

APPENDIX 4E - PRELIMINARY FINANCIAL REPORT

(Rules 4.3A)

| | |
|--------------------------------|--------------------------|
| Name of entity: | PAPERLINX LIMITED |
| ABN: | 70 005 146 350 |
| For the year ended: | 30 June 2011 |
| Previous corresponding period: | 30 June 2010 |

Results for announcement to the market

| | 2011 A\$m | 2010 A\$m | | % Change |
|---|--------------|--------------|------|----------|
| External revenues from ordinary activities: | | | | |
| • continuing operations | 4,658.6 | 5,070.5 | down | 8% |
| • discontinued operations | 11.7 | 154.0 | down | 92% |
| | 4,670.3 | 5,224.5 | down | 11% |
| Net loss for the period after tax: | | | | |
| • continuing operations | (106.5) | (27.6) | down | 286% |
| • discontinued operations | (1.5) | (197.7) | up | 99% |
| | (108.0) | (225.3) | up | 52% |
| attributable to: | | | | |
| Equity holders of PaperlinX Limited | (108.0) | (225.3) | up | 52% |

Dividends

| | Amount per security | Franked amount per security |
|--|------------------------|-----------------------------------|
| Interim dividend - current period | Nil | Nil |
| Interim dividend - previous corresponding period | Nil | Nil |
| Record date for determining entitlements to the dividend | | N/A |
| Date dividend is payable | | N/A |

Commentary on results for the period

Refer to ASX Release - PaperlinX 2011 Full Year Results for explanation of results.

Net tangible assets per security

| | 30 June 2011 | 30 June 2010 |
|----------------------------------|-----------------|-----------------|
| Net tangible assets per security | \$0.27 | \$0.40 |

Details of entities over which control has been gained or lost

Nil

Dividend reinvestment plan

| | |
|---|------------------------------------|
| The following dividend plans are in operation | Dividend Reinvestment Plan ('DRP') |
| The last date(s) for receipt of election notices for the dividend plans | N/A |
| Any other disclosures in relation to dividends | N/A |

Details of associates and joint ventures

N/A

APPENDIX 4E - PRELIMINARY FINANCIAL REPORT CONTINUED

Information on audit or review

This report is based on accounts to which one of the following applies.

| | | | |
|----------|--|--|--|
| X | The accounts have been audited. | | The accounts have been subject to review. |
| | The accounts are in the process of being audited or subject to review. | | The accounts have <i>not</i> yet been audited or reviewed. |

A copy of the auditor's report is included in the attached financial report.



James Orr

Company Secretary

Date: 25 August 2011

FINANCIAL REPORT

of PaperlinX Limited

30 June 2011



FULL FINANCIAL REPORT OF PAPERLINX LIMITED

AS AT 30 JUNE 2011

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CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2011

| | Note | 2011 \$m | 2010 \$m |
|---|------|-------------|-------------|
| Continuing operations | | | |
| Revenue from sale of goods | | 4,658.7 | 5,070.6 |
| Cost of inventory sold | | (3,737.6) | (4,060.4) |
| Gross profit | | 921.1 | 1,010.2 |
| Other income | 8 | 4.6 | 11.7 |
| Personnel costs | | (485.2) | (537.4) |
| Logistics and distribution | | (238.6) | (267.2) |
| Sales and marketing | | (10.2) | (13.2) |
| Impairment of goodwill | 20 | (68.5) | - |
| Other expenses | | (191.3) | (200.5) |
| Result from operating activities | | (68.1) | 3.6 |
| Net movement in fair value of currency option and loan | 6 | (20.8) | (0.0) |
| Net finance costs | 9 | (20.4) | (39.3) |
| Loss before tax | | (109.3) | (35.7) |
| Tax benefit | 10 | 2.8 | 8.1 |
| Loss from continuing operations | | (106.5) | (27.6) |
| Discontinued operations | | | |
| Loss from discontinued operations, net of tax | 11 | (1.5) | (197.7) |
| Loss for the period | | (108.0) | (225.3) |
| Loss for the period attributable to: | | | |
| Equity holders of PaperlinX Limited | | (108.0) | (225.3) |
| | | | |
| Basic earnings per share (cents) | 7 | (21.4) | (38.9) |
| Basic earnings per share from continuing operations (cents) | 7 | (21.2) | (6.2) |
| Diluted earnings per share (cents) | 7 | (21.4) | (38.9) |
| Diluted earnings per share from continuing operations (cents) | 7 | (21.2) | (6.2) |

Notes 1 to 42 form part of these financial statements and are to be read in conjunction therewith.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

| | Note | 2011 \$m | 2010 \$m |
|---|------|-------------|-------------|
| Loss for the period | | (108.0) | (225.3) |
| Other comprehensive income: | | | |
| Exchange differences on translation of overseas subsidiaries | | (62.7) | (94.3) |
| Actuarial adjustments on defined benefit plans | 32 | 4.1 | (26.0) |
| Net change in fair value of cash flow hedges reclassified to Income Statement | | (39.5) | (7.2) |
| Net change in fair value of cash flow hedges | | 40.4 | 7.5 |
| Income tax (expense)/benefit on other comprehensive income | 10 | (2.4) | 5.6 |
| Other comprehensive loss for the period, net of tax | | (60.1) | (114.4) |
| Total comprehensive loss for the period, net of tax | | (168.1) | (339.7) |
| Total comprehensive loss for the period attributable to: | | | |
| Equity holders of PaperlinX Limited | | (168.1) | (339.7) |

Notes 1 to 42 form part of these financial statements and are to be read in conjunction therewith.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

| | Note | 2011 \$m | 2010 \$m |
|--|------|----------------|----------------|
| Current assets | | | |
| Cash and cash equivalents | 13 | 125.3 | 137.0 |
| Trade and other receivables | 14 | 967.9 | 1,115.1 |
| Income tax receivable | | 7.3 | 4.3 |
| Inventories | 15 | 439.4 | 515.9 |
| Assets held for sale | 16 | 0.5 | 1.6 |
| Total current assets | | 1,540.4 | 1,773.9 |
| Non-current assets | | | |
| Receivables | 17 | 6.8 | 23.2 |
| Investments | 18 | 1.5 | 2.0 |
| Property, plant and equipment | 19 | 71.5 | 86.6 |
| Intangible assets | 20 | 257.3 | 355.7 |
| Deferred tax assets | 21 | 52.6 | 63.6 |
| Total non-current assets | | 389.7 | 531.1 |
| Total assets | | 1,930.1 | 2,305.0 |
| Current liabilities | | | |
| Bank overdrafts | | 9.8 | 29.4 |
| Trade and other payables | 22 | 731.9 | 847.0 |
| Loans and borrowings | 23 | 63.1 | 52.7 |
| Income tax payable | | 1.9 | 5.6 |
| Employee benefits | 24 | 15.4 | 20.1 |
| Provisions | 25 | 23.5 | 41.1 |
| Total current liabilities | | 845.6 | 995.9 |
| Non-current liabilities | | | |
| Payables | 26 | 1.4 | 2.0 |
| Loans and borrowings | 23 | 224.2 | 218.8 |
| Deferred tax liabilities | 21 | 12.6 | 15.3 |
| Employee benefits | 24 | 95.0 | 128.5 |
| Provisions | 25 | 14.9 | 20.6 |
| Total non-current liabilities | | 348.1 | 385.2 |
| Total liabilities | | 1,193.7 | 1,381.1 |
| Net assets | | 736.4 | 923.9 |
| Equity | | | |
| Issued capital | 27 | 1,890.7 | 1,894.9 |
| Reserves | 28 | (155.3) | (99.5) |
| Accumulated losses | | (1,275.5) | (1,148.0) |
| Total equity attributable to holders of ordinary shares of PaperlinX Limited | | 459.9 | 647.4 |
| PaperlinX step-up preference securities | 29 | 276.5 | 276.5 |
| Total equity | | 736.4 | 923.9 |

Notes 1 to 42 form part of these financial statements and are to be read in conjunction therewith.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2011

| \$m | Note | Attributable to equity holders of PaperlinX Limited | | | | | | Total equity | |
|---|------|---|------------------------------|-----------------|------------------------|------------------------------|--------------------|--------------|---|
| | | Issued capital | Exchange fluctuation reserve | Hedging reserve | Reserve for own shares | Employee share plans reserve | Accumulated losses | | PaperlinX step-up preference securities |
| Balance at 1 July 2010 | | 1,894.9 | (99.6) | 0.3 | (6.7) | 6.5 | (1,148.0) | 276.5 | 923.9 |
| Total comprehensive loss for the period | | | | | | | | | |
| Loss for the period | | - | - | - | - | - | (108.0) | - | (108.0) |
| Other comprehensive income | | | | | | | | | |
| • Exchange differences on translation of overseas subsidiaries | | - | (62.7) | - | - | - | - | - | (62.7) |
| • Net change in fair value of cash flow hedges reclassified to Income Statement | | - | - | (39.5) | - | - | - | - | (39.5) |
| • Net change in fair value of cash flow hedges | | - | - | 40.4 | - | - | - | - | 40.4 |
| • Actuarial adjustments on defined benefit plans | | - | - | - | - | - | 4.1 | - | 4.1 |
| • Income tax expense on other comprehensive income | | - | - | - | - | - | (2.4) | - | (2.4) |
| Total other comprehensive (loss)/income | | - | (62.7) | 0.9 | - | - | 1.7 | - | (60.1) |
| Total comprehensive (loss)/income for the period | | - | (62.7) | 0.9 | - | - | (106.3) | - | (168.1) |
| Transactions with owners recorded directly in equity | | | | | | | | | |
| • Employee share-based payment transactions | | - | - | - | - | 1.8 | - | - | 1.8 |
| • Issue of shares to employees | | (4.3) | - | - | 5.7 | (1.5) | - | - | (0.1) |
| • Employee loans forgiven - forfeited entitlements | 27 | 0.1 | - | - | - | - | - | - | 0.1 |
| • Distributions paid on PaperlinX step-up preference securities | 12 | - | - | - | - | - | (21.2) | - | (21.2) |
| Total transactions with owners | | (4.2) | - | - | 5.7 | 0.3 | (21.2) | - | (19.4) |
| Balance at 30 June 2011 | | 1,890.7 | (162.3) | 1.2 | (1.0) | 6.8 | (1,275.5) | 276.5 | 736.4 |

Notes 1 to 42 form part of these financial statements and are to be read in conjunction therewith.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CONTINUED

FOR THE YEAR ENDED 30 JUNE 2011

| \$m | Attributable to equity holders of PaperlinX Limited | | | | | | | Total equity | |
|---|---|----------------|------------------------------|-----------------|------------------------|------------------------------|--------------------|--------------|---|
| | Note | Issued capital | Exchange fluctuation reserve | Hedging reserve | Reserve for own shares | Employee share plans reserve | Accumulated losses | | PaperlinX step-up preference securities |
| Balance at 1 July 2009 | | 1,896.1 | (5.3) | - | (9.7) | - | (886.6) | 276.5 | 1,271.0 |
| Total comprehensive loss for the period | | | | | | | | | |
| Loss for the period | | - | - | - | - | - | (225.3) | - | (225.3) |
| Other comprehensive income | | | | | | | | | |
| • Exchange differences on translation of overseas subsidiaries | | - | (94.3) | - | - | - | - | - | (94.3) |
| • Net change in fair value of cash flow hedges reclassified to Income Statement | | - | - | (7.2) | - | - | - | - | (7.2) |
| • Net change in fair value of cash flow hedges | | - | - | 7.5 | - | - | - | - | 7.5 |
| • Actuarial adjustments on defined benefit plans | | - | - | - | - | - | (26.0) | - | (26.0) |
| • Income tax benefit on other comprehensive income | | - | - | - | - | - | 5.6 | - | 5.6 |
| Total other comprehensive (loss)/income | | - | (94.3) | 0.3 | - | - | (20.4) | - | (114.4) |
| Total comprehensive (loss)/income for the period | | - | (94.3) | 0.3 | - | - | (245.7) | - | (339.7) |
| Transactions with owners recorded directly in equity | | | | | | | | | |
| • Employee share-based payment transactions | | - | - | - | - | 0.2 | 0.2 | - | 0.4 |
| • Net change in fair value of employee share options and rights | | 0.8 | - | - | - | - | - | - | 0.8 |
| • Issue of shares to employees | | (2.7) | - | - | 3.0 | - | - | - | 0.3 |
| • Repayment of employee share plan loans | | 0.2 | - | - | - | - | - | - | 0.2 |
| • Employee loans forgiven - forfeited entitlements | 27 | 0.5 | - | - | - | - | - | - | 0.5 |
| • Transfer to/(from) employee share plans reserve | | - | - | - | - | 6.3 | (6.3) | - | - |
| • Distributions paid on PaperlinX step-up preference securities | 12 | - | - | - | - | - | (9.6) | - | (9.6) |
| Total transactions with owners | | (1.2) | - | - | 3.0 | 6.5 | (15.7) | - | (7.4) |
| Balance at 30 June 2010 | | 1,894.9 | (99.6) | 0.3 | (6.7) | 6.5 | (1,148.0) | 276.5 | 923.9 |

Notes 1 to 42 form part of these financial statements and are to be read in conjunction therewith.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2011

| | Note | 2011 \$m | 2010 \$m |
|--|------|-------------|-------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 4,735.3 | 5,226.7 |
| Payments to suppliers and employees | | (4,658.7) | (5,169.9) |
| Dividends received | | - | 0.1 |
| Interest received | | 2.5 | 2.8 |
| Interest paid | | (20.2) | (36.4) |
| Income taxes paid | | (4.3) | (0.2) |
| Net cash from operating activities | 33 | 54.6 | 23.1 |
| Cash flows from investing activities | | | |
| Acquisition of: | | | |
| • Controlled entities and businesses (net of cash and bank overdraft acquired) | | (0.4) | (0.4) |
| • Property, plant and equipment and intangibles | | (18.0) | (18.4) |
| Net (payments)/proceeds from the sale of: | | | |
| • Controlled entities and businesses (proceeds less transaction costs) | | (0.8) | 60.4 |
| • Property, plant and equipment and intangibles | | 5.7 | 6.9 |
| • Investments | | 4.9 | 9.0 |
| Tasmanian manufacturing operations closure payments | | (32.1) | (54.0) |
| Loans repaid by/(to) other persons | | 0.7 | (0.3) |
| Net cash (used in)/from investing activities | | (40.0) | 3.2 |
| Cash flows from financing activities | | | |
| Repayment of employee share plan loans | | - | 0.2 |
| Step-up preference securities distributions paid | | (21.2) | (9.6) |
| Proceeds from borrowings | | 60.0 | 368.1 |
| Repayment of borrowings | | (30.0) | (636.7) |
| Principal finance lease repayments | | - | (0.1) |
| Currency option | | - | (18.4) |
| Cash flow hedges | | (3.6) | - |
| Cross currency swap close out | | - | 75.9 |
| Capitalised borrowing costs paid | | (0.1) | (10.2) |
| Other borrowing costs paid | | (0.9) | (19.3) |
| Net cash from/(used in) financing activities | | 4.2 | (250.1) |
| Net increase/(decrease) in cash and cash equivalents | | 18.8 | (223.8) |
| Cash and cash equivalents at the beginning of the period | 33 | 107.6 | 381.5 |
| Effect of exchange rate changes on cash held | | (10.9) | (50.1) |
| Cash and cash equivalents at the end of the period | 33 | 115.5 | 107.6 |

Notes 1 to 42 form part of these financial statements and are to be read in conjunction therewith.

Note 1. Reporting entity

PaperlinX Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is 307 Ferntree Gully Road, Mount Waverley VIC 3149, Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as "the Consolidated Entity"). The Consolidated Entity is primarily involved in the merchandising of paper, communication materials and diversified products and services. Until the closure of the Tasmanian mills in April 2010, the Consolidated Entity also manufactured paper and paper-related products.

Note 2. Basis of preparation**(a) Statement of compliance**

The Financial Report is a general purpose financial report prepared in accordance with Australian Accounting Standards ("AASBs"), other authoritative pronouncements of the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The Financial Report complies with the International Financial Reporting Standards ("IFRS") and interpretations adopted by the International Accounting Standards Board.

The Financial Report was authorised for issue by the Directors of the Company on 25 August 2011.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value;
- Financial instruments at fair value through profit or loss are measured at fair value;
- Available-for-sale financial assets are measured at fair value; and
- Assets held for sale are measured at probable realisation value.

The methods used to measure fair values are discussed further in Note 4.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

The Company is of the kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in the Financial Report and Directors' Report have been rounded off to the nearest hundred thousand dollars, unless otherwise stated.

(d) Use of estimates and judgements

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. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the Financial Report and estimates with a significant risk of material adjustment in the next year are discussed in Note 3(u).

(e) Going concern basis of accounting

In preparing the Financial Report, the Directors made an assessment of the ability of the Consolidated Entity to continue as a going concern, which contemplates the continuity of business operations, realisation of assets and settlement of liabilities in the ordinary course of business.

The Consolidated Entity is primarily funded by various regionally based receivables and inventory backed facilities. These facilities

are predominantly classified as non-current as the Consolidated Entity expects and has the discretion to roll over the facilities for a period of greater than twelve months - refer Note 23.

Regardless of the non-current debt classification, the ability of the Consolidated Entity to meet its operational cash obligations and debt covenants is dependent in part on meeting its forecast trading results and cash flows. The trading and cash flow forecasts are necessarily based on best-estimate assumptions that may or may not occur as expected and are subject to influences and events outside the control of the Consolidated Entity. In this regard, the current economic environment presents challenges in terms of sales volume and pricing as well as input costs. Whilst the Directors have instituted measures to reduce trading expenses, preserve cash and secure additional finance, this environment creates uncertainties over the future trading results and cash flows.

Should the ability of the Consolidated Entity to realise sufficient cash flows from trading operations be restricted, the Consolidated Entity will actively pursue alternative funding arrangements and institute additional measures to preserve cash. These may include (but are not limited to) drawing down committed but undrawn debt facilities, sale of non-core assets, working capital reductions and further restriction of trading expenditures.

The Directors have also considered the ability of the Consolidated Entity to obtain alternative sources of debt finance. In addition, the Directors have considered the implications of the debt facilities including regional specific covenants and restrictions on the ability to draw down debt facilities and move cash within the Consolidated Entity.

After making enquiries, and considering the uncertainties described above, the Directors have a reasonable expectation that the Consolidated Entity and the Company have adequate resources to continue to operate and meet their obligations as they fall due for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the Consolidated Financial Report.

(f) New and amended standards adopted

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2010:

- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions*
- AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues*
- AASB Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19*, and
- AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*.

The adoption of these standards did not have any impact on the current period or any prior period.

Note 3. Accounting policies

The following significant accounting policies have been applied by the Consolidated Entity, having regard to its activities, in the preparation of the Consolidated Financial Report ("the Financial Report").

Certain comparative amounts have been reclassified to conform with the current year's presentation.

(a) Basis of consolidation

The Financial Report of the Consolidated Entity is in accordance with Accounting Standard AASB 127 *Consolidated and Separate Financial Statements*. In preparing the Financial Report, all balances and transactions between entities included in the Consolidated Entity have been eliminated.

Note 3. Accounting policies – (continued)

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. Investments in subsidiaries are carried at cost less accumulated impairment losses.

The financial statements of subsidiaries are included from the date control commences until the date control ceases.

Dividend distributions from subsidiaries are recognised by the Company when they are declared by the subsidiaries. Dividends received out of pre-acquisition reserves are recognised in the Income Statement, subject to impairment review.

Non-controlling interest in the equity and results of the entities that are controlled by the Consolidated Entity are shown as a separate item in the Financial Report.

Other entities

Dividends from other investments are recognised when dividends are received or declared as being receivable.

PaperlinX Step-up Preference Securities

The PaperlinX Step-up Preference Securities are recorded in equity, based on the terms and conditions attached thereto, and are measured as the proceeds received on issue net of the issue costs. The distributions paid/payable thereon are recorded as a distribution from retained earnings.

(b) Revenue recognition

Sales revenue comprises revenue earned measured at the fair value of the consideration received or receivable (net of returns, discounts, allowances and the amount of goods and services tax) from the provision of products to entities outside the Consolidated Entity. Sales revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(c) Government grants

Grants are recognised initially as deferred income when received. Grants that compensate the Consolidated Entity for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Consolidated Entity for the cost of an asset are recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

(d) Taxation

Income tax

Income tax 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 or in other comprehensive income.

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

Deferred tax is recognised 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 recognised:

- initial recognition of goodwill;
- the initial recognition of assets or liabilities in a transaction that is not a business combination that affect neither accounting nor taxable profit or loss; 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 recognised 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 reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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.

Tax consolidation - Australia

The Australian Federal Government enacted legislation in 2003 to allow companies comprising a parent entity and Australian wholly owned subsidiaries to elect to consolidate and be treated as a single entity for Australian income tax purposes. The Company is the head entity of the Australian tax consolidated group.

