ANSELL LTD
Form 20-F
December 08, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended 30 June 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 0-15850

Ansell Limited

(Australian Company Number 004 085 330)

(Exact name of Registrant as specified in its charter)

Victoria, Australia

(Jurisdiction of incorporation or organisation)

Level 3, 678 Victoria Street, Richmond, Victoria, 3121, Australia

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
None	**None**

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Ordinary Shares

American Depositary Shares*

* Evidenced by American Depositary Receipts (ADRs), each American Depositary Share representing four (4) Ordinary Shares. The ADR program was terminated effective 5 June 2006, and all Ordinary Shares underlying the ADRs were sold by the Depositary on 11 August 2006.

Securities registered or to be registered pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary Shares 151,782,512 (at 30 June 2006)**

** This figure includes 316,348 shares represented by the 79,087 American Depositary Shares outstanding on 30 June 2006.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act x Yes ¨ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. ¨ Yes x No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

x Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow. ¨ Item 17 x Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

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Not Applicable

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Item 2 : Offer Statistics and Expected Timetable

Not Applicable

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PART I

Item 3 : Key Information

3A Selected Financial Data

Effective 1 July 2004 Ansell Limited has adopted Australian equivalents to International Financial Reporting Standards (AIFRS) and as such the financial statements also comply with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board. As allowed by the US Securities and Exchange Commission (SEC) rules in relation to first time adoption of IFRS, only one year of comparative financial statements has been included. For an explanation of how the transition to AIFRS has affected the financial statements see Note 33 to the Consolidated Financial Statements.

The following selected financial data in accordance with AIFRS for the two year period ended 30 June 2006 has been derived from the Consolidated Financial Statements. The selected financial data in accordance with US generally accepted accounting principles (US GAAP) has been derived from Ansell Limited s financial statements including the Consolidated Financial Statements. This information should be read in conjunction with and is qualified in its entirety by reference to the Consolidated Financial Statements and accompanying notes.

The preparation of the financial statements in accordance with AIFRS results in a number of differences to US GAAP. For discussion of the major differences and a reconciliation of the material differences between AIFRS and US GAAP as they relate to Ansell Limited for the 2 years ended 30 June 2006, see Notes 34 and 35 to the Consolidated Financial Statements.

	For Years Ended 30 June				
In millions of A$, except per share & per ADS amounts	**2006**	**2005**	**2004**	**2003**	**2002**
Statement of Financial Performance Data					
Amounts prepared in accordance with AIFRS :					
Sales revenue	1,138	1,081			
Profit/(loss) before income tax	127	56			
Income tax expense	8				
Outside equity interest after tax	3	2			
Net profit/(loss) after income tax	116	54			
Amounts prepared in accordance with US GAAP : [1]					
Sales revenue from continuing operations	1,138	1,081	1,113	1,294	1,414
Income/(loss) from continuing operations	116	130	83	69	(126)
Net income/(loss)	116	130	90	51	(172)
Share Information					
Amounts prepared in accordance with AIFRS :					
Number of shares on issue (millions)	152	160			
Basic Earnings per share ($ s)	0.73	0.33			
Basic Earnings per ADS ($ s)	2.92	1.32			
Dividends provided for or paid	30	24			
Dividends per ordinary share ($ s)	0.19	0.14			
Dividends per ADS ($ s)	0.76	0.56			
Dividends per ADS US$ [2]	0.57	0.42			
Amounts prepared in accordance with US GAAP : [1]					
Basic Earnings per share continuing operations [3] ($ s)	0.73	0.78	0.46	0.37	(0.67)
Basic Earnings per ADS continuing operations ($ s)	2.92	3.12	1.84	1.48	(2.68)
Basic Earnings per share net income/(loss) ($ s)	0.73	0.79	0.50	0.27	(0.92)
Basic Earnings per ADS net income/(loss) ($ s)	2.92	3.12	2.00	1.12	(3.68)
Statement of Financial Position Data (at year end)					
Amounts prepared in accordance with AIFRS :					

Current assets	738	612			
Total assets	1,308	1,241			
Current liabilities	318	222			
Non-current liabilities	336	396			
Shareholders equity	654	623			
Amounts prepared in accordance with US GAAP : [(1)]					
Current assets	738	612	749	761	821
Total assets	1,479	1,411	1,591	1,615	1,844
Current liabilities	319	223	405	367	389
Long term debt	276	331	236	320	517
Shareholders equity	818	799	880	864	874

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Item 3 : Key Information

3A SELECTED FINANCIAL DATA (continued)

(1) The principle differences between AIFRS and US GAAP for each of the 2 years ended 30 June 2006, are explained in Notes 34 and 35 to the Consolidated Financial Statements.
(2) US$ amount of A$ dividends translated at the Noon Buying Rate on the respective A$ dividend payment dates, which represents approximately the actual US$ dividend paid to holders of American Depositary Shares (ADSs) by the Depositary.
(3) Diluted earnings per share are not materially different to basic earnings per share due to the limited number of dilutive securities.

EXCHANGE RATES

Ansell Limited publishes its consolidated financial statements in Australian dollars (A$ or $). Unless specified or the context otherwise requires, references to US$ or US dollars are to United States dollars and references to $ or A$ are to Australian dollars. For the convenience of the reader, this Annual Report contains translations of certain Australian dollar amounts into US dollars at specified exchange rates. These translations should not be construed as representations that the Australian dollar amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated. Unless otherwise stated, the translations of Australian dollars into US dollars have been made at the noon buying rate in New York City for cable transfers in Australian dollars as certified for customs purposes by the Federal Reserve Bank of New York (the noon buying rate) on specified dates.

The rate of exchange of A$1.00 to US$ based on the noon buying rate 31 October 2006 was 0.7740.

The following table sets forth, for the periods and dates indicated, information concerning the rates of exchange of A$1.00 to US$ based on the noon buying rate.

For the last six months

US$ per A$1.00	High	Low
October 2006	0.7740	0.7424
September 2006	0.7709	0.7463
August 2006	0.7677	0.7574
July 2006	0.7674	0.7416
June 2006	0.7516	0.7290
May 2006	0.7754	0.7517

For the last five fiscal years

US$ per A$1.00	2006	2005	2004	2003	2002
Average Rate [1]	0.7505	0.7610	0.7016	0.5865	0.5221

(1) The average of the noon buying rate on the last business day of each calendar month during the period.

Fluctuations in the A$/US$ exchange rate will affect the US$ equivalent of the A$ price of the ordinary shares on the Australian Stock Exchange Limited, and as a result, are likely to affect the market price of Ansell Limited s ADSs in the United States. Such fluctuations would also affect the US$ amounts received by holders of ADSs on conversion by the Depositary of cash dividends paid in A$ on the ordinary shares underlying the ADSs.

Ansell Limited purchases forward exchange contracts to cover exchange rate risks on certain import/export transactions. The Company believes it has reduced substantially its exposure to movements in exchange rates with respect to these transactions. The Company remains exposed, however, to fluctuations in exchange rates to the extent that the results of operations of its foreign subsidiaries are denominated in currencies

other than Australian dollars and are translated for each relevant financial period into Australian dollars at the average exchange rate for the period.

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PART I

Item 3 : Key Information

3B Capitalisation and Indebtedness

Not Required

3C Reasons for the Offer and use of Proceeds

Not Required

3D Risk Factors

The following list of risks and uncertainties may not be exhaustive. Additional risks and uncertainties that we do not currently know about or that we currently believe are immaterial may also harm Ansell s business, results of operations and financial condition.

