What we can do

Full Financial Report 2007

Paperlinx

Contents

The June 2007 Financial Report has been prepared in accordance with the Australian Accounting Standards and other mandatory requirements applicable for the year to 30 June 2007. This is similar in format and content to the June 2006 Financial Report.

Income statements

For the year ended 30 June

		Consolidated		PaperlinX Limited	
	Note	**2007 $m**	**2006 $m**	**2007 $m**	**2006 $m**
Revenue	2	7,817.3	7,344.8	23.1	13.1
Other income	3	15.3	30.5	34.1	25.5
Expenses	4(a)	(7,642.1)	(7,223.3)	(11.8)	(6.9)
Result from operating activities		190.5	152.0	45.4	31.7
Financial income	5(c)	6.3	7.3	–	–
Financial expenses	5(c)	(82.9)	(73.1)	–	–
Net financing costs		(76.6)	(65.8)	–	–
Profit before tax	5(a)	113.9	86.2	45.4	31.7
Tax expense	6	(34.3)	(21.5)	(4.1)	(2.9)
Profit after tax expense but before profit from discontinued operations		79.6	64.7	41.3	28.8
Profit from discontinued operations, net of tax	11	0.6	0.7	–	–
Profit for the period	5(a)	80.2	65.4	41.3	28.8
Profit for the period attributable to:					
Equity holders of PaperlinX Limited	30	80.1	65.4	41.3	28.8
Minority interest		0.1	–	–	–
		80.2	65.4	41.3	28.8
Basic earnings per share (cents)	44	16.4	14.7		
Basic earnings per share from continuing operations (cents)	44	16.3	14.5		
Diluted earnings per share (cents)	44	16.3	14.5		
Diluted earnings per share from continuing operations (cents)	44	16.2	14.3		

Notes 1 to 46 form part of these financial statements and are to be read in conjunction therewith.

Statements of recognised income and expense

For the year ended 30 June

		Consolidated		PaperlinX Limited	
	Note	2007 $m	2006 $m	2007 $m	2006 $m
Net foreign exchange differences on translation of overseas subsidiaries	29	(42.9)	26.7	–	–
Actuarial gains on defined benefit plans	30	20.6	30.0	–	–
Net income recognised in equity		(22.3)	56.7	–	–
Profit for the period		80.2	65.4	41.3	28.8
Total recognised income for the period		57.9	122.1	41.3	28.8
Total recognised income for the period attributable to:					
Equity holders of PaperlinX Limited		57.8	122.1	41.3	28.8
Minority interest		0.1	–	–	–
		57.9	122.1	41.3	28.8
Effects of change in accounting policy – Adjustment to comply with AASB139 Financial Instruments: Recognition and Measurement					
Equity holders of PaperlinX Limited		–	0.3	–	–
Minority interest		–	–	–	–
		–	0.3	–	–

Notes 1 to 46 form part of the financial statements and are to be read in conjunction therewith.

Balance sheets

As at 30 June

		Consolidated		PaperlinX Limited	
	Note	2007 $m	2006 $m	2007 $m	2006 $m
Current assets					
Cash and cash equivalents	8	448.8	455.1	–	–
Trade and other receivables	9	1,564.0	1,541.8	0.8	3.1
Inventories	10	861.2	864.1	–	–
Assets classified as held for sale	11	–	19.6	–	–
Total current assets		2,874.0	2,880.6	0.8	3.1
Non-current assets					
Receivables	12	17.7	8.9	–	–
Investments	13	13.3	14.1	1,912.1	1,912.1
Property, plant and equipment	14	1,066.6	990.8	–	–
Intangible assets	15	417.9	421.6	–	–
Deferred tax assets	16	52.9	74.4	–	–
Total non-current assets		1,568.4	1,509.8	1,912.1	1,912.1
Total assets		4,442.4	4,390.4	1,912.9	1,915.2
Current liabilities					
Trade and other payables	17	1,256.8	1,172.9	199.3	211.6
Loans and borrowings	18	494.9	221.7	–	–
Income tax payable	19	5.1	9.6	3.4	1.3
Employee benefits	20	47.1	41.4	–	–
Provisions	21	19.1	13.8	–	–
Liabilities classified as held for sale	11	–	0.9	–	–
Total current liabilities		1,823.0	1,460.3	202.7	212.9
Non-current liabilities					
Payables	22	53.8	93.1	–	–
Loans and borrowings	23	565.7	1,136.7	–	–
Deferred tax liabilities	24	48.9	43.4	–	0.5
Employee benefits	25	37.8	37.3	–	–
Provisions	26	7.6	10.9	–	–
Deferred income	27	0.5	–	–	–
Total non-current liabilities		714.3	1,321.4	–	0.5
Total liabilities		2,537.3	2,781.7	202.7	213.4
Net assets		1,905.1	1,608.7	1,710.2	1,701.8
Equity					
Issued capital	28	1,701.5	1,691.9	1,701.5	1,691.9
Reserves	29	(87.9)	(45.0)	–	–
Retained profits	30	15.0	(38.2)	8.7	9.9
Total equity attributable to holders of ordinary shares of PaperlinX Limited		1,628.6	1,608.7	1,710.2	1,701.8
PaperlinX step-up preference securities	31	276.4	–	–	–
Minority interest	32	0.1	–	–	–
Total equity		1,905.1	1,608.7	1,710.2	1,701.8

Notes 1 to 46 form part of these financial statements and are to be read in conjunction therewith.

Statements of cash flows

For the year ended 30 June

	Note	Consolidated 2007 $m	Consolidated 2006 $m	PaperlinX Limited 2007 $m	PaperlinX Limited 2006 $m
Cash flows from operating activities					
Receipts from customers		7,803.6	7,390.7	25.8	10.0
Payments to suppliers and employees		(7,578.7)	(7,072.9)	(11.1)	(6.9)
Dividends received		0.5	0.8	34.1	25.5
Interest received		6.3	5.7	–	–
Interest paid		(82.6)	(69.6)	–	–
Income taxes paid		(16.3)	(6.1)	(2.3)	(1.5)
Other income received		10.1	11.2	–	–
Net cash from operating activities [(1)]		142.9	259.8	46.5	27.1
Cash flows from investing activities					
Loans advanced to other persons		(0.1)	(0.9)	–	–
Acquisition of:					
Controlled entities and businesses					
(net of cash and bank overdraft acquired)	42	(35.3)	(100.9)	–	–
Property, plant and equipment and intangibles		(177.4)	(101.4)	–	–
Partial refund of the purchase price in relation to					
an acquisition in a prior period		8.7	–	–	–
Proceeds from the sale of:					
Controlled entities and businesses					
(net of cash and bank overdraft disposed)	42	32.0	–	–	–
Discontinued operations		15.9	–	–	–
Property, plant and equipment		24.0	51.1	–	–
Net cash used in investing activities		(132.2)	(152.1)	–	–
Cash flows from financing activities					
Dividends paid		(33.8)	(77.8)	(33.8)	(77.8)
Proceeds from employee share plan loans		0.1	0.1	0.1	0.1
Proceeds on issue of step-up preference securities		285.0	–	–	–
Issue costs of step-up preference securities		(8.6)	–	–	–
Proceeds from options exercised		0.8	–	0.8	–
Loans (repaid to)/received from subsidiaries		–	–	(13.6)	50.6
Proceeds from borrowings		1,431.6	1,156.1	–	–
Repayment of borrowings		(1,666.8)	(1,171.3)	–	–
Principal finance lease repayments		(0.2)	–	–	–
Net cash from/(used in) financing activities		8.1	(92.9)	(46.5)	(27.1)
Net increase in cash and cash equivalents		18.8	14.8	–	–
Cash and cash equivalents at the beginning of the period		453.9	427.8	–	–
Effect of exchange rate changes on cash		(23.9)	11.3	–	–
Cash and cash equivalents at the end of the period [(2)]		448.8	453.9	–	–

Notes 1 to 46 form part of these financial statements and are to be read in conjunction therewith.

	Note	Consolidated 2007 $m	Consolidated 2006 $m	PaperlinX Limited 2007 $m	PaperlinX Limited 2006 $m
(1) Reconciliation of profit after tax to net cash from operating activities					
Profit for the period		80.2	65.4	41.3	28.8
Depreciation and amortisation of property, plant, equipment and intangibles		101.0	104.7	–	–
Amortisation of capitalised borrowing costs		1.7	1.2	–	–
Profit on disposal of non-current assets		(9.0)	(24.4)	–	–
Interest capitalised		(4.2)	(0.3)	–	–
Increase in current and deferred taxes		18.1	15.8	1.8	1.4
Increase/(decrease) in provisions		(7.3)	4.6	–	–
Movement in accrued and prepaid interest		(1.2)	1.5	–	–
Employee share options		1.6	2.9	–	–
Movement in deferred income		0.5	–	–	–
Profit element of the partial refund of the purchase price in relation to an acquisition in a prior period		(2.6)	–	–	–
Impact of unrealised (profit)/loss in inventories		(1.2)	0.5	–	–
Operating profit before changes in current and non-current assets and liabilities		177.6	171.9	43.1	30.2
(Increase)/decrease in trade and other receivables		(42.3)	13.9	2.8	(3.1)
(Increase)/decrease in inventories		(12.6)	23.8	–	–
Increase in trade and other payables		20.2	50.2	0.6	–
Net cash from operating activities		142.9	259.8	46.5	27.1
(2) Reconciliation of cash					
For the purposes of the Statements 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 Statements of Cash Flows is reconciled to the related items in the Balance Sheets as follows:					
Cash and cash equivalents	8	448.8	455.1	–	–
Bank overdrafts	18	–	(1.2)	–	–
		448.8	453.9	–	–

Notes 1 to 46 form part of these financial statements and are to be read in conjunction therewith.

Notes to the financial statements as at 30 June 2007

Note 1. Accounting policies

The following significant accounting policies have been applied by PaperlinX Limited ('the Company') and its subsidiaries together referred to as ('the consolidated entity'), having regard to their activities, in the preparation of the Consolidated Financial Report ('the financial report').

(1) Accounting Standards

The consolidated entity adopts the currently applicable Australian Accounting Standards and disclosure requirements of the professional accounting bodies.

(2) Basis of Preparation

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.

Issued standards not early adopted

The following standards and amendments relevant to the Company or the consolidated entity were available for early adoption but have not been applied by the consolidated entity in these financial statements:

- AASB 8 Operating Segments: (February 2007) which is applicable to annual reporting periods beginning on or after 1 January 2009.
- AASB 101 Presentation of Financial Statements (October 2006) which is applicable to annual reporting periods beginning on or after 1 January 2007.
- AASB 2007-4 Australian Additions to, and deletion from International Financial Reporting Standards (November 2006), which is applicable to annual reporting periods beginning on or after 1 July 2007.
- AASB 7 Financial Instruments, which is applicable to annual reporting periods beginning on or after 1 January 2007.

The consolidated entity plans to adopt the above standards in the 2008 financial year.

The initial application of the above standards is not expected to have an impact on the financial results of the Company and the consolidated entity as the standard and the amendment are concerned only with disclosures.

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

The 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 1(24).

The accounting policies set out below have been applied consistently by all entities in the consolidated entity.

The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading, and financial instruments classified as available-for-sale.

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 thousand dollars, unless otherwise stated.

(3) Basis of Consolidation

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

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 parent entity when they are declared by the subsidiaries. Dividends received out of pre-acquisition reserves are eliminated against the carrying amount of the investment and not recognised in revenue.

Minority 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.

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.

(4) Revenue recognition

Sales revenue

Sales revenue comprises revenue earned (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 customer.

Commissions

Revenue for commissions is recognised when the applicable sale is completed.

Government grants

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

Note 1. **Accounting policies** continued

(5) Taxation

Income tax

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

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

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

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

Tax consolidation

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 PaperlinX Group 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 balance sheet and their tax values applying under tax consolidation.

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

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

Any subsequent period adjustments to deferred tax assets arising from unused tax losses 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

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

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

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

Goods and services tax

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 item.

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 Balance Sheet.

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.

Note 1. Accounting policies continued

(6) 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% (2006 1% – 3%)
Buildings:	between 1% – 4% (2006 1% – 4%)
Plant and equipment:	between 4% – 20% (2006 4% – 20%)
Finance leases for equipment:	between 4% – 20% (2006 4% – 20%)

Depreciation and amortisation are expensed except to the extent they are 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.

