

Premier

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23



WITHOUT PREJUDICE

26 AUG 2011

Mr A J Kloeden
Chairman
Forestry Tasmania
GPO Box 207
HOBART TAS 7001

Dear Mr Kloeden

As you are aware, the Tasmanian Forests Intergovernmental Agreement (TFA) was signed on 7 August 2011.

The State has determined under this Agreement and based on Crown legal advice that it is appropriate to make an offer of payment to Forestry Tasmania, in return for particular commitments to enable essential processes that are required to give effect to the TFA's objectives, to be immediately progressed.

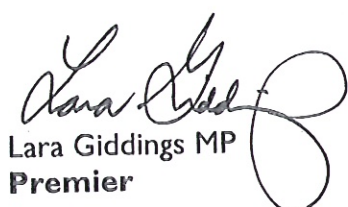
In accordance with Clause 34 of the TFA, the State is offering to pay Forestry Tasmania an amount of \$12.650 million (GST included). In return for this payment, Forestry Tasmania must sign the attached two Deeds of Release and agree to the conditions contained within.

A copy of the Deed of Release between the Crown and Gunns Limited has also been attached for information.

A pre-condition of this offer is that the State will also procure, by agreement with Gunns Limited, the release of Forestry Tasmania from any right or obligation under Contracts 917 and 918 and the China Sale Agreement. Please also note that the offer of payment to Forestry Tasmania is only activated if and when Gunns Limited executes its Deed of Release.

Forestry Tasmania has until close of business on 2 September 2011 to accept this offer. If acceptance is not received by way of signing the two Deeds of Release by that date, the State will pursue other avenues to achieve the TFA objectives.

Yours sincerely


Lara Giddings MP
Premier

Encl



Phone: 03 6235 8170
Your Ref:
Our File: WF-917-PW

(24)

Records
(copy on WF-918)
Forestry Tasmania

24 August 2011

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

Dear Bryan

re: Your letter of 8 August 2011

Forestry Tasmania rejects absolutely any right that Gunns might purport to have to reject all or any part of Invoice No. DI021974 dated 21 July 2011, the basis on which the amount of that invoice was calculated or the content of the letter to you that accompanied the delivery of that invoice to Gunns Limited.

Prompt payment of the total outstanding amount owed by Gunns Limited to Forestry Tasmania under Contracts 917 and 918, being more than \$24 million (including the amount of Invoice No. DI021974) would be appreciated.

In respect of this matter, Forestry Tasmania reserves all of its rights in contract and at law.

Yours sincerely



Mike Farrow
CHIEF OPERATIONS OFFICER

(F)

(25)



August 8th, 2011.

FORESTRY TASMANIA

WK 917 - PW/2

Mr. Mike Farrow,
Chief Operations Officer,
Forestry Tasmania,
GPO Box 207,
Hobart, TAS, 7001.

- 8 AUG 2011
HOBART

Hou 11627

Dear Mike,

Re: Contract of Sale 917 – take or pay (2010/11)

Your letter and invoice dated 21 July 2011 is rejected.

The volume calculation is erroneous as it appears that notices of variation to the offtake volume have not been recognised by you. Gunns asserts that FTas is not entitled to make this take or pay claim as advised in previous correspondence whereby Gunns has described how FTas's actions or inactions have contributed directly to us being unable to purchase the contract volume as varied.

In respect of this matter and FTas's conduct we continue to reserve our rights in contract and at law.

Yours sincerely,

Bryan Hayes
General Manager
Forest Products

Mike Farrow - Re: Next meeting

From: Bryan E Hayes <Bryan.Hayes@gunns.com.au>
To: "Mike Farrow" <Mike.Farrow@forestrytas.com.au>
Date: 1/08/2011 4:27 PM
Subject: Re: Next meeting
CC: "Michael Wood" <Michael.Wood@forestrytas.com.au>

Hon || bg:

Mike,

Thanks. Will await your further advice.

Regards,

Bryan Hayes
General Manager - Forest Products
78 Lindsay Street
LAUNCESTON Tas 7250 ☎ 461 3 6335 5497
☎ +61 3 6335 5201 switch ☎ bryan.hayes@gunns.com.au
✉ +61 418 430 887 🌐 www.gunns.com.au

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From: "Mike Farrow" <Mike.Farrow@forestrytas.com.au>
To: "Bryan E Hayes" <Bryan.Hayes@gunns.com.au>
Cc: "Michael Wood" <Michael.Wood@forestrytas.com.au>
Date: 01/08/2011 04:08 PM
Subject: Re: Next meeting

Dear Bryan,

Thank you for your email of 27 July 2011.

FT has made some progress on compiling resource availability data as discussed at our last meeting, however, it is not yet in a form suitable for our needs. As you might understand, our resource planners are currently very busy working on matters related to the recent announcement of the Heads of Agreement between the State and Commonwealth Governments, a critical matter for the entire Tasmanian forest industry, and this has delayed the availability of the information you seek.