Since a substantial portion of Ansell s costs and net sales are incurred and realised in currencies other than Australian dollars, fluctuations in currency exchange rates could have a material effect on the results of operations.

Due to the worldwide locations of Ansell s manufacturing facilities, a substantial portion of costs are incurred in currencies other than Australian dollars, primarily the U.S. dollar and currencies of various Southeast Asian countries. In fiscal years 2005 and 2006 all Ansell s manufacturing costs were denominated in currencies other than Australian dollars.

Similarly, due to the worldwide presence of Ansell s customer base, a substantial portion of net sales is realised in various currencies other than Australian dollars, primarily U.S. dollars, Euros and to a lesser extent British pounds, Canadian dollars and several other currencies. Net sales are largely denominated in currencies other than Australian dollars for each of fiscal years as follows: 2005 approximately 93% and 2006 approximately 94%. Net sales and costs are not aligned in certain regions, which limits natural currency hedges.

We expect that a large part of Ansell s costs and sales will continue to be in non-Australian currencies. As a result, fluctuations in currency exchange rates, particularly of the U.S. dollar, various Southeast Asian currencies and the Euro, relative to the Australian dollar could have a material positive or negative effect on the results of operations.

Ansell s board of directors reviews and approves the currency and hedging strategies. These strategies should reduce but not eliminate the risks of currency exchange rate fluctuations and will result in transaction costs associated with hedging transactions.

The public market for Ansell Limited s shares may fluctuate.

The market price of Ansell Limited s shares could fluctuate significantly in response to various factors, including:

- actual or anticipated variations in semi-annual operating results, including currency translation,
- announcements of technological innovations or new services or products by Ansell or Ansell s competitors,
- the operating and stock price performance of other comparable companies,
- changes in financial estimates by securities analysts,

changes in Ansell s expected capital needs, and

announcements relating to strategic relationships, mergers or consolidations by Ansell or its competitors.

The stock markets have experienced extreme price and volume fluctuations that have affected the market prices of equity securities. These fluctuations have often been unrelated or disproportionate to operating performance. These broad market factors may materially affect the trading price of Ansell Limited s shares. General economic, political and market conditions, like recessions and interest rate fluctuations, may also have an adverse effect on the market price of Ansell Limited s shares.

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Item 3 : Key Information

3D RISK FACTORS (continued)

Ansell s manufacturing operations are based, and revenues originate, in many different countries and are, therefore, subject to instability and fluctuation in political, diplomatic and economic conditions, including changes in policies regarding taxation.

In fiscal year 2006, approximately 90% of Ansell s manufacturing operations, measured in terms of cost of production, and approximately 60% of Ansell s net sales were outside the United States. As a company with worldwide presence, we are subject to economic, political and diplomatic factors in countries where we operate that could adversely affect the financial results, restrict Ansell s ability to expand or limit current operations.

Ansell s plants outside the United States are located in Malaysia, Thailand, Sri Lanka, India, Mexico, and the United Kingdom. As a result, we can be directly affected by political and economic conditions, to the extent that they impact exports of product from manufacturing plants that exist in those countries. Any political or economic instability, a significant increase in the rate of corporate taxation, a discontinuance or reduction in export tax rebates or any other change in a country s policies regarding foreign ownership of manufacturing facilities could adversely affect the results of operations. We expect that non-U.S. production costs will continue to represent the major portion of such costs.

We also expect that we will be subject to the risks of conducting business internationally, including foreign currency exchange rate fluctuations, unexpected changes in regulatory requirements, tariffs and other barriers. The results of operations may be adversely affected by these factors.

Several of Ansell Limited s subsidiaries, and the Company in some instances, are defendants in product liability lawsuits related to products manufactured and sold by subsidiaries. Although we cannot quantify Ansell s exposure in these cases, we are incurring and expect to incur additional expenses in defending these. Some of those expenses, as well as judgements that could be entered against us, are not covered by insurance.

Ansell, and other companies in its industry are defendants in a number of product liability lawsuits alleging fault for allergic reactions to natural rubber latex gloves experienced by some users. The lawsuits allege among other things, that the defendants were negligent in the design and manufacture of the gloves and failed to adequately warn users of the possibility of allergic reactions to latex products. As of the date of this Annual Report, Ansell was a defendant along with other manufacturers and distributors of latex gloves in 7 product liability cases filed in the United States on behalf of individuals alleging wrongful death, personal injuries and lost wages as a result of their exposure to natural rubber latex gloves; down from 9 and 8 latex allergy lawsuits pending against Ansell at 30 June 2005 and 30 June 2006 respectively.

In a number of additional cases, distributors of latex gloves that have also been named as defendants are pursuing cross-claims and third-party claims against several manufacturers of natural rubber latex gloves, including Ansell, in an effort to recover their costs related to the latex litigation. As of 30 June 2006, Ansell was a defendant in 26 lawsuits involving distributor indemnity claims, and as of the date of this Annual Report, 16 of these lawsuits remained. In one such case, Owens & Minor, Inc., et al. v. Ansell Healthcare Products Inc., et al., Case No. 00-C-0099A-102, Bowie County, Texas, on 27 August, 2004, the trial court entered a judgment against Ansell and another defendant, Becton Dickinson and Company in the amount of US$351,728. Ansell is appealing that decision.

In another case, Gilberti v. Touro Infirmary, et al., Case No. 2000-9920, Civil District Court for the Parish of New Orleans, Ansell received a jury verdict in its favor on the individual plaintiff s liability claim. After the verdict, the hospital employer of the plaintiff pursued a claim for indemnity against Ansell. On 10 November, 2004, the trial court entered judgment against Ansell on the hospital employer s indemnity claim in the amount of US$828,935. Ansell appealed that decision. The Louisiana Fourth Circuit Court of Appeals affirmed the trial court s finding that Ansell had a duty to indemnify the hospital but found that the trial court erred in not determining whether the hospital spent sums defending its own negligence. On 13 October 2006 the Louisiana Supreme Court affirmed and remanded the case to the trial court for a recalculation of damages.

It is not possible at this time to quantify the potential financial impact of the remaining cases on Ansell.

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Item 3 : Key Information

3D Risk Factors (continued)

Ansell is subject to regulation by governments around the world, and if these regulations are not complied with, existing and future operations may be curtailed, and Ansell could be subject to liability.

The design, development, manufacturing, marketing and labelling of Ansell s products are subject to regulation by governmental authorities in the United States, Europe and other countries, including the Food and Drug Administration and the European Committee for Standardisation, known as the FDA and CEN, respectively. The regulatory process can result in modification or withdrawal of existing products and a substantial delay in the introduction of new products. Also, it is possible that regulatory approval may not be obtained for a new product.

Failure to comply with applicable regulatory requirements can result in actions that could adversely affect Ansell s business and financial performance.

Ansell is heavily dependent upon the rubber crop and the availability of latex concentrate, and a material disruption in the regular supply of rubber for latex concentrate or increases in the price of latex concentrate could negatively affect the results of operations.

Ansell accounted for approximately 3.5% of worldwide liquid natural latex consumption in fiscal 2006.