The Company has elected to form a tax consolidated group effective from 1 July 2003. Under the consolidation rules, the Company has chosen to reset the tax cost base of certain depreciable assets which will result in additional tax depreciation over the lives of the assets.

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 the group" approach by reference to the carrying amounts of assets and liabilities 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 the 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 statement of financial position 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 as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Nature of tax funding arrangements and tax sharing agreements - Australia

The head entity in conjunction with other members of the tax-consolidated group has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts.

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Note 3. Accounting policies – (continued)

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 inter-entity receivables (payables) in the separate financial statements of the members of the tax consolidated group equal in amount to the tax liability (asset) assumed. The inter-entity receivables/payables are at call.

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 Company, as the head entity of the Australian tax consolidated group, in conjunction with other members of the tax-consolidated group, has 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.

(e) Goods and Services Tax – Australia

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax ("GST"), except where the amount of GST incurred is not recoverable from the Australian Taxation Office ("ATO"). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as an expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST payable to the ATO is included as a current liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(f) Depreciation

Property, plant and equipment, excluding freehold land, are depreciated at rates based upon their expected useful lives using the straight-line method. Freehold land is not depreciated.

Depreciation rates used for each class of asset are as follows:

| | |
|-------------------------------|-----------------------------------|
| Land improvements: | between 1% - 3% (2010: 1% - 3%) |
| Buildings: | between 1% - 4% (2010: 1% - 4%) |
| Plant and equipment: | between 4% - 20% (2010: 4% - 20%) |
| Finance leases for equipment: | between 4% - 20% (2010: 4% - 20%) |

Depreciation is expensed except to the extent it is included in the carrying amount of an asset as an allocation of production overheads.

The residual value, the useful life and the depreciation method applied to an asset are reviewed at least annually.

(g) Employee benefits

The Consolidated Entity's net obligation in respect of long-term service benefits, other than defined benefit superannuation funds, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to Government bonds at the reporting date which have maturity dates approximating the terms of the Consolidated Entity's obligations.

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date and are calculated

at undiscounted amounts based on remuneration wage and salary rates that the Consolidated Entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as medical care, housing, cars and subsidised goods and services, are expenses based on the net marginal cost to the Consolidated Entity as the benefits are taken by the employees.

Employee benefits include, where appropriate, forecast future increases in wages and salaries, grossed up for on-costs, and are based on the Consolidated Entity's experience with staff departures.

Workers' compensation

Provision is made for workers' compensation claims in accordance with self-insurance licences held. The amount of this provision is confirmed at each year end by an independent actuary.

Share-based payments

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Notes 4 and 30.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Consolidated Entity's estimate of equity instruments (share options and rights) that will eventually vest. At the end of each reporting period, the Consolidated Entity revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss, where the change is unrelated to market conditions, such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee share plans reserve.

The policy described above is applied to all equity-settled share-based payments that were granted after 7 November 2002 and vested after 1 January 2005. For options and performance rights granted before 7 November 2002 and/or vested before 1 January 2005, no expense has been recognised. The shares are recognised when the options and rights are exercised and the proceeds received are allocated to share capital.

Employee retirement benefit obligations

The Consolidated Entity has both defined benefit and defined contribution plans. The defined benefit plans provide defined lump sum benefits based on years of service and final average salary. The defined contribution plans receive fixed contributions from the Consolidated Entity and the Consolidated Entity's legal or constructive obligation is limited to these contributions.

A liability or asset in respect of defined benefit plans is recognised in the statement of financial position, and is measured as the present value of the defined benefit obligation at the reporting date less the fair value of the plan's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the plan to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and related changes in actuarial assumptions are charged or credited to other comprehensive income.

Note 3. Accounting policies – (continued)

Past service costs are recognised immediately in profit or loss, unless the related changes to the plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Future taxes that are funded by the entity and are part of the provision of the existing benefit obligation (eg. taxes on investment income and employer contributions) are taken into account in measuring the net liability or asset.

(h) Net financing costs

Net financing costs comprise interest, amortisation of transaction costs directly attributable to obtaining debt facilities, unwind of discount on provisions and other financing charges including net foreign exchange gains and losses, net of interest income on funds invested. These costs are recognised in profit or loss, except to the extent the interest incurred relates to construction of major capital items in which case interest is capitalised as a cost of the asset up to the time it is ready for its intended use or sale.

Interest income is recognised in the Income Statement as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the Income Statement using the effective interest method.

For fixed assets, the capitalised interest and charges are amortised over the expected useful economic lives.

Transaction costs directly attributable to obtaining debt facilities are capitalised on initial recognition of the facility and amortised over the term of the facility.

(i) Property, plant and equipment

Depreciable property, plant and equipment are shown in the Financial Report at cost or deemed cost less accumulated depreciation and impairment losses.

Certain items of property, plant and equipment that had been revalued to fair value prior to 1 July 2004, the Australian Equivalent of International Financial Reporting Standards ("AIFRS") transition date, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Costs include expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets include the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Costs may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Borrowing costs related to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of that asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss.

(j) Inventories

Inventories are valued at the lower of cost (including an appropriate proportion of fixed and variable overheads) and net realisable value in the normal course of business.

The cost of inventories is based on the first-in first-out or weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. The provision for impairment losses is based on an ageing analysis.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, short term bills and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Consolidated Entity's cash management are included as a component of cash and cash equivalents for the purpose of the Statements of Cash Flows.

(l) Foreign currency

Functional currency

The financial statements of foreign subsidiaries are measured using the currency of the primary economic environment in which the entity operates, being the entity's functional currency. The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

Transactions

The Consolidated Entity is exposed to changes in foreign currency exchange rates as a consequence of the need to purchase items denominated in foreign currency as part of its activities. Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of transaction. Monetary assets and liabilities at balance date are translated to Australian dollars at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities measured at historical cost are translated using the exchange rate at the date of the transaction. All material foreign currency transactions, which are not offset by a natural hedge, are subject to forward exchange contracts or currency options and any exchange gains/losses arising from the effect of currency fluctuations on the underlying transactions are offset by the exchange gains/losses on the forward exchange contract or currency option. As a result, exchange rate movements on such foreign currency transactions are largely offset within the Income Statement. Where an entity designates transactions to be accounted for as a cash flow hedge, any gains/losses are recorded in other comprehensive income as outlined below.

Translation of foreign subsidiaries

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity.

Any exchange gains/losses arising on transactions entered into to hedge the currency fluctuations on the net investment in foreign subsidiaries are recorded, net of tax, in the exchange fluctuation reserve on consolidation where it is determined to be an effective hedge. They are released into profit or loss upon disposal of the entity.

(m) Financial instruments

The Consolidated Entity is exposed to changes in interest rates, foreign exchange rates and commodity prices from its activities. The Consolidated Entity uses the following financial instruments to hedge these risks: interest rate swaps, forward exchange contracts, currency options and interest rate options. Financial instruments are not held for trading purposes.

Derivative instruments

Derivative instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured to their fair value. Attributable transaction costs are recognised in profit or loss as incurred.

Note 3. Accounting policies – (continued)

Changes in the fair value of derivative instruments are recognised immediately in the Income Statement, except for those derivatives designated as cash flow hedges which are recognised in other comprehensive income as outlined below.

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the Income Statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to the Income Statement in the same period that the hedged item affects profit or loss.

Financial instruments included in liabilities

Trade and other payables are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Consolidated Entity and are stated at amortised cost.

Interest bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost. Any difference between cost and redeemable value is recognised as interest expense, on an effective interest basis in net financing costs over the period of the borrowings.

Financial instruments included in assets

Trade debtors and other receivables are carried at amortised cost less any impairment losses. Collectability of overdue accounts is assessed on an ongoing basis. Specific provision is made for all doubtful accounts.

Investments are initially recorded at cost and are subject to impairment testing at each reporting date. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Consolidated Entity has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables and held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents comprise cash balances and call deposits.

(n) Leased assets

Leases under which the Consolidated Entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability to the lessor is recognised as a finance lease obligation.

Lease payments are apportioned between finance expenses and a reduction of the lease obligation so as to achieve a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the lease

term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(o) Intangible assets

Goodwill

Goodwill is not amortised but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less impairment losses where applicable.

Gains and losses on the disposal of an entity include the carrying value of goodwill relating to the entity sold. Goodwill is allocated to cash generating units for the purpose of impairment testing.

Research and development

Expenditure on research activities is charged against operating profit or loss in the year in which the expenditure is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible, and completion is intended.

Brand names

Brand names acquired are carried at cost less any impairment losses and are not amortised on the basis that they have indefinite useful lives. The associated brands are supported by expenditure annually, consistent with the stated strategy to further develop the brands.

Brand names are allocated to cash generating units for the purpose of impairment testing.

Other intangible assets

Other intangible assets that are acquired by the Consolidated Entity are stated at cost less accumulated amortisation and impairment losses (see Note 3(q)).

Amortisation is calculated over the cost of the asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of the assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

Amortisation rates used for other intangible assets are as follows:

| | |
|--------------------|-----------------------------------|
| Computer software: | 10.0% - 40.0% (2010: 10% - 40.0%) |
| Customer lists: | 6.7% - 14.3% (2010: 14.3%) |

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(p) Business combinations

Business combinations are accounted for by applying the acquisition method as at the acquisition date. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

For every business combination, the Consolidated Entity identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Consolidated Entity takes into consideration potential voting rights that are currently exercisable.

The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Consolidated Entity in exchange for control of the acquiree.

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Note 3. Accounting policies – (continued)

Acquisitions on or after 1 July 2009

For acquisitions on or after 1 July 2009, the Consolidated Entity measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Consolidated Entity incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Acquisitions between 1 July 2004 and 1 July 2009

For acquisitions between 1 July 2004 and 1 July 2009, goodwill represents the excess of the cost of the acquisition over the Consolidated Entity's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Consolidated Entity incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Acquisitions prior to 1 July 2004 (date of transition to IFRSs)

As part of its transition to IFRSs, the Consolidated Entity elected to restate only those business combinations that occurred on or after 1 July 2003. In respect of acquisitions prior to 1 July 2003, goodwill represents the amount recognised under the Consolidated Entity's previous accounting framework, Australian GAAP.

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Consolidated Entity reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Consolidated Entity obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

(q) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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 for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Impairment losses recognised in respect of cash generating units are allocated first to any goodwill allocated to the cash generating unit, and then to other assets in the unit on a pro rata basis.

Recoverable amount

The recoverable amount of receivables carried at cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted.

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 an appropriate pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Reversals of impairment

An impairment loss in respect of goodwill recorded in profit or loss in one period is not permitted to be reversed to profit or loss in a subsequent period.

In respect of other assets, an impairment loss is reversed only if there is an indication that the impairment loss may no longer exist or there has been a change in 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

(r) Provisions

A provision is recognised when there is a present legal or constructive obligation that can be estimated reliably, as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Dividends on ordinary shares

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

Distribution on PaperlinX Step-up Preference Securities

A provision for distributions payable is recognised in the reporting period in which the distributions are declared, for the entire undistributed amount.

AS AT 30 JUNE 2011

Note 3. Accounting policies – (continued)**Surplus leased premises**

Provision is made for non-cancellable operating lease rentals payable on surplus leased premises when the expected future benefits to be obtained are lower than the unavoidable costs of meeting the obligations under these contracts.

The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Consolidated Entity recognises any impairment loss on the assets associated with that contract.

Restructuring

A provision for restructuring is recognised when the Consolidated Entity has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been publicly announced. Future operating costs are not provided for.

Environmental remediation

A provision for environmental remediation is recognised when a legal or constructive obligation to remediate exists due to the impact of a past event, and the provision can be reliably estimated.

(s) Earnings per share

The Company presents basic and diluted Earnings per Share ("EPS") data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to members of the Company after deduction of the distribution on the PaperlinX step-up preference securities by the weighted average number of ordinary shares outstanding during the period, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

(t) Discontinued operation

A discontinued operation is a component of the Consolidated Entity's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as discontinued, the comparative Income Statement is re-presented as if the operation had been discontinued from the start of the comparative period. During the prior reporting period the Consolidated Entity closed its Tasmanian paper manufacturing business. The results for the current and prior reporting periods treat the Tasmanian paper manufacturing business as a discontinued operation.

(u) Accounting estimates and judgements

The Consolidated Entity makes estimates and assumptions concerning the future. Actual results may at times vary from estimates. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Revisions of accounting estimates

Revisions to accounting estimates are recognised prospectively in current and future periods when the estimates are revised.

Impairment of non-current assets

The Consolidated Entity assesses whether non-current assets (including assets held for sale) are impaired at least annually. These calculations involve an estimation of the recoverable amount of the cash generating units to which the non-current assets are allocated based on forecast future cash flows and

certain related assumptions. These assumptions are discussed in Note 20.

Defined benefit plan obligations

Various actuarial assumptions are utilised in the determination of the Consolidated Entity's defined benefit plan obligations. These assumptions are discussed in Note 32.

Tasmania closure costs

Management have made estimates and judgements to determine the costs associated with the closure of the Tasmanian manufacturing operations. The closure costs have been disclosed in discontinued operations. If the final amounts relating to the site closures differ from the current estimate, variations will be brought to account in future periods. If required, these adjustments will be disclosed in the Income Statement as income or expense from discontinued operations.

Sale of Australian Paper

The results for this reporting period include additional costs related to the sale of the Australian Paper business as a result of the finalisation of a number of matters, including differences associated with the completion accounts. Any differences arising from finalisation of unresolved matters will be reflected in future reporting periods as an adjustment to the net loss from discontinued operations.

Earn out from sale of Australian Paper

The 2009 sale agreement between the Company and Nippon Paper for the sale by the Company of its Australian Paper business entitles the Company to additional sale proceeds (the "Earn Out") for each of the three financial years commencing 1 July 2009 assuming the divested business can achieve certain earnings targets in those years. The maximum potential Earn Out that the Company is entitled to receive for this period is \$100 million.

Based on notification from Nippon Paper of their 2011 and 2010 results, the Company has not recognised a receivable for an Earn Out in the current or prior reporting periods.

If the results of Australian Paper improve in 2012, the Company may be able to recognise a receivable for an Earn Out from Nippon Paper and include this benefit in the Income Statement as income from discontinued operations in 2012.

(v) Segment reporting

The Consolidated Entity determines and presents operating segments based on the information that is internally provided to the Managing Director and Chief Executive Officer (CEO), who is the Consolidated Entity's chief operating decision maker. An operating segment is a component of the Consolidated Entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Consolidated Entity's other components. All operating segments' operating results are regularly reviewed by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, income tax assets and liabilities and centrally managed funding balances.

Segment information is further split between continuing (Merchanting) operations and discontinued (Paper Manufacturing) operations.

(w) Non-current assets held for sale

Non-current assets that are expected to be recovered through sale are classified as held for sale. The assets have been valued and are measured at the lower of their carrying amount and fair value less cost to sell. Non-current assets held for sale are also subject to an impairment assessment.

Note 3. Accounting policies – (continued)

(x) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations which may be relevant to the Company or Consolidated Entity were available for early adoption but have not been applied by the Consolidated Entity in these financial statements:

- AASB 9 *Financial Instruments* (Dec 2009) includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become applicable to annual reporting periods beginning on or after 1 July 2013.
- AASB 9 *Financial Instruments* (Dec 2010) includes requirements for the classification and measurement of financial liabilities resulting from Phase 2 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become applicable to annual reporting periods beginning on or after 1 July 2013.
- Revised AASB 124 *Related Party Disclosures* simplifies and clarifies the intended meaning of the definition of a related party and includes an explicit requirement to disclose commitments involving related parties.
- AASB 1053 *Application of Tiers of Australian Accounting Standards & AASB 2010-2 Amendments to Australian Accounting Standards to Australian Accounting Standards arising from Reduced Disclosure Requirements* implement the differential financial reporting framework consisting of two tiers of reporting requirements for general purpose financial statements. AASB 1053 & AASB 2010-2 will become applicable to annual reporting periods beginning on or after 1 July 2013.
- AASB 1054 *Australian Additional Disclosures*, AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project* & AASB 2011-2 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements* harmonise the Australian Accounting Standards and New Zealand equivalents to IFRSs, and details specific disclosure requirements for entities that have adopted AASBs.
- AASB 2009-14 *Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement* - AASB 2009-14 makes amendments to Interpretation 14 AASB 119 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements* removing an unintended consequence arising from the treatment of the prepayments of future contributions in some circumstances when there is a minimum funding requirement.
- AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* amends a number of pronouncements, including clarifications to financial statement disclosures.
- AASB 2010-5 *Amendments to Australian Accounting Standards* are primarily editorial amendments, rather than disclosure amendments.
- AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* introduces additional disclosures to AASB 7 *Financial Instruments: Disclosures* designed to allow users to improve their understanding in respect of risk exposures arising from transferred financial assets.
- AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets* amends AASB 112 *Income Taxes* to include the presumption that recovery of the carrying value of an asset measured at fair value under AASB 140 *Investment Property* will be through sale. The amendments will become applicable to annual reporting periods beginning on or after 1 July 2012.

Unless otherwise stated above, these changes are applicable to annual reporting periods beginning on or after 1 July 2011.

The Consolidated Entity has not yet determined the potential effect, if any, of the amending standards and interpretations on the Consolidated Entity's Financial Report.

Note 4. Determination of fair values

A number of the Consolidated Entity's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made to determine fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings are based on the quoted market prices for similar items.

(b) Intangible assets

The fair value of intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(c) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(d) Trade and other receivables

The fair value of trade and other receivables is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(e) Derivatives

The fair value of forward exchange contracts is determined by reference to the contractual forward price and the forward price from external sources at balance date for the same currency pair, amount and maturity date.

The fair value of foreign exchange option contracts is determined by using option pricing models that include externally sourced inputs for a comparable contract at balance date.

The fair value of interest rate option contracts is determined by using option pricing models that include externally sourced inputs for a comparable contract at balance date.

(f) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

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Note 4. Determination of fair values – (continued)**(g) Share-based payment transactions**

The fair value of employee share options and rights are measured utilising either:

- a discounted cash flow technique. The value of the share-based payments is the face value of the share at grant date less the present value of the dividends expected to be paid on the share but not received by the holder during the vesting period; or
- the Black-Scholes methodology to produce a Monte-Carlo simulation model which allows for the incorporation of the total shareholder return performance hurdles that must be met before the share-based payments vest to the holder. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk free interest rate (based on government bonds).

Service and non-market performance conditions attached to the transactions are not taken into account in determining the fair value.

(h) Financial guarantees

For financial guarantee contract liabilities, the fair value at initial recognition is determined using a probability weighted discounted cash flow approach. The method takes into account the probability of default by the guaranteed party over the term of the contract, the loss given default (being the proportion of the exposure that is not expected to be recovered in the event of default) and exposure at default (being the maximum loss at the time of default).

