Take or Pay is perceived as unreasonable and Gunns considering the term "supervening event".
- Mike and Bryan agreed that neither party will initially go to arbitration following the March 10<sup>th</sup> deadline.

2. Notice of Variation Cos 917/918 2010/11

- Bryan supplied Mike with a revised Annual Supply Notice 2010/11. Bryan to re-do spreadsheet table for volumes from March – June 2011.
- Bryan unable to confirm Gunns ability to take additional China Sale sawlog volumes. Bryan to respond on this additional sawlog intake this week.
- Gunns will maximise intake of China Sale pulpwood and requested to be allocated against 917 Cos.

3. China Sale agreement post April 2011

- Bryan – 800,000/tonnes/annum agreement to Dec 31<sup>st</sup> 2012.
- Gunns wish to negotiate a supply agreement (China Sale) to facilitate a third party sale agreement for Triabunna by June 30<sup>th</sup>?
- Sourced from 917 coupes.
- Commence new sale China Sale agreement negotiations end of March 2011.
- Quality "E49" native forest only
- Suggested delivered price structure – 2011 \$55/gmt, 2012 \$57/gmt. Bryan to respond formally on proposed rates.
- Bryan indicated they do not wish to discuss any Gunns' asset sales with FT.

Dgs 9/3/11

### Synopsis of Meeting Gunns/FT 16 March 2011

#### Take or pay Dispute

Present: Bryan Hayes, Darren Davies, Mike Farrow

- Bryan indicated that Gunns is working on the details of the alleged undersupply by FT and will forward the details shortly. According to Bryan, Gunns anticipate claiming 25,771 tonnes due to under-supply by FT ie they have compared quota notices against deliveries to reach this tonnage.
- Gunns foreshadowed a further claim of about 100kt due to FT planning issues which forced Gunns to move contractors to private property. Details will be forwarded to FT shortly.
- Mike requested Gunns legal position on the take or pay, which was declined.
- Gunns are now aware that there is a further take or pay issue for 10/11. Bryan asked that FT consider wavering this on the basis the markets have changed significantly.
- Sawlog stocks are building in the South as a result of the China Sale. This issue was flagged and Gunns have been requested to take the additional sawlogs as per the China Sale Agreement. Bryan will follow this up. A discussion was had around the possible closure of the hardwood sawmills.
- Both parties agreed to continue to negotiate to try and resolve the issues but acknowledged that arbitration was the next step if there was no way forward.

18 April 2011



WF-917  
WF-918

Hou 725

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 \$8.98 million 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



Chris Newman  
Chairman



April 1 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 discussions yesterday and by telephone today I wish to confirm that Gunns Triabunna Mill will be closed for an 8 week period commencing Monday 11<sup>th</sup>. April and ending Friday 3<sup>rd</sup>. 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 1<sup>st</sup>. 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



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1<sup>st</sup> March 2011

Mr Mike Farrow,  
General Manager Marketing and Sales  
Forestry Tasmania  
79 Melville St  
GPO Box 207  
HOBART TAS 7001

Dear Mike,

**Re:- Contracts of Sale 917 & 918 - Annual Supply Quantity 2011 - 2012**

Please find attached Gunns Forest Products proposal for the Annual Supply for the planning year 2011/2012. Notice has been given in accordance with the requirement in Schedule 11 (reference clause 7) of the Contract of Sale 917 and Contract of Sale 918. The Annual Supply Notice has been split into two notices for each half of the financial year due to changes in customer requirements post Dec 2011.

The total planned log quantity for 2011/2012 is 866,000 green metric tonnes of CoS 917 with no volume allocated under CoS 918.

The total quantity incorporates the following sales assumptions :-

**Triabunna Sales Assumptions (native forest only) - 2011/2012**

<u>Country</u>	<u>Site</u>	<u>1H</u>	<u>2H</u>	<u>Total</u>
China	Triabunna	400,000	400,000	800,000
Japan	Triabunna	80,000	0	80,000
Total		480,000	400,000	880,000

**Massy Greene Assumptions (native forest only) - 2011/2012**

<u>Country</u>	<u>Site</u>	<u>1H</u>	<u>2H</u>	<u>Total</u>
Japan	Massy Greene	42,000 *	0	42,000
Total		42,000	0	42,000

\*Native forest component only in EP blend. Sales of blended product yet to be confirmed by Japanese buyers.

Gunns recognises that CoS 917 does not allow the delivery of Schedule 5 coupes. Gunns is prepared to explore an option where pulpwood may be accepted from 918 coupes as part of CoS 918 as long as Forestry Tasmania acknowledges that this volume is volume under the CoS 917, although any 918 volume must be expressly excluded from volumes planned for Japanese sales.

Attachments 1 a&b (H1) and 2 a&b (H2) highlights the proposed points of origin for the 2011/2012 planned supply from Forestry Tasmania to a Point of Sale for both Gunns controlled and Forestry Tasmania controlled operations. Attachment 3 highlights the log requirement during the May-June 2011 period into Triabunna post the closure of the Tamar facility at the end of March 2011.