Ansell s ability to produce natural latex products is heavily dependent upon the regular availability of raw rubber harvested by independent growers in Southeast Asia and processed into latex concentrate. A material disruption in the regular supply of rubber for latex concentrate due to weather or other natural phenomena, labour or transportation stoppages or shortages, political unrest or otherwise, would cause adverse effects to Ansell s business, financial condition and results of operations. In addition, rubber is a commodity traded on world commodities exchanges and is subject to price fluctuations driven by changing market conditions.

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PART I

Item 4 : Information on the Company

Overview

The fiscal year of Ansell Limited (Ansell Limited , the Company or Group , which, unless the context otherwise requires, includes Ansell Limited and its consolidated subsidiaries) ends on 30 June. The fiscal year ended 30 June 2006 is referred to herein as 2005-2006 or fiscal year 2006 and other fiscal years are referred to in a similar manner.

This Annual Report contains forward looking statements (within the meaning of the Securities Exchange Act of 1934, as amended) and information that is based on management s beliefs as well as assumptions made by and information currently available to management. When used in this Annual Report the words anticipate, estimate, believe, expect, potential, should and similar expressions are intended to identi forward looking statements. These forward looking statements necessarily make numerous assumptions with respect to the Company s operations, potential exposure, industry performance, general business, economic and regulatory conditions, access to markets and materials and other matters, all of which are inherently subject to significant uncertainties and contingencies and many of which are beyond the Company s control. Should one or more of these risks or uncertainties materialise or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, planned for, estimated, expected or projected. The Company believes that a number of important factors could cause the Company s actual results to differ from those that may have been or may be projected in forward looking statements made by or on behalf of the Company from time to time. These factors include the economic situation in those areas of the world where the Company has substantial operations, customers or consumers, foreign currency exchange rates, the success of the Company s business strategies including cost cutting and consolidations, the ability of the Company to take advantage of growth opportunities through acquisitions, the positioning of business segments, future production output capacity, litigation, environmental risks, and risks of derivative instruments. See also Risk Factors in Item 3 of this Annual Report. The forward looking statements in this Annual Report are contained principally under Item 5 Operating and Financial Review and Prospects.

4A History and Development of the Company

Ansell Limited s business originated in 1893 as a branch of Dunlop of the United Kingdom (Dunlop UK) conducting an Australian bicycle tire business. The Company was incorporated under the *Corporations Act of Australia* (the Corporations Act) on 16 August 1920 in Victoria, Australia under the name of Dunlop Rubber Company of Australia Limited, at which time it acquired the rights in Australia to the trademark and tradename Dunlop and the right to use certain technology of Dunlop UK.

Until the 1960s the Company was engaged primarily in the manufacture of rubber based products. During the 1960s and the 1970s, the Company undertook a geographic and product diversification program, including the addition of clothing and footwear businesses (which were the foundation for the Pacific Brands Group) and the establishment of manufacturing facilities in Malaysia, New Zealand and the Philippines.

In 1980, the Company merged with another Australian industrial company, Olympic Consolidated Industries Limited (Olympic), which was engaged in the tire, polyurethane foam, cable and polystyrene businesses. Both the Company and Olympic had substantial tire manufacturing operations in an industry with over capacity, and the merger led to significant consolidation. After the merger, the Company operated under the name Dunlop Olympic Limited until 1986, when it changed its name to Pacific Dunlop Limited.

In 1984, the Company acquired the New Zealand businesses of Canzac Cables Ltd and Dunlop New Zealand Ltd., with their cables, tire manufacturing and retailing, industrial products and sporting goods operations fitting in well with the Company s operations in Australia.

During the course of the 1980s, the Company further expanded its operations in Australia and internationally through acquisitions, increased international marketing activity and the construction of new manufacturing facilities, particularly in Asia and North America. The Company also completed a series of joint ventures which complemented and strengthened its prior activities, the most significant of which was the combination of its Australian and New Zealand tire manufacturing and retailing activities with those of The Goodyear Tire and Rubber Company in March 1987.

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Item 4 : Information on the Company

4A History and Development of the Company (continued)

In addition, during the 1980s, the Company significantly expanded its battery operations through the acquisition of the battery operations of Chloride Group Plc in the United States, Australia and New Zealand and the acquisition of GNB Technologies Inc., a United States battery manufacturer.

During 1988 1989, the Company acquired certain health and medical businesses, which led to the creation of the Medical Group. The Company also acquired during 1988 1989 the automotive parts distribution businesses of Repco Limited in Australia. Shortly thereafter, the Company acquired the Edmont industrial glove business (Edmont) and in 1995 acquired the Perry medical gloves business.

These two acquisitions significantly increased the size of the Ansell Healthcare business. Sales of businesses during 1995-1996 included adidas, a number of businesses in the Industrial Foam and Fibre Group and the public float of Cochlear Ltd. In 1996 1997 Loscam Ltd and the Telectronics business of the Medical Group were sold and Ansell Healthcare acquired the Golden Needles Knitting business.

On 29 November 1996, the Telectronics implantable medical device business was sold for US$135 million ($166 million net proceeds) to St Jude Medical, Inc. of the United States. Responsibility for products manufactured prior to the sale of the business (including the Accufix Pacing Leads Litigation) was not assumed by the purchaser.

During the 1998 fiscal year the Olex Communications division of the Cables and Engineered Products Group was sold for $23 million. GNB Environmental Services Inc. (ESI), a subsidiary of GNB was also sold in that year.

The Australian, New Zealand and Sri Lankan cable businesses were sold on 2 June 1999. Proceeds from the sale, including certain property sales of the Cables Group, amounted to $300 million. The sale generated a breakeven result after providing for appropriate write-downs for the Chinese and Indonesian facilities, which were sold during the 2000 fiscal year. During that year the Company also purchased the Medical Glove business of Johnson & Johnson for US$86 million and announced the intention to sell its Electrical Distribution business and GNB Technologies Group.

The sales of the Electrical Distribution business and GNB Technologies Group were finalised during the 2001 fiscal year for $343 million and US$333 million respectively. Other key events that occurred during the 2001 fiscal year were:

- resolution of the outstanding Accufix Pacing Leads class action litigation in the United States within the previously provided provisions,
- the strengthening of Ansell Healthcare s global leadership and competitiveness in barrier protection products by continuing the integration of the Johnson & Johnson medical gloves business, fully commissioning the new Thailand condom plant and commencing a major manufacturing and marketing restructure,
- the acquisition and integration by Pacific Brands of Clarks Shoes and the Sara Lee Apparel business in Australasia and Fiji,
- the closure of South Pacific Tyres heavy truck tire plant and the realignment of the marketing function along consumer and commercial lines,
- effective 1 August 2000, the Novare joint venture between the Company and Andersen Consulting (now Accenture) for the provision of business support services and information technology solutions to companies across the manufacturing, distribution and retail industries in Australia and New Zealand formally commenced operation.

In addition to the above, during 2001 the Company also commenced a restructuring of its activities including the sale of the Pacific Automotive and Pacific Brands businesses, the acquisition of Accenture s 50% interest in the Novare joint venture and an agreement with the Goodyear Tire and Rubber Company of the United States governing the restructure of the South Pacific Tyres Joint Venture.

During the 2002 fiscal year the sales of the Pacific Automotive and Pacific Brands businesses were finalised for $251.5 million and $730 million respectively. The agreement with the Goodyear Tire and Rubber Company of the United States was also completed. This agreement included reducing manufacturing facilities from five to two and franchising a number of company owned stores.