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Note 5. Operating segments

The Consolidated Entity comprises the following main business segments, based on the Consolidated Entity's management and internal reporting system.

| Segment | Description of operations |
|----------------------------------|--|
| Merchanting | International merchant supplying the printing and publishing industry and office supplies. North America comprises the United States of America and Canada. Europe comprises the United Kingdom, Ireland, South Africa and Continental Europe. |
| Discontinued Paper Manufacturing | Manufacture of communication papers, including office papers, graphic papers, converting papers and other speciality and coated papers. Manufacture of packaging papers and industrial papers. Paper Manufacturing is treated as a discontinued operation as a result of the disposal of the Australian Paper business (completed in May 2009) and the closure of the Tasmanian manufacturing operations (completed in June 2010) - refer Note 11. |

Corporate operations, continuing eliminations and amounts which have not been allocated to the Merchanting or Paper Manufacturing segments are classified as Unallocated.

| Note | Merchanting Europe \$m | Merchanting North America \$m | Merchanting Australia, New Zealand, Asia \$m | Unallocated \$m | Total Continuing Operations \$m | Discontinued Paper Manu- facturing \$m | Group Eliminations \$m | Group \$m |
|---|------------------------------|--|--|--------------------|--|---|------------------------------|--------------|
| For the year ended 30 June 2011 | | | | | | | | |
| External sales revenue | 3,190.0 | 959.2 | 509.4 | - | 4,658.6 | 11.7 | - | 4,670.3 |
| Inter-segment sales revenue | - | - | 6.3 | (6.2) | 0.1 | 4.2 | (4.3) | - |
| Total revenue | 3,190.0 | 959.2 | 515.7 | (6.2) | 4,658.7 | 15.9 | (4.3) | 4,670.3 |
| Profit/(loss) before net finance costs, tax and significant items | 0.5 | 14.5 | 9.4 | (24.0) | 0.4 | (0.9) | - | (0.5) |
| Significant items (pre-tax) 6 | (33.4) | - | (35.1) | (20.8) | (89.3) | 1.4 | - | (87.9) |
| Net other finance costs 9,11 | - | - | - | (3.5) | (3.5) | - | - | (3.5) |
| (Loss)/profit before interest and tax | (32.9) | 14.5 | (25.7) | (48.3) | (92.4) | 0.5 | - | (91.9) |
| Net interest 9,11 | - | - | - | (16.9) | (16.9) | (2.0) | - | (18.9) |
| Loss before tax | - | - | - | (65.2) | (109.3) | (1.5) | - | (110.8) |
| Tax expense - pre-significant items 10,11 | - | - | - | (2.6) | (2.6) | - | - | (2.6) |
| Tax benefit - significant items 10,11 | - | - | - | 5.4 | 5.4 | - | - | 5.4 |
| Loss for the period | - | - | - | (62.4) | (106.5) | (1.5) | - | (108.0) |
| The loss before tax includes: | | | | | | | | |
| Depreciation and amortisation 19,20 | (15.3) | (4.8) | (2.1) | (0.5) | (22.7) | - | - | (22.7) |
| Impairment of non-current assets | (33.4) | - | (35.1) | - | (68.5) | - | - | (68.5) |
| Depreciation, amortisation and impairment | (48.7) | (4.8) | (37.2) | (0.5) | (91.2) | - | - | (91.2) |
| Capital expenditure | 12.9 | 2.8 | 1.8 | 0.5 | 18.0 | - | - | 18.0 |
| As at 30 June 2011 | | | | | | | | |
| Total assets | 1,307.0 | 300.7 | 252.0 | 64.4 | 1,924.1 | 6.0 | - | 1,930.1 |
| Total liabilities | 628.9 | 124.7 | 85.3 | 332.4 | 1,171.3 | 22.4 | - | 1,193.7 |
| Net assets/(liabilities) | 678.1 | 176.0 | 166.7 | (268.0) | 752.8 | (16.4) | - | 736.4 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2011

Note 5. Operating segments – (continued)

| | Note | Merchanting Europe \$m | Merchanting North America \$m | Merchanting Australia, New Zealand, Asia \$m | Unallocated \$m | Total Continuing Operations \$m | Discontinued Paper Manu- facturing \$m | Group Eliminations \$m | Group \$m |
|---|-------|------------------------------|--|--|--------------------|--|---|------------------------------|--------------|
| For the year ended 30 June 2010 | | | | | | | | | |
| External sales revenue | | 3,475.1 | 1,027.9 | 567.5 | - | 5,070.5 | 154.0 | - | 5,224.5 |
| Inter-segment sales revenue | | - | - | 5.9 | (5.8) | 0.1 | 71.9 | (72.0) | - |
| Total revenue | | 3,475.1 | 1,027.9 | 573.4 | (5.8) | 5,070.6 | 225.9 | (72.0) | 5,224.5 |
| (Loss)/profit before net finance costs, tax and significant items | | (9.0) | 14.1 | 19.4 | (20.9) | 3.6 | (27.1) | - | (23.5) |
| Significant items (pre-tax) | 6 | - | - | - | - | - | (139.3) | - | (139.3) |
| Net other finance costs | 9,11 | - | - | - | (12.1) | (12.1) | - | - | (12.1) |
| (Loss)/profit before interest and tax | | (9.0) | 14.1 | 19.4 | (33.0) | (8.5) | (166.4) | - | (174.9) |
| Net interest | 9,11 | | | | (27.2) | (27.2) | (0.3) | - | (27.5) |
| Loss before tax | | | | | (60.2) | (35.7) | (166.7) | - | (202.4) |
| Tax benefit - pre-significant items | 10,11 | | | | 8.1 | 8.1 | - | - | 8.1 |
| Tax expense - significant items | 10,11 | | | | - | - | (31.0) | - | (31.0) |
| Loss for the period | | | | | (52.1) | (27.6) | (197.7) | - | (225.3) |
| The loss before tax includes: | | | | | | | | | |
| Depreciation and amortisation | 19,20 | (16.3) | (5.6) | (2.1) | (1.0) | (25.0) | (0.7) | - | (25.7) |
| Impairment of non-current assets | | (2.6) | - | - | - | (2.6) | - | - | (2.6) |
| Depreciation, amortisation and impairment | | (18.9) | (5.6) | (2.1) | (1.0) | (27.6) | (0.7) | - | (28.3) |
| Capital expenditure | | 9.0 | 1.9 | 0.4 | 1.8 | 13.1 | 0.7 | - | 13.8 |
| As at 30 June 2010 | | | | | | | | | |
| Total assets | | 1,499.4 | 354.4 | 326.4 | 84.0 | 2,264.2 | 40.8 | - | 2,305.0 |
| Total liabilities | | 733.2 | 149.8 | 97.2 | 325.7 | 1,305.9 | 75.2 | - | 1,381.1 |
| Net assets/(liabilities) | | 766.2 | 204.6 | 229.2 | (241.7) | 958.3 | (34.4) | - | 923.9 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2011

Note 6. Individually significant items

| For the year ended 30 June | Note | Continuing | | | Discontinued | | | Total | | |
|--|------|----------------|----------------------|-----------------|----------------|----------------------|-----------------|----------------|----------------------|-----------------|
| | | Pre-tax \$m | Tax impact \$m | Post-tax \$m | Pre-tax \$m | Tax impact \$m | Post-tax \$m | Pre-tax \$m | Tax impact \$m | Post-tax \$m |
| 2011 | | | | | | | | | | |
| Impairment of goodwill | 20 | (68.5) | - | (68.5) | - | - | - | (68.5) | - | (68.5) |
| Net movement in fair value of currency option and loan (1) | | (20.8) | 5.4 | (15.4) | - | - | - | (20.8) | 5.4 | (15.4) |
| Transaction costs related to sale of Australian Paper (2) | | - | - | - | (4.5) | - | (4.5) | (4.5) | - | (4.5) |
| Net benefits related to closure of discontinued Tasmanian operations (3) | | - | - | - | 5.9 | - | 5.9 | 5.9 | - | 5.9 |
| Total individually significant items | | (89.3) | 5.4 | (83.9) | 1.4 | - | 1.4 | (87.9) | 5.4 | (82.5) |
| 2010 | | | | | | | | | | |
| Net movement in fair value of currency option and loan (1) | | (0.0) | - | (0.0) | - | - | - | (0.0) | - | (0.0) |
| Adjustment to loss on sale of Australian Paper (4) | | - | - | - | (7.8) | - | (7.8) | (7.8) | - | (7.8) |
| Transaction costs related to sale of Australian Paper (2) | | - | - | - | (8.7) | - | (8.7) | (8.7) | - | (8.7) |
| Costs related to closure of discontinued Tasmanian operations (3) | | - | - | - | (122.8) | (31.0) | (153.8) | (122.8) | (31.0) | (153.8) |
| Total individually significant items | | - | - | - | (139.3) | (31.0) | (170.3) | (139.3) | (31.0) | (170.3) |

(1) During the prior period, the Consolidated Entity entered into a currency option to hedge a foreign currency exposure on an intercompany loan. AASB 139 Financial Instruments: Recognition and Measurement (AASB 139) permits reporting entities to separate the intrinsic value and time value of an option. AASB 139 allows for the intrinsic value of an option to be designated as part of a hedging relationship. However, the time value component does not qualify for hedge accounting and changes in fair values are recognised immediately in the income statement for the financial period as they do not form part of a hedging relationship. This methodology can cause volatility in the amount of the time value expense, even though the cash cost of the option was fixed at the time of purchase. The increase in the expense over the prior period is due to the significant appreciation of the AUD against the GBP.

(2) Additional transaction costs which are directly attributable to the sale of Australian Paper.

(3) Benefits/(costs) which are directly attributable to the closure of the Tasmanian paper manufacturing operations.

(4) Revision of the net asset adjustment receivable booked in the comparative reporting period.

Note 7. Earnings per share

| | Note | Continuing | | Discontinued | | Total | |
|---|------|-------------|-------------|--------------|-------------|-------------|-------------|
| | | 2011 \$m | 2010 \$m | 2011 \$m | 2010 \$m | 2011 \$m | 2010 \$m |
| Loss for the period | | (106.5) | (27.6) | (1.5) | (197.7) | (108.0) | (225.3) |
| Less PaperlinX step-up preference securities distributions | 12 | (21.2) | (9.6) | - | - | (21.2) | (9.6) |
| Loss for the period attributable to holders of ordinary shares in PaperlinX Limited | | (127.7) | (37.2) | (1.5) | (197.7) | (129.2) | (234.9) |
| Weighted average number of shares - basic (millions) | | 603.6 | 603.6 | 603.6 | 603.6 | 603.6 | 603.6 |
| Basic EPS (cents) | | (21.2) | (6.2) | (0.2) | (32.7) | (21.4) | (38.9) |
| Weighted average number of shares - diluted (millions) | | 603.6 | 603.6 | 603.6 | 603.6 | 603.6 | 603.6 |
| Diluted EPS (cents) | | (21.2) | (6.2) | (0.2) | (32.7) | (21.4) | (38.9) |

The options to purchase shares and rights on issue during the years ended 30 June 2011 and 30 June 2010 have not been included in determining the basic earnings per share.

The options to purchase shares and rights on issue during the year ended 30 June 2011 (weighted average 18.1 million shares) have not been included in determining the diluted earnings per share because they are anti-dilutive. The options to purchase shares and rights on issue during the year ended 30 June 2010 (weighted average 19.4 million shares) have not been included in determining the diluted earnings per share for the prior period because they are anti-dilutive.

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Note 7. Earnings per share – (continued)

No options or rights have been issued since 30 June 2011 up to the date of this report.

No options or rights have been exercised, resulting in the issuing of nil shares since 30 June 2011 up to the date of this report. 298,242 rights have vested since 30 June 2011 and are exercisable as at the date of this report. In addition, 666,213 options and 658,979 rights have lapsed since 30 June 2011 in respect of the plan period ended 30 June 2011.

Note 8. Other income from continuing operations

| | 2011 \$m | 2010 \$m |
|--|-------------|-------------|
| Dividends | - | 0.1 |
| Net profit on disposal of non-current assets | 1.0 | 2.0 |
| Net profit on disposal of assets held for sale | - | 0.4 |
| Net profit on disposal of investments | - | 4.6 |
| Other | 3.6 | 4.6 |
| Total other income | 4.6 | 11.7 |

Note 9. Net finance costs from continuing operations

| | 2011 \$m | 2010 \$m |
|--|---------------|---------------|
| Net interest | | |
| Interest expense | (19.5) | (30.0) |
| Interest income | 2.6 | 2.8 |
| Total net interest | (16.9) | (27.2) |
| Other finance costs | | |
| Foreign exchange gain on closure of swaps associated with US Private Placement Notes | - | 14.1 |
| Net other foreign exchange losses | (0.5) | (6.9) |
| Other borrowing costs | (3.0) | (19.3) |
| Total other finance costs | (3.5) | (12.1) |
| Total net finance costs | (20.4) | (39.3) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2011

Note 10. Income tax expense

| | 2011 \$m | 2010 \$m |
|---|--------------|---------------|
| Prima facie income tax benefit attributable to loss from operations at the Australian tax rate of 30% (2010: 30%) | 33.2 | 60.7 |
| (Add)/deduct the tax effect of: | | |
| • Tax losses not brought to account | (16.7) | (8.2) |
| • Non-deductible impairment of goodwill - significant item | (19.2) | - |
| • Non-assessable profit on sale of investments | - | 1.4 |
| • Amortisation of goodwill allowable | 1.5 | 1.7 |
| • Tax benefit of deductions in foreign operations | 6.5 | 5.4 |
| • Overseas tax rate differential | (3.5) | (1.1) |
| • Other non-deductible/non-assessable items | (0.5) | (0.3) |
| • Over provision in prior years | 2.8 | 0.7 |
| • Tax losses not brought to account - discontinued significant item | - | (41.5) |
| • Write-off of temporary differences - discontinued significant item | - | (34.6) |
| • Write-off of temporary differences - other | - | (2.2) |
| • Non-deductible loss on sale of Australian Paper business - discontinued significant item | (1.3) | (4.9) |
| Total tax benefit/(expense) in income statement | 2.8 | (22.9) |
| comprising: | | |
| Tax benefit from continuing operations | 2.8 | 8.1 |
| Tax expense from discontinued operations | - | (31.0) |
| | 2.8 | (22.9) |
| Recognised in the income statement | | |
| Current tax expense | | |
| • Current year | 5.9 | (40.5) |
| • Adjustments for prior years | 2.8 | 0.7 |
| Deferred tax (expense)/benefit | (5.9) | 16.9 |
| Total tax benefit/(expense) in income statement | 2.8 | (22.9) |
| Recognised in other comprehensive income | | |
| Tax effect of actuarial adjustments on defined benefit plans | (2.4) | 5.6 |
| Total tax (expense)/benefit recognised in other comprehensive income | (2.4) | 5.6 |

The balance of the consolidated franking account as at the reporting date was \$Nil (2010: \$Nil).

Note 11. Discontinued operations

On 16 February 2009 the Company announced the sale of a significant part of its Australian manufacturing business, Australian Paper. The sale excluded the two Tasmanian mills at Burnie and Wesley Vale. The sale of the manufacturing business was undertaken in order to concentrate the Consolidated Entity on its core merchanting and distribution operations. The sale was completed on 31 May 2009.

On 7 December 2009 the Company announced the closure of the Wesley Vale operation and part of the Burnie operations, with a sale of the remaining operations at Burnie being explored as an alternative to its complete closure. On 13 April 2010 the Company announced the closure of the Burnie Mill, completing the Consolidated Entity's exit from paper manufacturing.

Australian Paper (including the Tasmanian operations) comprised the Paper Manufacturing segment of the Consolidated Entity. The paper manufacturing business has been treated as a discontinued operation in the current and comparative reporting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2011

Note 11. Discontinued operations – (continued)

| | Note | 2011 \$m | 2010 \$m |
|--|------|-------------|-------------|
| Result from discontinued operations | | | |
| Revenue | | 15.9 | 225.9 |
| Other income | | 0.5 | 4.4 |
| Trading expenses | | (17.3) | (257.4) |
| Result from operating activities pre-significant items | | (0.9) | (27.1) |
| Individually significant items | 6 | 1.4 | (139.3) |
| Result from operating activities | | 0.5 | (166.4) |
| Unwind of discount on provisions | | (2.0) | (0.3) |
| Loss before tax | | (1.5) | (166.7) |
| Tax benefit pre-significant items | | - | - |
| Tax expense significant items | | - | (31.0) |
| Loss for the period | | (1.5) | (197.7) |
| Cash flows from discontinued operations | | | |
| Net cash from operating activities | | 9.5 | 4.0 |
| Net cash (used in)/from investing activities | | (31.4) | 6.5 |
| Net cash (used in)/from discontinued operations | | (21.9) | 10.5 |
| Net liabilities of discontinued operations | | | |
| Current assets | | | |
| Trade and other receivables | | 1.1 | 20.5 |
| Inventories | | - | 13.8 |
| Assets held for sale | | 0.5 | 1.6 |
| Total current assets | | 1.6 | 35.9 |
| Non-current assets | | | |
| Receivables | | 4.4 | 4.9 |
| Total non-current assets | | 4.4 | 4.9 |
| Total assets | | 6.0 | 40.8 |
| Current liabilities | | | |
| Trade and other payables | | 1.6 | 22.4 |
| Employee benefits | | 2.3 | 6.4 |
| Provisions | | 10.2 | 34.4 |
| Total current liabilities | | 14.1 | 63.2 |
| Non-current liabilities | | | |
| Provisions | | 8.3 | 12.0 |
| Total non-current liabilities | | 8.3 | 12.0 |
| Total liabilities | | 22.4 | 75.2 |
| Net liabilities | | (16.4) | (34.4) |

Note 12. Dividends and distributions

(a) Dividends on PaperlinX Limited ordinary shares

No dividends have been declared or paid on PaperlinX Limited ordinary shares during the current or comparative reporting periods.

(b) Distributions on PaperlinX step-up preference securities

| | 2011 \$m | 2010 \$m |
|---|-------------|-------------|
| Final distribution paid: | | |
| • Rate of 7.5317% for the period 1 January 2011 to 30 June 2011 | 10.6 | |
| • Rate of 6.7867% for the period 1 January 2010 to 30 June 2010 | | 9.6 |
| Interim distribution paid: | | |
| • Rate of 7.365% for the period 1 July 2010 to 31 December 2010 | 10.6 | |
| Total distributions on PaperlinX step-up preference securities | 21.2 | 9.6 |

The distribution for the period 1 January 2011 to 30 June 2011 was paid on 30 June 2011.

The interim distribution rate for the period 1 July 2011 to 31 December 2011 is 7.4450%. The distribution is payable at the discretion of the directors of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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Note 13. Cash and cash equivalents

| | 2011 \$m | 2010 \$m |
|--|--------------|--------------|
| Cash on hand and at bank | 120.0 | 132.6 |
| Deposits at call | 5.3 | 4.4 |
| Total cash and cash equivalents | 125.3 | 137.0 |

Under certain regional asset backed loan facilities, lender approval is required to move cash within the Consolidated Entity. Balances subject to these approvals at reporting date were \$118.9m (2010: \$121.8m).

Note 14. Trade and other receivables

| | 2011 \$m | 2010 \$m |
|--|--------------|----------------|
| Trade debtors | 899.4 | 1,039.3 |
| Provision for impairment losses | (53.9) | (54.1) |
| Net trade debtors | 845.5 | 985.2 |
| Accrued rebates | 38.3 | 48.6 |
| Amounts receivable on sale of property, plant and equipment, controlled entities and investments | 6.9 | 13.4 |
| Currency option (1) | 31.7 | - |
| Other debtors | 15.1 | 24.8 |
| Prepayments | 30.4 | 43.1 |
| Total trade and other receivables | 967.9 | 1,115.1 |

(1) The currency option has been transferred from non-current receivables as it matures within twelve months of balance date.

The Consolidated Entity's exposure to credit and currency risk and impairment losses related to trade and other receivables are disclosed in Note 31.

The amount of receivables pledged as part of the regional asset backed loan facilities at balance date was \$271.5 million (2010: \$276.7 million).

Note 15. Inventories

| | 2011 \$m | 2010 \$m |
|--|--------------|--------------|
| Finished goods | 445.8 | 524.9 |
| Provision for impairment losses | (6.4) | (11.9) |
| Net finished goods | 439.4 | 513.0 |
| Work in progress | - | 1.1 |
| Raw materials and stores | 5.8 | 15.7 |
| Provision for impairment losses | (5.8) | (13.9) |
| Net raw materials and stores | - | 1.8 |
| Total inventories | 439.4 | 515.9 |
| Inventories carried at fair value less costs to sell | - | 23.9 |

The amount of provision charged to the Income Statement for diminution in value of inventories was \$(2.3) million for continuing operations (2010: \$(2.8) million) and \$(4.1) million for discontinued operations (2010: \$14.2 million).

The amount of inventories pledged as part of the regional asset backed loan facilities in USA, Canada and New Zealand at balance date was \$15.8 million (2010: \$12.4 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2011

Note 16. Assets held for sale

| | Note | 2011 \$m | 2010 \$m |
|--|------|-------------|-------------|
| Balance at beginning of period | | 1.6 | 20.9 |
| Sold during period | | (2.9) | (2.6) |
| Revaluations | | 1.8 | 1.6 |
| Net transfers to property, plant and equipment | 19 | - | (16.2) |
| Foreign currency movements | | - | (2.1) |
| Balance at end of period | | 0.5 | 1.6 |

\$1.8 million (2010: \$1.6 million) of equipment subject to a sale agreement that did not qualify for revenue recognition was reclassified as assets held for sale.

During the comparative reporting period, \$16.2 million of European freehold land and buildings no longer met the criteria for classification as current assets and were reinstated as property, plant and equipment - refer Note 19.

Note 17. Receivables - non-current

| | 2011 \$m | 2010 \$m |
|---|-------------|-------------|
| Currency option (1) | - | 14.2 |
| Amounts receivable on sale of controlled entities and investments | 4.4 | 4.9 |
| Other debtors | 2.4 | 4.1 |
| Total receivables non-current | 6.8 | 23.2 |

(1) The currency option has been transferred to current receivables as it matures within twelve months of balance date.

