

31 August 2006

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

Dear Sir/Madam,

Attached is the Gunns Limited preliminary final report and statement on behalf of the board of directors for the year ended 30 June 2006.

Yours faithfully,



WAYNE CHAPMAN
COMPANY SECRETARY
GUNNS LIMITED

Gunns Limited

ABN 29 009 478 148

Appendix 4E**Preliminary final report****Financial year ended 30 June 2006****Results for announcement to the market**

\$A'000

Revenues from ordinary activities	down	(4.9%)	to	637,584
Profit from ordinary activities after tax attributable to members	down	(13.1%)	to	87,189
Net profit for the period attributable to members	down	(13.1%)	to	87,189

Dividends and Distributions	Amount per security	Franked amount per security (at 30%)
Interim dividend - ordinary shares	6.0c	6.0c
Final dividend - ordinary shares	10.0c	10.0c
	<u>16.0c</u>	<u>16.0c</u>
Previous corresponding period		
Interim dividend	5.0c	5.0c
Final dividend	7.5c	7.5c
	<u>12.5c</u>	<u>12.5c</u>

Ordinary

Record date for determining entitlements:

22 September 2006

Date payable:

6 October 2006

Note: The previous corresponding period is the financial year ended 30 June 2005.

Condensed consolidated income statement

	Note	2006 \$A'000	2005 \$A'000
Revenue	2(a)	637,584	670,381
Other operating income	2(b)	4,332	8,276
Expenses			
Changes in inventories of finished goods and work in progress		(5,043)	20,743
Raw materials and consumables used		(296,216)	(370,918)
Employee benefits expenses		(81,576)	(80,688)
Depreciation and amortisation		(17,730)	(17,738)
Net (decrement)/increment in NMV of biological assets		(1,532)	13,543
Freight and shipment costs		(20,940)	(26,066)
Sales and marketing costs		(21,339)	(22,229)
Other expenses		(44,081)	(22,497)
Profit before financing costs		153,458	172,807
Financial income		801	602
Financial expenses		(30,636)	(29,982)
Net financing cost		(29,835)	(29,380)
Profit before tax		123,623	143,427
Income tax expense		(36,435)	(43,129)
Net profit attributable to members of the parent entity		87,189	100,299

Earnings per share (EPS)

Basic EPS (cents)	25.7c	29.6c
Diluted EPS (cents)	23.8c	29.6c

The income statement is to be read in conjunction with the notes set out on pages 6 to 20.

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Condensed consolidated statement of recognised income and expense

	Year ended Jun 2006 \$A'000	Year ended Jun 2005 \$A'000
Note		
Asset revaluation reserve - fair value adjustment	(60)	118,237
Hedge revaluation - fair value adjustment	3,592	-
Asset revaluation reserve - change in accounting policy	-	(5,562)
Foreign exchange translation differences	<u>(930)</u>	<u>75</u>
Net income recognised directly in equity	2,602	112,751
Profit for the period	<u>87,189</u>	<u>100,299</u>
Total recognised income and expense for the period	<u>89,791</u>	<u>213,049</u>
Total attributable to equity holders of the parent	<u>89,791</u>	<u>213,049</u>

The condensed consolidated statement of recognised income and expense is to be read in conjunction with the notes set out on pages 6 to 20.

Condensed consolidated balance sheet

	Note	As at 30 Jun 2006 \$A'000	As at 30 Jun 2005 \$A'000
Current assets			
Cash and cash equivalents		5,434	7,406
Trade and other receivables		154,038	111,630
Inventories		118,516	118,179
Biological assets		25,718	21,199
Prepaid corporate tax		1,008	-
Other		622	628
Total current assets		305,336	259,042
Non-current assets			
Receivables		35,993	60,597
Inventories		11,945	9,302
Biological assets		227,748	215,303
Other financial assets		1,595	1,323
Property, plant and equipment		798,787	670,636
Intangible assets		3,022	3,009
Deferred tax assets		746	474
Other		65,461	45,832
Total non-current assets		1,145,297	1,006,476
Total assets		1,450,633	1,265,518
Current liabilities			
Trade and other payables		96,468	80,794
Interest-bearing loans and borrowings		128,367	85,171
Income tax payable		-	19,064
Provisions		11,288	11,340
Other – deferred revenue		16,740	50,633
Total current liabilities		252,863	247,002
Non-current liabilities			
Interest-bearing loans and borrowings		308,216	304,427
Deferred tax liabilities		154,359	135,197
Provisions		2,539	2,370
Total non-current liabilities		465,114	441,994
Total liabilities		717,977	688,996
Net assets		732,656	576,522
Equity			
Issued capital	6	327,907	212,382
Reserves		215,514	195,811
Retained earnings	7	189,235	168,330
Total equity		732,656	576,522

The balance sheet is to be read in conjunction with the notes set out on pages 6 to 20.