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4A History and Development of the Company (continued)

As part of the agreement, an option in favour of the Company was executed (exercisable between August 2005 and August 2006) enabling the Company to put the South Pacific Tyres business to Goodyear. If the option is not exercised, Goodyear has a call option exercisable in the following six months. Under these agreements the Company is not required to contribute any further cash to the partnership.

As a result of this agreement, the Company effective 1 July 2001, discontinued its past practice of including 50% of the result of South Pacific Tyres (after elimination of intercompany items) in its statements of income prepared under Australian GAAP. The Company s interest in the South Pacific Tyres Partnership is carried as an investment.

Also effective 31 August 2001 the Company took full ownership of the Novare joint venture by acquiring Accenture s 50% interest for $19.3 million.

In April 2002 the Company changed its name from Pacific Dunlop Limited to Ansell Limited and reduced the number of ordinary shares and exercisable options on issue by means of a 1 for 5 share consolidation.

During the 2003 fiscal year, the Company completed most of the remaining corporate and restructuring activities associated with its former structure.

Also during fiscal 2003 the Company launched the first phase of Operation Full Potential, a three year program designed to significantly enhance Ansell s operating performance. The first phase concentrated on business growth and development initiatives and provided capabilities and resources to address business challenges that emerged during the year.

The Company also progressed its Occupational Value Proposition (OVP), an exciting and radically different approach begun at Ford Motor Company in 2001, to move Ansell from products to solutions by developing our expertise in guiding customers in hand injury reduction techniques using our products and know-how. During fiscal 2003 the Company progressed OVP from concept through to trials completed successfully in potential customers production facilities.

During the 2004 fiscal year, the Company moved into the second phase of Operation Full Potential resulting in the activities, capabilities and program structure being integrated into the respective business segments.

Also during fiscal 2004 Ansell continued its successful push to help customers change the way they manage their hand protection costs to focus on the total value of hand protection rather than the more traditional concentration on glove procurement cost. This approach lead to a number of significant glove contracts during the year.

The Company also adopted the globally recognised Six Sigma operational excellence methodology during the 2004 fiscal year. This methodology focuses on improving customer satisfaction and delivering on customer expectations by reducing variations in products and processes.

Fiscal 2005 saw the Company complete the Operation Full Potential program. The Company also introduced a disciplined process for and focus on new product development Stage-Gate. Stage-Gate employs best practices for customer-linked idea generation, product development and program management and provides a common international database with the ability to monitor progress in a variety of areas, including marketing, research and development, regulatory and legal.

On 16 December 2005 the Company announced that it had reached agreement with Goodyear as to the terms of its exit from the South Pacific Tyres business. Pursuant to the agreed terms, Goodyear purchased Ansell s interest in South Pacific Tyres, effective 25 January 2006, for $53 million resulting in a $5 million non-cash write-down. In addition a loan outstanding from Ansell to South Pacific Tyres was repaid in full, which with accrued interest, totalled $69.2 million.

On 31 March 2006 the Company acquired 75% of a leading Chinese condom marketing business, Wuhan Jissbon Sanitary Products, for $25.1 million. The Company also established an Occupational glove trading subsidiary in China.

On 4 May 2006 the Company announced its intention to voluntarily delist from the NASDAQ National Market and to terminate its American Depositary Receipt program, with both to take effect as of the close of trading on 5 June 2006.

The Company s registered head office is located at 678 Victoria Street Richmond, Victoria, Australia. Its telephone number is (61 3) 9270 7270 and fax number is (61 3) 9270-7300. Further information can be found by viewing the Company s website *www.ansell.com*. However, such information is not part of this Annual Report.

Refer to Item 5.B for information on the Company s principal capital expenditures and divestitures since the beginning of the last two financial years.

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Item 4 : Information on the Company

4B Business Overview

Organization

Although the Company continues to be listed on the Australian Stock Exchange and maintains its registered head office in Australia, its operational head office is located in Red Bank, New Jersey, USA. The Company s Chief Executive Officer, Chief Financial Officer and most of the senior management team are based in New Jersey.

Ansell provides essential healthcare barrier protection against injury, infection and contamination for millions of people at work, in medical situations, in the home and in special environments, such as food preparations and microelectronics.

The following table sets forth certain information with respect to Ansell Healthcare for the periods and dates indicated.

	For Years Ended 30 June	
$ in millions (except for number of employees)	**2006**	**2005**
Sales	1,138	1,081
Operating Profit before tax	127	56
Gross Assets	1,308	1,241
Number of employees	11,317	11,059

Ansell operates in three broad market segments: Professional Healthcare (surgeons and examination gloves); Occupational Healthcare (industrial hand protection); and Consumer Healthcare (condoms and household gloves). The Company is organized across three geographic regions the Americas, Europe and Asia Pacific supported by a shared operations/supply chain, a Science and Technology group and global marketing teams. 47 percent of Ansell s sales in fiscal year 2006 were in the Americas, with a further 37 percent in the Europe, Middle East and Africa region and the balance in Asia Pacific. Refer to Item 5.A. for additional information on the breakdown of total revenues by category of activity and geographic market.

Medical gloves are marketed principally under the umbrella brands of Ansell and Ansell Perry and specific product brands include Gammex, Conform, Encore, Nutex, MicrOptic, X-AM, Synsation, Dermaclean, Dermaprene, Nitratouch, Maxxus, Neutralon, Ultralon, Micro Touch Ultra and Micro Touch Plus.

Ansell Healthcare believes it is one of the world s largest manufacturers and marketers of synthetic dipped and sewn industrial gloves, which are principally branded Ansell Edmont. Specific product brands include Ansell, Nitrilite, TNT, Solvex, Hycron, Hyknit, Golden Needles and HyFlex.

Condom brands include Lifestyles, Mates, Mannix, Contempo, Primex, Chekmate and Kama Sutra.

Refer to Item 5.C for additional information on new product development.

Ansell Healthcare s products produced in-house, are predominantly made by dipping a former (unlined or with a textile liner) into natural or synthetic latex using very similar manufacturing processes and polymer dipping technology. (The major exception is uncoated knitted gloves). Ansell Healthcare believes that the expertise it has developed in proprietary latex process and engineering technology enables it to produce high quality natural and synthetic latex gloves and condoms at a relatively low cost and that to a significant degree, it has a flexible supply and logistics infrastructure that allows it to take advantage of changes in market demand.

The Operations and Supply Chain group support product flows to the markets through 15 global production facilities located in Asia, North America and the UK. Almost 71% of the product sourced is manufactured at these facilities with the balance outsourced under strict quality and performance specifications.

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PART I

Item 4 : Information on the Company

4B Business Overview (continued)

Ansell Healthcare (continued)

Each of Ansell s products faces competition from a variety of sources, including international and local producers. Major international competitors include SSL International PLC, the world leader in condoms; Regent Medical Limited, which produces medical surgical gloves; Allegiance (a Division of Cardinal Healthcare), which manufacturers and distributes medical examination and surgical gloves; MAPA, (a subsidiary of the French TOTAL group) which produces household and light industrial gloves and condoms; Kimberley Clark Corporation, a U.S. company that manufacturers and markets disposable latex, synthetic gloves and light industrial gloves; Sempermed (a Division of Austria s Semperit), which produces disposable medical gloves; and Church & Dwight, which is a major US based producer of condoms.