There is no reason for you to be concerned about Forestry Tasmania meeting its contractual obligations. May I remind you that Gunns' letter terminating the contracts did not mention the mutual obligations to negotiate in good faith about a new supply agreement. It was Forestry Tasmania that brought this to Gunns' attention in Forestry Tasmania's reply.

Any comments attributed to our Managing Director no doubt reflect frustration at Gunns' payment history and its attitude shown in your statement on 14 July 2011 that "Gunns position is that all account amounts between Gunns and Forestry Tasmania are considered in dispute". Payment terms in the future will obviously form part of the negotiations.

The timing of our next meeting is dependent on the availability of the resource data as discussed above. I will let you know when that is available so that we might schedule a mutually suitable time to meet.

Regards

Mike

>>> On 07/27/11 at 10:05 AM, in message <OF6057E951.F435370E-ONCA2578D9.0083023D-CA2578DA.000077B1@gunns.com.au>, Bryan E Hayes <Bryan.Hayes@gunns.com.au> wrote:
Hello Mike,

Can you update on progress compiling resource availability data as discussed at our last meeting.

I note the media comments by Bob Gordon that FTas may not be prepared to enter into new wood supply arrangements with Gunns. It is an express requirement of the current contracts that we must conduct good faith negotiations and that is what we are trying to do. Are the media statements correct and if so does it mean FTas will not meet the terms of the contract to negotiate in good faith?

I look forward to your response and an indication of when we can next meet to progress these matters.

Regards,

Bryan Hayes
General Manager - Forest Products
78 Lindsay Street
LAUNCESTON Tas 7250 ☎ +61 3 6335 5497
☎ +61 3 6335 5201 switch ☒ bryan.hayes@gunns.com.au
☎ +61 418 130 887 ☒ www.gunns.com.au

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From: Bryan E Hayes/Gunns
To: Michael Wood <Michael.Wood@forestrytas.com.au>
Cc: Mike Farrow <Mike.Farrow@forestrytas.com.au>, Darren J Davis/Gunns@Gunns, Graeme Stevenson/Gunns@Gunns
Date: 14/07/2011 03:55 PM
Subject: Fw: Minutes of meeting on 11-07-11- Action item no. 3

Michael,

Re: Action item no. 3 on the meeting minutes.

Regarding outstanding invoices with FTas I can advise that Gunns position is that all account amounts between Gunns and FTas are considered in dispute. Gunns has been significantly over charged for pulpwood for the China sale and we consider that an amount owed by FTas to Gunns. This and other disputed matters need to be resolved in total before we can determine what is owed one way or another.

My comment below was general in nature as that was the case for creditors generally.

Await your advice re: next meeting. I will be interstate part of next week so need to plan around that.

Regards,

Bryan Hayes
General Manager – Forest Products
 78 Lindsay Street
 LAUNCESTON Tas 7250 ☎ +61 3 6335 5497
 ☎ +61 3 6335 5201 switch ☒ bryan.hayes@gunns.com.au
 ☎ +61 418 430 887 ☒ www.gunns.com.au

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----- Forwarded by Bryan E Hayes/Gunns on 14/07/2011 03:37 PM -----

From: Bryan E Hayes/Gunns
 To: "Michael Wood" <Michael.Wood@forestrytas.com.au>
 Cc: "Farrow, Mike" <Mike.Farrow@forestrytas.com.au>, Darren J Davis/Gunns@Gunns, Graeme Stevenson/Gunns@Gunns
 Date: 12/07/2011 02:21 PM
 Subject: Re: Minutes of meeting on 11-07-11

Michael,

Accepted your changes and final version attached for your records.

Will advise on payment plan date as soon as advice received. I understand we are waiting on Triabunna settlement before addressing this o/s amount.

Regards,

[attachment "GUNNS 20110712 final minutes of meeting (11 July 2011).docx"
 deleted by Bryan E Hayes/Gunns]

Bryan Hayes
General Manager – Forest Products
 78 Lindsay Street
 LAUNCESTON Tas 7250 ☎ +61 3 6335 5497
 ☎ +61 3 6335 5201 switch ☒ bryan.hayes@gunns.com.au
 ☎ +61 418 430 887 ☒ www.gunns.com.au

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From: "Michael Wood" <Michael.Wood@forestrytas.com.au>
 To: "Hayes, Bryan" <Bryan.Hayes@gunns.com.au>
 Cc: "Farrow, Mike" <Mike.Farrow@forestrytas.com.au>
 Date: 12/07/2011 01:59 PM
 Subject: Minutes of meeting on 11-07-11

Bryan -

Thank you for the notes of the meeting. Mike and I suggest a few minor changes, as marked up in the attached.

As one follow up to the meeting yesterday, are you yet able to advise of the date on which Gunns will make payment of the currently overdue invoiced amounts that are not in dispute (about \$3.2M)?

Bob's decision to make known the current status of Contracts 917 and 918 was made independently of our discussions with you yesterday morning. We informed him of the discussion with you, and Gunns' views were considered. However, the final decision was influenced by the weight given by FT to its underlying ethic of transparency and by its accountability to its many other stakeholders. The avenue chosen (via Branchline) is more or less beneath the radar, and you will note that the "release" has not attracted any media attention. You may not be aware that Gunns has apparently removed FT from Gunns' distribution list for media releases and that we no longer receive these. We have chosen not to reciprocate, as a sign of our good faith.