Condensed consolidated statement of cash flows

	2006 \$A'000	2005 \$A'000
Cash flows related to operating activities		
Cash receipts in the course of operations	653,935	736,826
Cash receipts in the course of operations - woodlot financing	26,875	13,607
Cash payments in the course of operations	(554,675)	(614,042)
Dividends received	55	5
Interest received	801	600
Interest paid	(23,428)	(23,322)
Income taxes paid	(37,616)	(33,748)
Net cash provided by operating activities	65,947	79,926
Cash flows related to investing activities		
Proceeds on disposal of non-current assets	2,008	1,846
Payment for purchases of property, plant and equipment	(122,811)	(58,265)
Payment for purchases of business assets	-	(28,485)
Payment for standing timber and plantation establishment	(17,846)	(10,768)
Payments for investments	-	(1,623)
Proceeds on disposal of other assets	-	44
Payments for woodlot development expenditure	(17,854)	(15,915)
Net cash used in investing activities	(156,503)	(113,166)
Cash flows related to financing activities		
Net proceeds from issues of securities	115,525	8,759
Proceeds from borrowings	131,266	100,223
Repayment of borrowings	(114,263)	(33,127)
Finance lease payments	(2,073)	(1,454)
Dividends/distributions paid	(49,183)	(42,389)
Payments for borrowing costs	(346)	(1,273)
Net cash provided by financing activities	80,926	30,739
Net (decrease) in cash and cash equivalents held	(9,630)	(2,501)
Cash and cash equivalents at beginning of period	(8,126)	(5,625)
Cash and cash equivalents at end of period	(17,756)	(8,126)

The statement of cash flows is to be read in conjunction with the notes set out on pages 6 to 20.

1. Significant accounting policies

The Company is a company domiciled in Australia. The condensed consolidated financial report of the Company for the year ended 30 June 2006 comprise the Company, its subsidiaries and their interest in associates and jointly controlled entities.

The condensed consolidated financial report was authorised for issuance on 31 August 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, Urgent Issues Group Interpretations adopted by the Australian Accounting Standards Board (AASB) 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 and AASB 1 *First time adoption of Australian equivalents to International Financial Reporting Standards* has been applied. The condensed consolidated financial report does not include all of the information required for a full annual financial report.

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 13. 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 investment property.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 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 a financial report in conformity with Australian Accounting Standards 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.

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 AIFRS is explained in note 13.

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

We disclose below 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) is 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

	2006 \$A'000	2005 \$A'000
(a) Revenue		
Sale of goods revenue from operating activities	475,113	574,686
Rendering of services revenue from operating activities	162,415	95,690
Total revenue from operating activities	<u>637,529</u>	<u>670,376</u>
Other revenues:		
Dividends:		
Other parties	55	5
Total revenue	<u>637,584</u>	<u>670,381</u>

(b) Other operating income

Net market value (NMV) of biological assets harvested	32,665	28,677
Deemed cost of biological assets used	(32,665)	(28,677)
Profit on sale of non-current assets	680	731
Other revenues	3,652	7,545
Total other operating income	<u>4,332</u>	<u>8,276</u>

3. Profit from ordinary activities before income tax expense

Profit from ordinary activities before income tax expense has been arrived at after charging/ (crediting) the following items:

Cost of goods sold	<u>446,031</u>	<u>483,907</u>
Depreciation of:		
Buildings	1,344	1,372
Plant and equipment	6,229	8,939
Amortisation of:		
Forest roads	7,614	6,135
Intangible assets	1	-
Leased plant and equipment	2,542	1,292
Total depreciation and amortisation	<u>17,730</u>	<u>17,738</u>
Borrowing costs:		
Bank loans and overdrafts, other loans and deposit scheme	29,854	29,614
Finance charges on capitalised leases	782	368
Capitalised borrowing costs	717	-
	<u>31,353</u>	<u>29,982</u>
Net bad and doubtful debts expense including movements in provision for doubtful debts	<u>(382)</u>	<u>2,604</u>
Net expense/(credit) from movements in provision for:		
Employee entitlements	<u>(29)</u>	<u>884</u>
Operating lease rental expense:		
Minimum lease payments	<u>1,738</u>	<u>1,187</u>
Net foreign exchange loss/(gain) - other	<u>(43)</u>	<u>62</u>