Note 18. Investments

| | 2011 \$m | 2010 \$m |
|--|-------------|-------------|
| Shares in other companies - not listed on stock exchanges: | | |
| • At cost | 2.5 | 3.0 |
| • Impairment | (1.0) | (1.0) |
| Total investment in shares in unlisted companies | 1.5 | 2.0 |
| Total investments | 1.5 | 2.0 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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Note 19. Property, plant and equipment

| \$ million | Land | Land improve- ments | Buildings | Plant and equipment | Leased assets | Total |
|---|------------|---------------------------|-------------|------------------------|------------------|-------------|
| Cost or deemed cost: | | | | | | |
| Balance at 1 July 2010 | 5.7 | 1.6 | 110.4 | 473.4 | 0.8 | 591.9 |
| Additions | - | - | 0.7 | 9.5 | - | 10.2 |
| Disposals | (0.1) | - | (2.5) | (16.8) | - | (19.4) |
| Transfers | 2.3 | - | (2.3) | (0.7) | - | (0.7) |
| Foreign currency movements | (0.5) | - | (6.3) | (23.4) | - | (30.2) |
| Balance at 30 June 2011 | 7.4 | 1.6 | 100.0 | 442.0 | 0.8 | 551.8 |
| Depreciation and impairment losses: | | | | | | |
| Balance at 1 July 2010 | (2.1) | (1.6) | (80.1) | (420.8) | (0.7) | (505.3) |
| Depreciation | - | - | (2.5) | (12.5) | (0.0) | (15.0) |
| Disposals | - | - | 1.9 | 15.6 | - | 17.5 |
| Foreign currency movements | - | - | 3.6 | 18.9 | - | 22.5 |
| Balance at 30 June 2011 | (2.1) | (1.6) | (77.1) | (398.8) | (0.7) | (480.3) |
| Carrying amount as at 30 June 2011 | 5.3 | - | 22.9 | 43.2 | 0.1 | 71.5 |
| Cost or deemed cost: | | | | | | |
| Balance at 1 July 2009 | 2.2 | 1.6 | 94.7 | 528.3 | 1.4 | 628.2 |
| Additions | - | - | 2.1 | 8.1 | - | 10.2 |
| Disposals | - | - | (4.4) | (25.9) | - | (30.3) |
| Transfers from assets held for sale | 3.8 | - | 22.7 | - | - | 26.5 |
| Transfers | - | - | 0.3 | 0.9 | (0.5) | 0.7 |
| Foreign currency movements | (0.3) | - | (5.0) | (38.0) | (0.1) | (43.4) |
| Balance at 30 June 2010 | 5.7 | 1.6 | 110.4 | 473.4 | 0.8 | 591.9 |
| Depreciation and impairment losses: | | | | | | |
| Balance at 1 July 2009 | (2.2) | (1.6) | (74.1) | (460.9) | (1.2) | (540.0) |
| Depreciation | - | - | (2.3) | (15.2) | (0.1) | (17.6) |
| Disposals | - | - | 3.8 | 23.3 | - | 27.1 |
| Transfers from assets held for sale | - | - | (10.3) | - | - | (10.3) |
| Transfers | - | - | (0.3) | (0.9) | 0.5 | (0.7) |
| Foreign currency movements | 0.1 | - | 3.1 | 32.9 | 0.1 | 36.2 |
| Balance at 30 June 2010 | (2.1) | (1.6) | (80.1) | (420.8) | (0.7) | (505.3) |
| Carrying amount as at 30 June 2010 | 3.6 | - | 30.3 | 52.6 | 0.1 | 86.6 |

Refer Note 20 for details of the impairment review.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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Note 20. Intangible assets

| \$ million | Goodwill | Computer software | Brand names | Other | Total |
|---|--------------|-------------------|-------------|------------|--------------|
| Cost or deemed cost: | | | | | |
| Balance at 1 July 2010 | 305.1 | 114.4 | 19.4 | 9.7 | 448.6 |
| Additions | - | 7.8 | - | - | 7.8 |
| Disposals/retirements | - | (20.4) | - | - | (20.4) |
| Transfers | - | 0.7 | - | - | 0.7 |
| Foreign currency movements | (27.8) | (7.5) | (2.6) | (1.3) | (39.2) |
| Balance at 30 June 2011 | 277.3 | 95.0 | 16.8 | 8.4 | 397.5 |
| Amortisation and impairment losses: | | | | | |
| Balance at 1 July 2010 | (1.8) | (81.6) | (6.1) | (3.4) | (92.9) |
| Amortisation | - | (6.8) | - | (0.9) | (7.7) |
| Impairment | (68.5) | - | - | - | (68.5) |
| Disposals/retirements | - | 20.4 | - | - | 20.4 |
| Foreign currency movements | 1.9 | 5.2 | 0.9 | 0.5 | 8.5 |
| Balance at 30 June 2011 | (68.4) | (62.8) | (5.2) | (3.8) | (140.2) |
| Carrying amount as at 30 June 2011 | 208.9 | 32.2 | 11.6 | 4.6 | 257.3 |
| Cost or deemed cost: | | | | | |
| Balance at 1 July 2009 | 334.0 | 133.3 | 22.3 | 10.7 | 500.3 |
| Additions | - | 8.8 | - | - | 8.8 |
| Disposals/retirements | - | (7.5) | - | - | (7.5) |
| Transfers | - | (0.5) | - | - | (0.5) |
| Foreign currency movements | (28.9) | (19.7) | (2.9) | (1.0) | (52.5) |
| Balance at 30 June 2010 | 305.1 | 114.4 | 19.4 | 9.7 | 448.6 |
| Amortisation and impairment losses: | | | | | |
| Balance at 1 July 2009 | (2.1) | (93.5) | (6.9) | (2.8) | (105.3) |
| Amortisation | - | (7.1) | - | (1.0) | (8.1) |
| Impairment | - | (2.6) | - | - | (2.6) |
| Disposals/retirements | - | 7.0 | - | - | 7.0 |
| Transfers | - | 0.5 | - | - | 0.5 |
| Foreign currency movements | 0.3 | 14.1 | 0.8 | 0.4 | 15.6 |
| Balance at 30 June 2010 | (1.8) | (81.6) | (6.1) | (3.4) | (92.9) |
| Carrying amount as at 30 June 2010 | 303.3 | 32.8 | 13.3 | 6.3 | 355.7 |

Impairment review

As required under AASB 136 *Impairment of Assets*, the Consolidated Entity performs an impairment assessment when there is an indication or 'trigger' of a possible impairment of its non-current assets and in addition, at least annually performs an impairment review of goodwill and indefinite life intangible assets, regardless of whether an impairment trigger has been identified. An impairment review was performed at 30 June 2011.

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Note 20. Intangible assets – (continued)

Cash generating units

For the purposes of undertaking impairment testing for goodwill and indefinite life intangible assets, cash generating units (“CGUs”) are identified. CGUs are the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The carrying amount of goodwill and intangible assets with an indefinite useful life are as follows:

| | Goodwill | | Intangible assets with indefinite useful lives | |
|---|-------------|-------------|--|-------------|
| | 2011 \$m | 2010 \$m | 2011 \$m | 2010 \$m |
| Merchanting CGU's | | | | |
| • Continental Europe | 78.8 | 81.0 | - | - |
| • United Kingdom, Ireland, Spain and South Africa | 42.8 | 88.0 | 11.6 | 13.3 |
| • USA | 25.1 | 31.0 | - | - |
| • Canada | 36.7 | 41.5 | - | - |
| • Australia, New Zealand and Asia | 25.5 | 61.8 | - | - |
| | 208.9 | 303.3 | 11.6 | 13.3 |

Impairment testing

Impairment testing compares the carrying value of an individual asset or CGU with its recoverable amount based on a value in use calculation.

Assumptions

The assumptions used for determining the recoverable amount of each asset and CGU are based on past experience and expectations for the future. Cash flow projections have been based on Board approved budgets and management forecasts. These budgets and forecasts use management estimates to determine income, expenses, working capital movements, capital expenditure and cash flows for each CGU. The projected cash flows for each CGU are discounted using an appropriate discount rate and terminal growth rate for the CGU.

The following assumptions have been used in determining the recoverable amount of CGUs to which goodwill or indefinite life intangible assets have been allocated:

| | |
|-----------------------|--|
| Discount rates: | Continental Europe – 12.1% (2010: 11.7%), United Kingdom, Ireland, Spain and South Africa – 12.4% (2010: 12.4%), Canada – 12.3% (2010: 12.2%), USA – 14.6% (2010: 14.0%) and Australia, New Zealand and Asia – 14.1% (2010: 13.9%). The discount rates represent the pre-tax discount rate applied to the cash flow projections. The discount rates reflect the market determined, risk adjusted discount rates. |
| Terminal growth rate: | Terminal growth rate: 2.0% (2010: 2.0%). The terminal growth rate represents the growth rate applied to extrapolate cash flows beyond the five year forecast period. The growth rate is based upon expectations of the CGUs' long-term performance. |
| Gross margin: | An overall improvement in gross profit percentage as a result of a change in the sales mix from lower margin core paper to higher margin diversified products over the forecast period and operational efficiencies in the core paper business. |
| Trading expenses: | An overall improvement in the ratio of trading expenses to sales as a result of certain Board approved restructuring programs and operating efficiencies over the forecast period. |
| Sales volumes: | For the core paper business, sales volumes are forecast to remain flat or decline based on industry forecasts for each CGU (except certain geographical regions of Continental Europe, which are forecast to grow). For the diversified business, volume growth is based on management's estimates of market growth and market share. |
| Sales prices: | Forecast to increase or decrease based on assumptions about local industry conditions and, where relevant, exchange rates. |

Results

Due to the effect of the stronger AUD on selling prices, structural changes in the Australian print market and the reduction in volumes due to continuing depressed market conditions, an impairment charge of \$35.1m has been booked against the carrying value of goodwill in the Australia, New Zealand and Asia CGU and segment.

Ongoing weak demand for core paper products in the United Kingdom combined with a subdued outlook for paper in the foreseeable future has resulted in an impairment charge of \$33.4 million being booked against the carrying value of goodwill in the United Kingdom, Ireland, Spain and South Africa CGU (part of the Merchanting Europe segment).

The Australian and United Kingdom impairment charges have been disclosed as 'Impairment of goodwill' in the Income Statement.

No impairment of the carrying value of goodwill was identified within any of the other CGUs as a result of the impairment review. In the comparative period, no impairment of goodwill was identified.

The review of intangible assets with indefinite lives did not identify any impairment of brand name assets. In the comparative period, no impairment of intangible assets with indefinite lives was identified.

In the comparative reporting period, the carrying value of European computer software was impaired by \$2.6 million. The impairment related to a reassessment of the value of capitalised software implementation costs in the United Kingdom.

AS AT 30 JUNE 2011

Note 20. Intangible assets – (continued)

Sensitivity analysis

Continental Europe: The recoverable amount for this CGU comfortably exceeds the carrying value. However, the recoverable amount is particularly sensitive to several key assumptions. The recoverable amount assumes improvement in cost management as a result of restructuring programs and operating efficiencies. If these targets are not achieved, an impairment may arise. The recoverable amount also assumes sustained growth in gross margins due to continued growth in diversified products and margin management. If these conditions fail to materialise, an impairment may arise in future reporting periods.

United Kingdom, Ireland, Spain and South Africa: Following the impairment charge of \$33.4 million booked against goodwill in the United Kingdom, the recoverable amount for the CGU approximates the revised carrying amount. Therefore any adverse movement in a key assumption may lead to a further impairment.

USA: The recoverable amount for this CGU comfortably exceeds the carrying value. There would need to be a significantly adverse movement in one or more key assumptions, being core paper volumes, gross margin, trading expenses to sales or selling prices, in order for an impairment to arise in future reporting periods.

Canada: The recoverable amount for this CGU comfortably exceeds the carrying value. There would need to be a significantly adverse movement in one or more key assumptions, being core paper volumes, gross margin, trading expenses to sales or selling prices, in order for an impairment to arise in future reporting periods.

Australia, New Zealand and Asia: Following the impairment charge of \$35.1m booked against goodwill in Australia, the estimated recoverable amount of this CGU exceeds its carrying amount by approximately \$10 million. Management has identified three key assumptions for which there could be a reasonably possible change that could cause the carrying amount to exceed the recoverable amount. The table below shows the amount that these assumptions are required to change by individually in order for the estimated recoverable amounts to equal the carrying amounts.

| Australia, New Zealand and Asia CGU | | Change required for recoverable amount to equal carrying amount | |
|--|--|--|--------------|
| Key assumption: | | measure | value |
| Decrease in sales volume | | % | (2.3) |
| Decrease in gross margin | | basis points | (21.0) |
| Increase in trading expense to sales | | basis points | 20.0 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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Note 21. Deferred tax balances

| | 2011 \$m | 2010 \$m |
|---|--------------|--------------|
| Deferred taxes | | |
| Deferred tax assets | 52.6 | 63.6 |
| Deferred tax liabilities | (12.6) | (15.3) |
| Net deferred tax balances | 40.0 | 48.3 |
| Movement in net deferred tax balances during the reporting period: | | |
| Opening balance | 48.3 | 66.7 |
| Recognised in profit or loss | (5.9) | 16.9 |
| Recognised in profit or loss - write-off of temporary differences | - | (36.8) |
| Recognised in other comprehensive income | (2.4) | 5.6 |
| Currency translation difference | - | (4.1) |
| Closing balance | 40.0 | 48.3 |
| Deferred tax balances are attributable to the following: | | |
| Provisions and employee benefits | 23.4 | 31.4 |
| Tax losses | 21.9 | 24.7 |
| Foreign tax credits carried forward | 3.1 | 1.9 |
| Inventories | (6.8) | (7.0) |
| Property, plant and equipment | (3.2) | (4.3) |
| Intangible assets | (3.2) | (4.2) |
| Accrued expenses not claimed | 0.3 | 0.4 |
| Other items | 4.5 | 5.4 |
| Net deferred tax balances | 40.0 | 48.3 |
| Unrecognised deferred tax assets (1) | | |
| Capital losses - no expiry date | 149.2 | 142.9 |
| Revenue losses - no expiry date | 228.8 | 203.3 |
| Total unrecognised deferred tax assets | 378.0 | 346.2 |

(1) *Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Consolidated Entity can utilise the benefits thereon.*

Note 22. Trade and other payables

| | 2011 \$m | 2010 \$m |
|---------------------------------------|--------------|--------------|
| Trade creditors | 548.8 | 678.0 |
| Accrued expenses | 17.3 | 21.5 |
| Sales tax, GST and VAT | 38.3 | 41.8 |
| Rebates | 19.6 | 22.0 |
| Other creditors | 107.9 | 83.7 |
| Total trade and other payables | 731.9 | 847.0 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2011

Note 23. Loans and borrowings

(a) Current

| | Currency | Nominal interest rate (1) | Term of facility | 2011 \$m | 2010 \$m |
|---|----------|---------------------------|------------------|-------------|-------------|
| • Bank loans - secured (2) | EUR | CP Rate (3) | 2013 (9) | 1.3 | 1.8 |
| • Bank loans - secured (2) | GBP | CP Rate (3) | 2013 (9) | 3.3 | 31.1 |
| • Bank loans - secured (2) | CAD | C Prime (4) | 2013 | - | 14.9 |
| • Bank loans - secured (2) | AUD | BBSR (5) | 2013 (9) | 23.7 | - |
| • Bank loans - secured (2) | NZD | BKBM (6) | 2014 (9) | 3.8 | 4.0 |
| • Bank loans - secured (2) | EUR | Euribor (7) | 2012-13 | 27.7 | - |
| • Other bank loans - secured | EUR | various | various | 0.6 | 1.5 |
| • Capitalised borrowing costs | | | | (0.7) | (1.8) |
| Bank loans - secured | | | | 59.7 | 51.5 |
| Bank loans - unsecured | various | various | various | 3.3 | 1.2 |
| Finance lease liabilities | | | | 0.1 | - |
| Total loans and borrowings - current | | | | 63.1 | 52.7 |

(b) Non-current

| | | | | | |
|---|-----|-------------|----------|--------------|--------------|
| • Bank loans - secured (2) | EUR | CP Rate (3) | 2013 (9) | 47.9 | 44.5 |
| • Bank loans - secured (2) | GBP | CP Rate (3) | 2013 (9) | 122.7 | 122.6 |
| • Bank loans - secured (2) | GBP | BBLR (8) | 2014 | 16.3 | 0.3 |
| • Bank loans - secured (2) | AUD | BBSR (5) | 2013 (9) | 3.8 | 23.2 |
| • Bank loans - secured (2) | USD | Prime | 2013 | 22.7 | 18.8 |
| • Bank loans - secured (2) | CAD | C Prime (4) | 2013 | 13.7 | - |
| • Bank loans - secured (2) | NZD | BKBM (6) | 2014 (9) | - | 3.4 |
| • Bank loans - secured | EUR | various | 2011 | - | 10.0 |
| • Capitalised borrowing costs | | | | (3.0) | (4.2) |
| Bank loans - secured | | | | 224.1 | 218.6 |
| Bank loans - unsecured | | | | - | 0.2 |
| Other loans - unsecured | | | | 0.1 | - |
| Total loans and borrowings - non-current | | | | 224.2 | 218.8 |

(1) Excludes company specific margins.

(2) These bank loans are facilities secured by certain assets.

(3) CP Rate: Commercial Paper Rate.

(4) C Prime: Canadian Prime rate.

(5) BBSR: Bank Bill Swap Rate.

(6) BKBM: Bank Bill Market Rate.

(7) Euribor: Euro Inter Bank Offer Rate

(8) BBLR: Bank Based Lending Rate.

(9) The Consolidated Entity has the discretion and intention to roll a portion of these facilities for at least twelve months from balance date. The amount that has been determined as non-current is the lowest expected balance of these facilities in the twelve month period post balance date based upon Board approved budgets.

The regional asset backed facilities in Australia, NZ, USA, Canada and Europe have availability periods of between 2 to 3 years, and include regional covenant measures. These will vary by region and may include fixed charge coverage ratios, interest cover, net worth tests and gearing levels. These facilities have restrictions on the ability to draw down and move cash within the Consolidated Entity.

The regional asset backed facilities in Australia and Europe involve the sale of receivables, while in USA, Canada and New Zealand regional facilities are secured by both receivables and inventory.

(c) Reconciliation of consolidated loans and borrowings

| | Note | 2011 \$m | 2010 \$m |
|----------------------------------|------|----------|----------|
| Current loans and borrowings | | 63.1 | 52.7 |
| Non-current loans and borrowings | | 224.2 | 218.8 |
| Total loans and borrowings | | 287.3 | 271.5 |
| Cash and cash equivalents | 13 | (125.3) | (137.0) |
| Bank overdrafts | | 9.8 | 29.4 |
| Net loans and borrowings | | 171.8 | 163.9 |

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Note 24. Employee benefits

(a) Current

| | Note | 2011 \$m | 2010 \$m |
|--|------|-------------|-------------|
| Leave entitlements | | 9.2 | 7.9 |
| Workers' compensation (1) | | 4.9 | 7.0 |
| Other entitlements | | 1.3 | 5.2 |
| Total current employee benefits | | 15.4 | 20.1 |

(b) Non-current

| | Note | 2011 \$m | 2010 \$m |
|--|------|-------------|--------------|
| Defined benefit obligations | 32 | 88.5 | 118.1 |
| Leave entitlements | | 0.8 | 4.9 |
| Directors' retirement allowances (2) | | 1.4 | 1.7 |
| Other entitlements | | 4.3 | 3.8 |
| Total non-current employee benefits | | 95.0 | 128.5 |

(1) Amounts provided for self-insured workers' compensation in Victoria and Tasmania.

(2) These benefits relate to Non-executive Directors of the Company appointed before 31 December 2006 and are in accordance with the Company's Constitution and with agreements between the Company and individual Directors, and were frozen in 2006. An earnings rate equal to the 5 year Australian Government Bond Rate applies to frozen entitlements. No liability exists for Director's retiring allowances in respect of Directors in full-time employment of the Company or its subsidiaries.