- Michael

>>> Bryan E Hayes <Bryan.Hayes@gunns.com.au> 12/7/11 6:41 AM >>>
Hello Mike, Michael,

Please find attached our notes recorded as minutes of yesterdays meeting to discuss new wood supply contracts. Your comments or amendments as appropriate would be appreciated in order to agree a final version.

I draw your attention to Action Item number 2 and can confirm it is Gunns wish that there is no public statement made about our commercial negotiations. We do note however that Bob Gordon has made a public announcement that these negotiations have commenced. This was within 5 hours of our meeting concluding and before we had the opportunity to consider the matter internally and respond formally to you as we had agreed. This is a serious matter for Gunns and calls into question whether this is an act of good faith consistent with the contractual, legal requirements?

Please provide me a response from FTas on this aspect of our negotiations.

Thanks and regards,

Bryan Hayes
General Manager - Forest Products
78 Lindsay Street
LAUNCESTON Tas 7250 ☎ +61 3 6335 6497
☎ +61 3 6335 6201 switch ☒ bryan.hayes@gunns.com.au
✉ +61 418 130 687 ☒ www.gunns.com.au

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
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27

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Greenies buy woodchip mill

Andrew Darby, Hobart

Published: July 14, 2011 - 12:50AM

TASMANIA'S timber industry is in shock after two wealthy environmentalists bought a woodchip mill, giving them a strategic grasp of the controversial native forest logging industry.

Jan Cameron, founder of outdoor wear group Kathmandu, and online travel entrepreneur Graeme Wood paid \$10 million for Gunns' Triabunna mill, on the coast east of Hobart.

The wealthy pair outmanoeuvred a local logging company to clinch the deal. The rival bidder cried foul, saying its offer was worth an extra \$6 million.

The purchase could bring a game-changing shift in the native forest logging debate, putting the pro-environment pair in a powerful position.

Ms Cameron and Mr Wood are closely allied to green groups and strongly opposed to native forest logging in Tasmania.

Under a proposed peace deal between the federal and state governments, up to 430,000 hectares of forest would be protected in exchange for some continued logging.

Gunns said yesterday the mill sale agreement provided for it to be leased to an industry operator as a woodchip export business - satisfying a condition of the interim peace deal that says the mill stays in the industry.

Premier Lara Giddings said woodchips sent to Triabunna provide vital secondary income to sawmillers and veneer producers in southern Tasmania.

But while Ms Cameron confirmed the mill would continue operating for an unspecified period during the transition out of native forest logging, she and Mr Wood have indicated that its long-term future will be as a tourism destination. "It's a very unexpected development for

both of us I think," said Ms Cameron. "We don't have any certainty about what's going to happen."

She said the writing was on the wall for the native forest logging industry, which has lost key Japanese buyers because the wood is not sustainable under international certification.

News of the purchase was broken on ABC radio to the amazement of the rival bidder, the O'Connor family's Fibre Plus. "To give the woodchip mill to two of Australia's richest people ... for a \$6 million discount compared to what they were asking from us is gut wrenching," Ron O'Connor said.

"Our industry is dead and finished without the mill."

Fibre Plus was two weeks over a deadline to complete the purchase from Gunns, despite obtaining approval for a controversial state government loan.

Analyst Robert Eastment, of IndustryEdge, said it appeared Gunns, which is on a debt reduction drive, opted for the certainty of Mr Wood and Ms Cameron's offer.

Mr Wood has been under media scrutiny after he gave \$1.6 million to the Greens in the last election campaign.

Mr O'Connor said opposition to his family's bid by the Greens and independent federal MP Andrew Wilkie had made raising finance difficult. "The four major banks are very scared of their image," he said.

Environment Tasmania said it believed Triabunna could be part of a lasting forest agreement. "We continue to be committed to working constructively with unions, timber contractors and the timber industry to deliver that," said

director Phill Pullinger.

The Forest Industries Association of Tasmania said the purchase had created confusion, and that without Triabunna's continuation, the peace deal would have no standing.


Ms Cameron is one of Australia's wealthiest women, with a fortune estimated at more than \$300 million after she sold out of Kathmandu in 2006. Mr Wood's fortune, made from the travel reservation site Wotif.com, has been estimated at more than \$370 million.


This story was found at: <http://www.theage.com.au/national/greenies-buy-woodchip-mill-20110713-1he6h.html>


(28)

FORESTRY TASMANIA (FT) AND FIBRE PLUS MANAGEMENT P/L (FPM)

FT & FPM agree that in the event of a Force Majeure event the parties agree that all payments for provision of services are suspended until the effects of the Force Majeure event are overcome or until a replacement contract for services is agreed.