Ansell Healthcare s operations are not impacted by seasonal factors.

Discontinued Operations

Since the mid 1990 s the Company has pursued a policy of divesting major businesses to enable greater focus on the Ansell Healthcare operations. The divestments were largely completed by the end of fiscal 2002. The disposal of the remaining non core operation, being the non-controlling investment in the South Pacific Tyres (SPT) business, was completed during the year (refer Item 4A).

Raw Materials

Raw materials are a significant manufacturing cost for many of Ansell Healthcare s products, the most significant being latex. Latex prices can be volatile and are dependent upon world supply and demand and currency movements.

Ansell Limited attempts to obtain raw materials from the most economical and reliable sources wherever situated, with regard to world supply, prices and commodity markets. The Company has multiple suppliers for its major raw materials to minimise the risks associated with sole suppliers. No material shortages are anticipated in any of Ansell Healthcare s operations. The Company attempts to pass on to its customers raw material price fluctuations. Careful monitoring and management of raw material costs is carried on throughout its business segments.

Regulation and Environmental Matters

Government Regulation

The products Ansell manufactures are subject to regulations of varying degrees in each of the countries in which they are marketed. These regulations have been particularly advanced in the United States by the Safe Medical Devices Act of 1990 and in Europe, with the completion of the work required by the Single European Act of 1986 and its on-going implementation. In addition, harmonisation of regulatory requirements and reciprocity of testing procedures and data, on an international basis, has led to the adoption of an international quality management system standard, which is being implemented progressively by various regulatory authorities including the FDA and the Commission of the European Union.

Changes in existing requirements or adoption of new requirements could adversely affect Ansell Healthcare s ability to comply with regulatory requirements. Failure to comply with regulatory requirements could have a material adverse effect on the business, financial condition and results of operations.

United States

In the United States, products offered through Ansell s Professional Healthcare and Personal Healthcare segments are regulated as medical devices under the Federal Food, Drug and Cosmetic Act (the FDC Act) by the FDA. We believe that all of the Company s products regulated by the FDC Act are in compliance in all material respects with the relevant sections of the FDC Act and the advice and guidance provided by the FDA. However, the application of complex standards to the detailed operation of our business always creates areas of uncertainty, and we cannot guarantee that the FDA will not question our practices. Medical device manufacturers are subject to periodic inspections and audits by the FDA

for compliance with the FDA s current Quality System Regulation, which specifies good manufacturing practices (known as QSR/GMP requirements) for medical devices. The FDA has a number of compliance and enforcement procedures when deviations from QSR/GMP requirements are observed during such inspections. Which procedures are used depends upon the seriousness of the observations as well as the compliance history of the facility inspected and the company owning it.

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PART I

Item 4 : Information on the Company

4B Business Overview (continued)

Regulation and Environmental Matters (continued)

As a general matter, the FDA often seeks to resolve observed QSR/GMP deficiencies on a voluntary basis without resorting to formal administrative enforcement action. In many cases, the FDA and the affected company enter into an agreement whereby the company retains one or more recognised, expert consultants to assist the company in achieving substantial compliance with the relevant QSR/GMP requirements and to certify that such efforts have been successful. When observed QSR/GMP deficiencies cannot be resolved through voluntary action and in a timely manner, the FDA has the option of initiating further enforcement action, including warning letters, import alerts, product bans, field corrections, seizures, recalls, injunctions, civil penalties, fines based on the equitable remedy of disgorgement, adverse publicity issued by the FDA and criminal prosecutions.

Each manufacturing operation of Ansell Healthcare has a Quality Assurance/Quality Control (QA/QC) department with its own budget. Also, we operate in a total quality environment where all participants in the manufacturing process are responsible for quality. It is the responsibility of the QA/QC department along with manufacturing to maintain the quality systems and records.

The FDA has periodically inspected most of Ansell Healthcare s condom and medical glove manufacturing facilities and has made observations on how manufacturing operations could be improved. In upgrading manufacturing facilities to address the FDA s observations and evolving technology and to otherwise comply with QSR/GMP requirements, we have and will continue to expend time, monies and efforts in the areas of product and quality control.

The FDA currently requires manufacturers intending to market a new medical examination glove, surgical glove or condom or to modify significantly a previously cleared medical examination glove, surgical glove or condom or the labelling of one of these products to obtain prior clearance. Although we typically have not experienced delays in obtaining clearance for new medical examination glove, surgical glove or condom products, there can be no assurance that we will not experience such delays for future products. An adverse determination by the FDA or a request for additional data or information could have the effect of delaying or precluding clearance and, at the same time, could materially delay or block the commencement of marketing new medical examination glove, surgical glove or condom products.

The FDA examines medical examination gloves, surgical gloves and condoms that are imported into the United States by randomly testing some but not all shipments for defects. If a shipment of any of these products is found to be defective, the manufacturing facility that produced the defective product will be subject to a Level 1 import alert. Under Level 1, no further shipments will be cleared for import unless tested and shown not to be defective.

A facility will be removed from Level 1 if five consecutive shipments are tested and shown not to be defective. The facility can then import shipments without prior testing but subject to possible FDA testing on a random basis. If a second shipment is found to be defective during testing while on Level 1 or in random FDA testing during the 24 months after removal from Level 1, the manufacturing facility will be placed on Level 2 import alert. On Level 2, no further shipments will be cleared for import unless tested and shown not to be defective.

A facility will be removed from Level 2 if ten consecutive shipments are tested and shown not to be defective. The facility can then import shipments without prior testing but subject to possible FDA testing on a random basis. If a second shipment is found to be defective during testing while on Level 2 or in random FDA testing during the 24 months after removal from Level 2, the manufacturing facility may be placed on Level 3 import alert. A facility on Level 3 cannot import further shipments even if they have been tested and shown not to be defective.

A facility can be removed from Level 3 only by showing the FDA that the facility complies with QSR/GMP requirements based on an acceptable FDA inspection or a certification by the facility based on an independent audit by a qualified third party. After this, the facility will be placed on Level 1 detention and must seek removal from that status as described above.

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Item 4 : Information on the Company

4B Business Overview (continued)

Regulation and Environmental Matters (continued)

United States (continued)

Ansell s condom manufacturing facility in Surat Thani, Thailand is currently in the probationary period following Level 1 detention beginning in August 2005. Two of Ansell s outsource suppliers of examination gloves, Latexx Manufacturing Sdn. Bhd. and Perusahaan Getah Asas Sdn. Bhd., recently experienced glove failures and were therefore placed on automatic Level 1 detention. Both suppliers have been officially removed from Level 1 detention, and are now in the 24 month probationary period.

Labelling and promotional material for medical examination gloves, surgical gloves, and condoms are regulated by the FDA under the FDC Act and violations are subject to enforcement action as described above. Advertising for medical examination gloves, surgical gloves, and condoms is regulated by the Federal Trade Commission (FTC) under the Federal Trade Commission Act and violations are subject to enforcement action by the FTC including orders prohibiting objectionable claims, civil monetary penalties, monetary consumer redress, and orders requiring corrective advertising. We believe that the labelling and advertising of all Ansell products complies in all material respects with FDA and FTC requirements.