(c) Total employee benefits

| | 2011 \$m | 2010 \$m |
|--------------------------------|--------------|--------------|
| Current | 15.4 | 20.1 |
| Non-current | 95.0 | 128.5 |
| Total employee benefits | 110.4 | 148.6 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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Note 25. Provisions

(a) Current

| \$ million | Step-up Preference Securities distrib- utions | Tas Paper remediat- ion | Tas Paper redund- ancies | Tas Paper other | Reorgan- isation | Other | Total |
|-------------------------------------|---|-------------------------------|--------------------------------|--------------------|---------------------|-------|--------|
| Balance at 1 July 2010 | - | 6.7 | 16.5 | 11.2 | 2.6 | 4.1 | 41.1 |
| Provided/(released) during the year | 21.2 | - | (1.2) | 1.7 | 9.5 | 0.9 | 32.1 |
| Paid during the year | | | | | | | |
| • cash | (21.2) | (7.7) | (14.5) | (9.9) | (4.5) | (3.1) | (60.9) |
| Transfers | - | 5.6 | - | - | 5.4 | 0.9 | 11.9 |
| Foreign currency movements | - | - | - | - | (0.4) | (0.3) | (0.7) |
| Balance at 30 June 2011 | - | 4.6 | 0.8 | 3.0 | 12.6 | 2.5 | 23.5 |
| Balance at 1 July 2009 | - | - | - | - | 5.5 | 1.2 | 6.7 |
| Provided/(released) during the year | 9.6 | 7.0 | 63.6 | 17.8 | 1.9 | 5.1 | 105.0 |
| Paid during the year | | | | | | | |
| • cash | (9.6) | (0.3) | (47.1) | (6.6) | (3.1) | (3.3) | (70.0) |
| Transfers | - | - | - | - | (1.2) | 1.2 | - |
| Foreign currency movements | - | - | - | - | (0.5) | (0.1) | (0.6) |
| Balance at 30 June 2010 | - | 6.7 | 16.5 | 11.2 | 2.6 | 4.1 | 41.1 |

(b) Non-current

| | | | | | | | |
|-------------------------------------|---|-------|---|-------|-------|-------|--------|
| Balance at 1 July 2010 | - | 8.9 | - | 3.1 | 3.6 | 5.0 | 20.6 |
| Provided/(released) during the year | - | (0.5) | - | (2.9) | 3.5 | 4.7 | 4.8 |
| Transfers | - | (5.6) | - | - | (4.1) | (2.2) | (11.9) |
| Unwind of discount | - | 1.4 | - | 0.2 | - | 0.4 | 2.0 |
| Foreign currency movements | - | - | - | - | (0.2) | (0.4) | (0.6) |
| Balance at 30 June 2011 | - | 4.2 | - | 0.4 | 2.8 | 7.5 | 14.9 |
| Balance at 1 July 2009 | - | - | - | - | 5.6 | 2.6 | 8.2 |
| Provided/(released) during the year | - | 8.9 | - | 3.1 | (1.5) | 3.4 | 13.9 |
| Paid during the year | | | | | | | |
| • cash | - | - | - | - | 0.3 | (0.5) | (0.2) |
| Foreign currency movements | - | - | - | - | (0.8) | (0.5) | (1.3) |
| Balance at 30 June 2010 | - | 8.9 | - | 3.1 | 3.6 | 5.0 | 20.6 |

(c) Total provisions

| | | | | | | | |
|-------------------------|---|------|------|------|------|------|------|
| Balance at 30 June 2011 | | | | | | | |
| Current | - | 4.6 | 0.8 | 3.0 | 12.6 | 2.5 | 23.5 |
| Non-current | - | 4.2 | - | 0.4 | 2.8 | 7.5 | 14.9 |
| Total provisions | - | 8.8 | 0.8 | 3.4 | 15.4 | 10.0 | 38.4 |
| Balance at 30 June 2010 | | | | | | | |
| Current | - | 6.7 | 16.5 | 11.2 | 2.6 | 4.1 | 41.1 |
| Non-current | - | 8.9 | - | 3.1 | 3.6 | 5.0 | 20.6 |
| Total provisions | - | 15.6 | 16.5 | 14.3 | 6.2 | 9.1 | 61.7 |

Dividends

A provision for dividends is raised when a dividend is declared. Refer Note 12 for further details of dividends. No dividends were declared during the current or comparative reporting periods.

Step-up preference securities distributions

A provision for step-up preference securities distributions is raised when a distribution is declared. Refer Note 12 for further details of distributions.

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Note 25. Provisions – (continued)

Tas Paper

The decision to close the Tasmanian paper manufacturing operations (refer Note 11) resulted in the following provisions being raised in the prior reporting period:

Remediation

The remediation provision relates to environmental works at the Burnie and Wesley Vale mills. Approximately 50% of the remaining work is expected to be completed within the next 12 months, with the additional 50% provided for on a discounted present value basis.

Redundancies

This provision relates to redundancy payments to be made in accordance with employee's rights under their contract of employment or industrial awards (excluding entitlements to annual and long service leave and accrued wages).

Other

A provision was raised for other costs associated with the Tas Paper closure, including transaction costs (e.g. legal and consulting fees), additional labour and termination of long-term supply agreements. Of the remaining balance, approximately 80% of the costs are expected to be incurred within the next 12 months, with the remaining 20% future payments provided for on a discounted present value basis.

Reorganisation

Provisions have been raised for the costs associated with employee redundancies, relocation and office/warehouse closure costs arising from reorganisation programs in the United Kingdom, Europe and Australia.

Other

Other provisions primarily relate to remediation for the discontinued Australian Paper operations. The remainder are within Europe and include provisions relating to agents and onerous contracts.

Note 26. Payables - non-current

| | 2011 \$m | 2010 \$m |
|-----------------------------------|-------------|-------------|
| Other creditors | 1.4 | 2.0 |
| Total payables non-current | 1.4 | 2.0 |

Note 27. Share capital

| | 2011 \$m | 2010 \$m |
|--|----------------|----------------|
| Issued capital | | |
| Issued and paid-up share capital - 603,580,761 ordinary shares (2010: 603,580,761) | 1,891.4 | 1,895.7 |
| Employee share plan loans | (0.7) | (0.8) |
| Total issued capital | 1,890.7 | 1,894.9 |
| Movement in employee share plan loans: | | |
| Balance at beginning of reporting period | (0.8) | (1.5) |
| Proceeds on sale of shares | - | 0.2 |
| Loans forgiven - forfeited entitlements | 0.1 | 0.5 |
| Balance at end of reporting period | (0.7) | (0.8) |

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

The Consolidated Entity has granted share options and rights to executives and other employees. Share options and rights granted under employee share plans carry no entitlement to dividends and no voting rights. Refer Note 30 for details of rights and options issued under employee share plans.

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Note 28. Reserves**Reserve for own shares**

The reserve for own shares represents the cost of shares held by an equity compensation plan by the Consolidated Entity. This reserve will be reversed against share capital when the underlying shares vest to the employee. No gain or loss is recognised in the Income Statement on the purchase, sale, issue or cancellation of the Consolidated Entity's own equity instruments. Further information on own shares is contained in Note 30.

Exchange fluctuation reserve

The exchange fluctuation reserve records the foreign currency differences arising from the translation of the financial statements of foreign subsidiaries and the impact of transactions that hedge the Company's net investment in a foreign operation, net of tax. Refer to Note 3(l).

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments relating to the hedged transactions that have not yet occurred.

Employee share plans reserve

The reserve relates to equity settled share options and rights granted to employees under employee share plans. Further information on share-based payments is set out in Note 30.

Note 29. PaperlinX Step-up Preference Securities

The PaperlinX SPS Trust was established for the purpose of issuing a new security called PaperlinX Step-up Preference Securities ("PSPS"). The PSPS are perpetual, preferred units in the PaperlinX SPS Trust and on 30 March 2007, 2,850,000 PSPS were issued at an issue price of \$100 per security, raising \$285 million. The PSPS are listed on the ASX under 'PXUPA'.

Distributions on the PSPS are at the discretion of The Trust Company (RE Services) Limited ("the Responsible Entity") and ultimately, the Directors of PaperlinX Limited. Distributions are paid on a floating rate, unfranked, non-cumulative, discretionary and semi-annual basis. If a distribution is not paid in full, the distribution does not accumulate and may never be paid on the PSPS. If a distribution is not paid in full, the Company will be restricted from paying dividends or making other distributions on any class of its share capital until such time as two consecutive distributions are paid by the PaperlinX SPS Trust or an optional distribution is paid equal to the unpaid amount of scheduled distributions for the 12 months preceding (but not including) the payment date of the optional distribution. The distribution rate is the 180 day bank bill swap rate plus a margin of 2.40%. The first periodic remarketing date is 30 June 2012 at which time:

- a remarketing process may be conducted to establish a new margin and add or adjust such other terms of the PSPS, which if successful would apply until the next remarketing date;
- PSPS may be realised (redeemed for cash, exchanged for PaperlinX Limited ordinary shares or resold to a third party); or
- discretionary distributions will be scheduled to be paid at the step-up margin on the PSPS (the current 2.4% plus an additional 2.25% per annum).

At the date of this report, the Directors of PaperlinX Limited have not made a decision on the remarketing of the PSPS.

During the reporting period a distribution of \$21.2 million (2010: \$9.6 million) was paid on the PSPS - refer Note 12(b) for details of distributions.

Note 30. Share-based payments arrangements

At 30 June 2011, the Consolidated Entity has the following share-based payment arrangements:

Employee share plan loans

Loans to Executive Directors, officers and employees in the full-time employment of the Consolidated Entity were made in accordance with the Employee Share Purchase (Non-recourse Loan) Plan to provide financial assistance to enable Executive Directors and employees of the Consolidated Entity to purchase shares in the Company as approved by the Company shareholders. The plan ceased in 2004. The shares were treated as options, and the fair value of those options was recognised in the accounts of the Consolidated Entity in prior reporting periods. The loans are interest free and are reduced either by dividends paid on the shares or by proceeds from sale of the shares in case of forfeiture.

Loans to executives to acquire shares in an entity subsequently acquired by the Company were made under an Executive Share Purchase Plan in 1989. The plan is closed. The loans are interest free. 50% of dividends are used to pay down the loans, and employees have two years after termination of employment to repay outstanding loan balances.

Loans remaining under both loan plans will be repaid. Refer Note 27 for a reconciliation of movements in employee share plan loan balances.

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Note 30. Share-based payments arrangements – (continued)

Employee shares

In prior reporting periods, as part of a senior executive long-term incentive plan, shares in the Company were purchased "on market" at a cost of \$9.7 million. The shares did not vest and are recorded in the statement of financial position in the reserve for own shares - refer Note 28. The fair value of the shares was expensed over the applicable measurement period of the specified performance criteria in prior reporting periods.

The shares are held in trust. The voting rights attached to the shares are held in trust, and the dividends attached to the shares are retained by the trust. Shares retained in the trust are available to satisfy future issues under other share-based payment arrangements. During the reporting period 1,173,230 shares were distributed from the reserve to satisfy issues under other share-based payment plans.

The reconciliation of the number of shares purchased under the plan that are available for distribution under current share-based payment arrangements is as follows:

| | Opening balance | Distributed | Purchased | Closing balance |
|------------------|-----------------|-------------|-----------|-----------------|
| 2011 | | | | |
| Number of shares | 1,364,510 | (1,173,230) | - | 191,280 |
| 2010 | | | | |
| Number of shares | 1,990,133 | (625,623) | - | 1,364,510 |

None of the shares retained by the trust at 30 June 2011 or 30 June 2010 have vested.

The shares on hand at the reporting date have an aggregate fair value of \$0.03 million (2010: \$0.8 million).

Options

The Company has issued options to certain senior management at a fixed exercise price at a date in the future subject to specific performance criteria being achieved. If exercised, the exercise price is recognised in equity. The options are independently valued at the grant date. These values have been determined using an appropriate valuation model (either Monte Carlo simulation model or a discounted cash flow technique, as appropriate) incorporating assumptions in relation to the following: the life of the option; the vesting period; the volatility in the share price (range of 20.0 per cent to 70.0 per cent); the dividend yield (range of Nil per cent to 7.25 per cent); and the risk-free interest rate (range of 4.4 per cent to 5.95 per cent). The value of the option is expensed to the Income Statement over the applicable measurement period.

In the event that the specified performance criteria are not fully achieved, the number of options will be proportionally reduced.

At balance date there are 4,494,454 (2010: 7,609,061) unissued shares of the Company which are under option. Each option entitles the holder to purchase one fully paid ordinary share in the Company at the exercise price, subject to the satisfaction of the terms of the option agreements.

The details of options on issue at balance date and movements during the reporting period are as follows:

| Grant date | When exercisable | Expiry date | Exer- cise price | Fair value at date of grant | Number of options | | | | | Balance 30 June 2011 | Exercisable at balance date |
|---------------------------------|------------------|-------------|------------------|-----------------------------|---------------------|-----------|-------------|-----------|---|----------------------|-----------------------------|
| | | | | | Balance 1 July 2010 | Granted | Lapsed | Exercised | | | |
| 14/4/2000 | 14/4/2003 | (1) | \$3.13 | \$0.36 | 35,000 | - | (10,000) | - | - | 25,000 | 25,000 |
| 20/11/2000 | 20/11/2003 | (1) | \$3.32 | \$0.33 | 25,000 | - | (5,000) | - | - | 20,000 | 20,000 |
| 19/4/2001 | 19/4/2004 | (1) | \$3.50 | \$0.92 | 270,000 | - | (160,000) | - | - | 110,000 | 110,000 |
| 13/9/2001 | 13/9/2004 | 13/9/2011 | \$4.12 | \$0.47 | 66,200 | - | (10,000) | - | - | 56,200 | 56,200 |
| 20/9/2002 | 20/9/2005 | 20/9/2012 | \$5.13 | \$0.64 | 89,000 | - | (54,000) | - | - | 35,000 | 35,000 |
| 18/6/2003 | 18/6/2006 | (1) | \$4.76 | \$0.50 | 150,000 | - | - | - | - | 150,000 | 150,000 |
| 24/8/2007 | 24/8/2010 | 24/8/2017 | \$3.80 | \$1.05 | 502,430 | - | (412,776) | - | - | 89,654 | 89,654 |
| 30/11/2007 | 30/6/2010 | 30/11/2017 | \$3.80 | \$0.37 | 500,000 | - | (500,000) | - | - | - | - |
| 30/11/2007 | 30/11/2010 | 30/11/2017 | \$3.80 | \$0.47 | 149,120 | - | (149,120) | - | - | - | - |
| 30/10/2008 | 30/10/2011 | 30/10/2018 | \$2.05 | \$0.51 | 1,334,370 | - | (417,670) | - | - | 916,700 | - |
| 11/11/2008 | 11/11/2011 | 11/11/2018 | \$2.05 | \$0.53 | 293,010 | - | (293,010) | - | - | - | - |
| 14/11/2008 | 14/11/2011 | (1) | \$1.35 | \$0.57 | 150,000 | - | (150,000) | - | - | - | - |
| 11/12/2009 | 30/12/2012 | 11/12/2016 | \$0.49 | \$0.30 | 4,044,931 | - | (2,614,071) | - | - | 1,430,860 | - |
| 19/10/2010 | 31/8/2013 | 7/8/2017 | \$0.64 | \$0.16 | - | 1,661,040 | - | - | - | 1,661,040 | - |
| | | | | | 7,609,061 | 1,661,040 | (4,775,647) | - | - | 4,494,454 | 485,854 |
| Weighted average exercise price | | | | | \$1.64 | \$0.64 | \$1.65 | - | - | \$1.25 | \$4.11 |

(1) Options issued to employees on commencement of employment are not subject to performance conditions and do not have an expiry date. However, on termination, vested options must be exercised within a specified period of the termination date (not exceeding twelve months).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2011

Note 30. Share-based payments arrangements – (continued)

| Grant date | When exercisable | Expiry date | Exercise price | Fair value at date of grant | Number of options | | | | Balance 30 June 2010 | Exercisable at balance date |
|---------------------------------|------------------|-------------|----------------|-----------------------------|---------------------|-----------|-------------|-----------|----------------------|-----------------------------|
| | | | | | Balance 1 July 2009 | Granted | Lapsed | Exercised | | |
| 14/4/2000 | 14/4/2003 | (1) | \$3.13 | \$0.36 | 75,000 | - | (40,000) | - | 35,000 | 35,000 |
| 20/11/2000 | 20/11/2003 | (1) | \$3.32 | \$0.33 | 112,500 | - | (87,500) | - | 25,000 | 25,000 |
| 19/4/2001 | 19/4/2004 | (1) | \$3.50 | \$0.92 | 300,000 | - | (30,000) | - | 270,000 | 270,000 |
| 13/9/2001 | 13/9/2004 | 13/9/2011 | \$4.12 | \$0.47 | 167,900 | - | (101,700) | - | 66,200 | 66,200 |
| 13/9/2001 | 13/9/2004 | (1) | \$4.18 | \$0.45 | 50,000 | - | (50,000) | - | - | - |
| 20/9/2002 | 20/9/2005 | 20/9/2012 | \$5.13 | \$0.64 | 141,000 | - | (52,000) | - | 89,000 | 89,000 |
| 18/6/2003 | 18/6/2006 | (1) | \$4.76 | \$0.50 | 150,000 | - | - | - | 150,000 | 150,000 |
| 26/11/2003 | 26/11/2006 | (1) | \$4.64 | \$0.50 | 150,000 | - | (150,000) | - | - | - |
| 28/2/2006 | 28/2/2009 | (1) | \$2.77 | \$0.80 | 150,000 | - | (150,000) | - | - | - |
| 4/9/2006 | 4/9/2009 | (1) | \$3.11 | \$1.06 | 150,000 | - | (150,000) | - | - | - |
| 5/9/2006 | 5/9/2009 | 28/8/2016 | \$3.11 | \$0.94 | 744,510 | - | (744,510) | - | - | - |
| 24/8/2007 | 24/8/2010 | 24/8/2017 | \$3.80 | \$1.05 | 615,500 | - | (113,070) | - | 502,430 | - |
| 30/11/2007 | 30/6/2010 | 30/11/2017 | \$3.80 | \$0.37 | 500,000 | - | - | - | 500,000 | - |
| 30/11/2007 | 30/11/2010 | 30/11/2017 | \$3.80 | \$0.47 | 149,120 | - | - | - | 149,120 | - |
| 30/10/2008 | 30/10/2011 | 30/10/2018 | \$2.05 | \$0.51 | 1,591,420 | - | (257,050) | - | 1,334,370 | - |
| 11/11/2008 | 11/11/2011 | 11/11/2018 | \$2.05 | \$0.53 | 293,010 | - | - | - | 293,010 | - |
| 14/11/2008 | 14/11/2011 | (1) | \$1.35 | \$0.57 | 150,000 | - | - | - | 150,000 | - |
| 11/12/2009 | 30/12/2012 | 11/12/2016 | \$0.49 | \$0.30 | - | 4,044,931 | - | - | 4,044,931 | - |
| | | | | | 5,489,960 | 4,044,931 | (1,925,830) | - | 7,609,061 | 635,200 |
| Weighted average exercise price | | | | | \$3.05 | \$0.49 | \$3.25 | - | \$1.64 | \$4.06 |

(1) Options issued to employees on commencement of employment are not subject to performance conditions and do not have an expiry date. However, on termination, vested options must be exercised within a specified period of the termination date (not exceeding twelve months).

Since balance date up to the date of this report, 666,213 options have lapsed in respect of the plan period ended 30 June 2011. In addition, no options on issue at balance date have been exercised up to the date of this report.

Rights

The Company has offered rights to certain senior management to receive shares at an exercise price of \$Nil at a date in the future, subject to specific performance criteria being achieved. The rights are independently valued at the grant date using the Monte Carlo simulation model or a discounted cash flow technique. The value of the right is expensed to the Income Statement over the applicable measurement period.

In the event that the specified performance criteria are not fully achieved, the number of rights will be proportionally reduced.

At reporting date there are 12,336,327 (2010: 15,685,523) unissued shares of the Company which are subject to performance rights. Each performance right entitles the holder to receive one fully paid ordinary share in the Company when the relevant performance conditions are met. The details of the performance rights on issue at balance date and movements during the reporting period are as follows:

| Grant date | When exercisable | Expiry date | Exercise price | Fair value at date of grant | Number of rights | | | | Balance 30 June 2011 |
|------------|------------------|-------------|----------------|-----------------------------|---------------------|-----------|-------------|-------------|----------------------|
| | | | | | Balance 1 July 2010 | Granted | Lapsed | Exercised | |
| 24/8/2007 | 31/8/2010 | 27/8/2017 | \$nil | \$2.65 | 1,030,090 | - | (837,080) | - | 193,010 |
| 27/8/2007 | 31/8/2010 | (1) | \$nil | \$3.19 | 244,524 | - | - | (244,524) | - |
| 30/11/2007 | 30/6/2010 | 30/11/2017 | \$nil | \$2.25 | 500,000 | - | (500,000) | - | - |
| 30/11/2007 | 31/8/2010 | 27/8/2017 | \$nil | \$1.54 | 313,160 | - | (313,160) | - | - |
| 30/10/2008 | 30/6/2011 | (1) | \$nil | \$1.30 | 1,733,564 | - | (197,471) | (240,526) | 1,295,567 |
| 30/10/2008 | 31/8/2011 | 27/8/2018 | \$nil | \$1.18 | 595,680 | - | (208,560) | - | 387,120 |
| 11/11/2008 | 31/8/2011 | 27/8/2018 | \$nil | \$1.22 | 439,510 | - | (439,510) | - | - |
| 30/11/2009 | 31/10/2011 | (1) | \$nil | \$0.47 | 3,744,000 | - | (275,000) | (370,000) | 3,099,000 |
| 11/12/2009 | 31/8/2012 | 11/12/2016 | \$nil | \$0.47 | 3,583,042 | - | (2,724,522) | - | 858,520 |
| 11/12/2009 | 29/8/2012 | (1) | \$nil | \$0.50 | 3,501,953 | - | (3,012,043) | (98,180) | 391,730 |
| 7/8/2010 | 7/8/2012 | (1) | \$nil | \$0.60 | - | 3,820,000 | (175,000) | (220,000) | 3,425,000 |
| 19/10/2010 | 30/6/2013 | (1) | \$nil | \$0.39 | - | 1,689,760 | - | - | 1,689,760 |
| 19/10/2010 | 31/8/2013 | (1) | \$nil | \$0.32 | - | 996,620 | - | - | 996,620 |
| | | | | | 15,685,523 | 6,506,380 | (8,682,346) | (1,173,230) | 12,336,327 |

(1) These performance rights have no expiry date. They vest and are automatically exercised at the end of the service period, subject to meeting performance criteria.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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Note 30. Share-based payments arrangements – (continued)

| Grant date | When exercisable | Expiry date | Exercise price | Fair value at date of grant | Number of rights | | | | |
|------------|------------------|-------------|----------------|-----------------------------|---------------------|------------|-------------|-----------|----------------------|
| | | | | | Balance 1 July 2009 | Granted | Lapsed | Exercised | Balance 30 June 2010 |
| 27/8/2006 | 31/8/2009 | 28/8/2016 | \$nil | \$2.52 | 1,764,370 | - | (1,764,370) | - | - |
| 24/8/2007 | 31/8/2010 | 27/8/2017 | \$nil | \$2.65 | 1,331,940 | - | (298,585) | (3,265) | 1,030,090 |
| 27/8/2007 | 31/8/2010 | (1) | \$nil | \$3.19 | 383,368 | - | (21,164) | (117,680) | 244,524 |
| 30/11/2007 | 30/6/2010 | 30/11/2017 | \$nil | \$2.25 | 500,000 | - | - | - | 500,000 |
| 30/11/2007 | 31/8/2010 | 27/8/2017 | \$nil | \$1.54 | 313,160 | - | - | - | 313,160 |
| 30/10/2008 | 30/6/2011 | (1) | \$nil | \$1.30 | 4,953,360 | - | (2,715,118) | (504,678) | 1,733,564 |
| 30/10/2008 | 31/8/2011 | 27/8/2018 | \$nil | \$1.18 | 719,150 | - | (123,470) | - | 595,680 |
| 11/11/2008 | 31/8/2011 | 27/8/2018 | \$nil | \$1.22 | 439,510 | - | - | - | 439,510 |
| 11/11/2008 | 30/6/2011 | (1) | \$nil | \$1.34 | 439,510 | - | (439,510) | - | - |
| 30/11/2009 | 31/10/2011 | (1) | \$nil | \$0.47 | - | 3,864,000 | (120,000) | - | 3,744,000 |
| 11/12/2009 | 31/8/2012 | 11/12/2016 | \$nil | \$0.47 | - | 3,583,042 | - | - | 3,583,042 |
| 11/12/2009 | 29/8/2012 | (1) | \$nil | \$0.50 | - | 3,501,953 | - | - | 3,501,953 |
| | | | | | 10,844,368 | 10,948,995 | (5,482,217) | (625,623) | 15,685,523 |

(1) These performance rights have no expiry date. They vest and are automatically exercised at the end of the service period, subject to meeting performance criteria.