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4. Earnings per share (EPS)

	2006	2005
Weighted average number of shares used as the denominator		
Number for basic earnings per share	339,112,188	339,112,188
Effect of FORESTS	26,626,230	
Number for diluted earnings per share	365,738,418	339,112,188
Earnings reconciliation	\$A'000	\$A'000
Basic earnings	87,189	100,299
Diluted earnings	87,189	100,299
Basic earnings per share	25.71c	29.58c
Diluted earnings per share	23.84c	29.58c

During the prior year, 176,000 options were converted to ordinary shares.

5. Segment Reporting

Primary Reporting

Business Segments

	Forest Products	Managed Investment Schemes	Other	Consolidated Total
	Jun 2006 \$'000	Jun 2006 \$'000	Jun 2006 \$'000	Jun 2006 \$'000
Segment Revenue *	414,038	124,380	99,110	637,529
Unallocated revenue				55
				637,584
Segment Results	82,889	68,068	7,521	158,478
Unallocated revenue/(cost)				(5,020)
Net financing costs				(29,835)
Profit from ordinary activities before income tax expense				123,623
Income tax expense				(36,435)
Net profit				87,189
Segment Assets	1,241,380	146,101	61,398	1,448,879
Unallocated assets				1,754
Consolidated Total assets				1,450,633
Segment Liabilities	487,237	74,107	2,274	563,618
Unallocated liabilities				154,359
Consolidated total liabilities				717,977
Other Segment Information				
Acquisition of segment assets	144,484	2,067	3,514	150,065
Depreciation and amortisation	15,450	10	2,271	17,730
Net decrement in NMV of biological assets	948	-	584	1,532

Secondary Reporting

Geographical Segments

	Australia & NZ	Asia	Other	Consolidated Total
	Jun 2006 \$'000	Jun 2006 \$'000	Jun 2006 \$'000	Jun 2006 \$'000
Segment revenue *	314,624	314,519	8,440	637,584
Segment assets	1,450,633	-	-	1,450,633
Acquisition of segment assets	150,065	-	-	150,065

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

5. SEGMENT REPORTING (continued)

**Primary Reporting
Business Segments**

	Forest Products	Managed Investment Schemes	Other	Consolidated Total
	Jun 2005 \$'000	Jun 2005 \$'000	Jun 2005 \$'000	Jun 2005 \$'000
Segment Revenue *	520,507	64,790	85,079	670,376
Unallocated revenue				5
				670,381
Segment Results	139,732	27,847	8,607	176,186
Unallocated revenue/(cost)				(3,379)
Net financing costs				(29,380)
Profit from ordinary activities before income tax expense				143,427
Income tax expense				(43,129)
Net profit				100,299
Segment Assets **	1,048,084	159,983	56,977	1,265,044
Unallocated assets				474
Consolidated Total assets				1,265,518
Segment Liabilities	441,498	86,676	6,562	534,736
Unallocated liabilities				154,260
Consolidated Total liabilities				688,996
Other Segment Information				
Acquisition of segment assets	52,369	536	11,677	64,582
Depreciation and amortisation	16,509	10	1,219	17,738
Net increment in NMV of biological assets	13,275	-	268	13,543

**Secondary Reporting
Geographical Segments**

	Australia & NZ	Asia	Other	Consolidated Total
	2005 \$'000	2005 \$'000	2005 \$'000	2005 \$'000
Segment revenue *	278,384	383,978	8,019	670,381
Segment assets	1,265,044	-	-	1,265,044
Acquisition of segment assets	64,582	-	-	64,582

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

6. Contributed equity

	2006 \$A'000	2005 \$A'000
Issued and paid-up share capital		
339,112,188 (2005: 339,112,188) ordinary shares	212,382	212,382
1,200,000 (2005: nil) FORESTS	115,525	-
	<u>327,907</u>	<u>212,382</u>
Movement in share capital		
Balance at the beginning of the year	212,382	212,074
Securities issued		
- 1,200,000 FORESTS (2005: nil) as a result of issue of securities	115,525	-
- Nil (2005: 176,000) from Executive Share Option Plan options		308
Balance at end of the year	<u>327,907</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.