Europe

Condoms and medical gloves are regulated by Directive 93/42/EEC of the European Commission on medical devices that came into effect on 1 January 1995 and became a mandatory requirement for sales in Europe in June 1998. This directive regulates the sale of all medical devices throughout the European Union and the European Economic Area (which comprises the fifteen states of the European Union plus Iceland, Norway and Liechtenstein). Ansell Healthcare s condoms and medical gloves are in compliance with the requirements of this directive and all relevant standards (including rules for the affixing and use of CE conformity marking set forth by Directive 93/465/EEC of the European Commission) allowing these products to carry the CE mark and to be sold in all European countries except, with respect to condoms, France, without further approval. Pursuant to Article 8 of Directive 93/42/EEC, France requires testing of condoms in addition to the requirement necessary to obtain a CE mark.

Ansell Heathcare Europe identified the need in September 2006 to exercise a product recall on examination gloves manufactured for Ansell by outsourcing partner Perusahaan Getah Asas.

Other Government Regulation

Whether or not FDA clearance is obtained for a new product, approval or clearance of a product by regulatory authorities in foreign countries may be required prior to the commencement of sales of the product in such countries. The requirements governing product approvals or clearances vary widely from country to country, and the time required for approval may be longer or shorter than that required for FDA approval. There are also several local country quality marks that, although not required, are essential to sales in various countries.

Occupational gloves are governed under the directive for personal protective equipment, Directive 89/686/EEC. Ansell Healthcare s occupational gloves are in compliance with the requirements of this directive and all relevant standards (including rules for the affixing and use of CE conformity marking set forth by Directive 93/465/EEC of the European Commission) allowing these products to carry the CE mark and to be sold in all European countries without further approval.

Ansell Healthcare is also required to comply with regulations governing packaging waste, including Directive 94/62/EEC, which requires that certain percentages of waste material must be reused or recycled in every European Union country. The required percentage will increase over the next few years. Ansell Healthcare must also show compliance with Directive 46/95/EEC, which regulates the privacy of personal data on customers and individuals submitting complaints.

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PART I

Item 4 : Information on the Company

4B Business Overview (continued)

Regulation and Environmental Matters (continued)

Other Government Regulation (continued)

Additionally, Ansell Healthcare operates plants in the United Kingdom, Malaysia, Sri Lanka, Thailand, Mexico and India. The occupational, health and safety laws and regulations vary dramatically within these countries. Ansell Healthcare s policy is to operate a more stringent Ansell-wide approach to occupational health and safety regardless of these prescribed regulations and to ensure that an internationally acceptable work environment is provided for employees. We coordinate an international occupational health and safety program through Ansell Healthcare s Global Safety, Health and Environment Director. All plants are required to report on all occupational health and safety issues on a monthly basis to senior management.

4C Organisational Structure

Note 32 to the Financial Statements included in Item 18 contains a listing of the Company s subsidiaries, their countries of incorporation and the Company s proportion of ownership interest in each.

4D Property, Plant and Equipment

Set out below is a breakdown by geographic location of the Company s manufacturing facilities (with distribution facilities attached to manufacturing facilities not counted separately), as at 30 June 2006.

Geographic Region	Products Produced	No. of Manufacturing Facilities
United States	Industrial gloves	3
Malaysia	Household, surgical and examination gloves	3
United Kingdom	Industrial gloves	1
Thailand	Household, surgical and examination gloves and condoms	2
Mexico	Industrial gloves	2
Sri Lanka	Industrial, surgical and examination gloves	1
India	Industrial and surgical gloves and condoms	3
Total		**15**

The Company s material leased properties are as set forth below:

Country	City	Floor Space (Sq ft)	Use
Premises/Property:			
Australia	Richmond	29,750	Corporate
England	Tamworth	26,000	Manufacturing, Warehousing
England	Surbiton	9,000	Marketing
England	Newark	12,000	Marketing
Germany	Munich	7,000	Marketing
France	Paris	27,000	Marketing
Belgium	Brussels	22,000	Marketing
Belgium	Aalst	56,000	Warehousing

USA	Red Bank	45,877	Marketing, Corporate
USA	Dothan	82,000	Manufacturing, Warehousing
Mexico	Juarez	219,000	Manufacturing
Property Only:			
Sri Lanka	Colombo	1,080,000	Manufacturing

The Company believes that its facilities are suitable and adequate for its present needs and are in good operating condition. Ansell Limited has in place insurance covering casualty and certain other risks to which its worldwide facilities and operations may be subject. Generally, the current insurance policies do not cover political risks.

Pursuant to Company policy, the Company s principal capital intensive and strategic manufacturing and distribution facilities are owned. Those facilities that are not owned are generally leased by the Company for periods varying from 1 to 10 years, and comprise certain warehouse/distribution centres and sales and administration office accommodation. The Company does not believe its business is dependent on any single facility. Refer to Note 13 to the Consolidated Financial Statements for details of the carrying value of the Group s property, plant and equipment.

No major encumbrances on material tangible fixed assets or environmental issues exist that may affect the Company s utilisation of the assets.

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Item 4A : Unresolved Staff Comments

None.

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PART I

Item 5 : Operating and Financial Review and Prospects

5A Operating Results

The following discussion and analysis is based upon or derived from the Consolidated Financial Statements included in this Annual Report, which are prepared in accordance with AIFRS. As noted in Item 3A the Company has included only one year of comparative financial information throughout this report as permitted under SEC rules in relation to first time adoption of IFRS.

Notes 34 and 35 to the Consolidated Financial Statements contain a discussion of the major differences between AIFRS and U.S. GAAP and the reconciliation to U.S. GAAP.

The following tables set forth the contributions of each business group to sales revenue and operating profit of the Company for the fiscal years ended 30 June 2005 and 2006:

Operating Revenue By Business Group [1]

(excluding unallocated)

	For Years ended 30 June		
$ In millions	**2006**	**% change**	**2005**
Occupational Healthcare	569	4.4%	545
Professional Healthcare	387	5.2%	368
Consumer Healthcare	182	8.3%	168
Total Healthcare	1,138	5.3%	1,081
Total Operating Revenue	**1,138**	**5.3%**	**1,081**

(1) The sales figures in this table exclude intergroup sales. There were no significant intergroup sales during any of these three fiscal years.

Operating Profit Before Tax [1]

	For Years Ended 30 June		
$ in millions	**2006**	**% change**	**2005**
Occupational Healthcare	81		81
Professional Healthcare	39	(11.4)%	44
Consumer Healthcare	24	(17.2)%	29
Unallocated Items and Eliminations [2]	(11)		(88)
Net Interest, including borrowing costs	(6)		(10)
Total Operating Profit Before Tax	**127**	**126.8%**	**56**

(1) The operating profit figures in this table exclude unrealised operating profit on inventory which has been purchased by one business group from another.

(2) Fiscal year ended 30 June 2006 includes $5.5 million write-down of the investment in the South Pacific Tyres partnership (30 June 2005 $80.0 million).

SALES REVENUE BY GEOGRAPHIC MARKET

The following table sets forth the Company s sales revenue by geographic market for the fiscal years ended 30 June 2005 and 2006. The revenue has been classified by location of the customer and excludes intergroup sales.