Since balance date up to the date of this report, 658,979 rights have lapsed in respect of the plan period ended 30 June 2011. No rights on issue at balance date have been exercised. In addition, no rights have been issued since balance date up to the date of this report.

No rights were exercisable as at balance date.

Share-based payments expense

| | 2011 \$m | 2010 \$m |
|---|--------------|--------------|
| Equity settled share-based payments expense | (1.8) | (0.4) |
| Total share-based payments expense | (1.8) | (0.4) |

Note 31. Financial risk management and financial instrument disclosures

Overview

The Consolidated Entity has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Consolidated Entity's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Audit Committee, which is responsible for developing and monitoring risk management policies. The Audit Committee reports periodically to the Board of Directors on its activities.

Risk management policies and procedures have been established to identify and analyse the risks faced by the Consolidated Entity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Consolidated Entity's activities. The Consolidated Entity, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Consolidated Entity's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Consolidated Entity. The Audit Committee is assisted in its oversight role by the Internal Audit and Risk Management function. Internal Audit and Risk Management personnel undertake both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to senior management and the Audit Committee.

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Note 31. Financial risk management and financial instrument disclosures – (continued)**Credit risk**

Credit risk is the risk of financial loss to the Consolidated Entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Trade and other receivables

The credit risk on financial assets of the Consolidated Entity, other than investments in shares, is the carrying amount of receivables, net of provisions for impairment loss against doubtful debts. The Consolidated Entity minimises its concentrations of this credit risk by undertaking transactions with a large number of customers and counterparties in various countries. Apart from Italy and the United Kingdom, no country has more than 10 percent of the Consolidated Entity's trade and other receivables. With the exception of one customer in Australia, no individual customers comprise more than 5 percent of an individual country's trade and other receivables balance at balance date.

The Consolidated Entity has established a credit policy under which each new customer is analysed individually for creditworthiness before appropriate payment and delivery terms and conditions are offered. The Consolidated Entity's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and approved per authority levels outlined in the credit policy. These limits are reviewed in accordance with the credit policy frequency guidelines. Customers that fail to meet the Consolidated Entity's benchmark creditworthiness may transact with the Consolidated Entity only on a prepayment or cash only basis.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, geographic location, industry, ageing profile, maturity and existence of previous financial difficulties. The Consolidated Entity's trade and other receivables relate mainly to the Consolidated Entity's wholesale customers. Customers that are graded as "high risk" are placed on a restricted customer list, and future sales are made on a prepayment or cash only basis.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Consolidated Entity may have a secured claim. In certain circumstances the Consolidated Entity requires collateral or personal guarantees in respect of trade and other receivables.

The Consolidated Entity has established an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on amounts owing beyond specified credit terms.

The Consolidated Entity also utilises credit insurance in certain jurisdictions as a further measure to mitigate credit risk.

Foreign exchange contracts

In order to manage any exposure which may result from non-performance by counterparties, foreign exchange contracts are only entered into with major financial institutions. In addition, the Board must approve these financial institutions for use, and specific internal guidelines have been established with regard to instruments, limits, dealing and settlement procedures.

The maximum credit risk exposure on foreign exchange contracts is the full amount of the foreign currency the Consolidated Entity pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay the Consolidated Entity.

Guarantees

Details of guarantees provided by the Company and the Consolidated Entity are detailed in Note 34 and Note 38 respectively.

Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated Entity's reputation.

Typically the Consolidated Entity ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

In managing liquidity risk around debt maturing in the short-term, management commence negotiation with the relevant counterparties at the earliest opportunity in order to obtain a satisfactory extension of required funding beyond the maturity date. Where appropriate, other courses of action are taken in parallel in order to minimise liquidity risk. Such action could include sourcing of new finances, the raising of capital, or sale of non-core assets.

Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates, will affect the Consolidated Entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Consolidated Entity enters into Board approved instruments including derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the policies approved by the Board.

The Consolidated Entity does not enter into commodity contracts.

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Note 31. Financial risk management and financial instrument disclosures – (continued)*Currency risk - transactional*

The Consolidated Entity is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the group entities. The major functional currencies of the group entities are the Australian dollar (AUD), the Euro (EUR), Sterling (GBP) and United States dollar (USD). Primarily the transactions undertaken by the group entities are denominated in their functional currency.

In relation to recognised assets and liabilities denominated in a currency other than the entity's functional currency, the Consolidated Entity's policy is to hedge all individual foreign currency exposures in excess of A\$100,000. This is done via a natural hedge, such as a similarly denominated receivable or cash balance, or through forward cover contracts as soon as a firm and irrevocable commitment is entered into or known. It is the Consolidated Entity's policy to recognise both the cost of entering into a forward foreign exchange contract and the net exchange gain/loss arising thereon, between the date of inception and year end, as a net foreign currency receivable or net foreign currency payable in the financial statements. This is calculated by reference to the movement in the fair value of the derivative contract from the date of inception of the contract to that at year end.

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities or forecast future cash flows in foreign currencies and for which no hedge accounting is applied are recognised in the Income Statement. Both the changes in fair value of the forward contracts and the unrealised gains and losses relating to the monetary items are recognised as part of "net finance costs" (see Note 9).

Accounts payable and interest bearing liabilities, which include amounts repayable in foreign currencies, are shown at their Australian dollar equivalents. All material foreign currency liabilities are either fully hedged or matched by equivalent assets in the same currencies, such assets representing a natural hedge.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Consolidated Entity, primarily AUD, GBP, EUR, USD and CAD. This provides an economic hedge and no derivatives are entered into for currency risk on interest payments.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Consolidated Entity ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Currency risk - translational

Foreign currency earnings translation risk arises predominantly as a result of earnings in EUR, USD, GBP and CAD being translated into AUD and from the location of other individually minor foreign currency earnings. The Consolidated Entity does not enter into derivative contracts to hedge this exposure.

Foreign currency net investment translation risk is partially hedged through the Consolidated Entity's policy of originating debt in the currency of the asset, resulting in an overall reduction in the net assets that are translated. The remaining translation exposure is not hedged.

Interest rate risk

The Consolidated Entity adopts a practice of targeting approximately 40 to 60 percent of its exposure to changes in interest rates on borrowings to be on a fixed rate basis. This can be achieved by entering into interest rate swaps and interest rate options. The Consolidated Entity is exposed to adverse movements in interest rates under various debt facilities. The Consolidated Entity from time to time enters into interest rate swaps that swap floating rate interest bearing liabilities into a fixed rate of interest. The Consolidated Entity, from time to time, enters into interest rate cap options to protect a known worst case rate whilst having the ability to participate in more favourable lower variable interest rates.

Capital management

The Consolidated Entity engages in active capital management so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Consolidated Entity defines as net profit before interest and tax divided by total shareholders' equity, excluding non-redeemable preference shares and non-controlling interest.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Consolidated Entity's target is to achieve a return on average funds employed (net debt plus total equity) of between 12 and 15 percent. During the year ended 30 June 2011 the return was (8.3) percent (2010: (12.9) percent). This underperformance is largely due to weaker trading performance, an impairment of goodwill in Australia and the United Kingdom and movement in the fair value of the currency option and loan. In comparison the weighted average interest rate on interest-bearing borrowings was 3.4 percent (2010: 3.7 percent).

The Board has established various incentive plans whereby remuneration is through shares in the Company. For this purpose the Consolidated Entity may purchase its own shares on the market. Primarily the shares are intended to be used for issuing shares under the Consolidated Entity's share options and rights programme. Buy and sell decisions are made on a specific transaction basis by the Remuneration Committee. The Consolidated Entity has the option to issue 'new' shares to satisfy these same obligations. The Consolidated Entity does not have a defined share buy-back plan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2011

Note 31. Financial risk management and financial instrument disclosures – (continued)

Exposure to credit risk

The carrying amount of the financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| | Note | 2011 \$m | 2010 \$m |
|---|------|-------------|-------------|
| Current net trade receivables | | 845.5 | 985.2 |
| Currency option | | 31.7 | - |
| Forward exchange contracts | | 0.2 | 6.6 |
| Current other receivables | | 90.5 | 123.3 |
| Total current trade and other receivables | 14 | 967.9 | 1,115.1 |
| Interest rate option | | 0.2 | - |
| Currency option | | - | 14.2 |
| Non-current other receivables | | 6.6 | 9.0 |
| Total non-current trade and other receivables | 17 | 6.8 | 23.2 |
| Total trade and other receivables | | 974.7 | 1,138.3 |
| Cash and cash equivalents | 13 | 125.3 | 137.0 |
| | | 1,100.0 | 1,275.3 |

The Consolidated Entity's maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was:

| | 2011 \$m | 2010 \$m |
|-----------------------------------|-------------|-------------|
| Australia, Asia, New Zealand | 110.8 | 159.4 |
| Europe | 760.7 | 861.2 |
| North America | 103.2 | 117.7 |
| Total trade and other receivables | 974.7 | 1,138.3 |

Receivables relate to wholesale and end-user customers.

The ageing of trade debtors at the reporting date was:

| | Note | Gross 2011 \$m | Gross 2010 \$m |
|-------------------------------|------|----------------------|----------------------|
| Not past due | | 743.6 | 845.8 |
| Past due 0-30 days | | 74.1 | 96.6 |
| Past due 31-120 days | | 30.7 | 43.0 |
| Past due 121 days to one year | | 7.0 | 14.3 |
| Past due more than one year | | 44.0 | 39.6 |
| Total gross trade debtors | 14 | 899.4 | 1,039.3 |

Impairment losses

The movement in allowance for impairment in respect of trade debtors during the reporting period was as follows:

| | Note | 2011 \$m | 2010 \$m |
|----------------------------|------|-------------|-------------|
| Balance at 1 July | | (54.1) | (69.3) |
| Impairment loss recognised | | (23.9) | (27.5) |
| Net write-off | | 20.9 | 32.5 |
| Foreign currency movements | | 3.2 | 10.2 |
| Balance at 30 June | 14 | (53.9) | (54.1) |

Impairment losses are provided for based on a review of specific amounts receivable at year-end, and a further percentage allowance is made based on an escalating scale of amounts due past credit terms. The percentage is primarily based on historical default rates and management estimates.

When a specific receivable is considered irrecoverable it is written off to the Income Statement in the current period. Any provision held in respect of this trade receivable is written back to the Income Statement in the same period.

In a number of jurisdictions the Consolidated Entity has credit risk insurance to mitigate its exposure to doubtful debts. Given the difficult trading conditions within the paper industry, the Consolidated Entity cannot guarantee the availability of this insurance in the future to the levels previously provided by the external insurers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2011

Note 31. Financial risk management and financial instrument disclosures – (continued)

Exposure to liquidity risk

The following are the contractual maturities of financial liabilities, excluding the impact of netting arrangements.

| | Carrying amount \$m | Contractual Cash Flows | | | |
|---|------------------------|------------------------|-----------------------|---------------------|--------------------------|
| | | Total \$m | 1 year or less \$m | 1 to 5 years \$m | More than 5 years \$m |
| 2011 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Trade and other payables | 729.4 | 729.4 | 728.0 | 1.4 | - |
| Bank overdrafts | 9.8 | 9.8 | 9.8 | - | - |
| Interest bearing loans and borrowings | 287.2 | 290.9 | 63.7 | 227.2 | - |
| Finance lease liabilities | 0.1 | 0.1 | 0.1 | - | - |
| Derivative financial liabilities | | | | | |
| Cash flow hedges (1) | 3.0 | 3.0 | 3.0 | - | - |
| Other foreign exchange contracts | 0.9 | 0.9 | 0.9 | - | - |
| 2010 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Trade and other payables | 849.0 | 849.0 | 847.0 | 2.0 | - |
| Bank overdrafts | 29.4 | 29.4 | 29.4 | - | - |
| Interest bearing loans and borrowings | 271.5 | 277.5 | 54.5 | 223.0 | - |
| Derivative financial liabilities | | | | | |
| Foreign exchange contracts | 0.4 | 0.4 | 0.4 | - | - |

(1) All cash flow hedges mature within twelve months of balance date.

Exposure to currency risks

The Consolidated Entity's exposure to foreign currency risk arising on transactions entered into by operating entities of the Consolidated Entity where the transaction currency was not the functional currency of the operating entity was as follows, based on notional amounts:

| Currency Exposure (in AUD) | 2011 | | | | 2010 | | | |
|------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| | AUD \$m | EUR \$m | USD \$m | GBP \$m | AUD \$m | EUR \$m | USD \$m | GBP \$m |
| Trade and other receivables | 1.1 | 37.8 | 7.4 | - | 1.0 | 49.5 | 12.7 | - |
| Trade and other payables | (1.4) | (56.8) | (33.6) | (0.6) | (1.4) | (61.8) | (56.1) | (1.5) |
| Loans and borrowings (1) | (285.0) | - | (13.1) | (126.0) | (285.0) | - | - | (153.8) |
| Gross balance sheet exposure | (285.3) | (19.0) | (39.3) | (126.6) | (285.4) | (12.3) | (43.4) | (155.3) |
| Foreign exchange contracts | 285.3 | 7.5 | 47.1 | 126.0 | 285.6 | 11.8 | 41.4 | 153.8 |
| Net balance sheet exposure | - | (11.5) | 7.8 | (0.6) | 0.2 | (0.5) | (2.0) | (1.5) |

(1) Included in the AUD borrowings is an intercompany AUD loan to an overseas entity. The foreign currency exposure related to this loan is hedged by a currency option.

The following exchange rates were used to translate significant foreign denominated balances into the Consolidated Entity's functional currency (AUD) at the end of the reporting period:

| | Reporting date spot rate | |
|-----|--------------------------|--------|
| | 2011 | 2010 |
| EUR | 0.7032 | 0.6716 |
| USD | 1.0279 | 0.8333 |
| GBP | 0.6335 | 0.5465 |

Sensitivity analysis

A 10 percent strengthening of the Australian dollar against the following currencies at the reporting date would have increased/(decreased) profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the comparative reporting period.

| | 2011 \$m | 2010 \$m |
|-----|-------------|-------------|
| EUR | 1.0 | (0.1) |
| USD | (0.7) | (0.2) |
| GBP | 0.1 | (0.1) |

A 10 percent weakening of the Australian dollar against the above currencies at the reporting date would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

AS AT 30 JUNE 2011

Note 31. Financial risk management and financial instrument disclosures – (continued)

Exposure to interest rate risks

Profile

At the reporting date the interest rate profile of the Consolidated Entity's interest bearing financial instruments was:

| | Floating interest \$m | Fixed interest \$m | Total \$m | Effective interest rate % (1) |
|---|-----------------------------|--------------------------|--------------|--|
| 2011 | | | | |
| Financial Assets | | | | |
| Cash and cash equivalents | 125.3 | - | 125.3 | 0.3 |
| Financial Liabilities | | | | |
| Bank overdrafts | 9.8 | - | 9.8 | - |
| Interest bearing loans and borrowings (2) | 290.9 | - | 290.9 | 3.4 |
| Finance lease liabilities | - | 0.1 | 0.1 | - |
| 2010 | | | | |
| Financial Assets | | | | |
| Cash and cash equivalents | 137.0 | - | 137.0 | 0.9 |
| Financial Liabilities | | | | |
| Bank overdrafts | 29.4 | - | 29.4 | - |
| Interest bearing loans and borrowings | 277.5 | - | 277.5 | 3.7 |

(1) Excludes company specific margins.

(2) €85m of floating interest rate debt is capped at a 3% base rate.

Fair value sensitivity analysis for fixed rate instruments

The Consolidated Entity does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Consolidated Entity does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

An increase of 100 basis points in interest rates at the reporting date would have decreased profit by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for the comparative reporting period.

| | 2011 \$m | 2010 \$m |
|-------------------|-------------|-------------|
| Floating interest | (3.0) | (3.1) |

A decrease of 100 basis points in interest rates at the reporting date would have an equal and opposite effect on profit by the amounts shown above, on the basis that all other variables remain constant.

Fair values

Instruments traded on organised markets are valued by reference to market prices prevailing at the reporting date.

The carrying values and net fair values of financial assets and liabilities approximate each other as at the reporting date for the Consolidated Entity.

The net fair value of foreign exchange contracts is assessed as the estimated amount that the Consolidated Entity expects to pay or receive to terminate the contracts or replace the contracts at their current market rates as at the reporting date. This is based on independent market quotations and determined using standard valuation techniques.

The fair value of foreign exchange option contracts is determined by using option pricing models that include externally sourced inputs for a comparable contract at balance date.

For forward foreign exchange contracts, the net fair value is taken to be the unrealised gain or loss at the reporting date.

AS AT 30 JUNE 2011

Note 31. Financial risk management and financial instrument disclosures – (continued)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

| | Level 1 \$m | Level 2 \$m | Level 3 \$m | Total \$m |
|--|----------------|----------------|----------------|--------------|
| 2011 | | | | |
| Foreign exchange contracts - receivables | - | 0.2 | - | 0.2 |
| Interest rate option | - | 0.2 | - | 0.2 |
| Currency option | - | 31.7 | - | 31.7 |
| | - | 32.1 | - | 32.1 |
| Cash flow hedges | - | (3.0) | - | (3.0) |
| Foreign exchange contracts - payables | - | (0.9) | - | (0.9) |
| | - | (3.9) | - | (3.9) |
| 2010 | | | | |
| Foreign exchange contracts - receivables | - | 4.8 | - | 4.8 |
| Cash flow hedges | - | 2.4 | - | 2.4 |
| Currency option | - | 14.2 | - | 14.2 |
| | - | 21.4 | - | 21.4 |
| Foreign exchange contracts - payables | - | (0.4) | - | (0.4) |
| | - | (0.4) | - | (0.4) |

Note 32. Employee retirement benefit obligations

The Consolidated Entity participates in a variety of retirement benefit arrangements around the world. The following tables cover the material defined benefit plans, that is those with benefits linked to years of service and/or final salary. The principal benefits of these plans are provided in either a lump sum or pension form, depending on each plan's rules. Many of these plans have been closed off to future new employees, and/or future accrual of benefits for employees.

Some plans are backed by external assets such as separate sponsored funds or those backed by insurance policies whereby the Consolidated Entity's cash contributions are either determined by the local plan's actuary, or based on insurance premiums set by the insurer providing the insurance policy. Employee contributions are paid in accordance with each plan's rules.

There are other plans that are backed by the assets of the local operating company and therefore there is no requirement for external asset funding.