SIGNED:  Robert L Gordon – Managing Director - Forestry Tasmania

SIGNED:  Ronald Desmond O'Connor – Director - Fibre Plus Management P/L

SIGNED:  Brendan Carl O'Connor – Director - Fibre Plus Management P/L

DATED: _____

Signed on 30.6.2011.
To be left undated,
until required.

29



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 read "GL", followed by a long, horizontal, wavy line.

Greg L'Estrange
Managing Director

(30)

Mike Farrow - Triabunna Proposal

From: Nic Waldron <Nic.Waldron@development.tas.gov.au>
To: Mike Farrow <mike.farrow@forestrytas.com.au>
Date: 06/29/11 12:14 PM
Subject: Triabunna Proposal
CC: Jonathan Wood <Jonathan.Wood@development.tas.gov.au>

Hi Mike,

As discussed earlier by phone, we are continuing to progress matters at our end. Earlier today we met with the Assistant Crown Solicitor (ACS) who has identified a number of matters with the draft Services Contract that we believe require further consideration by the parties before the contract could be accepted as suitable by financiers. As a next step, the ACS will directly raise these matters with the client's solicitor today.

In preparing for the final arrangements being considered by the Tasmanian Development Board, I would be grateful if you could arrange for Forestry Tasmania to provide the Board, through the department, with a letter outlining its ability to provide the wood resource to the mill for the term of the agreement, particularly in the context of any potential "lock up" of native forest that may arise as a result of the statement of principles process.

I would be grateful if you could discuss this matter with Bob and provide us with a letter in this regard. I appreciate your assistance in this matter, which I believe will assist us in ensuring we continue to progress the loan transaction in the most timely manner.

Please give me a call in need etc.


Kind regards.

Nic

Nic Waldron

Director

Business Response
Department of Economic Development, Tourism and the Arts
22 Elizabeth St, Hobart, Tasmania 7000
Ph: 03 6233 5720 : Mobile: 0418 330 871 : Fax: 03 6233 5800

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Phone: 6235 8277
Your Ref:
Our File:

31



30 June 2011

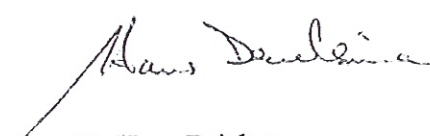
Mr Nic Waldron
Director
Department of Economic Development, Tourism
22 Elizabeth Street
HOBART TAS 7000

Dear Mr Waldron,

Forestry Tasmania is satisfied that it will require the services to the agreed volume levels from the Triabunna mill under the terms of the contract it has entered into with Fibre Plus Tasmania.

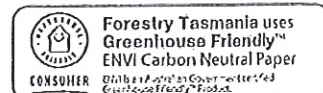
Forestry Tasmania is not a signatory to the Statement of Principles, however from our understanding of the current position, the volumes we envisage will be a minimum required to meet the industry requirements arising from them.

Yours sincerely


Dr Hans Drielsma
Executive General Manager
Forestry Tasmania



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hone:

03 6235 8225

our Ref:

ur File:

29 June 2011

32



Mr Bill Kelty
C/- Joel Bowden
joel_bowden@linfox.com

Dear Mr Kelty

Re: Forestry Tasmania's view of the Signatories Agreement dated 22nd June 2011

In response to your request for feedback from Forestry Tasmania (FT) on the Signatories Agreement (22/6/2011), I provide the following comments:

General Comments

FT is not a signatory to the Statement of Principles or the Agreement, but was contracted to provide consultancy services to the signatories in relation to wood resource modelling. The resultant *Evaluation of Wood Resource Scenarios - Final Report to Signatories* (6 June 2011) has been independently verified by Professor Jerry Vancley and provides the best information for determining the feasibility of meeting the reservation and resource supply elements of the agreement.

It is notable that the Agreement is supported by ENGOs, as well as forest industry, unions and timber communities. That is a significant achievement, and distinguishes the Statement of Principles from previous processes that attempted to balance conservation and wood production values. The fact that it has progressed to this stage is in no small part due to your leadership and the assistance of Joel Bowden.

FT recognises that it is ultimately up to the Tasmanian Government, through the Parliament, to determine land use allocation and forest policy. However, it notes that the ENGO identified HCV forests have not undergone any governmental or independent scientific review to determine if they meet any objective criteria that would provide an imperative, rather than a preference, for their protection. It is noted that no criteria has been provided by the ENGOs to determine what might constitute HCV forests. It is also noted that the definition of HCV in FSC does not exclude logging.

Specific Comments

The Agreement calls for immediate interim protection of 430 000 ha of land on FT's balance sheet as an asset, with the remainder of the 572 000 ha being put into an Interim Forest Area. However, the *Evaluation of Wood Resource Scenarios Final Report* makes it clear that the minimum supply of high quality sawlog of 155 000 m³/y is very unlikely to be met if 430 000 ha is made unavailable. The extent of the shortfall cannot be modelled until the areas that make up the 430 000 ha are delineated on a map.



