

23 February 2006

The Manager  
Company Announcements Platform  
Australian Stock Exchange  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sir

**Results for the half year ended 31 December 2005**

Attached is the Gunns Limited half year report and media release.

Yours faithfully



Wayne Chapman  
Company Secretary

**DIRECTORS' REPORT TO MEMBERS  
OF GUNNS LIMITED  
AND ITS CONTROLLED ENTITIES  
FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

**DIRECTORS**

The Directors of the Company at any time during or since the end of the half year ended 31 December 2005 are:

<b>Name</b>	<b>Age</b>	<b>Period of Directorship</b>
John E. Gay	62	Director since 1986
Robin T. Gray	65	Director since 1996
Robin T. J. Holyman	67	Director since 1986
David M. McQuestin	62	Director since 1988
Cornelis A. van der Kley	67	Director since 1996
Christopher J. Newman	62	Director since 2001

**REVIEW OF OPERATIONS**

The Company has recorded a net profit after tax for the six months ended 31 December 2005 of \$25.9m. The result reflects a significant seasonal impact on expected annual earnings with the increased activity in the managed investments sector which is largely brought to account in the second half. There were no abnormal or extraordinary items in the result. Net profit after tax in the prior year comparative period was \$37.3m.

Earnings per share (EPS) of 7.6 cents in the first half of the 2006 year compares to 11.0 cents in the prior year.

Revenue decreased by 11.4% to \$295.1m with net operating cash flow of \$15.6m.

This financial report is the first where the AIFRS changes to accounting standards have been booked. These changes have had no material effect on the profit after income tax for the six months to 31 December 2005. However, the changes have increased total assets by \$1.8m and total liabilities by \$90.0m whilst decreasing reserves by \$60.6m and opening retained earnings by \$27.7m. The major accounting standards changes affecting the above were the recognition of asset revaluations on a net of tax basis, the recording of previous loan sales as a receivable and borrowing and the change to the discount rate used in biological asset valuation.

The Directors have declared a fully franked interim dividend of 6 cents per share. The dividend will be paid on 7 April 2006. The record date of the payment is 24 March 2006. The dividend will require a payment of \$20.3m and represents a payout ratio of 79% of net profit after tax for the period.

Revenue for the period of \$295.1m was down by 11.4% on the prior year comparative period. The decrease in revenue was largely due to lower activity levels across the forest products business

Forest products revenue of \$222.6m compares to \$278.9m in the prior year first half. Revenue and earnings were adversely impacted by a lower sales volume in the woodchip business over the half with sales for the period totalling 1.83m gmt against 2.3m gmt in the prior year comparative period. Management has implemented and continues to assess cost reduction strategies to improve competitiveness in the current market environment to mitigate the effect of lower sales volumes on profitability.

Domestic timber markets continued to experience the weaker conditions observed at the end of the previous financial year. The market softness has affected the operating performance across all hardwood products. Domestic demand from traditional markets has been impacted by the continuing structural change in the industry as the furniture manufacturing base progressively moves offshore. Whilst overall volumes are being maintained with increased export sales the competitive nature of those markets increases pressure on margins.

The annual woodchip price negotiation was completed in February 2006 with the benchmark E50 LAHCE price set at \$162 per BDMT. This is the same price as achieved in the 2005. The continuing relative strength of the Australian dollar remains an issue for our competitive position in the Asian woodfibre market. This position is further weakened by freight costs and limited access to shipping capacity. There are indications from an increase in customer inquiries that underlying demand is lifting but the ability to meet the demand is impacted by these freight factors.

The Tasmanian merchandising business maintained turnover at levels consistent with the prior year comparative period although margins in the retail segment tightened with increased competitive activity. Trade based activity remains strong across Tasmania. The construction business continues to hold a strong forward order book with annual revenue projected to increase on the 2005 year.

The Tamar Ridge Wines business is achieving significant increases in sales volumes with revenue up 16% on the prior year comparative period. Expansion of both domestic and export markets is a key priority for the business ahead of increasing production volumes over the next five years. The growing demand for quality cool climate product is particularly significant in light of the market issues facing the broader industry.

Revenue and earnings from the managed investments business increased strongly in the period. Revenue increased by 80% over the prior year comparative period with an increase of 105% in earnings. The result reflects the increased level of development activity from prior year sales.

It is expected that the 2006 MIS products for wood, wine and walnut projects will be released to the market in March 2006.

Capital expenditure for the six month period totalled \$57.2m including land acquisition of \$20.7m. The group has increased land acquisition to support an increase in activity under the managed investment program to a targeted 20,000 hectares in the full 2006 financial year.

Operating cash flow at \$15.6m was below that recorded in the prior year comparative period of \$31.9m. This was largely due to reduced activity levels across the forest products business in the period.

During the period the Company raised \$115.6m in capital from the issue of the hybrid FORESTS security. The proceeds of the issue are being utilised primarily to fund expansion of the managed investment business. This expansion is strategically important to the group to increase the area of plantation forest under management as resource available for future manufacturing.

The Bell Bay pulp mill project remains a key development project for the group. This project offers significant potential for increasing both shareholder value and the value of the business and broader industry for the State.

The final scoping guidelines for the Integrated Impact Statement (IIS) required as part of the regulatory approval process were issued by the Resource Planning and Development Commission on 23 December 2005. The Company has substantially completed the IIS preparation on the basis of previously issued draft guidelines and is now reviewing the content in light of the final scoping requirements. This review is expected to be completed to enable lodgement of the application with the RPDC by the end of March 2006.

Concurrently the Company has moved ahead with preliminary engineering of the project and calling of tenders for supply of mill and infrastructure packages. This will allow for a timely commencement of construction on final approval.