(7) 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 the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to 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.

Employee share plans

The consolidated entity maintains two employee share plans, the Employee Share Purchase Plan (ESPP) and the Employee Share and Option Plan (ESOP).

Employee share purchase plan

Non-recourse loan plan

Eligibility to participate in this plan is based on each employee's service period. An employee is to have been employed continuously by the consolidated entity for a period of twelve months or more at the date the invitation to subscribe is made, unless determined to be eligible at the discretion of the Directors. The number of shares offered and the issue price are determined at the discretion of the directors, subject to the satisfaction of performance criteria. The performance criteria relate to the growth in the profit after tax of the consolidated entity.

When issues relating to this plan are made, non-recourse loans to assist in the purchase of the shares will be classified against share capital. The loans can be repaid at any time and must be fully paid when an individual ceases to be employed by the consolidated entity. The issues are accounted for as an option and the fair value at grant date of the option is independently determined using an appropriate options pricing model that takes into account the discount to market price at grant date (40 per cent and 75 per cent as appropriate), the expected life/term of the interest free loan and its non-recourse nature, the expected price volatility (20 per cent), the expected dividend yield (5.5 per cent) and the risk-free interest rate for the term (5.6 per cent). The fair value of the option has been fully recognised in the accounts of the consolidated entity. Eligibility to participate in this plan ceased in 2004.

Purchase plan

During the 2006 financial year, the plan was introduced and eligibility to participate is restricted to Australian resident permanent employees who are employed at the closing date of the relevant offer period. There are no other service criteria and no performance criteria under the plan. Employees contribute on a pre-tax salary sacrifice basis over a pre-determined period. The shares are purchased 'on market' at the end of the contribution period and the number of shares allocated to each employee is determined by the weighted average purchase price of the shares at that time.

The consolidated entity contributes an additional 5 per cent of the number of shares and these shares are also purchased 'on market' and granted to participating employees under the plan for no consideration. The 'on market' purchase value of these shares is recognised as an employee benefits expense in the period during which the employee becomes unconditionally entitled to the shares.

Employee share and option plan

Subject to the satisfaction of specified performance and service criteria, senior management of the consolidated entity may be offered a specified number of shares, options or rights as part of their total remuneration, at the discretion of the directors. The two performance criteria relate to earnings per share and the total shareholder return of the consolidated entity. In accordance with the rules of the ESOP, shares, options and rights may be issued upon such terms and conditions as determined by the directors.

Issue or purchase of shares

The shares relating to the performance rights or performance options under the ESOP may either be new issued shares or, as required, shares purchased 'on market' and held on trust for distribution to participants if the performance criteria are satisfied.

The cost of shares purchased 'on market' is recognised as a deduction from total equity and charged directly to retained earnings when they are allocated to employees.

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from total equity. In the financial statements the transactions relating to shares held on trust are treated as being executed directly by the consolidated entity. Accordingly, shares held on trust are deducted from equity.

Performance options and performance rights

For options and performance rights granted before 7 November 2002 and/or vested before 1 January 2005, no expense is recognised. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

Note 1. **Accounting policies** continued

For options and performance rights granted after 7 November 2002 and vested after 1 January 2005, the fair value of options and performance rights granted under the ESOP is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date of the options and the performance rights is independently determined using an appropriate options pricing model that takes into account the exercise price, the expected life/term, the vesting and performance criteria, the impact of dilution, the non-tradeable nature, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term.

The fair value of the options and performance rights granted excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options and performance rights that are expected to vest. At each balance sheet date, the entity revises its estimate of the number of options that are expected to vest. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options and performance rights, the exercise price paid is recognised in equity.

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 superannuation plans is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation at the reporting date less the fair value of the superannuation fund'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 fund 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 national government 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 retained earnings.

Past service costs are recognised immediately in income, unless the related changes to the superannuation fund 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 (e.g. taxes on investment income and employer contributions) are taken into account in measuring the net liability or asset.

(8) Net financing costs

Net financing costs comprise interest and other financing charges including foreign exchange gains and losses, net of interest on funds invested. These costs are brought to account in determining profit for the year, except to the extent the interest incurred relates to 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.

(9) 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 (AIFRS transition date) are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

(10) 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 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.

(11) 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 statement of cash flows.

(12) 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 consolidated entity's functional and presentational currency.

Note 1. Accounting policies continued

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 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. As a result, exchange rate movements on such foreign currency transactions are largely offset within the income statement.

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 balance sheet 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 directly in a separate component of 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 income upon disposal of the entity.

(13) 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 and forward exchange contracts. 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.

Changes in the fair value of derivative instruments are recognised immediately in the income statement.

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 balance sheet 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 and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months.

(14) Leased assets

Plant and equipment leases under which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

Operating leases

Payments made under operating leases are expensed on a straight line basis over the term of the lease.

(15) Research and development expenditure

Expenditure on research activities is charged against operating profit 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.

(16) 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 and is carried at cost less impairment charges 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.

(17) Other intangible assets

Other intangible assets that are acquired by the consolidated entity are stated at cost less accumulated amortisation and impairment losses (see Note1(20)). The period of amortisation equates to the period over which benefits are expected to be derived.

(18) Brand names

Brand names acquired are carried at cost less any impairment losses and are not amortised on the basis that they have indefinite 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.

(19) Business combinations

Business combinations prior to 1 July 2004

Goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous AGAAP.

The classification and accounting treatment of business combinations (including goodwill) that occurred prior to 1 July 2004 has not been reconsidered in preparing the consolidated entity's opening AIFRS balance sheet at 1 July 2004.

Note 1. **Accounting policies** continued

Business combinations since 1 July 2004

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The excess of the cost of acquisition over the net fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the net fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(20) 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 balance sheet 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.

Reversals of impairment

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

(21) Provisions

A provision is recognised when there is a present legal or constructive obligation 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.

Surplus leased premises

Provision is made for non-cancellable operating lease rentals payable on surplus lease premises when the expected future benefits to be obtained are less than the amount payable.

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.

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.

(22) Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net profit attributable to members of the parent entity after deduction of the distribution on the PaperlinX step-up preference securities by the weighted average number of ordinary shares of the Company, 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.

(23) Revisions of accounting estimates

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

(24) Accounting estimates and judgments

The consolidated entity makes estimates and assumptions concerning the future. Actual results may at times vary from estimates. The estimates and judgments 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.

Impairment of non-current assets

The consolidated entity assesses whether non-current assets 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.

Defined benefit superannuation fund obligations

Various actuarial assumptions are utilised in the determination of the consolidated entity's defined benefit superannuation fund obligations. These assumptions are discussed in Note 1(7).

Notes to the financial statements continued
as at 30 June 2007

	Consolidated		PaperlinX Limited	
	2007 $m	**2006 $m**	**2007 $m**	**2006 $m**
Note 2. Revenue				
Sales of goods	7,814.1	7,342.1	–	–
Commissions	3.2	2.7	23.1	13.1
Total Revenue	7,817.3	7,344.8	23.1	13.1
Note 3. Other income				
Rent	2.5	2.6	–	–
Dividends	0.5	0.8	34.1	25.5
Net profit on disposal of non-current assets (1)	8.1	24.4	–	–
Other	4.2	2.7	–	–
Total other income	15.3	30.5	34.1	25.5

(1) Included in the amount in the current year is $Nil million (2006: $16.3 million) in relation to profits arising on the disposal of properties under commercial sale and lease back arrangements. In accordance with the on-going review of the owned properties, it is expected that further commercial sale and lease back arrangements may be undertaken in the future.

	Consolidated		PaperlinX Limited	
	2007 $m	**2006 $m**	**2007 $m**	**2006 $**
Note 4. Expenses				
(a) Expenses (excluding financing costs)				
Cost of sales	6,369.0	5,991.1	–	–
Personnel costs non-manufacturing	683.5	639.7	–	–
Logistics and distribution	316.4	292.5	–	–
General and administration	240.2	265.3	11.8	6.9
Sales and marketing	31.9	32.7	–	–
Research and development	1.1	2.0	–	–
Total expenses (excluding financing costs) (1)	7,642.1	7,223.3	11.8	6.9
(b) Personnel costs included above:				
Wages and salaries	645.2	624.1	–	–
Increase in liability for employee benefits – refer Note 5(b)	27.9	22.6	–	–
Contributions to defined contribution plans	26.4	29.6	–	–
Employee share options and rights – refer Note 30	1.6	2.9	–	–
Net increase in liability for defined benefit obligation – refer Note 41	14.7	17.9	–	–
	715.8	697.1	–	–

(1) Included in expenses is $22.3 million (2006: $25.4 million) business restructure costs which primarily relate to the Maryvale Pulp Mill, partially offset by net property savings of $10.1 million (2006: $21.2 million).

	Consolidated		PaperlinX Limited	
	2007 $m	2006 $m	2007 $m	2006 $m

Note 5. Profit for the period

(a) Profit for the period comprises the following:

Revenue sale of goods				
• Continuing operations	7,814.1	7,342.1	–	–
• Discontinued operations	25.2	29.5	–	–
	7,839.3	7,371.6	–	–
Profit before depreciation, impairment, amortisation, net interest and tax				
• Continuing operations	285.3	255.8	45.4	31.7
• Discontinued operations	1.2	1.3	–	–
	286.5	257.1	45.4	31.7
Depreciation, impairment and amortisation				
• Continuing operations	(101.0)	(104.7)	–	–
• Discontinued operations	–	–	–	–
	(101.0)	(104.7)	–	–
Profit before net interest and tax				
• Continuing operations	184.3	151.1	45.4	31.7
• Discontinued operations	1.2	1.3	–	–
	185.5	152.4	45.4	31.7
Net interest				
• Continuing operations	(70.4)	(64.9)	–	–
• Discontinued operations	(0.5)	(0.2)	–	–
	(70.9)	(65.1)	–	–
Profit before tax				
• Continuing operations	113.9	86.2	45.4	31.7
• Discontinued operations	0.7	1.1	–	–
	114.6	87.3	45.4	31.7
Tax				
• Continuing operations	(34.3)	(21.5)	(4.1)	(2.9)
• Discontinued operations	(0.1)	(0.4)	–	–
	(34.4)	(21.9)	(4.1)	(2.9)
Profit for the period				
• Continuing operations	79.6	64.7	41.3	28.8
• Discontinued operations	0.6	0.7	–	–
	80.2	65.4	41.3	28.8

	Consolidated 2007 $m	Consolidated 2006 $m	PaperlinX Limited 2007 $m	PaperlinX Limited 2006 $m
Note 5. Profit for the period (continued)				
(b) Profit before tax has been arrived at after (charging)/crediting:				
Depreciation:				
• of land improvements	(0.2)	(0.3)	–	–
• of buildings	(10.0)	(11.3)	–	–
• of plant and equipment	(73.7)	(73.2)	–	–
	(83.9)	(84.8)	–	–
Amortisation:				
• of computer software intangibles	(16.9)	(19.7)	–	–
• of leased assets	(0.1)	(0.2)	–	–
• other	(0.1)	–	–	–
	(17.1)	(19.9)	–	–
Total depreciation, impairment and amortisation	(101.0)	(104.7)	–	–
Total depreciation, impairment and amortisation is included in the following expense categories:				
• cost of goods sold	(52.9)	(51.8)	–	–
• general and administration	(17.0)	(19.6)	–	–
• logistics and distribution	(31.1)	(33.3)	–	–
	(101.0)	(104.7)	–	–
Provisions:				
• employee benefits	(27.9)	(22.6)	–	–
• doubtful debts	8.4	(3.0)	–	–
• diminution in value of inventories	–	(1.1)	–	–
• other	(0.6)	(7.7)	–	–
Total provisions	(20.1)	(34.4)	–	–
Lease rentals:				
• Operating leases	(65.9)	(55.4)	–	–
(c) Net financing costs, continuing operations				
Financial income:				
• Interest income	6.3	5.8	–	–
• Net foreign exchange gain	–	1.5	–	–
Total financial income	6.3	7.3	–	–
Financial expenses:				
• Interest expense	(80.9)	(71.0)	–	–
• Less capitalised interest expense	4.2	0.3	–	–
	(76.7)	(70.7)	–	–
• Net foreign exchange losses	(3.4)	–	–	–
• Other borrowing costs	(2.8)	(2.4)	–	–
Total financial expenses	(82.9)	(73.1)	–	–
Total net financing costs, continuing operations	(76.6)	(65.8)	–	–
Net interest, continuing operations				
• Interest income	6.3	5.8	–	–
• Interest expense	(76.7)	(70.7)	–	–
Total net interest, continuing operations	(70.4)	(64.9)	–	–