7. Statement of retained profits

	Notes	2006 \$A'000	2005 \$A'000
Retained profits at beginning of the year		168,330	116,620
Net profit attributable to members of the parent entity		87,189	100,300
Transfer to reserves		(17,100)	(6,200)
Dividends recognised during the year	8	<u>(49,183)</u>	<u>(42,390)</u>
Retained profits at the end of the half year		<u>189,235</u>	<u>168,330</u>

8. Dividends and distributions

The record date to determine entitlements to the final dividend is 22 September 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
2006				
April quarter - FORESTS	140.21c	1,683	13 Apr 06	100%
Interim - ordinary	6.00c	20,347	7 Apr 06	100%
January quarter - FORESTS	143.33c	1,720	16 Jan 06	100%
Final - ordinary	7.50c	25,433	7 Oct 05	100%
2005				
Interim - ordinary	5.00c	16,956	7 Apr 05	100%
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 October 2004 dividend payments has been restated from 30c to 7.5c per share.

Subsequent events

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

- final dividend on ordinary shares	10c	33,911	6 Oct 06	100%
- quarterly distribution on FORESTS	142.58c	1,711	14 Jul 06	100%

The financial effect of the above have not been brought to account in the consolidated entity's financial statements for the year ended 30 June 2006 and will be recognised in subsequent financial reports. The record date to determine entitlements to the final dividend is 22 September 2006.

9. Control gained or lost over entities during the period

Name of entity (or group of entities)	East Coast Pastoral Pty Ltd	WFVIC Limited
Date of the gain or loss of control	2-Jun-06	16-Mar-06
The contribution of such entities to the reporting entity's profit from ordinary activities during the period	Nil	Nil
The profit or loss of such entities during the whole of the previous corresponding period	Nil	Nil

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10. Investments in joint venture entities

Name	Principal activity	Ownership interest		Share of net profits	
		2006	2005	2006 \$'000	2005 \$'000
Tamar Tree Farms	Plantation establishment	62%	62%	-	-
Plantation Platform of Tasmania	Plantation establishment	15%	15%	-	-

11. Notes to the statement of cash flows

	Notes	2006 \$A'000	2005 \$A'000
Reconciliation of cash			
Cash assets		5,434	7,406
Bank overdraft		(23,190)	(15,532)
Total cash at end of period		(17,756)	(8,126)

(b) Reconciliation of profit from ordinary activities after income tax to net cash provided by operating activities

Profit from ordinary activities after income tax	87,189	100,299
Add/(less) items classified as investing/ financing activities:		
(Profit)/loss on sale of non-current assets	(680)	(474)
Net (Increment)/Decrement - NMV of standing timber and grape	881	(14,233)
Add/(less) non-cash items:		
Amortisation of goodwill	1	1
Revaluation of assets through profit and loss statement	(272)	(963)
Deferred tax impact of asset revaluations	-	(51,086)
Amounts set aside to provision for doubtful debts, loans and claims	(593)	2,388
Depreciation and amortisation of property, plant, equipment and	17,730	17,739
Amounts set aside for other provisions	145	632
Amortisation of borrowing costs	2,152	4,602
Write-off of capitalised costs	-	684
(Decrease)/increase in income taxes payable	(20,072)	1,373
(Decrease)/increase in deferred taxes payable	19,162	67,420
(Increase)/decrease in deferred tax assets	(272)	(9,053)
Net cash provided by operating activities before change in assets	105,370	119,328
Change in assets and liabilities during the financial year:		
(Increase)/decrease in inventories	(2,980)	(20,711)
(Increase)/decrease in prepayments	6	170
(Increase)/decrease in receivables	(18,201)	(41,855)
(Increase)/decrease in deferred costs	-	27
(Decrease)/increase in accounts payable	15,674	7,567
(Decrease)/increase in deferred revenue	(33,893)	15,406
(Decrease)/increase in provisions for employee benefits	(29)	(6)
Net cash provided by operating activities	65,947	79,926

12. NTA backing

	2006	2005
Net tangible asset backing per ordinary share (\$)	2.15	1.69
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.		

13. Explanation of transition to AIFRS

As stated in note 1, these are the consolidated entity's first condensed consolidated financial statements prepared in accordance with AIFRS. The policies set out in note 1 of this report have been applied in preparing the financial statements for the year ended 30 June 2006, 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.