## **OUTLOOK**

The Company expects the second half trading result to be significantly stronger.

Earnings from the forest products business are expected to improve through the second half in line with normal seasonal improvements in costs. Whilst there are indications of increased customer interest in the woodchip market this is not expected to impact on activity levels until the latter part of the calendar year.

The group's Tasmanian operations continue to experience generally stable trading conditions although there has been a softening of retail merchandising demand.

Earnings from the managed investment business are expected to be the primary source of growth in the second half. The Company has secured land for the expansion of the woodlot program to 20,000 hectares together with the land and infrastructure to implement the winegrape and walnut projects. The ability to maintain this level of activity through the 2007 financial year is dependant upon the market conditions in the agribusiness investment sector. Indications to date are of a continuation of the positive market conditions experienced in the 2005 year.

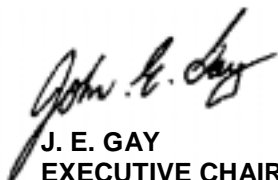
## **LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**

The lead auditor's independence declaration is set out on page 23 and forms part of the directors' report for the half-year ended 31 December 2005.

## **ROUNDING OFF**

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Launceston this 23<sup>rd</sup> day of February 2006.



**J. E. GAY**  
**EXECUTIVE CHAIRMAN**

**Gunns Limited**

ABN 29 009 478 148

## Appendix 4D

### Half year report

Half year ended 31 December 2005

Results for announcement to the market

			\$A'000
Revenues from ordinary activities	down	(11.4%) to	295,069
Profit from ordinary activities after tax attributable to members	down	(30.7%) to	25,887
Net profit for the period attributable to members	down	(30.7%) to	25,887

Dividends	Amount per security	Franked amount per security (at 30%)
Interim dividend - ordinary shares	6.0c	6.0c
Final dividend - ordinary shares	n/a	n/a
	<u>6.0c</u>	<u>6.0c</u>
Previous corresponding period (interim dividend - ordinary shares)	<u>5.0c</u>	<u>5.0c</u>

Record date for determining entitlements:  
Date payable:

Ordinary

24 March 2006  
7 April 2006

This half year financial report is to be read in conjunction with the 30 June 2005 Annual Financial Report.  
Note: The previous corresponding period is the half year ended 31 December 2004.

**Gunns Limited - Half year report**

**Condensed consolidated interim income statement**

		<b>Half year ended Dec 2005 \$A'000</b>	<b>Half year ended Dec 2004 \$A'000</b>
	<b>Note</b>		
Revenue from ordinary activities	2(a)	295,069	332,870
Other operating income	2(b)	4,325	2,283
Expenses from ordinary activities	2(c)	(247,584)	(267,067)
Finance costs	2(c)	<u>(15,396)</u>	<u>(14,485)</u>
<b>Profit before income tax expense</b>		<b>36,414</b>	<b>53,601</b>
Income tax expense		<u>(10,527)</u>	<u>(16,262)</u>
<b>Net profit attributable to members of the parent entity</b>		<b><u>25,887</u></b>	<b><u>37,339</u></b>

**Earnings per share (EPS)**

Basic EPS (cents)	7.6c	11.0c
Diluted EPS (cents)	7.3c	11.0c

The condensed consolidated interim income statement is to be read in conjunction with the notes set out on pages 9 to 20.

**Gunns Limited - Half year report**

**Condensed consolidated interim statement of recognised income and expense**

	<b>Half year ended Dec 2005 \$A'000</b>	<b>Half year ended Dec 2004 \$A'000</b>
Note		
Foreign exchange translation differences	<u>48</u>	<u>145</u>
<b>Net income recognised directly in equity</b>	<b>48</b>	<b>145</b>
<b>Profit for the period</b>	<b><u>25,887</u></b>	<b><u>37,339</u></b>
<b>Total recognised income and expense for the period</b>	<b><u>25,935</u></b>	<b><u>37,484</u></b>
<b>Total attributable to equity holders of the parent</b>	<b><u>25,935</u></b>	<b><u>37,484</u></b>

The condensed consolidated interim statement of recognised income and expense is to be read in conjunction with the notes set out on pages 9 to 20.

Condensed consolidated interim balance sheet

		As at 31 Dec 2005 Note \$A'000	As at 30 Jun 2005 \$A'000
<b>Current assets</b>			
Cash and cash equivalents		5,925	7,406
Trade and other receivables		78,651	112,029
Inventories		118,656	118,179
Biological assets		19,949	21,199
Prepaid corporate tax		8,078	-
Other		3,812	628
<b>Total current assets</b>		<b>235,071</b>	<b>259,441</b>
<b>Non-current assets</b>			
Receivables		57,606	60,597
Inventories		9,639	9,302
Biological assets		232,874	226,012
Other financial assets		1,323	1,323
Property, plant and equipment	11	700,106	671,322
Intangible assets		3,013	3,009
Deferred tax assets		18,553	25,379
Other		57,213	45,832
<b>Total non-current assets</b>		<b>1,080,327</b>	<b>1,042,776</b>
<b>Total assets</b>		<b>1,315,398</b>	<b>1,302,217</b>
<b>Current liabilities</b>			
Trade and other payables		62,563	80,794
Interest-bearing loans and borrowings		52,122	85,171
Income tax payable		-	19,064
Provisions		12,604	11,340
Other – deferred revenue		28,536	50,633
<b>Total current liabilities</b>		<b>155,825</b>	<b>247,002</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings		287,787	304,427
Deferred tax liabilities		168,335	163,435
Provisions		2,383	2,370
<b>Total non-current liabilities</b>		<b>458,505</b>	<b>470,232</b>
<b>Total liabilities</b>		<b>614,330</b>	<b>717,234</b>
<b>Net assets</b>		<b>701,068</b>	<b>584,983</b>
<b>Equity</b>			
Issued capital	4	327,966	212,382
Reserves		201,420	201,372
Retained earnings	5	171,682	171,229
<b>Total equity</b>		<b>701,068</b>	<b>584,983</b>

The condensed consolidated interim balance sheet is to be read in conjunction with the notes set out on pages 9 to 20.