	Consolidated		PaperlinX Limited	
	2007 $m	2006 $m	2007 $m	2006 $m
Note 6. Tax expense				
Prima facie income tax expense calculated at standard rates of tax on profit from continuing operations and discontinued operations	(34.4)	(26.2)	(13.6)	(9.5)
(Add)/deduct the tax effect of:				
• Non assessable dividends from Australian subsidiaries	–	–	10.2	7.7
• Amortisation of goodwill allowable	7.4	8.4	–	–
• Overseas tax rate differential	0.7	(1.5)	–	–
• Research and development incentives	1.5	1.2	–	–
• Tax losses not brought to account	(9.8)	–	–	–
• Reversal of tax losses previously brought to account	–	(5.5)	–	–
• Income tax related to wholly-owned subsidiaries in the tax-consolidated group	–	–	2.5	3.9
• Recovery of income tax under a tax funding agreement	–	–	(2.5)	(3.9)
• Non deductible expense for employee share options and rights	(0.5)	(0.9)	–	–
• Other	(1.1)	0.2	(0.1)	(1.1)
• Over/(under) provision in prior years	1.8	2.4	(0.6)	–
Total tax expense	(34.4)	(21.9)	(4.1)	(2.9)
Recognised in the income statement				
Current tax expense				
Current year	(36.2)	(18.8)	(3.5)	(2.9)
Adjustments for prior years	1.8	2.4	(0.6)	–
	(34.4)	(16.4)	(4.1)	(2.9)
Deferred tax expense				
Expense on derecognition of tax loss	–	(5.5)	–	–
	–	(5.5)	–	–
Total tax expense in income statement	(34.4)	(21.9)	(4.1)	(2.9)
Attributable to:				
Continuing operations	(34.3)	(21.5)	(4.1)	(2.9)
Discontinued operations	(0.1)	(0.4)	–	–
	(34.4)	(21.9)	(4.1)	(2.9)
Recognised directly in equity:				
Actuarial gains on defined benefit plans	9.3	11.6	–	–
Total	9.3	11.6	–	–

The balance of the consolidated franking account as at 30 June 2007 was $Nil million (2006: $Nil million).

Notes to the financial statements continued
as at 30 June 2007

	Consolidated		PaperlinX Limited	
	2007 $m	2006 $m	2007 $m	2006 $m
Note 7. Dividends and distributions				
(a) Dividends on PaperlinX Limited ordinary shares				
Interim dividend paid:				
• 5 cents per share paid on 5 April 2007, Nil% franked at a rate of 30% tax rate on fully paid shares (2)	22.4	–	22.4	–
• 5.5 cents per share paid on 5 April 2006, Nil% franked at a 30% tax rate on fully paid shares (1)	–	24.6	–	24.6
Final dividend paid:				
• 4.5 cents per share paid on 13 October 2006, Nil% franked at a 30% tax rate on fully paid shares (1)	20.1	–	20.1	–
• 12 cents per share paid on 28 September 2005, Nil% franked at a 30% tax rate on fully paid shares (1)	–	53.5	–	53.5
	42.5	78.1	42.5	78.1

(1) Paid out of profits measured in accordance with Australian Accounting Standards and other financial reporting requirements applicable for the year ended 30 June 2006.

(2) Paid out of profits measured in accordance with Australian equivalents to International Financial Reporting Standards and issued by the Australian Accounting Standards Board and the financial reporting requirements applicable for the year ended 30 June 2007.

PaperlinX Limited has declared a dividend, at the date of this report, on ordinary shares payable 26 September 2007 – 6.0 cents per share, unfranked on fully paid shares. This dividend has not been provided for in the accounts as at 30 June 2007.

It is expected that the interim dividend in respect of the year ending 30 June 2008 will be unfranked.

	Consolidated 2007 $m	Consolidated 2006 $m	PaperlinX Limited 2007 $m	PaperlinX Limited 2006 $m
(b) Distributions on PaperlinX step-up preference securities				
• Rate of 9.04% for the period 30 March 2007 to 30 June 2007, inclusive (1)	6.6	–	–	–
	6.6	–	–	–

(1) This distribution was provided for at 30 June 2007 and paid on 2 July 2007. The distribution rate for the period 30 June 2007 to 31 December 2007 is 8.97 per cent.

	Consolidated		PaperlinX Limited	
	2007 $m	2006 $m	2007 $m	2006 $m
Note 8. Cash and cash equivalents				
Cash on hand and at bank	328.0	387.0	–	–
Deposits at call	120.8	68.1	–	–
Total cash and cash equivalents	448.8	455.1	–	–
Note 9. Trade and other receivables				
Trade debtors	1,507.5	1,460.6	–	–
Provision for impairment losses	(74.1)	(57.2)	–	–
Net trade debtors	1,433.4	1,403.4	–	–
Other debtors	87.6	82.6	0.3	3.1
Prepayments	43.0	55.8	–	–
Amounts owing from subsidiaries	–	–	0.5	–
Total trade and other receivables	1,564.0	1,541.8	0.8	3.1

	Consolidated		PaperlinX Limited	
	2007 $m	2006 $m	2007 $m	2006 $m
Note 10. Inventories				
At cost:				
Raw materials and stores	101.2	101.3	–	–
Provision for impairment losses	(9.7)	(8.8)	–	–
Net raw materials and stores	91.5	92.5	–	–
Work in progress	15.9	15.8	–	–
Finished goods	752.3	756.4	–	–
Provision for impairment losses	(20.6)	(20.7)	–	–
Net finished goods	731.7	735.7	–	–
At net realisable value:				
Finished goods	22.1	20.1	–	–
Total inventories	861.2	864.1	–	–

Note 11. Assets and liabilities held for sale

The assets and liabilities held for sale relate to part of the Merchanting and Paper Trading business purchased in Canada during the previous year, which were required to be sold as a condition of the regulatory approval of the total acquisition. The sale was concluded in October 2006.

	Consolidated	
	2007 $m	2006 $m
Results from discontinued operations:		
Revenue – sales of goods	25.2	29.5
Profit before depreciation, impairment, amortisation, net interest and tax		
• Operating activity	0.4	1.3
• Profit on disposal	0.8	–
	1.2	1.3
Profit before net interest and tax		
• Operating activity	0.4	1.3
• Profit on disposal	0.8	–
	1.2	1.3
Net interest		
• Operating activity	(0.5)	(0.2)
• Profit on disposal	–	–
	(0.5)	(0.2)
Profit before tax		
• Operating activity	(0.1)	1.1
• Profit on disposal	0.8	–
	0.7	1.1
Tax expense		
• Operating activity	(0.1)	(0.4)
• Profit on disposal	–	–
	(0.1)	(0.4)
Profit for the period		
• Operating activity	(0.2)	0.7
• Profit on disposal	0.8	–
	0.6	0.7

	Consolidated	
	2007 $m	2006 $m
Note 11. Assets and liabilities held for sale (continued)		
Effect of the disposal on individual assets and liabilities of the consolidated entity		
Assets		
• Trade and other receivables	9.5	11.3
• Inventories	5.5	7.9
• Property, plant and equipment	0.4	0.4
	15.4	19.6
Liabilities		
• Trade and other payables	(0.3)	(0.9)
Net identifiable assets and liabilities	15.1	18.7
Consideration		
• Received in cash	15.9	–
	15.9	–
Profit on disposal before tax	0.8	–

During the year ended 30 June 2007, the component of the Canadian business held for sale had cash inflows from operating activities of $3.4 million (2006: $0.8 million), cash outflows from investing activities of $Nil million and cash flows from financing activities of $Nil million.

	Consolidated		PaperlinX Limited	
	2007 $m	2006 $m	2007 $m	2006 $m
Note 12. Receivables				
Other debtors	17.7	8.9	–	–
Total receivables	17.7	8.9	–	–
Note 13. Investments				
Shares in controlled entities – refer Note 42				
• At cost	–	–	1,912.1	1,912.1
Total investment in shares in controlled entities	–	–	1,912.1	1,912.1
Shares in other companies				
– Not listed on stock exchanges:				
• At cost	13.3	14.1	–	–
Total investment in other companies	13.3	14.1	–	–
Total investments	13.3	14.1	1,912.1	1,912.1

	Consolidated		PaperlinX Limited	
	2007 $m	2006 $m	2007 $m	2006 $m
Note 14. Property, plant and equipment				
Land:				
• At cost	70.3	77.1	–	–
• Accumulated impairment losses	(2.3)	(2.4)	–	–
Total net land	68.0	74.7	–	–
Land improvements:				
• At cost	12.7	11.4	–	–
• Accumulated depreciation and impairment losses	(3.3)	(3.1)	–	–
Total net land improvements	9.4	8.3	–	–
Buildings:				
• At cost	363.2	382.5	–	–
• Accumulated depreciation and impairment losses	(171.0)	(169.4)	–	–
Total net buildings	192.2	213.1	–	–
Plant and equipment:				
• At cost (1)	2,061.5	1,926.4	–	–
• Accumulated depreciation and impairment losses	(1,264.8)	(1,232.1)	–	–
Total net plant and equipment	796.7	694.3	–	–
Leased assets:				
• Finance leases	1.3	1.4	–	–
• Accumulated amortisation and impairment losses	(1.0)	(1.0)	–	–
Total net leased assets	0.3	0.4	–	–
Total property, plant and equipment	1,066.6	990.8	–	–

(1) Included in cost is amounts relating to assets under construction which are not subject to depreciation.

The reconciliation of the movement in each class of property, plant and equipment is as follows:

	2007 $m	2006 $m	2007 $m	2006 $m
Land:				
Balance at beginning of year				
Cost	77.1	77.6	–	–
Accumulated impairment losses	(2.4)	(2.3)	–	–
Net balance at beginning of year	74.7	75.3	–	–
Disposals (2)	(4.5)	(6.3)	–	–
Acquisition of subsidiaries/businesses (3)	–	0.2	–	–
Foreign currency movements	(4.3)	5.0	–	–
Transfers	2.1	0.5	–	–
Net balance at end of year	68.0	74.7	–	–
Land improvements:				
Balance at beginning of year				
Cost	11.4	9.3	–	–
Accumulated depreciation and impairment losses	(3.1)	(2.9)	–	–
Net balance at beginning of year	8.3	6.4	–	–
Additions (1)	1.3	2.2	–	–
Depreciation	(0.2)	(0.3)	–	–
Net balance at end of year	9.4	8.3	–	–

	Consolidated		PaperlinX Limited	
	2007 $m	2006 $m	2007 $m	2006 $m
Note 14. Property, plant and equipment (continued)				
Buildings:				
Balance at beginning of year				
Cost	382.5	389.3	–	–
Accumulated depreciation and impairment losses	(169.4)	(158.4)	–	–
Net balance at beginning of year	213.1	230.9	–	–
Additions (1)	5.2	3.9	–	–
Disposals (2)	(6.5)	(24.1)	–	–
Depreciation	(10.0)	(11.3)	–	–
Acquisition of subsidiaries/businesses (3)	–	5.1	–	–
Disposal of subsidiaries/businesses (4)	(0.4)	–	–	–
Transfers	(1.4)	(1.2)	–	–
Foreign currency movements	(7.8)	9.8	–	–
Net balance at end of year	192.2	213.1	–	–
Plant and equipment:				
Balance at beginning of year				
Cost	1,926.4	1,779.4	–	–
Accumulated depreciation and impairment losses	(1,232.1)	(1,107.0)	–	–
Net balance at beginning of year	694.3	672.4	–	–
Additions (1)	185.2	91.0	–	–
Disposals (2)	(2.4)	(2.6)	–	–
Depreciation	(73.7)	(73.2)	–	–
Acquisition of subsidiaries/businesses (3)	4.3	4.4	–	–
Disposal of subsidiaries/businesses (4)	(0.9)	–		
Transfers	(0.3)	0.2	–	–
Transfers to computer software	(4.1)	(0.7)	–	–
Foreign currency movements	(5.7)	2.8	–	–
Net balance at end of year	796.7	694.3	–	–
Leased assets:				
Balance at beginning of year				
Cost	1.4	0.4	–	–
Accumulated amortisation and impairment losses	(1.0)	(0.2)	–	–
Net balance at beginning of year	0.4	0.2	–	–
Transfers	–	0.5	–	–
Amortisation	(0.1)	(0.2)	–	–
Additions (1)	0.1	–	–	–
Disposals (2)	(0.1)	(0.1)	–	–
Net balance at end of year	0.3	0.4	–	–

(1) The total additions included above are $191.8 million (2006: $97.1 million).
(2) The total disposals included above are $13.5 million (2006: $33.1 million).
(3) The total acquisitions of property, plant and equipment of subsidiaries/businesses included above are $4.3 million (2006: $9.7 million).
(4) The total disposals of property, plant and equipment of subsidiaries/businesses included above is $1.3 million (2006: $Nil million).