13. 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 30-Jun-05 \$'000	AIFRS \$'000
Current assets							
Cash		1,233		1,233	7,406		7,406
Receivables	g)	82,093	4,132	86,225	103,598	8,032	111,630
Inventories		81,924		81,924	118,179		118,179
Biological assets		27,163		27,163	21,199		21,199
Other		798		798	628		628
Total current assets		193,211	4,132	197,343	251,010	8,032	259,042
Non-current assets							
Receivables	g)	37,045	9,412	46,457	46,635	13,962	60,597
Inventories	i)	7,960	(572)	7,388	9,874	(572)	9,302
Biological assets	f)	207,815	(23,800)	184,015	249,312	(34,010)	215,302
Other financial assets		42		42	1,323		1,323
Property, plant and equipment	h)	452,117	3,340	455,457	668,333	2,304	670,637
Intangible assets	c)	3,631	(931)	2,700	3,885	(876)	3,009
Deferred tax assets		162		162	474		474
Other		33,266		33,266	45,832		45,832
Total non-current assets		758,201	(12,551)	729,487	1,048,006	(19,192)	1,006,476
Total assets		951,412	(8,418)	926,831	1,299,016	(11,160)	1,265,518

13. 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 30-Jun-05 \$'000	AIFRS \$'000
Current liabilities							
Payables		73,226		73,226	80,794		80,794
Interest-bearing liabilities	g),h)	51,733	4,759	56,492	76,465	8,706	85,171
Current tax liabilities		17,692		17,692	19,064		19,064
Provisions		9,906		9,906	11,340		11,340
Other		35,227		35,227	50,633		50,633
Total current liabilities		187,784	4,759	192,543	238,296	8,706	247,002
Non-current liabilities							
Interest-bearing liabilities	g),h)	235,695	12,004	247,699	288,547	15,880	304,427
Deferred tax liabilities	d),f),h),i)	65,968	12,933	78,901	74,173	61,024	135,197
Provisions		2,133		2,133	2,370		2,370
Total non-current liabilities		319,959	24,937	328,733	387,428	76,904	441,994
Total liabilities		507,743	29,696	521,276	625,724	85,610	688,996
Net assets		443,669	(38,115)	405,554	673,292	(96,770)	576,522
Equity							
Contributed equity		212,074		212,074	212,382		212,382
Reserves	a),d),e)	85,414	(8,554)	76,860	256,414	(60,603)	195,811
Retained profits	a),c),d),e),f),h),i)	146,181	(29,561)	116,620	204,497	(36,167)	168,330
Total equity		443,669	(38,115)	405,554	673,292	(96,770)	576,523

13. Explanation of transition to AIFRS (Contd.)

Reconciliation of profit

	Notes	Previous GAAP \$'000	Effect of transition to AIFRS 30-Jun-05 \$'000	AIFRS \$'000
Revenue				
Sale of goods revenue from operating activities		574,686		574,686
Rendering of services revenue from operating activities	g)	93,847	1,843	95,690
Total revenue from operating activities		668,533	1,843	670,376
Other revenues:				
From operating activities				
Dividends - other parties		5		5
Total revenue		668,538	1,843	670,381
Other operating income				
Net market value (NMV) of biological assets harvested		28,677		28,677
Deemed cost of biological assets used		(28,677)		(28,677)
Profit from sale of non-current assets	b)		731	731
Proceeds from sale of non-current assets	b)	1,850	(1,850)	-
Other revenues	a)	6,170	1,375	7,545
Total other operating income		8,020	256	8,276
Expense				
Changes in inventories of finished goods and work in progress		(20,743)		(20,743)
Raw materials and consumables used		370,918		370,918
Employee benefits expense		80,688		80,688
Depreciation and amortisation	c),h)	17,441	297	17,738
Net decrement in NMV of biological assets	f)	(23,753)	10,210	(13,543)
Freight and shipment costs		26,066		26,066
Sales and marketing costs		22,229		22,229
Other expenses from ordinary activities	b),h)	23,774	(1,277)	22,497
Total expenses before financing cost		496,620	9,230	505,850
Net financing costs	g),h)	27,322	2,058	29,380
Total expenses from ordinary activities		523,942	11,288	535,230
Profit from ordinary activities before related income tax expense		152,616	(9,189)	143,427
Income tax expense related to ordinary activities	a),d),f),h),i)	45,712	(2,583)	43,129
Net profit attributable to members of the parent entity		106,905	(6,606)	100,298
Basic earnings per share (cents)				
		31.5	(1.9)	29.6
Diluted earnings per share (cents)				
		31.5	(1.9)	29.6

13. 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 statement 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.