Condensed consolidated interim statement of cash flows

	Half year ended Dec 2005 \$A'000	Half year ended Dec 2004 \$A'000
<b>Cash flows related to operating activities</b>		
Cash receipts in the course of operations	399,357	381,367
Cash payments in the course of operations	(344,741)	(320,147)
Dividends received	-	2
Interest received	141	1,531
Interest paid	(13,248)	(11,225)
Income taxes paid	(25,943)	(19,611)
<b>Net cash provided by operating activities</b>	<b>15,566</b>	<b>31,917</b>
<b>Cash flows related to investing activities</b>		
Proceeds on disposal of non-current assets	295	302
Payment for purchases of property, plant and equipment	(37,805)	(16,941)
Payment for purchases of business assets	-	(28,485)
Payment for standing timber and plantation establishment	(7,439)	(6,708)
Payment for grape vine establishment	(62)	(58)
Proceeds from the sale of investments	-	44
Payments for woodlot development expenditure	(12,238)	(7,504)
<b>Net cash used in investing activities</b>	<b>(57,249)</b>	<b>(59,350)</b>
<b>Cash flows related to financing activities</b>		
Net proceeds from issues of securities	115,584	308
Proceeds from borrowings	63,278	54,505
Repayment of borrowings	(97,522)	(18,100)
Proceeds from sale of debt securities	-	10,972
Dividends/distributions paid	(25,433)	(25,434)
Payments for borrowing costs	(173)	-
<b>Net cash provided by financing activities</b>	<b>55,734</b>	<b>22,251</b>
Net (decrease) in cash and cash equivalents held	14,051	(5,182)
Cash and cash equivalents at beginning of period	(8,126)	(5,625)
<b>Cash and cash equivalents at end of period</b>	<b>5,925</b>	<b>(10,807)</b>

The consolidated condensed interim statement of cash flows is to be read in conjunction with the notes set out on pages 9 to 20.

## 1. Significant accounting policies

The Company is a company domiciled in Australia. The condensed consolidated financial report of the Company for the six months ended 31 December 2005 comprises the Company, its subsidiaries and their interest in associates and jointly controlled entities.

The condensed consolidated financial report was authorised for issuance on 23 February 2006.

### (a) Statement of Compliance

The condensed consolidated financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and the Corporations Act 2001.

International Financial Reporting Standards (IFRS) form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS (AIFRS). The financial report of the consolidated entity also complies with IFRS and interpretations adopted by the International Accounting Standards Board.

This is the consolidated entity's first AIFRS condensed consolidated financial report for part of the period covered by the first AIFRS annual financial report and AASB 1 *First time adoption of Australian equivalents to International Financial Reporting Standards*. The condensed consolidated financial report does not include all of the information required for a full annual financial report.

The interim financial report is to be read in conjunction with the most recent annual financial report, however, the basis of their preparation is different to that of the most recent annual financial report due to the first time adoption of AIFRS. This report must also be read in conjunction with any public announcements made by the Company during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity is provided in note 12. This note includes reconciliations of equity and profit or loss for comparative periods reported under Australian GAAP to those reported for those periods under AIFRS.

### (b) Basis of Preparation

The financial report is presented in Australian dollars.

The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, biological assets and land.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (amended by 05/641 effective 28 July 2005) and in accordance with the Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of an interim financial report in conformity with AASB 134 Interim Financial Reporting requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

This condensed consolidated financial report has been prepared on the basis of AIFRS in issue that are effective or available for early adoption at the consolidated entity's first AIFRS annual reporting date, 30 June 2006. Based on these AIFRS, the Board of Directors have made assumptions about the accounting policies expected to be adopted (accounting policies) when the first AIFRS annual financial report is prepared for the year-ended 30 June 2006.

The Australian Accounting Standards and UIG Interpretations that will be effective or available for voluntary early adoption in the annual financial statements for the period ended 30 June 2006 are still subject to change and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period that are relevant to this interim financial information will be determined only when the first AIFRS financial statements are prepared at 30 June 2006.

The preparation of the condensed consolidated financial report in accordance with AASB 134 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under GAAP. The accounting policies used have been applied consistently to all periods presented in these consolidated financial statements. They also have been applied in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to AIFRS, as required by AASB 1. The impact of the transition from previous GAAP to AIFRSs is explained in note 12.

The accounting policies have been applied consistently throughout the consolidated entity for purposes of this condensed consolidated financial report.

We disclose details of those accounting policies for which there have been significant changes resulting from first adoption of AIFRS below.

## 1. Significant accounting policies (continued)

### Impairment

The carrying amounts of the consolidated entity's assets, other than biological assets, inventories, construction contract assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Goodwill and indefinite-lived intangible assets were tested for impairment at 1 July 2004, the date of transition to AIFRS.

#### *Calculation of recoverable amount*

The recoverable amount of the consolidated entity's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred.

Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### *Reversals of impairment*

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## 1. Significant accounting policies (continued)

### Income tax

Income tax on the income statement for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

### *Tax consolidation*

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Gunns Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'separate taxpayer within group approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group). Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in the Company's balance sheet and their tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the head entity from the subsidiaries in the tax consolidated group are recognised as amounts receivable or payable to other entities in the tax consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution to or distribution from the subsidiary. Distributions firstly reduce the carrying amount of the investment in the subsidiary and are then recognised as revenue.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

### *Nature of tax funding arrangements and tax sharing agreements*

The members of the tax-consolidated group have entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivables (payables) in the separate financial statements of the members of the tax consolidated groups equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) are at call.

The head entity recognises the assumed current tax amounts as current tax liabilities (assets), adding to its own current tax amounts, since they are also due to or from the same taxation authority. The current tax liabilities (assets) are equivalent to the tax balances generated by external transactions entered into by the tax-consolidated group. Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The members of the tax-consolidated group have also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

**2. Revenue and expenses from ordinary activities**

	Half year ended Dec 2005 \$A'000	Half year ended Dec 2004 \$A'000
<b>(a) Revenues from ordinary activities</b>		
Sale of goods revenue from operating activities	251,134	303,167
Rendering of services revenue from operating activities	43,794	28,736
Total revenue from operating activities	<u>294,928</u>	<u>331,903</u>
<b>Other revenues:</b>		
<b><i>From operating activities</i></b>		
Dividends:		
Other parties	-	4
Interest:		
Other parties	141	963
<b>Total revenues from ordinary activities</b>	<u><b>295,069</b></u>	<u><b>332,870</b></u>
<b>(b) Other operating income</b>		
Net market value (NMV) of biological assets harvested	15,725	14,958
Deemed cost of biological assets used	(15,725)	(14,958)
Profit from sale of non-current assets	97	116
Other revenues	4,228	2,167
<b>Total other operating income</b>	<u><b>4,325</b></u>	<u><b>2,283</b></u>
<b>(c) Expenses from ordinary activities</b>		
Changes in inventories of finished goods and work in progress	6,181	(4,611)
Raw materials and consumables used	152,288	182,394
Employee benefits expenses	42,565	41,250
Depreciation and amortisation	9,393	8,551
Net decrement in NMV of biological assets	2,371	3,691
Freight and shipment costs	9,912	14,907
Other expenses from ordinary activities	24,874	20,885
Expenses from ordinary activities (excluding borrowing costs)	<u>247,584</u>	<u>267,067</u>
Finance costs	15,396	14,485
<b>Total expenses from ordinary activities</b>	<u><b>262,980</b></u>	<u><b>281,552</b></u>

## Gunns Limited - Half year report

### 3. Segment Reporting

#### Primary Reporting Business Segments

	Forest Products	Managed Investment Schemes	Other	Consolidated Total
	Dec 2005 \$'000	Dec 2005 \$'000	Dec 2005 \$'000	Dec 2005 \$'000
<b>Segment Revenue *</b>	222,603	24,628	47,838	295,069
<b>Segment Results</b>	35,419	14,927	2,240	52,586
Unallocated revenue/(cost)				(776)
Financing costs				15,396
Profit from ordinary activities before income tax expense				67,206
Income tax expense				(10,527)
Net profit				77,733

#### Primary Reporting Business Segments

	Forest Products	Managed Investment Schemes	Other	Consolidated Total
	Dec 2004 \$'000	Dec 2004 \$'000	Dec 2004 \$'000	Dec 2004 \$'000
<b>Segment Revenue *</b>	278,902	13,705	40,263	332,870
<b>Segment Results</b>	57,597	7,282	3,123	68,002
Unallocated revenue				84
Financing costs				(14,485)
Profit from ordinary activities before income tax expense				53,601
Income tax expense				16,262
Net profit				37,339

\* Segment revenue represents external revenue from operating activities. It is reported net of intersegment sales as they are considered immaterial.

### 4. Contributed equity

	Half year ended Dec 2005 \$A'000	Half year ended Dec 2004 \$A'000
<b>Issued and paid-up share capital</b>		
339,112,188 (2004: 339,112,188) ordinary shares	212,382	212,382
1,200,000 (2004: nil) FORESTS	115,584	-
	<u>327,966</u>	<u>212,382</u>
<b>Ordinary shares</b>		
Balance at the beginning of the half year	212,382	212,074
Securities issued		
- 1,200,000 FORESTS (2004: nil) as a result of issue of securities	115,584	-
- Nil (2004: 44,000) from the exercise of options under the Executive Share Option Plan	-	308
Balance at end of the half year	<u>327,966</u>	<u>212,382</u>

On 5 November 2004 the Company's ordinary shares were subdivided on a 4:1 basis so that each share was subdivided into four shares. For comparative purposes all prior period ordinary share balances and movements have been disclosed as if the subdivision had been in effect from 1 July 2004 to 5 November 2004.

On 14 October 2005, 1,200,000 FORESTS were issued by the Company raising \$120m prior to costs. FORESTS are subordinated notes which pay a quarterly distribution at a margin of 2.5% to the 90 day bank bill swap rate. FORESTS are treated as equity for accounting and taxation purposes. FORESTS may be redeemed or converted to ordinary shares of the Company in certain circumstances. The major impacts of the funds raised were the increase in property, plant and equipment and the reduction in interest-bearing loans and borrowings.

## Gunns Limited - Half year report

### 5. Statement of retained profits

	Notes	Half year ended Dec 2005 \$A'000	Half year ended Dec 2004 \$A'000
Retained profits at beginning of the half year		171,229	122,182
Net profit attributable to members of the parent entity		25,887	37,339
Dividends recognised during the year	6	(25,434)	(25,433)
Retained profits at the end of the half year		<u>171,682</u>	<u>134,088</u>

### 6. Dividends and distributions

The record date to determine entitlements to the interim dividend is 24 March 2006.