	Consolidated 2007 $m	Consolidated 2006 $m	PaperlinX Limited 2007 $m	PaperlinX Limited 2006 $m
Note 15. Intangible assets				
Goodwill at cost	343.4	344.9	–	–
Computer software at cost	168.0	154.9	–	–
Accumulated amortisation and impairment losses	(120.6)	(105.5)	–	–
	47.4	49.4	–	–
Brand names at cost	24.9	25.8	–	–
Other at cost	2.8	2.0	–	–
Accumulated amortisation and impairment losses	(0.6)	(0.5)	–	–
	2.2	1.5	–	–
Total intangible assets	417.9	421.6	–	–
The reconciliation of the movement in each class of intangible assets is as follows:				
Goodwill at cost: (1) (2)				
Balance at beginning of year	344.9	316.7	–	–
Acquisition of subsidiaries/businesses	14.4	9.1	–	–
Foreign currency movements	(18.2)	15.2	–	–
Additions (4)	1.6	–	–	–
Other	0.7	3.9	–	–
Balance at end of year	343.4	344.9	–	–
Computer software: (1) (3)				
Balance at beginning of year				
Cost	154.9	147.2	–	–
Accumulated amortisation and impairment losses	(105.5)	(85.0)	–	–
Net balance at beginning of year	49.4	62.2	–	–
Amortisation	(16.9)	(19.7)	–	–
Acquisition of subsidiaries/businesses	0.2	–	–	–
Disposal of subsidiaries/businesses	(0.2)	–	–	–
Transfers from plant and equipment	4.1	0.7	–	–
Foreign currency movements	(1.3)	1.3	–	–
Additions (4)	12.1	4.9	–	–
Net balance at end of year	47.4	49.4	–	–
Brand names at cost: (1) (2)				
Balance at beginning of year	25.8	24.7	–	–
Foreign currency movements	(1.2)	1.1	–	–
Additions (4)	0.3	–	–	–
Balance at end of year	24.9	25.8	–	–
Other: (1) (2)				
Balance at beginning of year				
Cost	2.0	0.6	–	–
Accumulated amortisation and impairment losses	(0.5)	(0.5)	–	–
Net balance at beginning of year	1.5	0.1	–	–
Additions (4)	0.9	–	–	–
Acquisition of subsidiaries/businesses	–	1.2	–	–
Amortisation	(0.1)	–	–	–
Foreign currency movements	(0.1)	0.2	–	–
Net balance at end of year	2.2	1.5	–	–

(1) All intangibles are analysed on a cash generating unit basis. An impairment test is undertaken annually or otherwise when there is an impairment trigger based on value in use calculations. These calculations use cash flow projections based on expected operating results over the estimated remaining life of the assets within each cash generating unit. A pre-tax discount rate of 9.5 per cent has been used in discounting the projected cash flow and a nil growth rate has been applied in calculating the projected cash flows.

(2) Goodwill, brand names and other intangibles all relate to the Paper Merchanting business.

(3) Computer software relates to all businesses.

(4) The total additions included above are $14.9 million (2006: $4.9 million).

	Consolidated 2007 $m	Consolidated 2006 $m	PaperlinX Limited 2007 $m	PaperlinX Limited 2006 $m
Note 16. Deferred tax assets				
Deferred tax assets [1]	52.9	74.4	–	–
Total deferred tax assets	52.9	74.4	–	–
Deferred tax assets comprise of the following:				
Provisions and employee benefits	43.5	52.4	–	–
Accrued expenses not claimed	1.5	0.6	–	–
Expenses capitalised	–	0.7	–	–
Other items	4.5	13.6	–	–
Tax losses [2]	3.4	7.1	–	–
	52.9	74.4	–	–

(1) All movements in temporary differences have been recorded in the income statement.

(2) Potential further future income tax benefits of the consolidated entity relating to accumulated tax losses at June 30 2007 of $90.3 million (2006: $87.3 million) were not recognised on the basis that it is not probable that future taxable profit will be available against which the consolidated entity can use the benefit.

	Consolidated 2007 $m	Consolidated 2006 $m	PaperlinX Limited 2007 $m	PaperlinX Limited 2006 $m
Note 17. Trade and other payables				
Trade creditors	975.8	930.1	–	–
Other creditors	281.0	242.8	0.6	–
Amounts owing to subsidiaries	–	–	198.7	211.6
Total trade and other payables	1,256.8	1,172.9	199.3	211.6
Note 18. Loans and borrowings				
Unsecured loans and borrowings: [1]				
• Bank overdrafts [2]	–	1.2	–	–
• Bank borrowings [3]	490.4	214.9	–	–
• CAD notes [4]	3.4	3.7	–	–
• Other loans	0.8	1.4	–	–
Finance lease liabilities	0.3	0.5	–	–
Total loans and borrowings	494.9	221.7	–	–

(1) Unsecured loans and borrowings are shown net of capitalised borrowing costs of $1.9 million, (2006: $2.1 million), where applicable.

(2) The consolidated entity has committed bank overdraft facilities to a maximum $15.4 million (2006: $27.1 million). As at 30 June 2007, the unused portions of the facilities were $15.4 million (2006: $25.9 million). The bank overdrafts are payable on demand and are subject to annual review.

(3) Relates to the following bank borrowings excluding the impact of capitalised borrowing costs:

- *$133.9 million (2006: $148.3 million) drawn under a USD 115 million facility maturing in February 2008 (2006: USD 115 million facility maturing in February 2007).*
- *$248.3 million (2006: $212.1 million) drawn under a USD 209 million facility maturing in February 2008 (2006: USD 300 million). The comparative amount is shown in Note 23.*
- *$52.8 million (2006: $Nil million) drawn under a USD 42 million facility maturing in February 2008 (2006: USD $Nil million).*
- *$4.3 million (2006 $Nil million) drawn under a CAD 10 million facility maturing in May 2008.*
- *$1.7 million (2006: $4.8 million) drawn under a SGD 20 million facility maturing in March 2008.*
- *$23.1 million (2006: $24.7 million) drawn under a NZD 45 million facility maturing in November 2007.*
- *$3.4 million (2006: $2.8 million) drawn under a MYR 12 million facility maturing in April 2008.*
- *$Nil million (2006: $Nil million) drawn under a MYR 9.5 million facility maturing in December 2007.*
- *$24.8 million (2006: $36.4 million) drawn under various other facilities.*

(4) Relates to $3.4 million (2006: $3.7 million) being CAD 3 million of the CAD 15 million Senior Unsecured Notes detailed in Note 23.

	Consolidated		PaperlinX Limited	
	2007 $m	2006 $m	2007 $m	2006 $m
Note 19. Income tax payable				
Income tax	5.1	9.6	3.4	1.3
Total income tax payable	5.1	9.6	3.4	1.3
Note 20. Employee benefits				
Employee benefits	47.1	41.4	–	–
Total employee benefits	47.1	41.4	–	–
Note 21. Provisions				
Dividend payable (1)	–	–	–	–
Distribution payable (2)	6.6	–	–	–
Acquisition restructuring provision (3)	–	–	–	–
Other (4)	12.5	13.8	–	–
Total Provisions	19.1	13.8	–	–
(1) The reconciliation of the movement in the provision for dividend payable on PaperlinX Limited ordinary shares is as follows:				
Balance at beginning of year	–	–	–	–
Provided during the year	42.5	78.1	42.5	78.1
Paid during the year – cash	(33.8)	(77.8)	(33.8)	(77.8)
Paid during the year – non cash	(8.7)	(0.3)	(8.7)	(0.3)
	–	–	–	–
(2) The reconciliation of the movement in the provision for distribution payable on PaperlinX step–up preference securities is as follows:				
Balance at beginning of year	–	–	–	–
Provided during the year	6.6	–	–	–
	6.6	–	–	–
(3) The reconciliation of the movement in the acquisition restructuring provision is as follows:				
Balance at beginning of year	–	0.4	–	–
Paid during the year	–	(0.4)	–	–
	–	–	–	–
(4) The reconciliation of the movement in other provisions is as follows:				
Balance at beginning of year	13.8	19.4	–	–
Provided during the year	1.8	4.5	–	–
Paid during the year	(3.4)	(4.4)	–	–
Transfers	(1.6)	(5.3)	–	–
Acquisition of subsidiaries/businesses	2.1	–	–	–
Foreign currency movements	(0.2)	(0.4)	–	–
	12.5	13.8	–	–
Note 22. Payables				
Other creditors	53.8	93.1	–	–
Total Payables	53.8	93.1	–	–

	Consolidated		PaperlinX Limited	
	2007 $m	2006 $m	2007 $m	2006 $m
Note 23. Loans and borrowings				
Unsecured loans and borrowings: (1)				
• Bank borrowings (2)	109.6	639.2	–	–
• USD notes (3)	144.1	165.0	–	–
• CAD notes (4)	69.3	79.3	–	–
• GBP notes (5)	242.6	253.1	–	–
Finance lease liabilities	0.1	0.1	–	–
Total loans and borrowings	565.7	1,136.7	–	–
Reconciliation of Consolidated Loans and Borrowings				
Current loans and borrowings – refer Note 18	494.9	221.7	–	–
Non–current loans and borrowings – refer above in Note 23	565.7	1,136.7	–	–
Total loans and borrowings (6)	1,060.6	1,358.4	–	–
Cash and cash equivalents – refer Note 8	(448.8)	(455.1)	–	–
Net loans and borrowings	611.8	903.3	–	–

(1) Unsecured loans and borrowings are shown net of capitalised borrowing costs of $0.2 million (2006: $1.8 million), where applicable.

(2) Relates to the following bank borrowings excluding the impact of capitalised borrowings costs:

- *$109.5 million (2006: $639.5 million) drawn under a USD 700 million (2006: USD 815 million) facility maturing USD 115 million in February 2008 (2006: USD 115 million in February 2007), USD 209 million (2006: USD 300 million) in February 2008, USD 42 million (2006: USD Nil) in February 2008 and USD 334 million (2006: USD 400 million) in February 2010. Drawings under this facility incur interest at BBSY plus an applicable credit margin. The current portion of this facility is shown in Note 18.*
- *$0.3 million (2006: $0.8 million) drawn under various other facilities.*

(3) Relates to the following notes:

- *$66.7 million (2006: $76.5 million), being USD 56 million of Senior Unsecured Notes, maturing 2017 at 7.88 per cent, repayments are in equal instalments from 2011 to 2017.*
- *$77.4 million (2006: $88.7 million), being USD 50 million Senior Unsecured Notes, maturing in 2014 at 5.70 per cent, and USD 15.0 million Senior Unsecured Notes, maturing in 2019 at 6.05 per cent.*

(4) $69.3 million (2006: $79.3 million), being CAD 15 million (2006: CAD 18 million) Senior Unsecured Notes, maturing 2012 at 7.59 per cent, repayments are in equal instalments from 2006 to 2012, and CAD 49 million Senior Unsecured Notes, maturing 2017 at 8.01 per cent, repayments are in equal instalments from 2011 to 2017. The current portion of this facility is shown in Note 18.