	For Years Ended 30 June	
$ in millions	**2006**	**2005**
Australia, New Zealand and Southeast Asia	178	163
North, Central and South America	539	518
Europe, Middle East and Africa	421	400
Total	**1,138**	**1,081**

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PART I

Item 5 : Operating and Financial Review and Prospects

5A Operating Results (continued)

Results of Operations

Consolidated

Ansell Limited recorded a profit after tax to shareholders of $116.1 million for the year ended 30 June 2006, compared to a profit of $54.4 million in 2004/2005. These results include $5.5 million and $80.0 million write-downs of the investment in South Pacific Tyres (SPT) in 2005/2006 and 2004/2005 respectively. This investment was sold during fiscal 2006 resulting in the afore-mentioned loss of $5.5 million. Unlike under AIFRS where the Company had previously discontinued equity accounting for the investment in SPT, equity accounting had been consistently applied under US GAAP to the date of sale. As a result, from a US GAAP perspective, the write-downs under AIFRS in fiscal years 2006 and 2005 were reversed and the result of the sale was calculated based on the carrying value of the investment under US GAAP. The net impact of this on the US GAAP result was to increase the result reported under AIFRS by $82.1 million in fiscal 2005 and by $7.1 million in fiscal 2006.

Operating Revenue

Total revenue in 2005/2006 was $1,152.3 million compared with $1,093.4 million in 2004/2005. Sales revenue in 2005/2006 from Healthcare businesses (Occupational, Professional and Consumer) was $1,138.2 million, up 5.3% on the $1,081.1 million in the previous year.

Operating Profit before Tax

Ansell Limited recorded an operating profit before tax of $126.6 million for the current year, compared to a profit of $56.4 million for 2004/2005. Excluding the impact of the above-mentioned write-downs of the investment in SPT, operating profit fell from $136.4 million in 2004/2005 to $132.1 million in 2005/2006. The impact of a 73% increase in natural rubber latex in fiscal 2006 (based on the Malaysian ringitt price per wet kg), much of which occurred in the second half, could not be recouped with price increases, manufacturing productivity and overhead cost controls. Financing costs, net of interest revenue, reduced from $9.6 million in 2004/2005 to $5.9 million in 2005/2006 due to reduced net interest bearing debt levels (interest bearing liabilities less cash at bank and short term deposits) .

Income Tax Expense

Income tax expense for the year was $7.9 million compared to the previous year s $0.2 million. The amount reported in both year s benefited from the recognition of previously unbooked tax losses in respect of the Group s US operations totalling $7.5 million in 2005/2006 and $21.2 million in 2004/2005.

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Item 5 : Operating and Financial Review and Prospects

5A Operating Results (continued)

Ansell Healthcare

Year Ended June 2006 v June 2005

Ansell Healthcare s sales of $1,138.2 million were up on the previous year s $1,081.1, however operating profit of $144.2 million was down 6.6% from $153.7 million as increases in raw material costs, in particular an unprecedented escalation in natural rubber latex prices, put substantial downward pressure on margins.

Occupational Healthcare

Sales of $569.2 million were up 4.3% on the prior year s sales of $545.7 million while operating profit for both years was $81.3 million. Operating profit margin fell from 14.9% to 14.3%.

This segment accounted for approximately 50% of Ansell Healthcare s total revenues and 56% of operating profit.

After a slow first half of the year, sales in the second half improved strongly to achieve an overall 4.3% increase on the previous year.

The HyFlex™ range continued to grow strongly with new variants introduced and sales volumes up 17% over 2005. The new AlphaTEC™ grip technology glove also had an excellent first six months since its launch, with strong demand from the petrochemical industry.

The Virtex™ nitrile glove was launched for use in oily applications. Virtex™ is the first glove from Ansell to incorporate our unique patent pending Aqadri™ Ansell Moisture Management Technology™,

Ansell s leading position in the occupational glove market provides leverage scale that facilitates the use of innovative approaches in identifying and developing new products to satisfy customer requirements. In the USA, the Company works closely with a Distributor Advisory Council, a group that includes representatives of Ansell s major industrial distributors. This arrangement provides Ansell with valuable commercial insights and the opportunity to understand, first-hand, the needs of the customer and the nature of solutions that are required.

The Americas and EMEA (Europe, Middle East and Africa) regions continued to gain new business from the Ansell value proposition sales program called Guardian℠, which utilizes Ansell s highly reputed hand protection and safety auditing software tool, SafetyNet™.

Good gains were made in the Americas region in expanding business with existing customers, and new channel opportunities in the construction and do-it-yourself sectors were identified and are being pursued. In the EMEA region, a retail group was established to capitalize on new opportunities in the automotive service parts, and agriculture and viticulture markets.

Other new product introductions and continued penetration of the emerging markets, particularly Russia, Poland, the Czech Republic, Hungary, Ukraine and Mexico, also contributed to increased revenues.

The establishment of the new Occupational Healthcare business in Shanghai has the Company well positioned as commercial/industrial production continues to grow steadily in China, and tighter regulations and improved safety standards emerge for workers.

The maintenance of operating profit at 2005 levels is considered a good result given increased cost pressures on synthetic materials and natural rubber latex, and changes in product mix.

The key strategies for this business segment are:

To continue to leverage the concept of hand injury solutions through the expansion of the Guardian[SM] program.

The introduction of further new products, concentrating on Ansell s ergonomic technology advantage.

A continued and aggressive push into new channels and markets, with the opportunity for fully incremental sales.

Continued emphasis on lower manufacturing and product sourcing costs.

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PART I

Item 5 : Operating and Financial Review and Prospects

5A Operating Results (continued)

Professional Healthcare

Sales of $387.4 million were 5.4% higher than the prior period sales of $367.7 million while operating profit of $38.9 million was 10.2% lower than prior period operating profit of $43.3 million. Operating profit margin decreased from 11.8% to 10.0%.

This segment accounted for approximately 34% of Ansell Healthcare s revenue and 27% of operating profit.

Good results across all three regions drove the increase in sales however gross margins were affected significantly because of the difficulty in achieving price increases in this extremely competitive sector to recover higher latex costs.

Synthetic surgical glove sales continued to grow, and were up 10% on the previous year. The synthetic surgical glove range was expanded with the introduction of the new DermaPrene® PI glove, which is made from polyisoprene.

Examination glove sales increased 14%, including a 19% increase in synthetic glove sales. Latex cost pressures, however, led to lower margins in the examination glove segment. Some supply contracts in the USA were deliberately relinquished to preserve margins.

The strategies for the Professional Healthcare segment are:

- Strive to recover latex cost increases through appropriate pricing.
- The introduction of further new products, including synthetics, to upgrade the current range.
- Market share recovery in the USA surgical glove sector.
- Outsourcing rather than investing internally in new production capacity for commodity products.

Consumer Healthcare

Sales of $181.6 million were up 8.3% on the previous year s sales of $167.7 million, while operating profit of $24.0 million was lower by 17.5%. Operating profit margin decreased from 17.4% to 13.2%.

This segment accounted for approximately 16% of Ansell Healthcare s revenues and 17% of operating profit.

The sales increase for the year was assisted by a strong second half in retail condom sales particularly in the major markets of France and the UK. Increased promotional expenditure in the intensely competitive USA retail market and higher latex costs contributed to a reduction in margins. Operating profit was also affected as a result of the Surat Thani plant being placed on detention by the US Food and Drug Administration in respect of condoms shipped to the USA. The detention, which lasted five months, was lifted in January 2006.

The Company renewed its agreement with Freudenberg Household Products (FHP), our global household glove marketing partner/distributor, for a further five years and in doing so, fortified our business growth foundation, particularly in vital continental European markets where FHP enjoys a strong market share in the major grocery trade.