Dividends paid or provided for in the current and comparatives periods by Gunns Limited are:

	Cents per security	Total amount \$'000	Date of payment	Percentage franked
<b>2005</b>				
Final - ordinary	7.50c	25,434	7 Oct 05	100%
Total	<u>7.50c</u>	<u>25,434</u>		
<b>2004</b>				
Final - ordinary	7.50c	25,433	7 Oct 04	100%

Franked dividends were franked at the tax rate of 30%.

From 5 November 2004 the Company's ordinary shares were subdivided on a 4:1 basis. The previous year's dividend payment has been restated from 30c to 7.5c.

#### Subsequent events

Since the end of the half year, the directors have declared:

- interim dividend on ordinary shares	6c	20,347	7 Apr 06	100%
- quarterly distribution on FORESTS	143.36c	1,720	16-Jan-06	100%

The financial effect of the above have not been brought to account in the consolidated entity's financial statements for the half year ended 31 December 2005 and will be recognised in subsequent financial reports. The record date to determine entitlements to the interim dividend on ordinary shares is 24 March 2006.

### 7. Control gained or lost over entities during the period

Name of entity (or group of entities)	n/a
Date of the gain or loss of control	n/a
The contribution of such entities to the reporting entity's profit from ordinary activities during the period	n/a
The profit or loss of such entities during the whole of the previous corresponding period	n/a

## 8. Investments in joint venture entities

Name	Principal activity	Ownership interest		Share of net profits	
		2005	2004	2005 \$'000	2004 \$'000
Tamar Tree Farms	Plantation establishment	62%	62%	-	-
Plantation Platform of Tasmania	Plantation establishment	15%	15%	-	-
				-	-

## 9. NTA backing

	2005	2004
Net tangible asset backing per ordinary share (\$)	2.06	1.72
Net tangible assets are determined by deducting from total tangible assets all claims on those assets ranking ahead of the ordinary securities.		
From 5 November 2004 the Company's ordinary shares were subdivided on a 4:1 basis.		

## 10. Seasonality

The consolidated entity's managed investment scheme (MIS) business is subject to seasonal fluctuations. The majority of MIS sales occur in the second half of the financial year. Revenue from these sales is recognised in the financial period of the sale except for woodlot sales where revenue is recognised in the period of the sale as well as the following financial year. Thus it is expected that the first half revenue and result would generally be lower than that of the second half.

## 11. Capital expenditure

In the six months to December 2005, additions to property, plant and equipment totalled \$37.2m with the majority of this spending on land acquisitions for MIS projects.

## 12. Explanation of transition to AIFRS

As stated in Basis of Preparation of Half Year Report note (a), these are the consolidated entity's first condensed consolidated financial statements prepared in accordance with AIFRS.

The policies set out in the Basis of Preparation of Half Year Report section of this report have been applied in preparing the financial statements for the six months ended 31 December 2005, the comparative information presented in these financial statements for the year ended 30 June 2005 and in the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (GAAP). An explanation of how the transition from GAAP to AIFRS has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.



**12. Explanation of transition to AIFRS (Contd.)****Reconciliation of equity**

		Previous GAAP \$'000	Effect of transition to AIFRS 1-Jul-04 \$'000	AIFRS \$'000	Previous GAAP \$'000	Effect of transition to AIFRS 31-Dec-04 \$'000	AIFRS \$'000	Previous GAAP \$'000	Effect of transition to AIFRS 30-Jun-05 \$'000	AIFRS \$'000
<b>Current assets</b>										
Cash		1,233		1,233	4,000		4,000	7,406		7,406
Receivables	g)	82,093	4,228	86,321	82,748	8,488	91,236	103,598	8,431	112,029
Inventories		81,924		81,924	108,032		108,032	118,179		118,179
Biological assets		27,163		27,163	29,319		29,319	21,199		21,199
Other		798		798	4,478		4,478	628		628
<b>Total current assets</b>		<b>193,211</b>	<b>4,228</b>	<b>197,439</b>	<b>228,577</b>	<b>8,488</b>	<b>237,065</b>	<b>251,010</b>	<b>8,431</b>	<b>259,441</b>
<b>Non-current assets</b>										
Receivables	g)	37,045	9,412	46,457	23,472	14,793	38,265	46,635	13,962	60,597
Inventories	i)	7,960	(572)	7,388	7,809	(572)	7,237	9,874	(572)	9,302
Biological assets	f)	207,815	(15,950)	191,865	211,206	(17,964)	193,242	249,312	(23,300)	226,012
Other financial assets		42		42	-		-	1,323		1,323
Property, plant and equipment	h)	452,117	3,340	455,457	473,532	3,164	476,696	668,333	2,989	671,322
Intangible assets	c)	3,631	(931)	2,700	3,653	(899)	2,754	3,885	(876)	3,009
Deferred tax assets		16,325		16,325	13,641		13,641	22,812	2,567	25,379
Other		33,266		33,266	38,357		38,357	45,832		45,832
<b>Total non-current assets</b>		<b>758,201</b>	<b>(4,701)</b>	<b>753,500</b>	<b>771,670</b>	<b>(1,477)</b>	<b>770,193</b>	<b>1,048,006</b>	<b>(5,230)</b>	<b>1,042,776</b>
<b>Total assets</b>		<b>951,412</b>	<b>(473)</b>	<b>950,939</b>	<b>1,000,247</b>	<b>7,011</b>	<b>1,007,258</b>	<b>1,299,016</b>	<b>3,201</b>	<b>1,302,217</b>