(5) $242.6 million (2006: $253.6 million), being GBP 57.4 million Senior Unsecured Notes, maturing in 2014 at 6.67 per cent, and GBP 43.8 million Senior Unsecured Notes, maturing in 2019 at 6.48 per cent.

(6) As at 30 June 2007, the unused portions of both current and non–current facilities totalled $342.3 million (2006: $396.6 million).

	Consolidated		PaperlinX Limited	
	2007 $m	2006 $m	2007 $m	2006 $m
Note 24. Deferred tax liabilities				
Deferred income tax	48.9	43.4	–	0.5
Total deferred tax liabilities	48.9	43.4	–	0.5
Deferred tax liabilities comprise of the following:				
Prepayments claimed	–	1.1	–	–
Receivables deferred for tax	–	0.5	–	0.5
Property, plant and equipment	23.5	17.1	–	–
Intangibles	21.9	20.5	–	–
Other	3.5	4.2	–	–
	48.9	43.4	–	0.5

	Consolidated		PaperlinX Limited	
	2007 $m	2006 $m	2007 $m	2006 $m
Note 25. Employee benefits				
Employee benefits [1]	37.8	37.3	–	–
Total employee benefits	37.8	37.3	–	–
The aggregate employee benefits at balance date are:				
Current – refer Note 20	47.1	41.4	–	–
Non–current – refer above in Note 25	37.8	37.3	–	–
Total employee benefits	84.9	78.7	–	–

(1) Included in the above employee benefits of the consolidated entity are Directors' retiring allowances of $2.3 million (2006: $2.2 million), which are disclosed in detail in the Directors' Report. These benefits only relate to Non-executive Directors of PaperlinX Limited and are in accordance with the Company's Constitution and with agreements between the Company and individual Directors and have now been frozen. No liability exists for Directors' retiring allowances in respect of Directors in the full-time employment of PaperlinX Limited or its subsidiaries.

	Consolidated		PaperlinX Limited	
	2007 $m	2006 $m	2007 $m	2006 $m
Note 26. Provisions				
Other [1]	7.6	10.9	–	–
Total provisions	7.6	10.9	–	–
The aggregate other provisions at balance date are: [2]				
Current – refer Note 21	12.5	13.8	–	–
Non–current – refer above in Note 26	7.6	10.9	–	–
Total other provisions	20.1	24.7	–	–
(1) The reconciliation of the movement in other provisions is as follows:				
Balance at beginning of year	10.9	3.2	–	–
(Released)/provided during the year	(1.2)	3.2	–	–
Paid during the year	(0.3)	(2.5)	–	–
Transfers	0.3	5.3	–	–
Foreign currency movements	(0.3)	1.3	–	–
Acquisition of subsidiaries/businesses	–	0.4	–	–
Disposal of subsidiaries/businesses	(1.8)	–	–	–
	7.6	10.9	–	–

(2) Included in the above aggregate other provisions of the consolidated entity are provisions relating to surplus leased premises of $5.3 million (2006: $5.1 million), and self–insurance for workers compensation in Tasmania and Victoria of $7.6 million (2006: $6.3 million).

	Consolidated		PaperlinX Limited	
	2007 $m	2006 $m	2007 $m	2006 $m
Note 27. Deferred income				
Government grants	0.5	–	–	–
Total deferred income	0.5	–	–	–

	Consolidated		PaperlinX Limited	
	2007 $m	2006 $m	2007 $m	2006 $m
Note 28. Issued capital				
Issued and paid-up share capital				
448,737,560 ordinary shares	1,703.5	1,694.2	1,703.5	1,694.2
(2006: 446,182,209 ordinary shares)				
Employee share plan loans	(2.0)	(2.3)	(2.0)	(2.3)
Total issued capital	1,701.5	1,691.9	1,701.5	1,691.9
Movement in ordinary share capital:				
Balance at beginning of year	1,694.2	1,694.2	1,694.2	1,694.2
180,000 (2006: Nil) shares issued at $3.13 each pursuant to options exercised	0.6	–	0.6	–
32,500 (2006: 10,000) shares issued at $3.32 each pursuant to options exercised	0.1	–	0.1	–
25,000 (2006: Nil) shares issued at $3.50 each pursuant to options exercised	0.1	–	0.1	–
1,585,971 (2006: Nil) shares issued at $3.50 each pursuant to the dividend reinvestment plan for final 2006 dividend	5.5	–	5.5	–
731,880 (2006: Nil) shares issued at $4.09 each pursuant to the dividend reinvestment plan for interim 2007 dividend	3.0	–	3.0	–
Balance at end of year	1,703.5	1,694.2	1,703.5	1,694.2
Movement in employee share plan loans:				
Balance at beginning of year	(2.3)	(2.7)	(2.3)	(2.7)
Repayments	0.3	0.4	0.3	0.4
Balance at end of year	(2.0)	(2.3)	(2.0)	(2.3)

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 PaperlinX Limited, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

Employee shares

PaperlinX Limited has in prior years issued employee shares at a discount to the market price, on the date of the issue, in accordance with the terms of the Employee Share Purchase Plan as approved by shareholders. Each of the share plan issues is at a varying discount to the market price on the date of the issue in order to comply with the local legislative requirements, and to ensure that the issues in each country are approximately equivalent in value to employees.

The granting of employee shares was generally subject to specific performance criteria being achieved – refer Note 1(7). This plan ceased in 2004 and no future issuances of shares will be made under this plan.

Options

- During the year, the following options over shares were exercised:
  180,000 options, which had been granted on 14 April 2000 at an exercise price of $3.13, were exercised between 30 October 2006 and 27 February 2007. The market price of the shares was between $4.04 and $4.22.
  32,500 options, which had been granted on 20 November 2000 at an exercise price of $3.32, were exercised between 30 October 2006 and 27 February 2007. The market price of the shares was between $4.04 and $4.22.
  25,000 options, which had been granted on 19 April 2001 at an exercise price of $3.50, were exercised on 16 October 2006. The market price of the shares was $3.67.
  This resulted in the aggregate issue of 237,500 shares.
- During the prior year, the following options over shares were exercised:
  10,000 options, which had been granted on 20 November 2000 at an exercise price of $3.32, were exercised on 13 December 2005. The market price of the shares was $3.55.
  This resulted in the aggregate issue of 10,000 shares.
- During the year, the following options lapsed:
  10,000 options, which had been granted on 13 September 2001 at an exercise price of $4.12.
  4,000 options, which had been granted on 20 September 2002 at an exercise price of $5.13.
  75,120 performance options, which had been granted on 22 December 2004 at an exercise price of $4.85.
  111,610 performance options, which had been granted on 2 September 2005 at an exercise price of $2.77.
  30,850 performance options, which had been granted on 5 September 2006 at an exercise price of $3.11.
- During the prior year, the following options lapsed:
  10,000 options, which had been granted on 14 April 2000 at an exercise price of $3.13.
  12,500 options, which had been granted on 20 November 2000 at an exercise price of $3.32.
  210,000 options, which had been granted on 19 April 2001 at an exercise price of $3.50.
  30,400 options, which had been granted on 13 September 2001 at an exercise price of $4.12.
  15,000 options, which had been granted on 13 September 2001 at an exercise price of $4.18.
  26,000 options, which had been granted on 20 September 2002 at an exercise price of $5.13.
  17,610 performance options, which had been granted on 30 November 2004 at an exercise price of $4.85.
  33,880 performance options, which had been granted on 2 September 2005 at an exercise price of $2.77

Note 28. **Issued capital** (continued)

Options

During the year, PaperlinX Limited granted options over ordinary shares as follows:

- Employee Share and Option Plan

  1,121,240 performance options, over 1,121,240 ordinary shares in the grant date of 5 September 2006 at an exercise price of $3.11 per option, which was the weighted average price in the Australian Stock Exchange for the 30 days prior to 30 June 2006.

  150,000 options, over 150,000 ordinary shares on the grant date of 4 September 2006 at an exercise price of $3.11 per option, which was the weighted average price on the Australian Stock Exchange for the 30 days prior to 30 June 2006.

During the prior year, PaperlinX Limited granted options over ordinary shares as follows:

- Employee Share and Option Plan

  1,022,140 performance options over 1,022,140 ordinary shares on the grant date of 2 September 2005 at an exercise price of $2.77 per option, which was the weighted average price on the Australian Stock Exchange for the 30 days prior to 30 June 2005.

  9,720 performance options over 9,720 ordinary shares on the grant date of 2 September 2005 at an exercise price of $4.85 per option, which was the weighted average price on the Australian Stock Exchange for the 30 days prior to 30 June 2004.

  150,000 options over 150,000 ordinary shares on the grant date of 28 February 2006 at an exercise price of $2.77 per option, which was the weighted average price on the Australian Stock Exchange for the 30 days prior to 30 June 2005.

At reporting date, there are 4,354,320 (2006: 3,552,160) unissued shares of PaperlinX Limited which are under option whose exercise is subject to the satisfaction of the terms of the option agreements. The details of the options on issue at balance date are as follows:

285,000 (2006: 465,000)	at	$3.13 at the grant date of 14 April 2000
162,500 (2006: 195,000)	at	$3.32 at the grant date of 20 November 2000
375,000 (2006: 400,000)	at	$3.50 at the grant date of 19 April 2001
218,700 (2006: 228,700)	at	$4.12 at the grant date of 13 September 2001
50,000 (2006: 50,000)	at	$4.18 at the grant date of 13 September 2001
166,000 (2006: 170,000)	at	$5.13 at the grant date of 20 September 2002
150,000 (2006: 150,000)	at	$4.76 at the grant date of 18 June 2003
150,000 (2006: 150,000)	at	$4.64 at the grant date of 26 November 2003
530,080 (2006: 605,200)	at	$4.85 at the grant date of 22 December 2004
876,650 (2006: 988,260)	at	$2.77 at the grant date of 2 September 2005
150,000 (2006: 150,000)	at	$2.77 at the grant date of 28 February 2006
1,090,390 (2006: Nil)	at	$3.11 at the grant date of 5 September 2006
150,000 (2006: Nil)	at	$3.11 at the grant date of 4 September 2006

	Consolidated	
	2007 Number	**2006 Number**
Outstanding at the beginning of the period	3,552,160	2,735,690
Lapsed during the period	(231,580)	(355,390)
Granted during the period	1,271,240	1,181,860
Exercised	(237,500)	(10,000)
Outstanding at the end of the period	4,354,320	3,552,160

The weighted average exercise price for options at the end of the financial year was $3.53 (2006: $3.67).

Employee share plan loans

Loans to executive directors, officers and employees in the full-time employment of the consolidated entity are made in accordance with a scheme to provide financial assistance to enable executive directors and employees of the consolidated entity to purchase shares in PaperlinX Limited as approved by PaperlinX Limited shareholders. These loans are interest free and are reduced either by the dividends paid on the shares so issued or in certain instances in accordance with an agreed schedule of repayments which does not exceed three years.

	Consolidated		PaperlinX Limited	
	2007 $m	2006 $m	2007 $m	2006 $m
Note 29. Reserves				
Reserve for own shares				
Balance at beginning of year	(9.7)	(9.7)	–	–
Balance at end of year	(9.7)	(9.7)	–	–
Exchange fluctuation reserve				
Balance at beginning of year	(35.3)	(62.0)	–	–
Exchange fluctuation on translation of overseas subsidiaries	(42.9)	26.7	–	–
Balance at end of year	(78.2)	(35.3)	–	–
Total reserves	(87.9)	(45.0)	–	–

Nature and purpose of reserves

Reserve for own shares

The reserve for own shares represents the value of shares held by an equity compensation plan that the consolidated entity is required to include in the consolidated financial statements. This reserve will be reversed against share capital when the underlying shares vest in the employee. No gain or loss is recognised in profit or loss on the purchase, sale issue or cancellation of the consolidated entity's own equity instruments. The number of shares purchased is disclosed in Note 39.

Exchange fluctuation reserve

The translation 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 1(12).