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 10% 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 \$23,800,000 in the consolidated entity.

This adjustment will decrease the deferred income tax liability and increase opening retained profits by \$7,140,000. 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 \$10,210,000 in the consolidated entity. This adjustment will decrease the deferred income tax liability and income tax expense by \$3,063,000.

13. Explanation of transition to AIFRS (Contd.)

Notes

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 at 30 June 2005 loan book assets and liabilities increase by \$8,450,000. In the year to 30 June 2005, \$1,843,000 of additional interest revenue and additional borrowing cost have been recognised.

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.

j) **Write-off of Feasibility Costs**

Stricter rules on cost capitalisation under AIFRS have necessitated the write off of previously capitalised project feasibility costs of \$684,000 during the year ended 30 June 2005.

There is no tax effect of the above transaction.

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.

14. Change in accounting policy

During the 2006 financial year, the consolidated entity changed its accounting policy on land improvement costs. These costs are incurred to develop land to a stage suitable for plantation establishment. In prior financial years, these costs have been expensed. Under the revised accounting policy, these costs are capitalised.

The revised accounting policy more accurately reflects the value of the land as well as reflecting the future benefits that the economic entity will derive from this expenditure.

The amount capitalised to land in the 2006 financial year was \$11,926,000. The corresponding amount for the 2005 financial year was \$7,945,000.

This revised accounting policy has led to the comparatives figures being adjusted as follows:

Pro Forma Income Statement

	2005 \$A'000
Other expenses - decrease	7,945
Profit before financing costs	7,945
Profit before tax	7,945
Income tax expense	(2,384)
Net profit attributable to members of the parent entity	5,562

Pro Forma Balance Sheet

Asset revaluation reserve	(5,562)
Retained earnings	5,562
Total equity	-

15. Annual meeting

The annual meeting will be held as follows:

Place

Gunns Limited
Lindsay Street
Launceston Tas. 7250

Date

9 November 2006

Time

10.30 a.m.

Approximate date the annual report will be available

26 September 2006

16. Compliance statement

1. This report, and the accounts upon which the report is based, use the same accounting policies.
2. This report does give a true and fair view of the matters disclosed.
3. This report is based on accounts to which one of the following applies.

The accounts have been audited.

☐

The accounts have been
subject to review.

☐

The accounts are in the process of being audited.

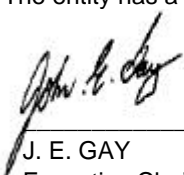
☒

The accounts have not yet
been audited or reviewed.

☐

4. If the audit report or review by the auditor is not attached, details of any qualifications will follow immediately they are available.

5. The entity has a formally constituted audit committee.


J. E. GAY

Executive Chairman

Date: 31 August 2006

STATEMENT BY THE EXECUTIVE CHAIRMAN,
MR. J. E. GAY ON BEHALF OF
THE BOARD OF DIRECTORS

RESULTS FOR THE YEAR ENDED 30 JUNE 2006

Gunns Limited has recorded a net profit after tax for the year ended 30 June 2006 of \$87.2 million compared to \$100.3 million in the prior year.

Revenue from ordinary activities for the year decreased by 5% to \$638m.

Net profit after tax for the second half of \$61.4 million compares to \$25.8m in the first half and \$62.6m in the prior year comparative period.

Earnings per share of 25.7 cents compares to 29.6 cents in the prior year.

Net operating cash flow for the year of \$65.9m compares to \$79.9m in the prior year.

DIVIDEND

The Directors have declared a fully franked final dividend of 10 cents per share. The dividend will be paid on 6 October 2006. This payment brings the total ordinary dividend for the year to 16 cents per share. The record date for the payment is 22 September 2006. The dividend payment brings the annual payout ratio to 62%. The Company dividend re-investment plan (DRP) will be re-activated for the dividend payment.

REVIEW OF OPERATIONS

FOREST PRODUCTS

Forest products revenue at \$414m decreased by 20% on the prior year result. Earnings for the year were impacted by a reduction in sales volumes in woodchip and solid wood products and increased operating costs resulting from increasing fuel prices. Woodchip sales for the year totalled 3.5m gmt compared to 4.4m gmt in the prior year.