**12. Explanation of transition to AIFRS (Contd.)****Reconciliation of equity**

		Previous GAAP \$'000	Effect of transition to AIFRS 1-Jul-04 \$'000	AIFRS \$'000	Previous GAAP \$'000	Effect of transition to AIFRS 31-Dec-04 \$'000	AIFRS \$'000	Previous GAAP \$'000	Effect of transition to AIFRS 30-Jun-05 \$'000	AIFRS \$'000
<b>Current liabilities</b>										
Payables		73,226		73,226	75,286		75,286	80,794		80,794
Interest-bearing liabilities	g),h)	51,733	4,759	56,492	69,264	9,180	78,444	76,465	8,706	85,171
Current tax liabilities		17,692		17,692	7,350		7,350	19,064		19,064
Provisions		9,906		9,906	11,111		11,111	11,340		11,340
Other		35,227		35,227	25,068		25,068	50,633		50,633
<b>Total current liabilities</b>		<b>187,784</b>	<b>4,759</b>	<b>192,543</b>	<b>188,079</b>	<b>9,180</b>	<b>197,259</b>	<b>238,296</b>	<b>8,706</b>	<b>247,002</b>
<b>Non-current liabilities</b>										
Interest-bearing liabilities	g),h)	235,695	12,004	247,699	265,467	17,054	282,521	288,547	15,880	304,427
Deferred tax liabilities	d),f),h),i)	82,131	15,317	97,448	86,707	14,704	101,411	96,511	66,924	163,435
Provisions		2,133		2,133	2,593		2,593	2,370		2,370
<b>Total non-current liabilities</b>		<b>319,959</b>	<b>27,321</b>	<b>347,280</b>	<b>354,767</b>	<b>31,758</b>	<b>386,525</b>	<b>387,428</b>	<b>82,804</b>	<b>470,232</b>
<b>Total liabilities</b>		<b>507,743</b>	<b>32,080</b>	<b>539,823</b>	<b>542,846</b>	<b>40,939</b>	<b>583,785</b>	<b>625,724</b>	<b>91,510</b>	<b>717,234</b>
<b>Net assets</b>		<b>443,669</b>	<b>(32,553)</b>	<b>411,116</b>	<b>457,401</b>	<b>(33,927)</b>	<b>423,474</b>	<b>673,292</b>	<b>(88,309)</b>	<b>584,983</b>
<b>Equity</b>										
Contributed equity		212,074		212,074	212,382		212,382	212,382		212,382
Reserves	a),d),e)	85,414	(8,554)	76,860	85,558	(8,554)	77,004	261,975	(60,603)	201,372
Retained profits	a),c),d),e),f),h),i)	146,181	(23,999)	122,182	159,461	(25,373)	134,088	198,936	(27,707)	171,229
<b>Total equity</b>		<b>443,669</b>	<b>(32,553)</b>	<b>411,116</b>	<b>457,401</b>	<b>(33,927)</b>	<b>423,474</b>	<b>673,292</b>	<b>(88,310)</b>	<b>584,983</b>

## 12. Explanation of transition to AIFRS (Contd.)

### Reconciliation of profit

Notes	Previous GAAP \$'000	Effect of transition to AIFRS 31-Dec-04 \$'000	AIFRS \$'000	Previous GAAP \$'000	Effect of transition to AIFRS 30-Jun-05 \$'000	AIFRS \$'000
<b>Revenue</b>						
Sale of goods revenue from operating activities	303,167		303,167	574,686		574,686
Rendering of services revenue from operating activities	28,174	562	28,736	93,847	2,146	95,993
Total revenue from operating activities	331,341	562	331,903	668,533	2,146	670,679
<b>Other revenues:</b>						
<b>From operating activities</b>						
Dividends - other parties	4		4	5		5
Interest -other parties	963		963	602		602
Total revenue	332,308	562	332,870	669,140	2,146	671,286
<b>Other operating income</b>						
Net market value (NMV) of biological assets harvested	14,958		14,958	28,677		28,677
Deemed cost of biological assets used	(14,958)		(14,958)	(28,677)		(28,677)
Profit from sale of non-current assets		116	116		731	731
Proceeds from sale of non-current assets	476	(476)	-	1,850	(1,850)	-
Other revenues	2,167		2,167	6,170	1,375	7,545
<b>Total other operating income</b>	2,643	(360)	2,283	8,020	256	8,276
<b>Expense</b>						
Changes in inventories of finished goods and work in progress	(4,611)		(4,611)	(20,743)		(20,743)
Raw materials and consumables used	182,394		182,394	370,918		370,918
Employee benefits expense	41,250		41,250	80,688		80,688
Depreciation and amortisation	8,407	144	8,551	17,441	297	17,738
Net decrement in NMV of biological assets	1,677	2,014	3,691	(23,753)	7,350	(16,403)
Freight and shipment costs	14,907		14,907	26,066		26,066
Other expenses from ordinary activities	21,666	(781)	20,885	53,948	(1,961)	51,987
Total expenses before financing cost	265,690	1,377	267,067	504,565	5,687	510,252
Financing costs	13,672	813	14,485	27,924	2,058	29,982
Total expenses from ordinary activities	279,362	2,190	281,552	532,489	7,744	540,233
Profit from ordinary activities before related income tax expense	55,589	(1,988)	53,601	144,671	(5,342)	139,329
Income tax expense related to ordinary activities	16,876	(614)	16,262	43,328	(1,634)	41,694
Net profit attributable to members of the parent entity	38,713	(1,374)	37,339	101,343	(3,708)	97,635
Basic earnings per share (cents)	11.4	(0.4)	11.0	29.9	(1.1)	28.8
Diluted earnings per share (cents)	11.4	(0.4)	11.0	29.9	(1.1)	28.8