FT notes that the Agreement indicates that 155 000 m³/y of high quality sawlog, 265 000 m³/y of peeler billets and 12 500 m³/y of special timbers can be maintained if 360 000 to 432 000 ha of ENGO claimed HCV forests were immediately protected. This scenario has not been modelled and is demonstrably inconsistent with the resource modelling undertaken for the *Final Report*. For example, the Industry Scenario in the *Final Report* indicates that, as a minimum, the sustainable supply of special timbers would reduce to 11 500 m³/y and if the full 572 000 ha were reserved the supply would fall to 6700 m³/y. Similarly, the supply of peeler billets cannot be maintained if substantial areas of regrowth within the ENGO identified HCV Forests were to be reserved. It defies logic that substantial tracts of additional forest can be protected, without reducing the sustainable yield of forest products. The Agreement would certainly not be enduring if it is based on a false premise that the 430 000/572 000 ha claim can be reserved and still meet the minimum supply position of 155 000 m³/y of high quality sawlog, 265 000 m³/y of peeler billets and 12 500 m³/y of special timbers.

FT notes the view that areas agreed for protection should become National Parks. In the interests of efficiency and cost saving, and to ensure adequate fire management, FT would prefer to remain the land manager for any State forests lands to be protected, assuming that funds were provided for the management of these lands, and has demonstrated its capacity as a reserve manager through its protection of some 0.5M ha of State forest that form part of the Tasmanian Reserve Estate.

FT notes that this and the previous agreement refers to "licences", "quotas" and "allocations". None of these exist. All of Forestry Tasmania's arrangements to supply wood or services are through commercial contracts, which have value to FT and FT would expect fair commercial compensation for the compulsory acquisition of assets on its balance sheet or for the loss or breaking its commercial wood supply contracts. Currently, there is current strong market demand for fully certified (PEFC) wood products from Tasmania's forests and any reduction in supply levels represents a missed opportunity.

FT remains willing to act as expert commercial consultant to analyse requests from the parties or governments.

Yours sincerely



Bob Gordon
Managing Director

Hon Bryan Green MP

DEPUTY PREMIER

Level 10, Executive Building
15 Murray Street, Hobart, TAS 7000 Australia
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Email bryan.green@dpac.tas.gov.au

33



Tasmania

Mr R L Gordon
Managing Director
FORESTRY TASMANIA

29 JUN 2011

**GOVERNMENT BUSINESS ENTERPRISES ACT 1995 (GBE ACT)
SECTION 10 (6) NOTICE**

I write in my capacity as the Portfolio Minister for Forestry Tasmania under the *Government Business Enterprise Act 1995*.

On 23 June, you sought my approval pursuant to Section 10 (6) of the Act to enter into a profit share arrangement with the purchasers of the Triabunna Woodchip Mill, Fibre Plus (Tas) Pty Ltd.

As required by the legislation, I have consulted with the Treasurer. Our advice is that your request be accepted. I therefore give approval to Forestry Tasmania to exercise its power to participate in the proposed arrangement.

Bryan Green MP
Minister for Energy and Resources

Bob Gordon - URGENT: Letter re Triabunna Arrangements

From: "Vadasz, Karen (DPaC)" <Karen.Vadasz@dpac.tas.gov.au>
To: Bob Gordon <Bob.Gordon@forestrytas.com.au>, Hans Drielsma <Hans.Drielsma...>
Date: 29/06/2011 11:38 AM
Subject: URGENT: Letter re Triabunna Arrangements
CC: "Rutherford, Bob (DIER)" <Bob.Rutherford@dier.tas.gov.au>
Attachments: Letter from Minister to FT re Triabunna.pdf

Hi Bob and Hans

Attached is a copy of the signed letter from the Minister giving approval for FT to participate in the profit-sharing arrangement as per your proposal. Hard copy will be forwarded through internal mail.
Regards
Karen.

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Phone: 6235 8277

Your Ref:

Our File:



Forestry Tasmania

23 June 2011

Minister Bryan Green MP
Minister for Energy and Resources
15 Murray Street
HOBART TAS 7000

Dear Minister,

GOVERNMENT BUSINESSES ENTERPRISES ACT 1995 (GBE Act)

SECTION 10 (6) NOTICE

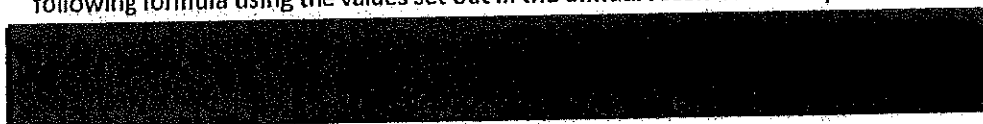
This letter seeks your approval under section 10 (6) of the GBE Act, which states that

"A Government Business Enterprise must not exercise its power to participate in a partnership, trust, joint venture or arrangement for the sharing of profits unless the Portfolio Minister, after consulting with the Treasurer, has approved the exercise of that power."

Forestry Tasmania (FT) wishes to enter into a profit share arrangement with the proposed purchasers of the Triabunna Woodchip Mill Fibre Plus (Tas) Pty Ltd and has drafted an agreement which has the following provision

Calculating the Profit Share

The Profit Share payable to the Service Provider will be calculated in accordance with the following formula using the values set out in the annual reconciliation report:



The Profit Share will be paid to the Service Provider no later than one (1) month following the certification of the Annual Report into the bank account nominated by the Service Provider.