	Consolidated		PaperlinX Limited	
	2007 $m	2006 $m	2007 $m	2006 $m
Note 30. Retained profits				
Balance at beginning of year	(38.2)	(58.1)	9.9	59.2
Adjustment to comply with AASB 139 Financial Instruments: Recognition and Measurement	–	(0.3)	–	–
Net profit attributable to equity holders of PaperlinX Limited	80.1	65.4	41.3	28.8
Employee share options and rights	1.6	2.9	–	–
Actuarial gains on defined benefit plans	20.6	30.0	–	–
Dividends paid on PaperlinX Limited ordinary shares	(42.5)	(78.1)	(42.5)	(78.1)
Distributions provided on PaperlinX step-up preference securities	(6.6)	–	–	–
Total retained profits	15.0	(38.2)	8.7	9.9
Note 31. PaperlinX step-up preference securities				
Balance at beginning of year	–	–	–	–
Proceeds on issue	285.0	–	–	–
Issue costs	(8.6)	–	–	–
Total PaperlinX step-up preference securities	276.4	–	–	–

The PaperlinX SPS Trust was established during the year 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 Trustee and are paid on a floating rate, unfranked, non-cumulative, discretionary and semi-annual basis. Distributions are therefore only paid after declaration by the Trustee. 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, PaperlinX Limited will be prohibited from paying dividends or making other distributions on any class of its share capital until such time as scheduled distributions are paid by the Trust. The first distribution date for the PSPS was 30 June 2007 and the amount provided at that date was paid on 2 July 2007 and is scheduled on a six monthly basis thereafter. The distribution rate is the 180 day bank bill swap rate plus a margin of 2.40 per cent. The first periodic remarketing date is 30 June 2012 and provides the issuer with the following options:

- conduct a remarketing process to establish a new margin and add or adjust such other terms of the PaperlinX SPS as it may request, to apply until the next remarketing date;
- realise PaperlinX SPS (redeem for cash, exchange for PaperlinX Limited ordinary shares or resell to a third party); or
- begin paying distributions at the step-up margin on the PaperlinX SPS.

	Consolidated		PaperlinX Limited	
	2007 $m	**2006 $m**	**2007 $m**	**2006 $m**
Note 32. Minority interest				
Issued capital	0.1	–	–	–
Total minority interest	0.1	–	–	–
Note 33. Capital expenditure commitments				
Capital expenditure contracted but not provided for:				
• Not later than one year	101.2	52.5	–	–
• Later than one year but not later than five years	0.3	–	–	–
Total capital expenditure commitments	101.5	52.5	–	–
Note 34. Lease commitments				
Finance lease liability				
Lease expenditure contracted and provided for:				
• Not later than one year	0.1	0.3	–	–
• Later than one year but not later than five years	0.3	0.3	–	–
Minimum lease payments	0.4	0.6	–	–
Less: Future finance charges	–	–	–	–
Total finance lease liability	0.4	0.6	–	–
Current lease liabilities – refer Note 18	0.3	0.5	–	–
Non-current lease liabilities – refer Note 23	0.1	0.1	–	–
Total finance lease liability	0.4	0.6	–	–

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

	Consolidated		PaperlinX Limited	
	2007 $m	**2006 $m**	**2007 $m**	**2006 $m**
Operating lease commitments				
Lease expenditure contracted but not provided for:				
• Not later than one year	89.5	93.5	–	–
• Later than one year but not later than five years	228.4	187.3	–	–
• Later than five years	154.4	124.2	–	–
Total operating lease commitments	472.3	405.0	–	–

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.

	Consolidated		PaperlinX Limited	
	2007 $m	2006 $m	2007 $m	2006 $m
Note 35. Other expenditure commitments				
Expenditure contracted but not provided for covering supplies and services to be provided:				
• Not later than one year	41.9	47.6	–	–
• Later than one year but not later than five years	106.8	109.6	–	–
• Later than five years	159.2	160.2	–	–
Total other expenditure commitments	307.9	317.4	–	–
Note 36. Contingent liabilities				
Contingent liabilities arising in respect of related bodies corporate:				
• Bank guarantees (government)	–	–	8.9	9.6
• Bank guarantees (trade)	12.5	7.3	4.1	–
• Loan guarantees	–	–	459.4	501.9
Total contingent liabilities	12.5	7.3	472.4	511.5

The bank guarantees (government), the beneficiaries of which are government departments, are in relation to the specific requirement of self-insurance licence for workers compensation in Australia.

The bank guarantees (trade), the beneficiaries of which are third parties, are primarily in relation to the importation of products.

The loan guarantees of $459.4 million (2006: $501.9 million) relate to the following items:

- $66.7 million (2006: $76.5 million), being USD 56.0 million Senior Unsecured Notes issued by subsidiary companies.
- $72.7 million (2006: $83.0 million), being CAD 64.0 million (2006: CAD 67.0 million) Senior Unsecured Notes issued by subsidiary companies.
- $77.4 million (2006: $88.7 million), being USD 65.0 million Senior Unsecured Notes issued by subsidiary companies.
- $242.6 million (2006: $253.6 million), being GBP 101.2 million Senior Unsecured Notes issued by subsidiary companies.

Capital expenditure is incurred annually to enhance environmental performance. There can be no assurance that material new expenditure will not be required as a result of new information or regulatory requirements with respect to known sites or identification of new remedial obligations at other sites.

Under the terms of the ASIC Class Order 98/1418 dated 13 August 1998 (as amended) PaperlinX Limited and certain subsidiaries have entered into approved deeds for the cross guarantee of liabilities with those subsidiaries identified in Note 42.

	Consolidated		PaperlinX Limited	
	2007 $m	2006 $m	2007 $m	2006 $m
Note 37. Auditors' remuneration				
Amounts received or due and receivable for audit services by:				
• Auditors of the Company	4.660	4.675	–	–
Amounts received or due and receivable for other services by:				
• Auditors of the Company				
Other assurance services	0.085	0.040	–	–
Taxation services	0.206	0.188	–	–
Other services	0.197	0.029	–	–
Divestment advisory services	–	0.545	–	–
Total auditors' remuneration	5.148	5.477	–	–

The auditors of the Company are KPMG. 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.

Note 38. Key management personnel

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated, were key management personnel for the entire period. In accordance with disclosure requirements, Non-Executive Directors are deemed to be key management personnel.

1 Non-Executive Directors

D E Meiklejohn	Chairman
A F Guy	Director
J W Hall	Director (appointed 16 May 2007)
B J Jackson	Director
N L Scheinkestel	Director
D A Walsh	Director
L J Yelland	Director

2 Executive Directors

T P Park	Managing Director & Chief Executive Officer

3 Executives

C B Creighton	President North America
E de Voogd	Chief Executive Officer PaperlinX Europe
M J Fothergill	Group General Manager Merchanting Australasia
D M Goldthorp	Former Executive General Manager Corporate Development (resigned 1 July 2006)
J A Henneberry	Executive General Manager Australian Paper
D M Lamont	Chief Financial Officer
R F O'Brien	Executive General Manager Human Resources

Key management personnel compensation for the period is as follows:

	Consolidated		PaperlinX Limited	
	2007 $	2006 $	2007 $	2006 $
Short-term benefits	9,461,239	8,461,853	–	–
Post-employment benefits	1,103,795	1,142,460	–	–
Equity plans	1,091,351	494,180	–	–
Termination benefits	172,500	1,113,172	–	–
	11,828,885	11,211,665	–	–

(b) Individual directors and executives' compensation contracts

Disclosures of remuneration policies, service contracts and details of remuneration, are included in the Remuneration Report as set out on pages 36 to 43 of the Directors' Report.

(c) Maximum potential shares – executive Directors and executives

The maximum number of shares that may be earned under the Long Term Incentive Plan (comprising the performance share plan and the performance rights plan) by executive Directors and executives over a specified period subject to the satisfaction of specified performance criteria is as follows:

	Maximum potential entitlement		
	At 1 July 2006	Movement [1]	At 30 June 2007
Executive Directors			
T P Park	1,080,645	(325,075)	755,570
Executives			
C B Creighton	134,160	40,430	174,590
E de Voogd	148,530	38,030	186,560
M J Fothergill	130,870	31,180	162,050
D M Goldthorp [3]	142,400	(142,400)	–
J A Henneberry	–	73,110	73,110
D M Lamont	–	110,140	110,140
R F O'Brien	115,890	28,010	143,900

In the year ended 30 June 2007, none of those shares were vested to any executive Director or executive.

Note 38. Key management personnel (continued)

	Maximum potential entitlement		
	At 1 July 2005	Movement [1]	At 30 June 2006
Executive Directors			
T P Park	690,215	390,430	1,080,645
D G Abotomey [2]	195,360	(195,360)	–
Executives			
C B Creighton	162,560	(28,400)	134,160
E de Voogd	168,873	(20,343)	148,530
M J Fothergill	158,420	(27,550)	130,870
D M Goldthorp [3]	169,980	(27,580)	142,400
D M Lamont	–	–	–
R F O'Brien	152,560	(36,670)	115,890

(1) Includes performance shares/rights that have lapsed as at the respective balance date.
(2) Resigned as a Director effective 31 December 2005 and employment ceased 8 July 2006.
(3) Employment ceased 1 July 2006.

(d) Loans to key management personnel and their related parties
PaperlinX Limited has not made any loan to any key management personnel and their related parties other than those in accordance with the terms of the Employee Share Purchase Plan – Refer Note 28. No individual loan is greater than $100,000.

The reconciliation of the aggregate movement in the Employee Share Purchase Plan loans to the key management personnel of the company and the consolidated entity is as follows:

	At 1 July 2006 $	Repayments $	At 30 June 2007 $
Executive Directors	–	–	–
Executives (number included at the end of the year 1)	29,549	(2,409)	27,140

	At 1 July 2005 $	Repayments $	At 30 June 2006 $
Executive Directors (number included at the end of the year 0)	530	(530)	–
Executives (number included at the end of the year 2)	33,248	(3,699)	29,549

Note 38. **Key management personnel** (continued)

(e) Shareholdings of key management personnel

The reconciliation of the movement in the relevant interest in the share capital of PaperlinX Limited, held by key management personnel, excluding the potential entitlement amounts listed above, is as follows:

	At 1 July 2006	Purchased	Ceased employment	Earned as remuneration	Exercise of options	At 30 June 2007	Shares held nominally 30 June 2007
Directors							
D E Meiklejohn	67,612	30,000	–	–	–	97,612	–
T P Park	70,000	30,000	–	–	–	100,000	–
D G Abotomey (1)	63,456	–	(63,456)	–	–	–	–
A F Guy	58,256	21,792	–	–	–	80,048	–
J W Hall (2)	–	7,000	–	–	–	7,000	–
B J Jackson	40,980	–	–	–	–	40,980	–
N L Scheinkestel	36,360	2,572	–	–	–	38,932	–
D A Walsh	20,898	10,000	–	–	–	30,898	–
L J Yelland	32,672	2,788	–	–	–	35,460	–
Executives							
C B Creighton	76,700	–	–	–	–	76,700	–
E de Voogd	–	–	–	–	–	–	–
M J Fothergill	–	–	–	–	–	–	–
D M Goldthorp (3)	64,726	–	(64,726)	–	–	–	–
J A Henneberry	–	–	–	–	–	–	–
D M Lamont	–	–	–	–	–	–	–
R F O'Brien	5,000	–	–	–	–	5,000	–
Total:	536,660	104,152	(128,182)	–	–	512,630	–

No shares were granted to key management personnel during the reporting period as compensation.

	At 1 July 2005	Purchased	Ceased employment	Earned as remuneration	Exercise of options	At 30 June 2006	Shares held nominally 30 June 2006
Directors							
D E Meiklejohn	47,612	20,000	–	–	–	67,612	–
T P Park	40,000	30,000	–	–	–	70,000	–
D G Abotomey (1)	63,456	–	–	–	–	63,456	–
A F Guy	52,848	5,408	–	–	–	58,256	–
B J Jackson	26,315	14,665	–	–	–	40,980	–
N L Scheinkestel	36,360	–	–	–	–	36,360	–
D A Walsh	20,898	–	–	–	–	20,898	–
L J Yelland	19,304	13,368	–	–	–	32,672	–
Executives							
C B Creighton	76,700	–	–	–	–	76,700	–
E de Voogd	–	–	–	–	–	–	–
M J Fothergill	–	–	–	–	–	–	–
D M Goldthorp	64,726	–	–	–	–	64,726	–
D M Lamont	–	–	–	–	–	–	–
R F O'Brien	–	5,000	–	–	–	5,000	–
Total:	448,219	88,441	–	–	–	536,660	–

(1) Resigned as a Director effective 31 December 2005 and employment ceased 8 July 2006.
(2) Appointed 16 May 2007.
(3) Employment ceased 1 July 2006.