The Consolidated Entity also participates in a variety of other retirement arrangements of a defined contribution nature i.e. where Consolidated Entity and member contributions are fixed according to the plan rules. These plans are accounted for on a cash basis, and their details are not included in the schedules below.

Basis of estimation

The expected return on assets assumption has been determined by each local actuary, based on their expectations of future returns for each asset class, as applied to the asset allocation of each fund.

The defined benefit obligations have been determined in accordance with the measurement and assumption requirements of AASB119. This requires the projected unit credit method to attribute the defined benefits of employees to past service.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2011

Note 32. Employee retirement benefit obligations – (continued)

| | 2011 \$m | 2010 \$m |
|---|--------------|---------------|
| The amounts recognised in the Statement of Financial Position are determined as follows: | | |
| Present value of the defined benefit obligation | 428.9 | 476.9 |
| Less fair value of plan assets | (342.3) | (358.8) |
| Add limitation on recoupment of net surplus position | 1.9 | - |
| Net liability in the Statement of Financial Position | 88.5 | 118.1 |
| Changes in the present value of the defined benefit obligations are as follows: | | |
| Balance at the beginning of year | 476.9 | 464.8 |
| Current service costs | 5.0 | 5.5 |
| Interest on obligation | 23.2 | 25.7 |
| Past service costs | (3.4) | - |
| Actuarial losses on defined benefit obligations | 0.2 | 58.1 |
| Contributions by members | 0.5 | 1.1 |
| Curtailment gain | (0.7) | (2.0) |
| Exchange differences on foreign plans | (52.2) | (54.2) |
| Benefits paid | (20.0) | (21.8) |
| Other | (0.6) | (0.3) |
| Balance at end of year | 428.9 | 476.9 |
| Changes in the fair value of plan assets are as follows: | | |
| Balance at the beginning of year | 358.8 | 354.0 |
| Expected return on plan assets | 20.7 | 21.3 |
| Actuarial gains on fair value of plan assets | 6.2 | 23.3 |
| Contributions by employer | 14.8 | 16.9 |
| Contributions by members | 0.5 | 1.1 |
| Exchange differences on foreign plans | (40.4) | (38.4) |
| Benefits paid | (17.4) | (19.0) |
| Other | (0.9) | (0.4) |
| Closing fair value of plan assets | 342.3 | 358.8 |
| Less limitation on recoupment of net surplus position | (1.9) | - |
| Balance at end of year | 340.4 | 358.8 |
| | 2011 | 2010 |
| | \$m | \$m |
| Expense recognised in the Income Statement: | | |
| Current service costs | 5.0 | 5.5 |
| Interest on obligation | 23.2 | 25.7 |
| Expected return on plan assets | (20.7) | (21.3) |
| Past service costs | (3.4) | - |
| Curtailment gain | (0.7) | (2.0) |
| Other | 0.3 | 0.3 |
| Total recognised expense | 3.7 | 8.2 |
| Amount recognised in the Statement of Comprehensive Income: | | |
| Actuarial losses on defined benefit obligations | (0.2) | (58.1) |
| Actuarial gains on fair value of plan assets | 6.2 | 23.3 |
| Movement in limitation on recoupment of net surplus position | (1.9) | 8.8 |
| | 4.1 | (26.0) |
| Less tax effect, where applicable | (2.4) | 5.6 |
| Total recognised comprehensive income/(loss) | 1.7 | (20.4) |
| Cumulative actuarial gains and losses recognised in the Statement of Comprehensive Income: | | |
| Cumulative losses at beginning of year | 92.2 | 69.3 |
| Actuarial (gains)/losses recognised during the year | (6.0) | 34.8 |
| Exchange differences on foreign plans | (9.8) | (11.9) |
| Cumulative losses at end of year | 76.4 | 92.2 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2011

Note 32. Employee retirement benefit obligations – (continued)

Principal actuarial assumptions

The principal actuarial assumptions at the reporting date used to calculate the net liability and the principal economic assumptions used in making recommendations to determine the employer companies' contributions are detailed below.

| | 2011 | 2010 |
|-----------------------|---------------|---------------|
| Discount rate | 4.0% to 5.75% | 4.21% to 6.0% |
| Salary increase rate | 1.0% to 4.0% | 1.0% to 4.0% |
| Inflation | 2.0% to 3.6% | 2.0% to 3.35% |
| Expected asset return | 4.4% to 7.36% | 5.0% to 7.5% |

Plan assets

Plan assets are invested in the following categories expressed as a weighted average:

| | 2011 | 2010 |
|--------------------------|-------------|-------------|
| Equity securities | 48% | 55% |
| Bonds | 41% | 41% |
| Property | 3% | 3% |
| Other | 8% | 1% |
| Total plan assets | 100% | 100% |

Defined benefit plans

| | Plans as at 30 June 2011 | | | Plans as at 30 June 2010 | | |
|---|--------------------------|-----------------------------------|------------------------------|--------------------------|-----------------------------------|------------------------------|
| | Plan assets \$m | Defined benefit obligation \$m | Surplus/ (deficit) \$m | Plan assets \$m | Defined benefit obligation \$m | Surplus/ (deficit) \$m |
| Plans with funded obligations: | | | | | | |
| PaperlinX Superannuation Fund (Australia) | 9.6 | 11.0 | (1.4) | 9.9 | 11.7 | (1.8) |
| Pension Plan for Employees of PaperlinX Canada | 45.7 | 52.1 | (6.4) | 49.5 | 55.4 | (5.9) |
| PaperlinX Pensioenfond (Netherlands) | 43.8 | 43.8 | - | 54.3 | 55.1 | (0.8) |
| Pension Plan for Bührmann Ubbens employees with Nationale Nederlanden (Netherlands) | 25.0 | 37.2 | (12.2) | 25.1 | 38.6 | (13.5) |
| The Howard Smith Paper Group Pension Scheme (UK) | 48.7 | 54.5 | (5.8) | 47.3 | 57.0 | (9.7) |
| Robert Horne Group Pension Scheme (UK) | 150.7 | 196.2 | (45.5) | 154.3 | 218.5 | (64.2) |
| Other | 16.9 | 19.9 | (3.0) | 18.4 | 23.5 | (5.1) |
| | 340.4 | 414.7 | (74.3) | 358.8 | 459.8 | (101.0) |
| Other plans funded directly by employer subsidiaries | - | 14.2 | (14.2) | - | 17.1 | (17.1) |
| | 340.4 | 428.9 | (88.5) | 358.8 | 476.9 | (118.1) |

Historical information

| | 2011 \$m | 2010 \$m | 2009 \$m | 2008 \$m | 2007 \$m |
|--|-------------|-------------|-------------|-------------|-------------|
| Present value of defined benefit obligation | 428.9 | 476.9 | 464.8 | 521.6 | 528.3 |
| Fair value of plan assets | (342.3) | (358.8) | (354.0) | (439.1) | (498.3) |
| Deficit in the plans (1) | 86.6 | 118.1 | 110.8 | 82.5 | 30.0 |
| Plan asset (gain)/loss due to experience | (6.2) | (23.5) | | | |
| Plan liability (gain)/loss due to experience | (18.0) | (1.5) | | | |

(1) Before limitation on recoupment of net surplus positions \$1.9 million (2010: \$nil; 2009: \$9.7 million; 2008: \$2.5 million; 2007: \$8.4 million).

Future contributions

Based on the periodic funding valuations and local funding requirements, the Consolidated Entity estimates \$15.1 million in contributions to be paid to its defined benefit plans during the year ending 30 June 2012 (Actual contributions for year ended 30 June 2011: \$14.8 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2011

Note 33. Reconciliation of cash flows from operating activities

| | Note | 2011 \$m | 2010 \$m |
|--|------|--------------|--------------|
| Reconciliation of loss after tax to net cash from operating activities | | | |
| Loss for the period | | (108.0) | (225.3) |
| Add back non-cash items: | | | |
| • Depreciation and amortisation of property, plant, equipment and intangibles | | 22.7 | 25.7 |
| • Impairment of property, plant, equipment and intangibles | | 68.5 | 2.6 |
| • Loss on disposal of controlled entities | | - | 7.8 |
| • Profit on disposal of investments | | - | (4.7) |
| • Profit on disposal of property, plant and equipment | | (1.4) | (2.9) |
| • Profit on disposal of assets held for sale | | - | (0.4) |
| • Revaluations of assets held for sale | | (1.8) | (1.6) |
| • Employee share options and rights expense | | 1.8 | 0.4 |
| • Movement in fair value of currency option and loan | 6 | 20.8 | (0.0) |
| • Cross-currency swap gain | | - | (3.1) |
| • Amortisation of capitalised borrowing costs | | 2.3 | 4.9 |
| Add back other items classified as investing/financing: | | | |
| • Provision for costs related to closure of discontinued Tasmanian operations | 6 | (5.9) | 100.4 |
| • Additional transaction costs relating to the sale of Australian Paper | 6 | 4.5 | 8.7 |
| • Borrowing costs expensed | | 0.6 | 14.4 |
| Decrease/(increase) in trade and other receivables | | 78.8 | (34.6) |
| Decrease in inventories | | 39.3 | 58.4 |
| (Decrease)/increase in trade and other payables | | (53.6) | 57.3 |
| Decrease in provisions | | (6.9) | (5.7) |
| (Increase)/decrease in current and deferred taxes | | (7.1) | 22.7 |
| Decrease in other non-current liabilities | | - | (1.9) |
| Net cash from operating activities | | 54.6 | 23.1 |
| Reconciliation of cash | | | |
| For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank and short-term money market investments, net of outstanding bank overdrafts. | | | |
| Cash as at 30 June as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows: | | | |
| Cash and cash equivalents | | 125.3 | 137.0 |
| Bank overdrafts | | (9.8) | (29.4) |
| | | 115.5 | 107.6 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2011

Note 34. Parent entity disclosures

As at and throughout the financial year ended 30 June 2011, the parent company of the Consolidated Entity was PaperlinX Limited.

| For the year ended 30 June | Parent Entity | |
|---|---------------|-------------|
| | 2011 \$m | 2010 \$m |
| Comprehensive Income | | |
| Other income | 7.9 | 41.4 |
| Other expenses | (8.3) | (14.9) |
| Individually significant items | (13.3) | (16.5) |
| Result from operating activities | (13.7) | 10.0 |
| Net finance costs | (0.3) | (0.2) |
| (Loss)/profit before tax | (14.0) | 9.8 |
| Tax expense | (0.1) | (7.0) |
| Total comprehensive (loss)/income for the period, net of tax | (14.1) | 2.8 |

| As at 30 June | Parent Entity | |
|--|----------------|----------------|
| | 2011 \$m | 2010 \$m |
| Statement of Financial Position | | |
| Current assets | | |
| Other receivables | 669.5 | 673.3 |
| Non-current assets | | |
| Investments in subsidiaries | 407.0 | 415.8 |
| Total assets | 1,076.5 | 1,089.1 |
| Total liabilities | - | - |
| Net assets | 1,076.5 | 1,089.1 |
| Equity | | |
| Issued capital | 1,890.7 | 1,894.9 |
| Reserve for own shares | (0.9) | (6.7) |
| Accumulated losses | (813.3) | (799.1) |
| Total equity | 1,076.5 | 1,089.1 |

| | Parent Entity | |
|--|---------------|--|
| | 2011 \$m | 2010 Restated ⁽¹⁾ \$m |
| Contingent liabilities | | |
| Contingent liabilities arising in respect of related bodies corporate: | | |
| • Bank guarantees (government) | 3.6 | 3.0 |
| • Bank guarantees (trade) | 3.7 | 9.7 |
| • Loan guarantees (subsidiaries) | 310.7 | 322.8 |
| • Loan guarantees (external) | - | 34.3 |
| Total contingent liabilities | 318.0 | 369.8 |

(1) The Company is a member of the approved deed for the cross guarantee of liabilities. The comparative period has been restated to include performance and financial guarantees provided by members of the approved deed for the cross guarantee of liabilities to other members of the controlled entity. Refer Note 41 for details of cross guarantee entities.

The Company does not have any contractual commitments for the acquisition of property, plant or equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2011

Note 35. Capital expenditure commitments

| | 2011 \$m | 2010 \$m |
|--|-------------|-------------|
| Capital expenditure contracted but not provided for: | | |
| • Not later than one year | 0.3 | 0.6 |
| • Later than one year but not later than five years | - | - |
| • Later than five years | - | - |
| Total capital expenditure commitments | 0.3 | 0.6 |

Note 36. Lease commitments

| | Note | 2011 \$m | 2010 \$m |
|---|------|-------------|-------------|
| Finance lease liability | | | |
| Lease expenditure contracted and provided for: | | | |
| • Not later than one year | | 0.1 | - |
| • Later than one year but not later than five years | | - | - |
| • Later than five years | | - | - |
| Minimum lease payments | | 0.1 | - |
| Less: Future finance charges | | - | - |
| Total finance lease liability | | 0.1 | - |
| Current lease liabilities | 23 | 0.1 | - |
| Total finance lease liability | | 0.1 | - |

The Consolidated Entity enters into finance leases from time to time in relation to property, plant and equipment. At the end of the lease term, the Consolidated Entity has the option to purchase the property, plant and equipment at a price established at the time of entering the lease.

| | 2011 \$m | 2010 \$m |
|---|--------------|--------------|
| Operating lease commitments | | |
| Lease expenditure contracted but not provided for: | | |
| • Not later than one year | 83.2 | 96.4 |
| • Later than one year but not later than five years | 199.7 | 234.7 |
| • Later than five years | 175.1 | 197.9 |
| Total operating lease commitments | 458.0 | 529.0 |

The Consolidated Entity enters into operating leases from time to time in relation to property, plant and equipment. The major component relates to the leases of buildings. Leases generally provide the Consolidated Entity with a right of renewal at which time all terms are renegotiated.

Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on the relevant index or operating criteria.

Note 37. Other expenditure commitments

| | 2011 \$m | 2010 \$m |
|--|-------------|-------------|
| Expenditure contracted but not provided for covering supplies and services to be provided: | | |
| • Not later than one year | 3.2 | 7.2 |
| • Later than one year but not later than five years | 1.1 | - |
| • Later than five years | - | - |
| Total other expenditure commitments | 4.3 | 7.2 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2011

Note 38. Contingent liabilities

| | 2011 \$m | 2010 \$m |
|--|-------------|-------------|
| Contingent liabilities arising in respect of related bodies corporate: | | |
| • Bank guarantees (trade) | 6.0 | 14.1 |
| • Loan guarantees (external) | - | 34.3 |
| • Other guarantees and warranties | 3.6 | 12.0 |
| • Other | 0.6 | - |
| Total contingent liabilities | 10.2 | 60.4 |

The bank guarantees (trade), the beneficiaries of which are third parties, are primarily in relation to rental leases. They also include service contract obligations in Tasmania in the comparative period.

The loan guarantees (external) in the comparative period, the beneficiaries of which were third parties, were in relation to guarantees provided by the Company in relation to the financing of the Maryvale Woodyard, and general Australian Paper sale warranties. During the current reporting period, the Company has been released from its loan guarantee obligations.

Other guarantees, the beneficiaries of which are government departments, are bank guarantees in relation to the specific requirement of self-insurance licences for workers' compensation in Australia. Warranties include legal matters associated with contract warranties.

Under the terms of the ASIC Class Order 98/1418 dated 13 August 1998 (as amended), the Company and certain subsidiaries have entered into approved deeds for the cross guarantee of liabilities with those subsidiaries identified in Note 41.

Note 39. Auditors' remuneration

| | 2011 \$m | 2010 \$m |
|-------------------------------------|--------------|--------------|
| Audit services | | |
| Auditors of the Consolidated Entity | | |
| • KPMG - Australia | 0.895 | 1.132 |
| • KPMG - other member firms | 2.442 | 3.146 |
| | 3.337 | 4.278 |
| • Other auditors (1) | 0.170 | 0.050 |
| | 3.507 | 4.328 |
| Other services | | |
| Auditors of the Consolidated Entity | | |
| • KPMG - Australia | | |
| Other assurance services | 0.034 | 0.003 |
| • KPMG - other member firms | | |
| Other assurance services | 0.125 | 0.030 |
| Taxation services | 0.014 | 0.016 |
| Other services | 0.036 | 0.171 |
| | 0.209 | 0.220 |
| Total auditors' remuneration | 3.716 | 4.548 |

(1) Four businesses use other auditors to provide audit services for local statutory accounts.

The auditors of the Company are KPMG Australia. From time to time, KPMG provides other services to the Company, which are subject to the corporate governance procedures adopted by the Company which encompass the restriction of non-audit services provided by the auditor of the Company, the selection of service providers and the setting of their remuneration. The guidelines adopted by KPMG for the provision of other services are designed to ensure their statutory independence is not compromised. In the current year, the Company has engaged the services of other accounting firms to perform a variety of non-audit assignments.

AS AT 30 JUNE 2011

Note 40. Related parties

Key management personnel (KMP) compensation

| | 2011 \$ | 2010 \$ |
|--------------------------|------------------|------------------|
| Short-term benefits | 4,528,687 | 7,103,791 |
| Post-employment benefits | 658,016 | 662,511 |
| Equity plans | 471,526 | (102,557) |
| Termination benefits | 3,292,075 | 364,758 |
| | 8,950,304 | 8,028,503 |

Directors and Senior Executives compensation contracts

Disclosures of remuneration policies, service contracts and details of remuneration are included in the Remuneration Report.

Loans to KMP and their related parties

The Company has not made any loan to any KMP and their related parties other than those in accordance with the terms of the Employee Share Purchase Plan – refer Note 30. No individual loan is greater than \$100,000.

The reconciliation of the aggregate movement in the Employee Share Purchase Plan loans to the KMP of the Company and the Consolidated Entity is as follows:

| | Number of loans | Opening balance \$ | Other move- ments ⁽¹⁾ \$ | Repay- ments \$ | Closing balance \$ |
|---------------------|--------------------|--------------------------|---|-----------------------|--------------------------|
| 2011 | | | | | |
| Executive Directors | - | - | - | - | - |
| Senior Executives | 3 | 24,663 | 305 | - | 24,968 |
| Total | 3 | 24,663 | 305 | - | 24,968 |
| 2010 | | | | | |
| Executive Directors | - | - | - | - | - |
| Senior Executives | 2 | 24,663 | - | - | 24,663 |
| Total | 2 | 24,663 | - | - | 24,663 |

(1) Adjustment for changes in composition of KMP during the current reporting period.

During the current and prior reporting periods, employee share plan loans totalling \$Nil were advanced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2011

Note 40. Related parties – (continued)

Shareholdings of KMP

The reconciliation of the movement in the relevant interest in the share capital of the Company, held by KMP, excluding the potential entitlement amounts is as follows:

| | Opening balance | Purchased | Earned as remuneration | Ceased employment | Exercise of options | Sold | Closing balance | Shares held nominally at reporting date |
|--------------------------|------------------|----------------|------------------------|-------------------|---------------------|----------|------------------|---|
| 2011 | | | | | | | | |
| Directors | | | | | | | | |
| D E Meiklejohn | 194,657 | - | - | - | - | - | 194,657 | - |
| T R Marchant (1) | - | - | 12,300 | - | - | - | 12,300 | - |
| T P Park (2) | 860,000 | - | - | (860,000) | - | - | - | - |
| H Boon | 21,000 | - | - | - | - | - | 21,000 | - |
| M L Cattermole (3) | 6,730 | 219,780 | - | - | - | - | 226,510 | - |
| A J Clarke (4) | - | - | - | - | - | - | - | - |
| J W Hall | 19,800 | - | - | - | - | - | 19,800 | - |
| M R Hooper (5) | - | - | - | - | - | - | - | - |
| B J Jackson (6) | 57,372 | - | - | (57,372) | - | - | - | - |
| L J Yelland | 95,468 | - | - | - | - | - | 95,468 | - |
| Senior Executives | | | | | | | | |
| D S Allen (7) | - | - | 8,520 | - | - | - | 8,520 | - |
| C B Creighton | 91,700 | 102,250 | 14,794 | - | - | - | 208,744 | - |
| M Gillioen (7) | - | - | - | - | - | - | - | - |
| P L Jackson (8) | 1,055 | - | 7,770 | - | - | - | 8,825 | - |
| A J Kennedy (9) | 7,200 | - | 9,400 | - | - | - | 16,600 | - |
| Total | 1,354,982 | 322,030 | 52,784 | (917,372) | - | - | 812,424 | - |
| 2010 | | | | | | | | |
| Directors | | | | | | | | |
| D E Meiklejohn | 194,657 | - | - | - | - | - | 194,657 | - |
| T P Park | 860,000 | - | - | - | - | - | 860,000 | - |
| H Boon | 21,000 | - | - | - | - | - | 21,000 | - |
| J W Hall | 19,800 | - | - | - | - | - | 19,800 | - |
| M R Hooper | - | - | - | - | - | - | - | - |
| B J Jackson | 57,372 | - | - | - | - | - | 57,372 | - |
| N L Scheinkestel (10) | 43,559 | - | - | (43,559) | - | - | - | - |
| L J Yelland | 95,468 | - | - | - | - | - | 95,468 | - |
| Senior Executives | | | | | | | | |
| C B Creighton | 91,700 | - | - | - | - | - | 91,700 | - |
| P L Jackson | 1,055 | - | - | - | - | - | 1,055 | - |
| T R Marchant | - | - | - | - | - | - | - | - |
| Total | 1,384,611 | - | - | (43,559) | - | - | 1,341,052 | - |

(1) Appointed Managing Director and Chief Executive Officer on 1 November 2010.