**12. Explanation of transition to AIFRS (Contd.)****Notes****Property, plant and equipment**

- a) Under current Australian GAAP, revaluation increments and decrements within the land and buildings classes of assets were recognised on a net basis; however, AIFRS requires revaluation increments and decrements to be recognised on an individual asset-by-asset basis. Freehold land is recognised at fair value and buildings are recognised at cost or deemed cost. Accordingly, the adoption of AIFRS will result in an increase in the asset revaluation reserve and a decrease in opening retained earnings of \$1,508,000 as at 1 July 2004. For the year ended 30 June 2005, revaluation increments of \$1,375,000 partially offsetting the abovementioned decrements will be recognised as revenue through the income statement causing a decrease in the asset revaluation reserve of \$963,000 and an increase in income tax expense of \$412,000.
- b) Under AIFRS, the gain or loss on the disposal of property, plant and equipment will be recognised on a net basis as a gain or loss rather than separately recognising the consideration received as revenue. For the consolidated entity, proceeds on sale of \$1,850,000 will be deducted from other operating income and expense and profit on sale of \$731,000 will be added to other operating income and expense for the financial year ended 30 June 2005. This adjustment has no profit impact.
- c) **Calculation of recoverable amount**  
Under current Australian GAAP, the recoverable amount of non-current assets was assessed at an entity level using undiscounted cash flows.  
Under AIFRS the recoverable amount of the consolidated entity's receivables carried at amortised cost will be calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). This is not expected to result in a material adjustment to non-current receivables. Receivables with a short duration are not discounted.  
The impact of the change in the basis of impairment testing for goodwill resulted in a reduction in goodwill recognised and opening retained profits of \$931,000 for the consolidated entity as at 1 July 2004. The effect on the 30 June 2005 result is to reduce goodwill amortisation and increase profit before tax by \$54,000.
- d) **Taxation**  
On transition to AIFRS the balance sheet method of tax effect accounting has been adopted, rather than the liability method applied under Australian GAAP.  
The expected impact on the consolidated entity at 1 July 2004, of the change in basis and the transition adjustments on the deferred tax balances and the previously reported tax expense is an increase in deferred tax liabilities of \$20,209,000, a decrease in asset revaluation reserve of \$9,134,000 and a decrease in retained profits of \$11,075,000.  
Deferred tax liabilities of the consolidated entity increases by \$53,637,000, income tax expense decreases by \$15,000 and equity decreases by \$51,086,000 as at 30 June 2005.  
The taxation disclosure impacts of the other AIFRS changes included in this note are disclosed under the separate headings within this note.
- e) **Foreign currency**  
Financial statements of foreign operations  
The AASB 1 election to reset existing foreign currency translation reserve balance to nil has been adopted. This reduces foreign currency translation reserve and increases opening retained profits as at 1 July 2004 by \$928,000.

**12. Explanation of transition to AIFRS (Contd.)****Notes****f) Biological Assets - Timber**

Under current Australian GAAP, self generating and regenerating assets could be valued based on expected future net cash flows adjusted by a discount rate to determine a present value. The discount rate used is an estimate of the consolidated entity's weighted average cost of capital. Under AIFRS additional guidance is provided on the discount rate to be used. This standard states that the weighted average cost of capital can be the basis of the discount rate but this should be adjusted for various additional factors specific to the relevant asset class.

In this financial report, a real discount rate of 9% has been used. Previously a nominal discount rate of 10% was used. The effect of this rate change as at 1 July 2004 is to reduce the non-current standing timber and opening retained profits by \$15,950,000 in the consolidated entity. This adjustment will decrease the deferred income tax liability and increase opening retained profits by \$4,785,000. The effect on the 30 June 2005 result would be to reduce non-current standing timber and net increment on standing timber in the income statement by \$7,350,000 in the consolidated entity. This adjustment will decrease the deferred income tax liability and income tax expense by \$2,205,000.

**g) Securitisation of Assets**

Under AIFRS, loans that have been securitised must be brought back onto the balance sheet. AIFRS requires consideration of the probability of expected risks and benefits not just the possible risks and benefits. The amount by which loan book assets and liabilities have been increased in the consolidated entity as at 1 July 2004 is \$13,544,000, as have receivables by \$96,000, future income tax liability by \$29,000 and opening retained profits by \$67,000. As at 30 June 2005 loan book assets and liabilities increase by \$2,504,000, as do receivables by \$303,000, future income tax liability by \$91,000. In the year to 30 June 2005, \$2,146,000 of additional interest revenue, \$1,843,000 of additional borrowing cost have been recognised as does additional income tax expense of \$91,000.

**h) Leased Assets**

At the date for transition to AIFRS leases will be classified as operating leases or finance leases on the basis of circumstance existing at inception of the lease. Under Australian GAAP certain leases were classified as operating leases that are classified as finance leases under AIFRS due to differences in the classification criteria. AIFRS requires consideration of the probability of expected risks and benefits not just the possible risks and benefits.

For the consolidated entity, the change in classification is expected to result in an increase in property, plant and equipment of \$3,340,000 at 1 July 2004 which reduces by \$352,000 as at 30 June 2005. Depreciation for the financial year ended 30 June 2005 is expected to increase by \$352,000.

Also, interest bearing loans and borrowings are expected to increase by \$3,219,000 at 1 July 2004 and reduce by \$627,000 as at 30 June 2005 and finance expenses for the financial year ended 30 June 2005 are expected to increase by \$215,000. Operating lease expenses for the financial year ended 30 June 2005 are expected to reduce by \$842,000. Opening retained profits as at 1 July 2004 will be increased by \$121,000.