Note 38. Key management personnel (continued)

(f) Options holdings of key management personnel

The options are exercisable subject to the satisfaction of the terms of the option agreement – Refer Note 28.

The reconciliation of the movement in the equity compensation in the form of options for the key management personnel for the year is as follows:

				Maximum potential entitlement
	At 1 July 2006	Granted as compensation (1) (2)	At 30 June 2007	Vested and exercisable at 30 June 2007
Executive Directors				
T P Park	200,000	–	200,000	–
Executives				
C B Creighton	155,740	26,950	182,690	66,300
E de Voogd	249,030	25,350	274,380	150,000
M J Fothergill	137,250	20,780	158,030	50,000
D M Goldthorp	269,940	(269,940) (6)	–	–
J A Henneberry	–	198,740	198,740	–
D M Lamont	150,000	73,430	223,430	–
R F O'Brien	227,260	18,680	245,940	150,000

				Maximum potential entitlement
	At 1 July 2005	Granted as compensation (1) (2)	At 30 June 2006	Vested and exercisable at 30 June 2006
Executive Directors				
T P Park	90,280	109,720	200,000	–
D G Abotomey (3) (4)	276,790	(41,790) (5)	235,000	235,000
Executives				
C B Creighton	100,490	55,250	155,740	66,300
E de Voogd	186,850	62,180	249,030	–
M J Fothergill	82,810	54,440	137,250	50,000
D M Goldthorp	208,330	61,610	269,940	175,000
D M Lamont	–	150,000	150,000	–
R F O'Brien	177,520	49,740	227,260	150,000

(1) The details of options granted during the year are detailed in Note 28.
(2) Includes performance options that have lapsed as at 30 June.
(3) Options issued prior to being appointed a Director.
(4) Resigned as a Director effective 31 December 2005 and employment ceased 8 July 2006.
(5) Lapsed upon termination of employment.
(6) Lapsed 94,940 on termination of employment on 1 July 2006 and subsequently exercised 175,000.

Note 39. Employee share options and plans

The consolidated entity maintains an Employee Share and Option Plan (ESOP).

The ESOP includes the following performance plans:

- Performance Share Plan
- Performance Rights Plan
- Performance Options Plan

All shares issued under the ESOP on exercise of options or termination of employment and all options granted under the ESOP are detailed in Note 28.

Performance Share Plan

PaperlinX Limited has offered to certain senior management, the ability to receive shares for $Nil consideration at a date in the future subject to specific performance criteria being achieved.

The following shares have been purchased 'on market' and are currently held in trust:

- 2003/2004 – on 27 August 2003, 4 September 2003 and 11 March 2004, 454,262 shares, 1,689 shares and 534,333 shares respectively at a cost of $4.9 million.
- 2002/2003 – on 20 November 2002 and 27 November 2002, 183,049 shares and 810,000 shares respectively at a cost of $4.8 million.

In the event that the specified performance criteria are not fully achieved, the number of shares received by an individual will be proportionally reduced. Any such shares retained in the trust are available to satisfy future issues under the ESOP.

The aggregate amounts of the above items are recorded in the balance sheet as reserve for own shares. The shares are held in trust until determination of the specified performance criteria. The voting rights attached to the shares are held by the trust, and the dividends attached to the shares are distributable to the individual executives on advice from the Board.

The shares purchased have an aggregate fair value of $7.4 million at 30 June 2007 (2006: $6.2 million).

The reconciliation of the number of shares purchased by the plan to date that may be earned as equity compensation by employees, including Executive Directors and executives, over a three-year period subject to the satisfaction of specified performance criteria is as follows:

	At 1 July 2006	Distributed on	Purchased	At 30 June 2007
Balance	1,989,733	–	400	1,990,133

None of the shares held by the trust at 30 June 2007 have vested.

	At 1 July 2005	Distributed on	Purchased	At 30 June 2006
Balance	1,986,733	–	3,000	1,989,733

None of the shares held by the trust at 30 June 2006 have vested.

Performance Rights Plan

PaperlinX Limited has offered to certain senior management rights 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. The value of the right is expensed to profit over the applicable measurement period.

During the year, the following issues of rights were made:

- to receive a maximum of 2,734,060 options over 2,734,060 shares at an exercise price of $Nil (grant date 27 August 2006). The fair value at the date of the grant was $2.52 per option.

At 30 June 2007, the aggregate issues of rights are:

- to receive a maximum of 2,578,040 options over 2,578,040 shares at an exercise price of $Nil (grant date 27 August 2006). The fair value at the date of the grant was $2.52 per option.
- to receive a maximum of 2,241,310 options over 2,241,310 shares at an exercise price of $Nil (grant date 22 August 2005). The fair value at the date of the grant was $2.24 per option.
- to receive a maximum of 1,079,235 options over 1,079,235 shares at an exercise price of $Nil (grant date 15 October 2004). The fair value at the date of the offer was $3.27 per option.

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

The details of the above offers which have been made to executive Directors of PaperlinX Limited and executives are set out in Note 38.

Note 39. Employee share options and plans (continued)

Performance Option Plan

PaperlinX Limited has issued to certain senior management, options 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 using the Monte Carlo simulation model. The value of the option is expensed to profit over the applicable measurement period.

During the year, the following issues were made:
- a maximum of 1,121,240 options over 1,121,240 shares at an exercise price of $3.11 (grant date 5 September 2006). The fair value at the date of the grant was $0.94 per option.

At 30 June 2007, aggregate issues are:
- a maximum of 1,090,390 options over 1,090,390 shares at an exercise price of $3.11 (grant date 5 September 2006). The fair value at the date of the grant was $0.94 per option.
- a maximum of 876,650 options over 876,650 shares at an exercise price of $2.77 (grant date 2 September 2005). The fair value at the date of the offer was $0.60 per option.
- a maximum of 530,080 options over 530,080 shares at an exercise price of $4.85 (grant date 22 December 2004). The fair value at the date of the grant was $0.46 per option.

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

The details of the above offers which have been made to executive Directors of PaperlinX Limited and executives are set out in Note 38.

Note 40. Segment reporting

Business 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 and Paper Trading	International paper merchant and paper trader supplying the printing and publishing industry and office supplies.
Communication Papers	Manufacture of office papers, graphic papers, converting papers and other speciality and coated papers.
Packaging Papers	Manufacture of packaging papers and industrial papers. Products include kraft liners, sack, kraft and light weight bag and industrial papers, sold predominantly to converting customers.
Corporate	Corporate operations.

Geographic segments

The consolidated entity comprises the following main geographic segments. In presenting the information on the basis of geographic segments, segment sales are based on the geographic location of customers. Segment assets are based on the geographic location of the assets.

Segment	Description of operations
Australia and New Zealand	Manufacture of communication papers and packaging papers, paper merchanting and paper trading.
North America	Paper merchanting and paper trading.
Europe	Paper merchanting and paper trading.
Asia	Paper merchanting and paper trading.

Note 40. Segment reporting (continued)

	Consolidated			
	Segment result [3] **$m**	**Segment revenue $m**	**Segment assets $m**	**Segment liabilities $m**
For the year ended 30 June 2007				
Business segments				
Merchanting and Paper Trading				
• Continuing Operations	204.0	7,134.2	3,112.0	1,158.2
• Discontinued Operations	1.2	25.2	–	–
	205.2	7,159.4	3,112.0	1,158.2
Communication Papers	(0.4)	761.2	800.6	152.9
Packaging Papers	10.6	255.1	348.1	76.3
Australian Paper	10.2	1,016.3	1,148.7	229.2
Corporate	(29.9)	–	128.8	35.3
Profit before net interest and tax	185.5			
Net interest [1]	(70.9)			
Profit before tax	114.6			
Tax expense [1]	(34.4)			
Profit for the period	80.2			
Inter-segment sales [2]		(336.4)		
Unallocated assets (deferred tax balances)			52.9	
Unallocated liabilities [6]				1,114.6
Total	80.2	7,839.3	4,442.4	2,537.3

	Consolidated			
	Segment result [3] **$m**	**Segment revenue $m**	**Segment assets $m**	**segment liabilities $m**
For the year ended 30 June 2006				
Business segments				
Merchanting and Paper Trading				
• Continuing Operations	187.6	6,661.8	3,208.3	1,166.0
• Discontinued Operations	1.3	29.5	19.6	0.9
	188.9	6,691.3	3,227.9	1,166.9
Communication Papers	(8.6)	779.2	734.1	129.1
Packaging Papers	5.3	241.8	298.4	41.6
Australian Paper	(3.3)	1,021.0	1,032.5	170.7
Corporate	(33.2)	–	55.6	32.7
Profit before net interest and tax	152.4			
Net interest [1]	(65.1)			
Profit before tax	87.3			
Tax expense [1]	(21.9)			
Profit for the period	65.4			
Inter-segment sales [2]		(340.7)		
Unallocated assets (deferred tax balances)			74.4	
Unallocated liabilities [6]				1,411.4
Total	65.4	7,371.6	4,390.4	2,781.7

Note 40. Segment reporting (continued)

	Consolidated		
	Segment revenue $m	Segment assets $m	Capital expenditure $m
For the year ended 30 June 2007			
Geographic segments			
Australia and New Zealand	1,320.1	1,645.3	169.8
North America	1,489.3	531.1	9.5
Europe	4,829.2	2,154.2	46.3
Asia	200.7	58.9	0.1
Unallocated assets (deferred tax assets)		52.9	
Total	7,839.3	4,442.4	225.7

	Consolidated		
	Segment revenue $m	Segment assets $m	Capital expenditure $m
For the year ended 30 June 2006			
Geographic segments			
Australia and New Zealand	1,363.6	1,471.2	76.3
North America	1,240.4	591.9	21.4
Europe	4,581.3	2,190.7	23.9
Asia	186.3	62.2	0.4
Unallocated assets (deferred tax assets)		74.4	
Total	7,371.6	4,390.4	122.0

	Consolidated		
	Depreciation & amortisation $m	Non-cash expenses $m	Capital expenditure $m
For the year ended 30 June 2007			
Business segments			
Merchanting and Paper Trading			
• Continuing operations	37.1	(7.4)	57.3
Communication Papers	31.4	12.2	137.5
Packaging Papers	22.0	3.3	29.5
Australian Paper	53.4	15.5	167.0
Corporate	10.5	2.7	1.4
Total	101.0	10.8	225.7

	Consolidated		
	Depreciation & amortisation $m	Non-cash expenses $m	Capital expenditure $m
For the year ended 30 June 2006			
Business segments			
Merchanting and Paper Trading			
• Continuing operations	40.4	(4.4)	47.8
Communication Papers	34.2	7.4	57.7
Packaging Papers	18.1	3.1	13.1
Australian Paper	52.3	10.5	70.8
Corporate	12.0	4.4	3.4
Total	104.7	10.5	122.0

Note 40. Segment reporting (continued)

(1) Interest and income tax expense are not allocated internally to the segments but held centrally.
(2) Inter-segment sales comprise sales of paper, which are priced on an arm's length basis.
(3) The segment result for the individual business segments is the profit before net interest and income tax.
(4) The non-cash expenses above comprise the following items:

	2007 $m	2006 $m
• *Provisions charge – refer Note 5(b)*	20.1	34.4
• *Net profit on disposal of property, plant and equipment – refer Note 3*	(8.1)	(24.4)
• *Impact of unrealised (profit)/loss in inventories – refer Statements of Cash Flows*	(1.2)	0.5
	10.8	10.5
(5) Capital Expenditure above comprises the following items:		
• *Acquisition of property, plant, equipment and intangibles- refer Statements of Cash Flows*	177.4	101.4
• *Movement in accruals*	29.3	0.6
	206.7	102.0
• *Goodwill in relation to acquisitions of subsidiaries – refer Note 42*	14.4	9.1
• *Other intangibles acquired on acquisition of subsidiaries – refer Note 42*	0.2	1.2
• *Property, plant and equipment acquired on acquisition of subsidiaries – refer Note 42*	4.4	9.7
	225.7	122.0
(6) The unallocated segment liabilities comprise the following items:		
• *Current loans and borrowing – refer Note 18*	494.9	221.7
• *Current tax liabilities – refer Note 19*	5.1	9.6
• *Non-current loans and borrowing – refer Note 23*	565.7	1,136.7
• *Non-current deferred tax liabilities – refer Note 24*	48.9	43.4
	1,114.6	1,411.4

Note 41. Employee retirement benefit obligations

The consolidated entity and certain subsidiaries contribute to various plans that provide retirement, death and disability benefits for employees and their dependants. The plans cover company-sponsored plans, industry/union plans and other approved plans.