Due to the ongoing difficult market conditions for native forest and plantation export woodchips, Gunns would like to meet with you to discuss the reduced sales and log requirements for 2011/2012 and appropriate amendments to the CoS917.

Please do not hesitate in contacting either Mr Darren Davis - Manager GFP Triabunna or the undersigned at our corporate office if you have any queries in relation to the information provided.

Yours sincerely,



**Bryan Hayes,**  
**General Manager - Gunns Forest Products**

Enclosed: Attachment 1 a & b (1<sup>st</sup> half volume summaries)  
Attachment 2 a & b (2<sup>nd</sup> half volume summaries)  
Attachment 3 (May/June 2011 volume summary)

ATTACHMENT 1a.

"Commercially Confidential"

updated 1st March 2011

# ANNUAL SUPPLY NOTICE

FOR PLANNING YEAR - July 2011/December 2011 (H1 only 2011/2012)  
(weighbridge tonnes)

## Contract of Sale 917

	POINT OF SALE		Total
	Massy Greene	Triabunna	
Inner Stumpage	-	31	31
Outer Stumpage	8	171	179
Total Stumpage	8	202	210
North West Mill Door	34	-	34
Southern Mill Door	-	251	251
Total Mill Door	34	251	285
TOTAL	42	453	495

## Contract of Sale 918

	POINT OF SALE		Total
	Hampshire	Triabunna	
Inner Stumpage	-	-	-
Outer Stumpage	-	-	-
Total Stumpage	-	-	-
North West Mill Door	-	-	-
Southern Mill Door	-	-	-
Total Mill Door	-	-	-
TOTAL	-	-	-

## FUELWOOD - Stumpage zone (clause 4.2 Cos 918)

	POINT OF SALE		Total
	Hampshire	Triabunna	
Total Pulpwood	-	31	31
Inner Stumpage	8	171	179
Outer Stumpage	8	202	210
Total Stumpage	16	373	389
North West Mill Door	34	-	34
Southern Mill Door	-	251	251
Total Mill Door	34	251	285
TOTAL	50	624	674

## ATTACHMENT 1b - July 2011/December 2011 (H1 only 2011/2012)

"Commercially Confidential"

**Contracts of Sale 917 and 918 Annual Supply Notice - Sourcing**

updated 1st March 2011

	Origin	COS 917	COS 917 China sale	Total COS 917	COS 918 China sale	COS Total
Triabunna	Bass (South - Mt Foster only)	5	26	31	0	31
Burnie	Mersey	0	0	0	0	0
	Inner Stumpage Zone	5	26	31	0	31
Triabunna	Derwent (Central)	17	86	103		103
Triabunna	Derwent (East)	11	57	68		68
Burnie	Murchison (East)	8	0	8	0	8
Triabunna	Plantations	0	0	0	0	0
	Outer Stumpage Zone	36	143	179	0	179
Burnie	Murchison West	34	0	34	0	34
	North West Mill Door Zone	34	0	34	0	34
Triabunna	Derwent (West)	17	84	101	0	101
Triabunna	Huon	25	125	150		150
Triabunna	Merch Yard Chips	0	0	0	0	0
Triabunna	Plantations	0	0	0	0	0
	Southern Mill Door	42	209	251	0	251
	Totals	117	378	495	0	495

Definition - COS 917 = can include 917 coupes & must exclude schedule 5 coupes and exclude HCVF coupes.

Definition - COS 917 China Sale: = can include 917 coupes and HCVF coupes not on moratorium list.  
= can include 918 coupes if counted as 917 volume.

Note:- Bass South to be Mt Foster only.

Note:- Assumes 42kt of 917 in H1 to be blended into the EP blends in the North West.

Note:- Assumes 80kt of 917 of Japan sales in 2nd half of 2011 calendar year from Triabunna 16.7% of sales.



ATTACHMENT 2a.

"Commercially Confidential"

updated 1st March 2011

**ANNUAL SUPPLY NOTICE**  
FOR PLANNING YEAR - January 2012/June 2012 (H2 only - 2011/2012)  
(weighbridge tonnes)

**Contract of Sale 917**

Inner Stumpage  
Outer Stumpage  
Total Stumpage

North West Mill Door  
Southern Mill Door  
Total Mill Door

TOTAL

POINT OF SALE		
Massy Greene	Trlabunna	Total
-	26	26
-	143	143
-	169	169
-	209	209
-	209	209
-	378	378

**Contract of Sale 918**

Inner Stumpage  
Outer Stumpage  
Total Stumpage

North West Mill Door  
Southern Mill Door  
Total Mill Door

TOTAL

POINT OF SALE		
Massy Greene	Trlabunna	Total
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-

**FUELWOOD - Stumpage zone**  
(clause 4.2 Cos 918)

**Total**  
Pulpwood

Inner Stumpage  
Outer Stumpage  
Total Stumpage

North West Mill Door  
Southern Mill Door  
Total Mill Door

TOTAL

POINT OF SALE		
Massy Greene	Trlabunna	Total
-	26	26
-	143	143
-	169	169
-	209	209
-	209	209
-	378	378