In the event that the Profit Share is equal to zero:

- (a) no Profit Share will be payable to the Service Provider; and
- (b) In the event that the Actual Operating Costs are less than the Total Agreed Annual Budget, the Service Provider will not be required to repay any resulting Operating Cost Variation to Forestry Tasmania.

Would you please consider and approve this arrangement to allow negotiations to proceed.

Yours Sincerely



Dr Hans Drlelsma
Acting Managing Director
Forestry Tasmania

Department of Economic Development, Tourism and the Arts

22 Elizabeth Street, Hobart TAS 7000
GPO Box 646 Hobart TAS 7001 Australia
Ph (03) 6233 5888 Fax (03) 6233 5800
Email info@development.tas.gov.au Web www.development.tas.gov.au



34

Messrs R D and B C O'Connor
Fibre Plus (Tas) Pty Ltd
352 Midland Highway
BRIDGEWATER TAS 7030.

Dear Ron and Brendon

I am writing in response to your request for a loan of up to \$6 million to assist with the proposed purchase of the Triabunna wood chip mill from Gunns Limited, which has now been considered by government, through the Tasmanian Development Board.

I can confirm that the Minister for Economic Development and the Treasurer have jointly provided an "in-principle" approval for the above loan amount on terms, conditions and security arrangements that I understand have been previously discussed with your representatives.

Given the urgency and timing of your request, you recognise that it was not possible for all matters to be fully addressed to the satisfaction of the Board and government. Consequently, at this stage the government's "in-principle" approval remains conditional upon the Tasmanian Development Board being fully satisfied in regard to a number of key matters, including:

- the final terms of the Services Contract with Forestry Tasmania, in particular the terms that guarantee Fibre Plus (Tas) Pty Ltd sufficient revenue streams to underpin the repayment of the loan irrespective of processing volumes and under all other reasonable circumstances and
- the company securing bank finance of \$12 million, on terms and security arrangements that do not impact on the terms, conditions and security arrangements proposed for the department's loan.

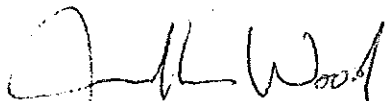
I am sure you will appreciate, that until these matters are satisfied, the department is not able to provide you with an unconditional approval of your request. The department was recently provided with a copy of the final draft of the Services Contract with Forestry Tasmania, although it has not yet had the opportunity to review the document. I also note that the additional \$12 million in finance required to complete the purchase is yet to be approved by a bank.

I note that under the terms of the purchase contract, settlement is required to occur by 29 June 2011 and wish to confirm that, given the status of the aforementioned matters, this will not be possible.

I will arrange for a letter outlining the terms of the conditional approval in greater detail to be forwarded to you following ratification by the Tasmanian Development Board.

Should you require any further information, please contact Nic Waldron, Director Business Response by email at <Nic.Waldron@development.tas.gov.au> or by telephone on 6233 5720.

Yours sincerely

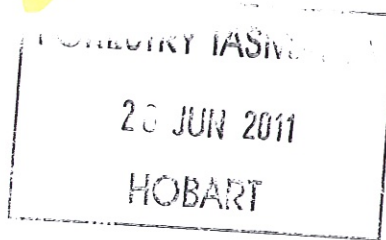
A handwritten signature in black ink, appearing to read 'J L Wood'.

Jonathan Wood
Deputy Secretary

28 June 2011



(35)



27 June 2011

WF-917-pw/2
WF-918-

H011/1302

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

From: "brenoconnor@bigpond.com" <brenoconnor@bigpond.com>
To: Mike Farrow <Mike.Farrow@forestrytas.com.au>
CC: Bob Gordon <Bob.Gordon@forestrytas.com.au>
Date: 26/6/11 3:44 PM
Subject: Fwd:
Attachments: DRAFT Services Agreement - Triabunna Woodchip Mill 24.06.11 v2.0.doc; Part.002

36

Hi Gents,

Dad and I have amended the contract (attached)!

The due diligence runs out tomorrow at close of business and as such we need the contract finalized and agreed prior to this.

Dad and I are taking the view that the contract needs to be safe for our company to safe guard ourselves against change within FT should that happen! Please keep that in mind if you think we are being a little pedantic about small issues!! (FT costs being one of them)

Can you please review our changes ASAP so we can get this wrapped up by mid day if possible, can you also please let dad and I know as soon as practical the stage that the contract is at around 10-11 o'clock!!

We need this to be finalized tomorrow

Thanks

Brendon

Sent from iPhone

>

>

Phone: 6235 8277

Your Ref:

Our File:

37



23 June 2011

Minister Bryan Green MP
Minister for Energy and Resources
15 Murray Street
HOBART TAS 7000

Dear Minister,

GOVERNMENT BUSINESSES ENTERPRISES ACT 1995 (GBE Act)

SECTION 10 (6) NOTICE

This letter seeks your approval under section 10 (6) of the GBE Act, which states that

"A Government Business Enterprise must not exercise its power to participate in a partnership, trust, joint venture or arrangement for the sharing of profits unless the Portfolio Minister, after consulting with the Treasurer, has approved the exercise of that power."