(2) Ceased employment and resigned as a Director on 31 October 2010.

(3) Appointed as a Director on 21 December 2010. Opening balance comprises shareholding as at date of appointment as a KMP.

(4) Appointed as a Director on 8 June 2011.

(5) Appointed a Director on 1 January 2010. Resigned as an employee and Director effective 27 August 2010.

(6) Retired on 31 October 2010.

(7) Classification as KMP commenced on 2 February 2011.

(8) Ceased employment on 31 July 2011.

(9) Appointed Chief Financial Officer on 30 August 2010. Opening balance comprises shareholding as at date of appointment as a KMP.

(10) Retired and ceased to be a Director on 31 December 2009.

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Note 40. Related parties – (continued)

Option holdings of KMP

Options are exercisable subject to the satisfaction of the terms of the option agreement – refer Note 30.

The reconciliation of the movement in the equity compensation in the form of options for the KMP for the reporting period is as follows:

| | Maximum potential entitlement - number of options | | | | | Closing balance | Vested and exercisable at 30 June |
|-----------------------------|---|-----------------|--|-----------|-------------|-----------------|-----------------------------------|
| | Opening balance | Other movements | Granted as compensation ⁽¹⁾ | Exercised | Lapsed | | |
| 2011 | | | | | | | |
| Executive Directors | | | | | | | |
| T R Marchant ⁽²⁾ | 520,320 | - | 394,210 | - | (30,757) | 883,773 | - |
| T P Park ⁽³⁾ | 2,226,651 | - | - | - | (2,226,651) | - | - |
| M R Hooper ⁽⁴⁾ | 721,790 | - | - | - | (721,790) | - | - |
| Senior Executives | | | | | | | |
| D S Allen ⁽⁵⁾ | - | 79,810 | - | - | (21,292) | 58,518 | - |
| C B Creighton | 612,310 | - | 317,180 | - | (34,822) | 894,668 | 66,300 |
| M Gillioen ⁽⁵⁾ | - | - | - | - | - | - | - |
| P L Jackson ⁽⁶⁾ | 404,770 | - | 234,720 | - | (19,432) | 620,058 | 21,100 |
| A J Kennedy ⁽⁷⁾ | - | 85,110 | 282,590 | - | (23,505) | 344,195 | - |
| 2010 | | | | | | | |
| Executive Directors | | | | | | | |
| T P Park | 942,130 | - | 1,284,521 | - | - | 2,226,651 | - |
| M R Hooper | 228,730 | - | 493,060 | - | - | 721,790 | - |
| Senior Executives | | | | | | | |
| C B Creighton | 199,640 | - | 412,670 | - | - | 612,310 | 66,300 |
| P L Jackson | 116,140 | - | 288,630 | - | - | 404,770 | 21,100 |
| T R Marchant | 130,140 | - | 390,180 | - | - | 520,320 | - |

(1) Options granted during the year are outlined in Note 30.

(2) Appointed Managing Director and Chief Executive Officer on 1 November 2010.

(3) Ceased employment and resigned as a Director on 31 October 2010.

(4) Appointed as a Director on 1 January 2010. Resigned as an employee and a Director effective 27 August 2010.

(5) Classification as a KMP commenced on 2 February 2011. Other movements comprise options held on commencement date as KMP.

(6) Ceased employment on 31 July 2011.

(7) Appointed Chief Financial Officer on 30 August 2010. Other movements comprise options held on commencement date as KMP.

Up to the date of this report, 620,058 options on issue at balance date in respect of KMP have lapsed, comprising P L Jackson (620,058).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2011

Note 40. Related parties – (continued)

Performance rights of KMP

The maximum number of shares that may be earned by KMP under long and short-term incentive plans comprising performance rights, subject to the satisfaction of specified performance criteria (refer Note 30) are as follows:

| | Maximum potential entitlement - number of rights | | | | | Closing balance |
|-----------------------------|--|-----------------|--|-----------|-------------|-----------------|
| | Opening balance | Other movements | Granted as compensation ⁽¹⁾ | Exercised | Lapsed | |
| 2011 | | | | | | |
| Executive Directors | | | | | | |
| T R Marchant ⁽²⁾ | 942,702 | - | 693,270 | (12,300) | (466,272) | 1,157,400 |
| T P Park ⁽³⁾ | 3,950,165 | - | - | - | (3,950,165) | - |
| M R Hooper ⁽⁴⁾ | 934,990 | - | - | - | (934,990) | - |
| Senior Executives | | | | | | |
| D S Allen ⁽⁵⁾ | - | 172,682 | 75,000 | (8,520) | (15,967) | 223,195 |
| C B Creighton | 954,290 | - | 550,300 | (14,794) | (409,347) | 1,080,449 |
| M Gillioen ⁽⁵⁾ | - | 75,000 | 75,000 | - | - | 150,000 |
| P L Jackson ⁽⁶⁾ | 633,928 | - | 400,450 | (7,770) | (209,382) | 817,226 |
| A J Kennedy ⁽⁷⁾ | - | 152,103 | 575,100 | (9,400) | (17,625) | 700,178 |
| 2010 | | | | | | |
| Executive Directors | | | | | | |
| T P Park | 1,252,670 | - | 2,697,495 | - | - | 3,950,165 |
| M R Hooper | 119,800 | - | 815,190 | - | - | 934,990 |
| Senior Executives | | | | | | |
| C B Creighton | 242,460 | - | 711,830 | - | - | 954,290 |
| P L Jackson | 139,978 | - | 493,950 | - | - | 633,928 |
| T R Marchant | 239,892 | - | 702,810 | - | - | 942,702 |

(1) Rights granted during the year are outlined in Note 30.

(2) Appointed Managing Director and Chief Executive Officer on 1 November 2010.

(3) Ceased employment and resigned as a Director on 31 October 2010.

(4) Appointed as a Director on 1 January 2010. Resigned as an employee and a Director effective 27 August 2010.

(5) Classification as a KMP commenced on 2 February 2011. Other movements comprise rights held on commencement date as KMP.

(6) Ceased employment on 31 July 2011.

(7) Appointed Chief Financial Officer on 30 August 2010. Other movements comprise rights held on commencement date as KMP.

The closing balance represents the performance rights on hand at 30 June 2011 which have not vested. Performance rights automatically vest after the qualifying period, subject to performance and service conditions being achieved. 52,784 rights vested to the Executive Director and Senior Executives during the current reporting period.

Up to the date of this report, 619,968 rights on issue at balance date in respect of KMP have lapsed, comprising P L Jackson (619,968). Additionally, 197,258 rights for P L Jackson have vested since 30 June 2011 and are exercisable as at date of this report.

Transactions with entities in the Consolidated Entity

The Company provided management, accounting and administrative services to other entities in the Consolidated Entity during the current and comparative reporting periods. These services were provided on commercial terms and conditions.

Other related party disclosures

The ownership interest in subsidiaries is disclosed in Note 41.

Loans to Directors of subsidiaries total \$25,352 (2010: \$25,352). This amount is comprised of employee share plan loans only.

AS AT 30 JUNE 2011

Note 41. Subsidiaries

The Company and the specified subsidiary companies listed in this note have entered into an approved deed for the cross guarantee of liabilities.

Pursuant to ASIC Class Order 98/1418 dated 13 August 1998 (as amended), these wholly owned subsidiaries are relieved from the Corporations Act 2001 requirements for the preparation, audit and lodgement of Financial Reports.

It is a condition of the Class Order that the Company and each of these subsidiaries enter into a deed of cross guarantee. The effect of the deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up any of these subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. These subsidiaries have also given similar guarantees in the event that the Company is wound up.

The consolidated Income Statement and consolidated Statement of Financial Position comprising the Company and the wholly-owned subsidiaries which are a party to the deed as at the reporting date, after eliminating all transactions between parties to the deed of cross guarantee, are set out below:

| For the year ended 30 June | Deed of Cross Guarantee Consolidated | |
|---|--------------------------------------|----------------|
| | 2011 \$m | 2010 \$m |
| Income Statement | | |
| Loss before tax | (240.0) | (220.2) |
| Tax benefit/(expense) | 1.2 | (31.7) |
| Loss for the period | (238.8) | (251.9) |
| Accumulated losses at beginning of period | (982.7) | (722.1) |
| Transfer to/(from) employee share plans reserve | - | (4.4) |
| Actuarial losses on defined benefit plans | (1.3) | (4.3) |
| Accumulated losses at end of period | (1,222.8) | (982.7) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2011

Note 41. Subsidiaries – (continued)

| As at 30 June | Deed of Cross Guarantee Consolidated | |
|---|---|----------------|
| | 2011 \$m | 2010 \$m |
| Statement of Financial Position | | |
| Current assets | | |
| Cash and cash equivalents | 4.6 | 10.5 |
| Trade and other receivables | 112.3 | 209.6 |
| Inventories | 65.3 | 84.3 |
| Assets held for sale | 0.5 | 1.6 |
| Total current assets | 182.7 | 306.0 |
| Non-current assets | | |
| Receivables | 4.4 | 4.9 |
| Investments in other Consolidated Entity subsidiaries | 712.3 | 742.0 |
| Property, plant and equipment | 7.9 | 8.7 |
| Intangible assets | 0.6 | 131.3 |
| Total non-current assets | 725.2 | 886.9 |
| Total assets | 907.9 | 1,192.9 |
| Current liabilities | | |
| Trade and other payables | 63.2 | 94.0 |
| Loans and borrowings | 140.0 | 64.2 |
| Income tax payable | 1.0 | 2.5 |
| Employee benefits | 13.0 | 17.0 |
| Provisions | 13.8 | 34.9 |
| Total current liabilities | 231.0 | 212.6 |
| Non-current liabilities | | |
| Payables | 1.4 | - |
| Loans and borrowings | 3.6 | 57.9 |
| Employee benefits | 2.1 | 8.4 |
| Provisions | 8.3 | 12.1 |
| Total non-current liabilities | 15.4 | 78.4 |
| Total liabilities | 246.4 | 291.0 |
| Net assets | 661.5 | 901.9 |
| Equity | | |
| Issued capital | 1,890.7 | 1,894.9 |
| Reserves | 2.1 | (1.8) |
| Accumulated losses | (1,222.8) | (982.7) |
| | 670.0 | 910.4 |
| PaperlinX Step-up Preference Securities | (8.5) | (8.5) |
| Total equity | 661.5 | 901.9 |

No entities/businesses were acquired during the current or prior reporting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2011

Note 41. Subsidiaries – (continued)

| | Note | Country of incorporation | Consolidated subsidiary interest | |
|--------------------------------------|----------|--------------------------|----------------------------------|------|
| | | | 2011 | 2010 |
| PaperlinX Services Pty Ltd | (1) | Australia | 100% | 100% |
| Tas Paper Pty Ltd | (1) | Australia | 100% | 100% |
| PaperlinX SPS Trust | | Australia | 100% | 100% |
| PaperlinX SPS LLC | | USA | 100% | 100% |
| PaperlinX Australia Pty Ltd | (1) | Australia | 100% | 100% |
| Pebmis Pty Ltd | (1), (2) | Australia | 100% | 100% |
| Paper Associates Pty Ltd | (1) | Australia | 100% | 100% |
| PaperlinX (UK) Ltd | | United Kingdom | 100% | 100% |
| PaperlinX (Europe) Ltd | | United Kingdom | 100% | 100% |
| PaperlinX Brands (Europe) Ltd | | United Kingdom | 100% | 100% |
| PaperlinX Services (Europe) Ltd | | United Kingdom | 100% | 100% |
| PaperlinX Investments (Europe) Ltd | | United Kingdom | 100% | 100% |
| PaperlinX Treasury (Europe) Ltd | | United Kingdom | 100% | 100% |
| 1st Class Packaging Ltd | | United Kingdom | 100% | 100% |
| The Paper Company Ltd | | United Kingdom | 100% | 100% |
| Parkside Packaging Ltd | | United Kingdom | 100% | 100% |
| Donnington Packaging Supplies Ltd | | United Kingdom | 100% | 100% |
| The M6 Paper Group Ltd | | United Kingdom | 100% | 100% |
| Howard Smith Paper Group Ltd | | United Kingdom | 100% | 100% |
| Contract Paper Ltd | | United Kingdom | 100% | 100% |
| Howard Smith Paper Ltd | | United Kingdom | 100% | 100% |
| Precision Publishing Papers Ltd | | United Kingdom | 100% | 100% |
| Howard Smith Paper (Scotland) Ltd | (3) | United Kingdom | 0% | 100% |
| Trade Paper Ltd | | United Kingdom | 100% | 100% |
| Savory Paper Ltd | (3) | United Kingdom | 0% | 100% |
| Robert Horne UK Ltd | | United Kingdom | 100% | 100% |
| Robert Horne Pension Trustees Ltd | | United Kingdom | 100% | 100% |
| Robert Horne Group Ltd | | United Kingdom | 100% | 100% |
| Adhesive and Display Products Ltd | (3) | United Kingdom | 0% | 100% |
| Robert Horne Paper Company Ltd | (3) | United Kingdom | 0% | 100% |
| W Lunnon & Company Ltd | | United Kingdom | 100% | 100% |
| Glenmore Lomond Paper Group Ltd | (3) | United Kingdom | 0% | 100% |
| Robert Horne Paper (Scotland) Ltd | (3) | United Kingdom | 0% | 100% |
| Pinnacle Film & Board Sales Ltd | | United Kingdom | 100% | 100% |
| Sheet & Roll Converters Ltd | | United Kingdom | 100% | 100% |
| Paragon Imaging Materials Limited | (3) | United Kingdom | 0% | 100% |
| Williaam Cox Plastics Ltd | (3) | United Kingdom | 0% | 100% |
| Deutsche Papier Holding GmbH | | Germany | 100% | 100% |
| Deutsche adp Wilhelm GmbH | | Germany | 100% | 100% |
| Deutsche Papier Vertriebs GmbH | | Germany | 100% | 100% |
| PaperlinX Holdings Cooperatieve UA | | Netherlands | 100% | 100% |
| PaperlinX Netherlands Holdings BV | (4) | Netherlands | 100% | 100% |
| PaperlinX Netherlands BV | | Netherlands | 100% | 100% |
| BührmannUbbens BV | | Netherlands | 100% | 100% |
| Proost en Brandt BV | | Netherlands | 100% | 100% |
| Velpa Enveloppen BV | | Netherlands | 100% | 100% |
| PaperNet GmbH | (2) | Austria | 100% | 100% |
| PN Beteiligungs GmbH | (2) | Austria | 100% | 100% |
| Tulipel - Comercio de Paperis Lda | | Portugal | 100% | 100% |
| PaperNet GmbH & Co KG | (3) | Austria | 0% | 100% |
| Adria Papir D.o.o. | (5) | Croatia | 100% | 100% |
| Budapest Papir Kft | (5) | Hungary | 100% | 100% |
| Alpe Papir Trgovina na Veliko D.o.o. | (5) | Slovenia | 100% | 100% |
| Dunav Papir D.o.o. | (5) | Serbia | 100% | 100% |
| Bratislavská Papierenská Spoločnosť | (5) | Slovakia | 100% | 100% |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2011

Note 41. Subsidiaries – (continued)

| | Note | Country of incorporation | Consolidated subsidiary interest | |
|-----------------------------------|------|--------------------------|----------------------------------|------|
| | | | 2011 | 2010 |
| Polyedra SpA | | Italy | 100% | 100% |
| Carthago Srl | | Italy | 100% | 100% |
| Ospap AS | | Czech Republic | 100% | 100% |
| Multiexpo Spol sro | | Czech Republic | 100% | 100% |
| PaperlinX Denmark Holdings ApS | | Denmark | 100% | 100% |
| CC&Co AS | | Denmark | 100% | 100% |
| Bühmann Ubens NV | | Belgium | 100% | 100% |
| Zing Sp.z.o.o | (2) | Poland | 100% | 100% |
| Union Papelera Merchating SL | | Spain | 100% | 100% |
| Polyedra AG | (2) | Switzerland | 100% | 100% |
| PaperlinX North America Inc | | USA | 100% | 100% |
| Kelly Paper Company | | USA | 100% | 100% |
| Spicers Paper Inc | | USA | 100% | 100% |
| PaperlinX Canada Ltd | (6) | Canada | 100% | 100% |
| PaperlinX Holdings (Asia) Pte Ltd | | Singapore | 100% | 100% |
| Spicers Paper (Singapore) Pte Ltd | | Singapore | 100% | 100% |
| Winpac Paper Pte Ltd | | Singapore | 100% | 100% |
| Spicers Paper (Hong Kong) Ltd | | Hong Kong | 100% | 100% |
| Spicers Paper (Malaysia) Sdn Bhd | | Malaysia | 100% | 100% |
| Finwood Papers (Pty) Ltd | | South Africa | 100% | 100% |
| Finwood Properties Pty Ltd | | South Africa | 100% | 100% |
| PaperlinX Ireland Holdings Ltd | | Ireland | 100% | 100% |
| PaperlinX Ireland Ltd | | Ireland | 100% | 100% |
| Paper Sales Ltd | | Ireland | 100% | 100% |
| Contact Papers Ltd | | Ireland | 100% | 100% |
| Supreme Paper Company Ltd | | Ireland | 100% | 100% |
| DM Paper Ltd | | Ireland | 100% | 100% |
| PPX Insurance Ltd | (7) | New Zealand | 100% | 100% |
| PaperlinX Investments Pty Ltd | (1) | Australia | 100% | 100% |
| PaperlinX (N.Z.) Ltd | | New Zealand | 100% | 100% |

(1) Subsidiaries entered into an approved deed for the cross guarantee of liabilities.

(2) Subsidiaries renamed since 30 June 2010:

Pebmis Pty Ltd (formerly B J Ball Pty Ltd)

PaperNet GmbH (formerly PaperlinX Austria GmbH)

PN Beteiligungs GmbH (formerly PaperNet GmbH)

Zing Sp.z.o.o (formerly Mercator Papier Sp.z.o.o)

Polyedra AG (formerly Interpapier AG)

(3) Subsidiaries placed into liquidation since 30 June 2010.

Howard Smith Paper (Scotland) Ltd

Savory Paper Ltd

Adhesive and Display Products Ltd

Robert Horne Paper Company Ltd

Glenmore Lomond Paper Group Ltd

Robert Horne Paper (Scotland) Ltd

Paragon Imaging Materials Limited

William Cox Plastics Ltd

PaperNet GmbH & Co KG

(4) Ownership of *Thomas Papier Srl* was transferred to *PaperlinX Netherlands Holdings BV* on 27 October 2010, and was subsequently merged into *PaperlinX Netherlands Holdings BV* effective 27 December 2010.

(5) Ownership of entities transferred to *PaperlinX Netherlands Holdings BV* on 30 June 2011.

(6) *PPX Investment Corp, PaperlinX Canada (2001) Corp, PPX Canada Corp, and PaperlinX Canada Holdings ULC* merged into *PaperlinX Canada Limited* on 1 July 2010.

(7) *PPX Insurance Ltd* was placed in liquidation effective 15 June 2011.

Note 42. Events subsequent to balance date

Dividends on the Company's ordinary shares

No final dividend has been declared for the reporting period ended 30 June 2011.

DIRECTORS' DECLARATION

- 1 In the opinion of the Directors of PaperlinX Limited (the "Company"):
 - (a) the consolidated financial statements and notes, and the Remuneration report in the Directors' report are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2011 and of their performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 There are reasonable grounds to believe that the Company and the consolidated entities identified in Note 41 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those consolidated entities pursuant to ASIC Class Order 98/1418.
- 3 The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2011.
- 4 The Directors draw attention to Note 2(a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:



David E Meiklejohn AM
Chairman



Toby R Marchant
Managing Director

Dated at Melbourne, in the State of Victoria this 25 August 2011.

Report on the financial report

We have audited the accompanying financial report of PaperlinX Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2011, and consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 42 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

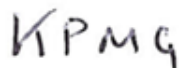
- (a) the financial report of PaperlinX Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report of the Group also complies with International Financial Reporting Standards as disclosed in note 2(a).

Report on the remuneration report

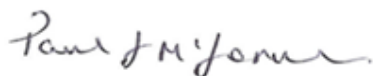
We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the Remuneration Report of PaperlinX Limited for the year ended 30 June 2011 complies with Section 300A of the Corporations Act 2001.



KPMG



Paul J McDonald
Partner

Melbourne

25 August 2011