

THE TASMANIAN PULP MILL—BELL BAY INDUSTRIAL ESTATE, TAMAR VALLEY

Sovereign Risk Agreement

The Tasmanian Government has signed a tripartite sovereign risk agreement with Forestry Tasmania and Gunns Ltd.

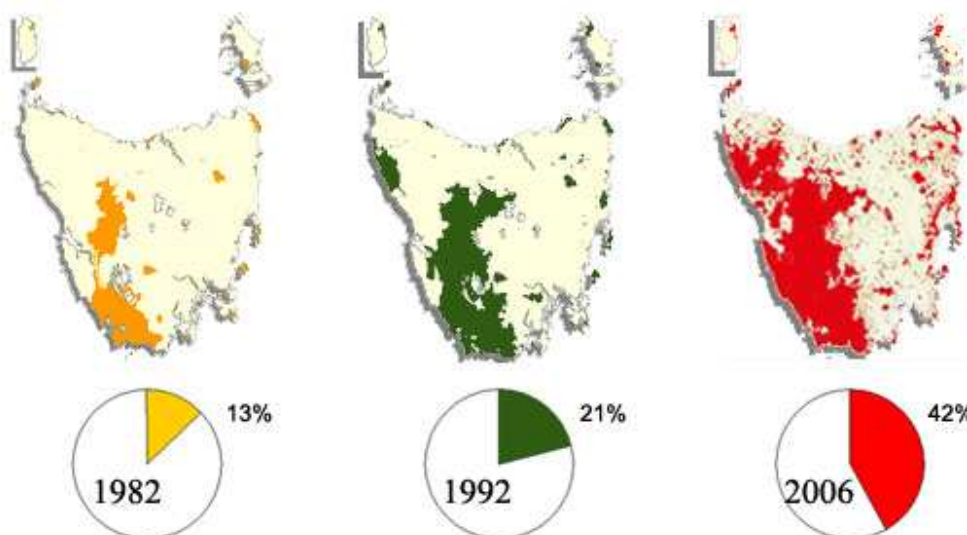
The agreement relates to the wood supply agreement between Forestry Tasmania and the Company.

The sovereign risk identified is if both Houses of Parliament pass a law that directly results in Forestry Tasmania failing to supply wood under the terms of the Wood Supply Agreement.

The Pulp mill project life is 25 years and a lot could happen to Tasmania's forest management in that time.

This series of maps shows reserves created by Parliament over the last 25 years:

RESERVED LAND IN TASMANIA



Such action in the future could mean that Forestry Tasmania might not be able to supply the pulp wood under its agreement.

Tasmanian Parliament has also been subject to an Accord, where a government was formed as a result of an agreement with the Greens. This Accord gave significant environmental concessions to the Greens after the 1989 State Election.

Again if this Accord was repeated or the Greens win Government there is a likelihood that action could be taken to frustrate the wood supply agreement.

An agreement that seeks to reduce the sovereign risk makes good sense given Tasmania's political history over the last 25 years.

The Agreement provides for compensation on a Net Cost Impact only where Gunns Limited is required to mitigate that cost and must forego any other claims.