The performance of the Suretex business, which provides condoms on a private label basis to retailers and to government/global health institutions was strong.

The expansion in China through the acquisition of 75% of Jissbon provides Ansell with a leading share position in the Chinese condom market and a basis to expand more broadly within China.

The Consumer Healthcare strategy has as its focus:

Recovering market share for condoms in the USA retail market.

New products, new packaging, and brand and line extensions.

Utilization of manufacturing capacity to supply condoms into the public sector and private label channels.

Expansion into new geographic regions and leveraging the Company s brand strength globally.

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PART I

Item 5 : Operating and Financial Review and Prospects

5B Liquidity and Capital Resources

The Company operates internationally and in many different economic climates but inflation has not had a material effect on the Company s results of operations. The Company does not have material subsidiaries in any economies that have been subject to hyperinflation.

The Company operates a Central Treasury from its office in Melbourne, Australia. The Central Treasury manages Ansell s external debt, invests excess cash held centrally and acts to hedge foreign exchange exposures worldwide. The Company has small bank borrowings outside Australia and cash is generated in operating subsidiaries around the world in a number of currencies. Where possible excess funds are accumulated at the Central Treasury.

Cash and deposits at 30 June 2006 were $318.0 million compared with $227.3 million at June 2005 and included restricted deposits of $6.6 million ($8.4 million at 30 June 2005) which have been set aside to cover the provisions established to address any remaining liability of members of the Group to claims arising with respect to the Accufix Pacing Lead.

The Company believes its working capital is sufficient for the Company s present requirements.

Net cash from operating activities

Net cash provided by operating activities for 2005/2006 was $131.7 million compared to $152.8 million in 2004/2005.

Payments in respect of the Accufix Pacing Leads litigation and settlement totalled $2.0 million compared with $3.9 million in 2004/2005. Payments under operating leases for the year totalled $21.0 million compared with $21.5 million in 2004/2005.

Net cash used in investing activities

Net cash provided by investing activities was $80.2 million compared to $12.7 million used in investing activities in 2004/2005. The sale of the investment in SPT during the year resulted in proceeds of $53.0 million and a loan to SPT of $66.8 million was also repaid.

Capital expenditure for the year was $16.5 million, compared to $14.1 million in 2004/2005. Capital expenditure commitments of $2.4 million in respect of plant and equipment existed as at 30 June 2006. The following table presents a summary of capital expenditure by Business Segment for the past two years:

	For Years Ended 30 June	
$ in millions	**2006**	**2005**
Occupational Healthcare	7	5
Professional Healthcare	8	6
Consumer Healthcare	2	3
Total	**17**	**14**

Net cash used in financing activities

Net cash used in financing activities was $142.1 million, compared with $217.0 million in 2004/2005. Net repayments of borrowings totalled $5.9 million during the year following repayments of $26.4 million in the previous year. An on-market buy-back, a minimum holding buy-back and the buy-back of shares to satisfy the vesting of options and Performance Share Right resulted in an outflow of $103.1 million during the year following an off-market buy- back totalling $156.1 million in 2004/2005.

Net debt (i.e. borrowings less cash) decreased during the year from $146.6 million in 2004/2005 to $79.1 million at the end of 2005/2006. Net Debt to Equity decreased from 23.5% to 12.1% and Net Liabilities to Equity decreased from 63.9% to 52.4%.

The Company s long term debt has been rated by the U.S. credit rating agencies Standard & Poor s Rating Group and Moody s Investors Service Inc. since 1988-89. The Company s current ratings are as follows:

	Long Term	Outlook	Short Term
Moody s	Baa3	Stable	P3
Standard & Poor s	BB+	Stable	

Moody s upgraded their rating of the Company on 4 September 2006 from Ba1, Positive, Not Prime to the above ratings..

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PART I

Item 5 : Operating and Financial Review and Prospects

5B Liquidity and Capital Resources (continued)

The Company s borrowing portfolio at 30 June 2006 had an average maturity of 866 days (previous year 1,174 days), with approximately 82% at fixed interest rates and 18% at floating rates. The average cost of debt for the year was 5.03%, up slightly on the previous year s 4.94%.

Net financing costs for the year were $5.9 million compared to the previous year s $9.6 million. The reduced costs resulted from the continued reduction in net debt.

The Group established a US$250 million revolving credit bank facility on 30 April 2004 of which US$200 million had a five year term and US$50 million had a 364 day term. In April 2005, US$150 million of the US$200 million was extended to 30 April 2010 and US$50 million to 30 April 2012. The US$50 million 364 day facility was initially extended to 30 April 2006 and has subsequently been extended to 30 April 2007. This facility can be accessed by the parent company and certain USA subsidiaries. US$195 million of the term facilities had been drawn down at 30 June 2006 (compared to US$175 million at 30 June 2005) leaving an unused balance available for immediate use of US$55 million. There are a number of financial covenants attaching to this facility including restrictions on the level of borrowings of non guarantor subsidiaries, ensuring the assets of the guarantor subsidiaries are in excess of a specified percentage of total group assets and ensuring certain financial ratios are maintained. If any breaches of these covenants occur all monies outstanding under the facility become immediately due and payable. As at 30 June 2006, the Company was in compliance with all covenants. The interest rate for this facility is determined based on market rates at the time amounts are drawn down.

Currency Restrictions

The Company operates in a number of countries such as China, India, Sri Lanka and Malaysia where Central Banks have imposed currency restrictions. These restrictions do not affect the daily operations of the relevant subsidiaries and to date have not restricted the flow of capital, interest or dividends. The Company anticipates that these restrictions will not have a material adverse affect on its operations.

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Item 5 : Operating and Financial Review and Prospects

5C Research and Development

Ansell Healthcare spends approximately 1.1% of sales on research and development. Product and process innovation are essential to continuing profitable growth, and approximately 12% of total sales currently come from products developed in the previous three years.

The Company s commitment to innovation and new product development was further enhanced with the establishment of Ansell Healthcare s Science and Technology Centre in Shah Alam, Malaysia, outside of Kuala Lumpur. Eleven members of the total 70-member technical staff hold PhDs, while another 16 hold masters degrees in the fields of chemistry, chemical engineering, materials science and fibre technologies. Ansell also has a smaller fibre-technology centre in Pendleton, South Carolina, that is affiliated with Clemson University s Center for Advanced Fibers & Films Technologies. Starting in April 2004, Ansell has also established small application engineering groups in five (5) of its plants to focus on technology transfer as it applies to new product & process development. These satellite centres are located in Surat Thani, Thailand; Redditch, UK; Colombo, Sri Lanka; and Bermudez and Salvarcar in Mexico.

While Science and Technology was heavily involved in advancing process-related technologies for improved quality and cost-savings, the group also delivered a range of new products to the market during the past year. New products that generate, or will likely generate, significant sales are HyFlex 11-801 Grey, HyFlex polyurethane cut resistant, AlphaTec® oil grip as well as a new synthetic polyisoprene surgical glove.

We maintain relationships with several medical and materials research institutions, such as the University of Sydney (Australia) and Clemson University. Ansell also supports ongoing research at the University of Tampere in Finland. Ansell Healthcare s sponsored research includes the identification and isolation of natural rubber latex proteins, linked to latex allergies in some people, as well as more accurate testing methods. We use the results of this research to improve the product quality and we encourage the researchers to publish their findings in the scientific journals as part of the AnsellCares® program. The output from the AnsellCares®