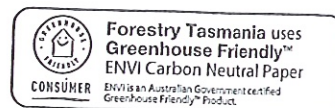
Forestry Tasmania (FT) wishes to enter into a profit share arrangement with the proposed purchasers of the Triabunna Woodchip Mill Fibre Plus (Tas) Pty Ltd and has drafted an agreement which has the following provision

Calculating the Profit Share

The Profit Share payable to the Service Provider will be calculated in accordance with the following formula using the values set out in the annual reconciliation report:

Profit Share = $\frac{1}{3}$ % of (FOB Revenue – (Marketing Costs + Actual Operating Costs + Mill Door Costs))) +/- Operating Cost Variation.

The Profit Share will be paid to the Service Provider no later than one (1) month following the certification of the Annual Report into the bank account nominated by the Service Provider.

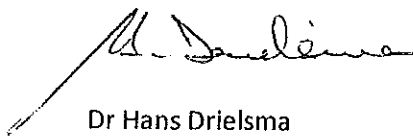


In the event that the Profit Share is equal to zero:

- (a) no Profit Share will be payable to the Service Provider; and
- (b) in the event that the Actual Operating Costs are less than the Total Agreed Annual Budget, the Service Provider will not be required to repay any resulting Operating Cost Variation to Forestry Tasmania.

Would you please consider and approve this arrangement to allow negotiations to proceed.

Yours Sincerely



Dr Hans Drielsma
Acting Managing Director
Forestry Tasmania

(38)

FORESTRY TASMANIA

File No.:

BRIEFING NOTE

Bryan Green MP
Minister for Energy and Resources

NOTED

.....
(Minister)

Date: / / 11

SUBJECT: TRIABUNNA WOOD CHIP MILL

Purpose:

To advise the Minister of progress in negotiations for a Services Contract between Fibre Plus (Tasmania) and Forestry Tasmania for the operation of the Triabunna Woodchip Facility, and to seek approval, as required by the GBE Act, for FT to enter into a profit share arrangement

Background:

Aprin has reached conditional approval with Gunns Limited for the purchase of the woodchip facility at Triabunna. Subject to satisfactory progress in the Statement of Principles discussions, the sale will be completed on June 29 2011.

In order to facilitate the transfer of ownership, Forestry Tasmania provided Aprin with a letter of intent to supply the Triabunna mill, which also set out in broad detail the nature of the proposed relationship between Aprin, trading as Fibre Plus (Tasmania).

Forestry Tasmania and Aprin are now in the final stages of negotiating a contract formalising the proposed relationship.

The key elements of the contract are as follows:

- Fibre Plus to provide on an exclusive basis to FT, safe efficient and industry competitive services to allow FT to export and market woodchip.
- Forestry Tasmania to be responsible for the delivery of all resource to the facility from both public and private resource.
- The proposal is for 500,000 tonnes per annum for five years.
- All proper costs and charges incurred by Fibre Plus will be captured in an annually agreed operating budget.
- FT to provide resource in log or chip form and to pay the agreed operating costs and any agreed variations.

Cleared by: Dr Hans Drielsma
Acting Managing Director

Date: 23 June 2011

- The contract will include a profit share arrangement for profits from the sale of woodchips after providing for all FT costs, including stumpage and agreed chipping costs
- The GBE Act requires the approval of the Portfolio Minister. A letter requesting this approval has been submitted with this briefing. Fibre Plus will not dispose of the facility for a period of five years, and in the period five to ten years, FT would have an option to purchase and retain first right of refusal in any intended sale of the facility.

The structure of this proposed contract, as outlined above, is considered commercial-in-confidence.

Recommendation:

The Minister note progress, and approve FT entering into a profit share arrangement as outlined.



Dr Hans Drielsma
Acting Managing Director

23 June 2011

39



14 June 2011

Company Announcements Platform
Australian Securities Exchange

TRIABUNNA MILL

Gunns Limited has entered into an agreement for the sale of the Triabunna woodchip export business. Completion of the sale is scheduled for 29 June 2011 and is conditional on satisfactory progress in the implementation of the Tasmanian forests Statement of Principles.

Contact

Company: Greg L'Estrange – 03 6335 5211

Media: Matthew Horan – 0403 934 958

GUNNS LIMITED | ABN 29 009 478 148

PO Box 572 Launceston Tasmania Australia 7250 | 78 Lindsay Street Launceston Tasmania Australia 7250

T 03 6335 5201 | F 03 6335 6466 | www.gunns.com.au

Phone: 6235 8277
Your Ref:
Our File:

40



3 June 2011

Mr Brendon O'Connor
Aprin Group of Companies
352 Midlands Highway
BRIGHTON TAS 7030

Dear Brendon

SERVICES CONTRACT PROPOSAL - TRIABUNNA MILL AND PORT FACILITY

I refer to our ongoing discussions regarding an agreement between Forestry Tasmania (FT) and Aprin should Aprin acquire the Triabunna mill and port facility (Facility).