The effect of the above adjustments on tax as at 1 July 2004 is to increase deferred income tax liability by \$36,000 and as at 30 June 2005, to increase deferred income tax liability by an additional \$83,000.

**i) Interest Capitalised in Inventory**

Under AIFRS, there is a choice as to whether borrowing costs will be capitalised. Gunns have chosen to remove the borrowing costs previously capitalised in non-current inventory.

For the consolidated entity, this change is expected to result in a decrease in non-current inventory of \$572,000 at 1 July 2004 with a corresponding decrease in opening retained profits as at 1 July 2004.

The effect of the above adjustment on tax as at 1 July 2004 is to decrease deferred income tax liability and opening retained profits by \$172,000.

**Material Adjustments to Cash Flow Statement**

The only change to the condensed consolidated interim statement of cash flows as a result of AIFRS is the reclassification of the securitised assets noted in g) above. The inflows and outflows have now been classified as financing rather than operating cashflows.

## Directors' Declaration

1. In the opinion of the directors of Gunns Limited ("the Company"):

- (a) the financial statements and notes, set out on pages 4 to 20 are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2005 and of its performance, as represented by the results of its operations and cash flows, for the half-year ended on that date; and
  - (ii) complying with Australian Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Launceston this 23rd day of February 2006.

Signed in accordance with a resolution of the directors:



---

J. E. GAY  
Executive Chairman



## Independent review report to the members of Gunns Limited

### Scope

We have reviewed the financial report of Gunns Limited ("the Company") for the half-year ended 31 December 2005, consisting of the condensed consolidated interim statement of income, balance sheet, statement of recognised income and expense, statement of cash flows, accompanying notes and the directors' declaration [set out on pages 4 to 21]. The financial report includes the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at the end of the half-year or from time to time during the half-year. The Company's directors are responsible for the financial report including the relevant reconciling information regarding adjustments required under the Australian Accounting Standard AASB 1 *First-Time Adoption of Australian equivalents to International Financial Reporting Standards*.

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows and in order for the Company to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

### Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Gunns Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
  - i. giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and
  - ii. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia

KPMG

M G Wallace  
Partner

Place: Launceston

Date: 23 February 2006





***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

To: the directors of Gunns Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2005 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

M G Wallace  
*Partner*

Launceston

Date: 23 February 2006





# MEDIA RELEASE



**DATE: February 23, 2006**  
**REF: 01/06**

## **GUNNS LIMITED INTERIM PROFIT ANNOUNCED**

Gunns Limited has recorded a net profit after tax for the six months ended December 31, 2005 of \$25.9 million.

There were no abnormal or extraordinary items in the result.

Earnings per share (EPS) of 7.6 cents in the first half of the 2006 year compares to 11.0 cents in the prior year.

Revenue from ordinary activities decreased by 11.4 per cent to \$295.1 million, largely due to lower activity levels across the forest products business, with net operating cash flow of \$15.6 million.

The Directors have declared a fully franked interim dividend of six cents per share, which will be paid on April 7, 2006. The record date of the payment is March 24, 2006. The dividend will require a payment of \$20.3 million and represents a payout ratio of 79 per cent of net profit after tax for the period.

Gunns Limited Executive Chairman John Gay said the result reflected a significant seasonal impact on expected annual earnings with the increased activity in the managed investments sector largely brought to account in the second half.

"Revenue and earnings from the managed investments business increased strongly in the period, with revenue up 80 per cent over the prior year comparative period and earnings up 105 per cent," Mr Gay said.

"It is expected that the 2006 MIS products for wood, wine and walnut projects will be released to the market in March 2006."

The Tamar Ridge Wines business achieved significant increases in sales volumes with revenue up 16 per cent on the prior year comparative period. Expansion of both domestic and export markets is a key priority for the business ahead of increasing production volumes over the next five years.

Mr Gay said the growing demand for quality cool climate wine product is particularly significant in light of the market issues facing the broader industry.

Forest products revenue of \$222.6 million compared to \$278.9 million in the prior year first half. Revenue and earnings were adversely impacted by a lower sales volume in the woodchip business over the half, with sales for the period totalling 1.83 million gmt, compared to 2.3 million gmt in the prior year comparative period.

Mr Gay said the result also reflected the progressive movement of the furniture manufacturing base offshore, the continued relative strength of the Australian dollar and limited access to shipping capacity.

"Management has implemented and continues to assess cost reduction strategies to improve competitiveness in the current market environment to mitigate the effect of lower sales volumes on profitability," he said.

Capital expenditure for the six month period totalled \$57.2 million, including land acquisition of \$20.7 million.

Operating cash flow at \$15.6 million was below that recorded in the prior year comparative period of \$31.9 million. This was largely due to reduced activity levels across the forest products business in the period.

Mr Gay said the Company expects the second half trading result to be significantly stronger.

"Earnings from the forest products business are expected to improve through the second half in line with normal seasonal improvements in costs," he said.

"Whilst there are indications of increased customer interest in the woodchip market, this is not expected to impact on activity levels until the latter part of the calendar year.

"The Bell Bay pulp mill project remains a key development project for the group. This project offers significant potential for increasing both shareholder value and the value of the business and broader industry for the State.

"The Company has substantially completed the Integrated Impact Statement preparation on the basis of previously issued draft guidelines and is now reviewing the content in light of the final scoping requirements.

"This review is expected to be completed to enable the lodgement of the application with the RPDC by the end of March 2006."

---

**For further information, please contact:**

Sarah Dent, Brand Manager, Gunns Limited

Phone: (03) 6335-5201

Fax:

(03) 6334-7909

Mobile: 0417 711222

Email:

[sarah.dent@gunns.com.au](mailto:sarah.dent@gunns.com.au)