**"Commercially Confidential"**

updated 1st March 2011

	Origin	COS 917	COS 917 China sale	Total COS 917	COS 918 China sale	COS Total
Trlabunna	Bass (South - Mt Foster only)	0	26	26	0	26
	Inner Stumpage Zone	0	26	26	0	
Trlabunna	Derwent (Central)	0	86	86		86
Trlabunna	Derwent (East)	0	57	57		57
Trlabunna	Plantations	0	0	0	0	0
	Outer Stumpage Zone	0	143	143	0	143
Trlabunna	Derwent (West)	0	84	84	0	84
Trlabunna	Huon	0	125	125		125
Trlabunna	Merch Yard Chlps	0	0	0	0	0
Trlabunna	Plantations	0	0	0	0	0
	Southern Mill Door	0	209	209	0	209
	Totals	0	378	378	0	378

Definition • COS 917 China Sale: = can include 917 coupes and HCVF coupes not on moratorium list.  
= can include 918 coupes if counted as 917 volume.

Note:- Assumes no Japanese sales from Trilabunna in the 2nd half of 2011/2012.

## ATTACHMENT 3 - May 2011/June 2011 (2 months of 2010/2011)

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Contracts of Sale 917 and 918 Annual Supply Notice - Sourcing  
updated 1st March 2011

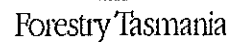
		COS 917		COS 918	
		COS 917	China sale	China sale	COS Total
Tamar	Origin	0	0	0	0
	Bass (North)	0	0	0	0
	Bass (South)	0	0	0	10
	Bass (South - Mt Foster only)	2	9	10	0
	Mersey	0	0	0	0
Tamar	Mersey	0	0	0	0
Burnie	Mersey	0	0	0	0
Tamar	Plantations	0	0	0	10
Inner Stumpage Zone		2	9	10	0
		0	0	0	0
Tamar	Derwent (Central)	6	29	34	34
Triabunna	Derwent (Central)	4	19	23	23
Triabunna	Derwent (East)	3	0	3	3
Burnie	Murchison (East)	0	0	0	0
Triabunna	Plantations	0	0	0	0
Outer Stumpage Zone		12	48	60	60
		11	0	11	0
Burnie	Murchison West	11	0	11	11
North West Mill Door Zone		11	0	11	0
		6	28	34	34
Triabunna	Derwent (West)	8	42	50	50
Triabunna	Huon	0	0	0	0
Triabunna	Merch Yard Chips	0	0	0	0
Triabunna	Plantations	0	0	0	0
Southern Mill Door		14	70	84	84
Totals		39	126	165	165
		24%	76%	100%	0%

Definition - COS 917 = can include 917 coupes & must exclude schedule 5 coupes and exclude HCVF coupes.

Definition - COS 917 China Sale: = can include 917 coupes and HCVF coupes not on moratorium list.  
= can include 918 coupes if counted as 917 volume.

Note:- Bass South to be Mt Foster only.  
Note:- Assumes 14kt of 917 in 2 months to be blended into the EP blends in the North West.

WF-917-PW and WF-918-PW



Mr Bryan Hayes  
Gunn's Limited  
PO Box 572  
LAUNCESTON TAS 7250

re: Deliveries to the Tamar Mill


Thank you for your letter of 8 February 2011.

I have asked that the practical consequences of your advice be managed operationally, at an officer to officer level, and am advised that this is taking place. You have allowed a perilously short time for the necessary adjustments to be made, and I hope that our two businesses can work together to achieve those adjustments in a way that minimises the disruption to other parties. I would like discuss this with you, as a few of the opportunities to maintain the industry that Forestry Tasmania is currently considering may require Gunns' cooperation.

The advice within your letter has implications for Gunns' ability to take delivery of that portion of the 800Kt of pulpwood to be supplied from the Northeast stumpage zone under the China sale agreement (i.e. 200Kt), noting that the relevant quantity taken at Tamar for the period 1 May 2010 to 31 January 2011 is about 156Kt.

Your letter represents a variation to the Annual Supply for 2010/11. Clause 2 of Schedule 11 of Contracts 917 and 918 sets out the manner in which the parties have agreed to deal with such a variation. In choosing to deal with this matter in the manner that you request, being different to that which is set forth in the Contracts, Forestry Tasmania does not waive any of its rights under those Contracts.

Yours sincerely,

  
-for Mike Farrow  
General Manager, Operations and Sales



79 Melville Street Hobart TAS 7000. GPO Box 207 Hobart TAS 7001.  
Phone (03) 6233 8203 International 61 3 6233 8203 Facsimile (03) 6233 8444

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



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.

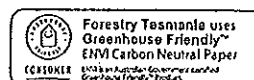
You also request my agreement to the variation, however, as your letter is confirming a decision made by Gunns which will be implemented by Gunns on 11 April 2011, I do not understand what it is you seek my agreement to. Would you please clarify what you mean when you refer to a variation. If you are 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 \$1.74 M 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 \$1.74 M 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

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