I acknowledge receipt of your letter of 19 May, 2011 which I have now had the opportunity to discuss. I am pleased to advise that from confirmation of the successful purchase of the Facility, Forestry Tasmania will enter into a long term contract for toll chipping and loading at the Facility under the following key terms.

1. Services

1.1 Aprin will provide at the Facility, on an exclusive basis to FT, chipping and loading services which will include the following;

- a. unloading of trucks
- b. storing of logs
- c. chipping of logs
- d. screening of chip
- e. screening of residues
- f. stockpile, storage and grooming
- g. loading vessels
- h. sampling

A more detailed description of these services and any relevant standards and specifications will follow in a formal agreement.

1.2 FT will be responsible for the delivery of all wood supply to the Facility which will include whole log and residues (pre-chipped) from both FT and private resource.



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



- 1.3 If Aprin wanted to use the Facility for any other customer or purpose it will have to obtain prior consent from FT.
2. **Costs and charges**
 - 2.1 All proper costs and charges necessarily incurred in the provision of the Services will be captured in a Toll Rate.
 - 2.2 To reach a budgeted Toll Rate, Aprin and FT agree to enter into an open-book cost structure based on operating a safe, efficient and competitive woodchip export facility on a yearly term while maintaining the full cost of operating the Facility.
 - a. For removal of doubt, regardless of the financial performance of the woodchip market, Aprin's full proper costs of operating the mill, as stated in 2.1 above, for the term will be covered by the Toll Rate.
 - 2.3 FT to provide the volumes in log or chip form and to pay a Toll Rate for every Green Metric Tonne (GMT) which goes over the weigh bridge.
 - 2.4 The Toll Rate will be divided into two portions
 - a. The pre-load rate which includes all costs from the mill door to the stockpile, including stockpile grooming.
 - b. The post load rate which includes all costs from preparing a vessel for loading through to successful load and dispatch of vessel.
 - 2.5 FT will pay the Toll Rate in two portions:
 - a. Pre-load rate (mill door to stockpile)
Paid for all volumage received into the mill in the previous month on the 20th of the following month.
 - b. Post-load rate (ship arrival to ship dispatch)
Paid for all volume loaded onto a vessel 30 days after the successful completion of loading.
 - c. A monthly reconciliation of the budgeted Toll Rate and the actual Toll Rate will be undertaken and any adjustments paid the following month.
 - 2.6 FT and Aprin will share equally the Profit calculated from the Free Onboard Price of the woodchip less the combined Mill Door cost of log and chip to the Facility and the Toll Rate. This profit shall be calculated annually, and in the event of a loss, Aprin's profit will not have to contribute to the loss.
3. **Quality**
 - 3.1 If a quality claim is made from the end-user regarding quality, FT reserves the right to seek compensation from Aprin.
 - a. Out of spec chip: chip not within size or quality specifications, including contamination.

- i. Aprin to pay CIF cost of out-of-spec delivered chip volume to FT for volume delivered out of spec according to the FT - End-user contract.
- b. It is highly advisable Aprin have insurance to cover potential contamination issues.
- c. Contamination: plastic, metal, residue from other materials loaded at Triabunna which may result in the end-user refusing to accept the shipment.
 - i. Aprin to pay CIF cost of entire load delivered, removal and destruction of the chip from the end-users' site and any damages incurred by the end-user with their equipment.
- d. FT and Aprin to undertake their own independent spot checks on chip quality at their own costs at residue suppliers and at the mill.
- e. Aprin to manage stockpile pulp yield quality to industry best practices.
 - i. With FT's assistance, ensure the stockpiles are able to meet pulp yield requirements of the end-user.
 - ii. Ensure there is no cross contamination between the individual stockpiles.
- f. Aprin to manage the facility under auditable health and safety regulations.
- g. Aprin, with FT's assistance and oversight, to achieve FSC Controlled Wood certification from a recognizable 3rd party auditor.
 - i. Process to begin with first 30 days of transfer of ownership to Aprin.
 - ii. All efforts to have process to complete and certification achieved by 16 December, 2011.
- 4. **Facility ownership**
 - 4.1 Aprin will need to agree as a fundamental term that it will not dispose of the Facility (meaning the land and infrastructure) for a period of five years.
 - 4.2 In the period 5-10 years FT will have an option to purchase. We will need to discuss how the purchase price will be set.
 - 4.3 In the period 5 years and beyond FT will require a first right of refusal in respect of any intended sale of the Facility.
- 5. **Other operational matters**
 - 5.1 FT are content for Aprin to accept resource on a 24/5 basis but Aprin will need to operate the loading function of the Facility on a 24/7 basis.

Regards,

A handwritten signature in black ink, appearing to be 'MF' or similar initials, enclosed within a circular loop.

Mike Farrow
General Manager Sales and Operations
Forestry Tasmania