Export markets for forest products remain difficult with the continued relative strength of the Australian currency. Domestic timber markets, particularly the Eastern states are highly competitive, a situation aggravated further by subdued activity levels in Victoria and New South Wales.

The valuation of the Company's owned forest asset increased by \$31m (pre tax) in the year in comparison to \$41m (pre tax) in the prior year. The Company harvested wood valued at \$33m in the course of the year. The value of harvested resource will continue increasing as plantations reach maturity over the next five years. Plantation inventory assessments over the past two years have evidenced substantial yield improvements, which are reflected in future harvest volumes.

Significant investments in land and forest assets were made in the 2006 year. Investment in land and forest development totalled \$112m.

MANAGED INVESTMENTS

The managed investment business recorded a substantial increase in revenue for the year, up by 92% to \$124.3m. The earnings result of \$68m compares to \$30m in the prior year. The increased revenue largely resulted from an expansion of activity under the woodlot program with over 17,000 hectares developed in the year. Development costs were significantly reduced with the increased scale of operations and access to a higher proportion of grassland sites utilised for the program. Sales under the winegrape and walnut projects did not meet expectations. Investor sentiment towards the winegrape sector was adversely impacted by the market focus on issues affecting the mainland wine industry. The walnut project was released on 10 May 2006 with a limited sales program to 31 May 2006. Development of capital infrastructure for the project at the site has proceeded on plan. Both forestry and walnut projects have re-opened for investment in the 2007 year.

The Company plans to expand activity levels in the MIS program in 2007. The program provides an important contribution in the strategic objective of increasing the group's plantation area under management, complementing the Company's substantial owned forest asset.

OTHER BUSINESSES

The Tasmanian based merchandising, construction and wine businesses recorded a significant increase in revenue, up 16% on the prior year to \$99m. The construction business provided the strongest growth. Merchandising turnover increased marginally over the year. It is expected the merchandising business will benefit from redevelopment of the key Launceston site over the 2007 year. The growth of Tamar Ridge Wines has continued with annual sales at 45,000 cases in 2006 and expansion to 65,000 cases planned over the 2007 year. The Tasmanian brand is continuing to achieve positive recognition in national and international markets providing strong growth opportunities for the business.

PULP MILL PROJECT

The Bell Bay pulp mill is a project that has the potential to substantially enhance the value of the Company. Based on current market pricing the project has the potential to increase annual revenue by over \$650m per annum and with cash earnings (EBITDA) in excess of \$300m per annum. These returns represent the realisation of value from forestry assets developed by the Company.

The Draft Integrated Impact Statement for the project was submitted to the Resource Planning and Development Commission for assessment on 14 July 2006. While the assessment process will be rigorous and extensive, the Board is confident of the ultimate acceptability of the project to the community, with the commitment to environmental best practice and the significant social and economic benefits both locally and nationally.

The global pulp market provides an opportunity to realise significant value over the long term. The Company will be highly competitive in a global context with its capacity to produce high quality wood fibre, the location of its resource, proximity to market and the application of efficient technology.

Importantly for the Company, entry into the pulp market will provide an opportunity for market diversification, as it will maintain a significant presence in the export woodchip markets.

OUTLOOK

Progressing the Bell Bay Pulp Mill project will remain a clear priority for the Company throughout 2007. Direct investment in the project will reach \$25m by December 2006.

Improvements in earnings for the forest products business in the 2007 year will be largely influenced by our international competitive position and the effective management of operating costs. Current indications are that trading conditions in the domestic timber market will remain subdued in the first half of 2007.

Opportunities in the export woodchip market will continue to be influenced by relative currency values against our international trading competitors. Whilst demand for wood fibre in Asia has increased the market is currently supplied by low cost local resource.

The Company will continue to assess opportunities for expansion in forestry based operations outside of Tasmania.

The Company plans to continue to develop the managed investment program with operations being expanded from the Tasmanian base. Further development of the radiata pine project based on property acquired in the Tumut/Tumbarumba region is planned and opportunities to expand with longer rotation solid wood products are being assessed.

Market conditions for the merchandising and construction businesses are expected to continue in line with the 2006 year with strong growth expected for the Tamar Ridge Wines business.

J. E. GAY

EXECUTIVE CHAIRMAN

**Contact: 78 Lindsay Street,
Launceston. 7250**

Phone: (03) 6335 5201