The following tables set out the details in respect of defined benefit plans only. The defined benefit obligations and the fair value of the assets have been valued by independent actuaries as at the reporting date.

Company sponsored plans
The principal benefits are pensions or lump sums for members on resignation, retirement, death or total and permanent disablement. These benefits are determined on either a defined benefit or defined contribution basis.

Employee contribution rates are either fixed by the rules of the plan or selected by members from a specified range of rates. In addition to legislative requirements, employer companies contribute to the balance of the cost required to fund the benefits as set out in the appropriate plan rules.

There exists a legally enforceable obligation on the employer companies to make such contributions as are required under the rules, but no legal right to benefit in the surplus in the plans.

Where a limitation on the recoupment of surplus exists in any plan, the value of the surplus in that plan is restated as nil.

Government plans
Employer companies participate in government plans, on behalf of certain employees, which provide pension benefits.

There exists a legally enforceable obligation on employer companies to contribute as required by legislation.

Industry/union plans
Employer companies participate in industry and union plans on behalf of certain employees.

These plans operate on a defined contribution basis and provide lump sum benefits for members on resignation, retirement or death.

Employer companies have a legally enforceable obligation to contribute at varying rates to these plans.

Note 41. Employee retirement benefit obligations (continued)

	Consolidated		PaperlinX Limited	
	2007 $m	2006 $m	2007 $m	2006 $m
The amounts recognised in the balance sheet are determined as follows:				
Present value of the defined benefit obligation	528.3	604.0	–	–
Less: Fair value of defined benefit plan assets	(498.3)	(517.8)	–	–
Add: Limitation on recoupment of net surplus positions	8.4	1.6	–	–
Net liability in the balance sheet	38.4	87.8	–	–
The net liability in the balance sheet is disclosed as follows:				
Liabilities	(49.7)	(92.8)	–	–
Assets	11.3	5.0	–	–
Net liability in the balance sheet	(38.4)	(87.8)	–	–
Changes in the present value of the defined benefit obligations are as follows:				
Opening defined benefit obligations	604.0	517.7	–	–
Current service costs	31.9	20.0	–	–
Interest on obligation	32.4	18.7	–	–
Actuarial gains on defined benefit obligations	(41.9)	(26.2)	–	–
Contributions by member	4.3	6.0	–	–
Liabilities assumed in a business combination	4.2	54.7	–	–
Transfer out to external pension provider	(36.2)	–	–	–
Curtailment gains	(13.8)	–	–	–
Exchange differences on foreign plans	(29.8)	28.4	–	–
Benefits paid	(26.8)	(15.3)	–	–
Closing defined benefit obligation	528.3	604.0	–	–
Changes in the fair value of plan assets are as follows:				
Opening fair value of plan assets	517.8	395.5	–	–
Expected return on plan assets	35.8	20.8	–	–
Actuarial gains/(losses) on fair value of plan assets	(5.2)	17.0	–	–
Contributions by employer	22.9	16.8	–	–
Contributions by member	4.3	6.0	–	–
Assets acquired in a business combination	–	53.3	–	–
Transfer out to external pension provider	(26.3)	–	–	–
Exchange differences on foreign plans	(26.1)	23.7	–	–
Benefits paid	(24.9)	(15.3)	–	–
Closing fair value of plan assets	498.3	517.8	–	–
Less: Limitation on recoupment of net surplus position	(8.4)	(1.6)	–	–
	489.9	516.2	–	–
Expense recognised in the income statement:				
Current service costs	31.9	20.0	–	–
Interest on obligation	32.4	18.7	–	–
Expected return on plan assets	(35.8)	(20.8)	–	–
Curtailment gains	(13.8)	–	–	–
	14.7	17.9	–	–
Amount recognised in the statement of recognised income and expense:				
Actuarial gains on defined benefit obligations	41.9	26.2	–	–
Actuarial gains/(losses) on fair value of plan assets	(5.2)	17.0	–	–
Movement in limitation on recoupment of net surplus position	(6.8)	(1.6)	–	–
	29.9	41.6	–	–
Less tax effect, where applicable	(9.3)	(11.6)	–	–
	20.6	30.0	–	–

Note 41. Employee retirement benefit obligations (continued)

Principal actuarial assumptions:

The principal actuarial assumptions at the balance sheet 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.

	Consolidated		PaperlinX Limited	
	2007	**2006**	**2007**	**2006**
Discount rate	4.25% to 5.9%	4.25% to 5.4%	–	–
Salary increase rate	1% to 4.3%	1% to 4%	–	–
Inflation	2% to 3.3%	2% to 3%	–	–
Expected asset return	5.2% to 8%	4% to 7.5%	–	–

Plans as at 30 June 2007

	Plan assets $m	Defined benefit obligation $m	Surplus (deficit) $m
• PaperlinX Superannuation Fund (Australia) – Fund No. 1	37.8	34.5	3.3
• PaperlinX Superannuation Fund (Australia) – Fund No. 2	30.5	25.0	5.5
• PaperlinX New Zealand Superannuation Fund (New Zealand)	0.9	0.9	–
• Coast Paper Pension Plan for Employees (Canada)	8.2	8.4	(0.2)
• Coast Paper Pension Plan for Executive Employees (Canada)	7.9	9.8	(1.9)
• Pension Plan for Employees of PaperlinX Canada (Canada)	58.6	56.0	2.6
• PaperlinX Pensioenfonds (Netherlands)	60.2	60.2	–
• Pension Plan for Buhrmann Ubbens employees with Nationale Nederlanden (Netherlands)	18.9	34.2	(15.3)
• The Howard Smith Paper Group Pension Scheme (UK)	59.5	61.0	(1.5)
• Robert Horne Group Pension Scheme (UK)	198.9	206.1	(7.2)
• Robert Horne Paper (Ireland) Ltd Pension & Life Assurance Scheme (Ireland)	8.5	9.0	(0.5)
• Other post-employment pension plans funded directly by employer companies	–	23.2	(23.2)
	489.9	528.3	(38.4)

Plans as at 30 June 2006

	Plan assets $m	Defined benefit obligation $m	Surplus (deficit) $m
• PaperlinX Superannuation Fund (Australia) – Fund No. 1	37.4	38.7	(1.3)
• PaperlinX Superannuation Fund (Australia) – Fund No. 2	29.8	25.1	4.7
• PaperlinX New Zealand Superannuation Fund (New Zealand)	0.8	0.8	–
• Coast Paper Pension Plan for Employees (Canada)	7.8	8.2	(0.4)
• Coast Paper Pension Plan for Executive Employees (Canada)	7.1	9.2	(2.1)
• Pension Plan for Employees of PaperlinX Canada (Canada)	55.6	55.3	0.3
• PaperlinX Pensioenfonds (Netherlands)	105.4	116.3	(10.9)
• Pension Plan for Buhrmann Ubbens employees with Nationale Nederlanden (Netherlands)	24.3	24.3	–
• The Howard Smith Paper Group Pension Scheme (UK)	54.6	66.6	(12.0)
• Robert Horne Group Pension Scheme (UK)	185.6	228.8	(43.2)
• Robert Horne Paper (Ireland) Ltd Pension & Life Assurance Scheme (Ireland)	7.8	8.2	(0.4)
• Other post-employment pension plans funded directly by employer companies	–	22.5	(22.5)
	516.2	604.0	(87.8)

Note 42. PaperlinX's subsidiaries

PaperlinX Limited and the following specified subsidiary companies 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 PaperlinX Limited and each of these subsidiaries enter into a deed of cross guarantee. The effect of the deed is that PaperlinX Limited 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, PaperlinX Limited 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 PaperlinX Limited is wound up.

The consolidated Income Statements and consolidated Balance Sheets comprising PaperlinX Limited and these wholly-owned subsidiaries, after eliminating all transactions between parties to the deed of cross guarantee, is set out below:

Income statement	**2007 $m**	**2006 $m**
Profit/(loss) before tax	43.1	(59.5)
Tax (expense)/benefit	(1.6)	1.0
Profit/(loss) for the year	41.5	(58.5)
Accumulated losses at the beginning of the year	(197.8)	(70.2)
Employee share options and rights	1.6	2.9
Adjustments to comply with accounting standards	–	(0.3)
Actuarial gains on defined benefit plans	3.6	6.4
Dividends paid	(42.5)	(78.1)
Accumulated losses at the end of the year	(193.6)	(197.8)
Balance sheet		
Current assets		
Cash and cash equivalents	122.1	62.0
Trade and other receivables	261.6	936.8
Inventories	272.4	288.9
Total current assets	656.1	1,287.7
Non-current assets		
Receivables	8.7	4.7
Investments	684.1	688.0
Property, plant and equipment	824.3	714.1
Intangible assets	161.3	169.5
Deferred tax assets	32.3	30.8
Total non-current assets	1,710.7	1,607.1
Total assets	2,366.8	2,894.8
Current liabilities		
Trade and other payables	269.7	232.3
Loans and borrowings	82.0	148.0
Income tax payable	6.1	6.6
Employee benefits	42.4	36.7
Provisions	9.6	10.5
Total current liabilities	409.8	434.1
Non-current liabilities		
Payables	–	1.3
Loans and borrowings	405.5	920.5
Deferred tax liabilities	22.8	17.6
Employee benefits	34.5	33.8
Provisions	4.0	3.1
Deferred income	0.5	–
Total non-current liabilities	467.3	976.3
Total liabilities	877.1	1,410.4
Net assets	1,489.7	1,484.4
Equity		
Issued capital	1,701.6	1,691.9
Reserves	(9.7)	(9.7)
Accumulated losses	(193.6)	(197.8)
	1,498.3	1,484.4
PaperlinX step-up preference securities issue costs	(8.6)	–
Total equity	1,489.7	1,484.4

Note 42. **PaperlinX's subsidiaries** (continued)

During the current year the consolidated entity purchased the following entity:

- Antalis SpA, effective 1 May 2007;

During the prior year, the consolidated entity purchased the following three entities/businesses:

- Cascades Merchanting (Canada), effective 1 March 2006;
- 1st Class Packaging Ltd (United Kingdom), effective 1 March 2006; and
- Euroadria (Italy), effective 1 December 2005.

The operating results of these entities/businesses have been included in the consolidated profit from their effective acquisition dates. The consideration paid and the net assets at the date of acquisition are set out in the table below:

	Consolidated	
	2007 $m	**2006 $m**
Antalis SpA		
• Consideration paid in cash	38.4	–
	38.4	–
Cascades Merchanting business		
• Consideration paid in cash	–	93.4
• Consideration accrued	–	10.8
	–	104.2
1st Class Packaging Ltd		
• Consideration paid in cash	–	7.0
• Consideration accrued	–	0.9
	–	7.9
Euroadria business		
• Consideration paid in cash	–	1.2
Total	38.4	113.3
The consideration paid comprises the following:		
• Consideration paid in cash	38.4	101.6
• Consideration accrued	–	11.7
	38.4	113.3
Net asset acquired:		
Current Assets		
Cash and cash equivalents	14.6	1.3
Trade and other receivables	103.3	69.1
Inventories	32.9	58.8
Non-current assets		
Receivables	0.2	0.2
Property, plant and equipment	4.4	9.7
Intangible assets – other	0.2	1.2
Total Assets	155.6	140.3
Current Liabilities		
Trade and other payables	(103.5)	(34.3)
Loans and borrowings	(18.1)	–
Loans and borrowings – capitalised borrowing costs	–	0.4
Income tax payable	(0.7)	(0.5)
Provisions	(2.1)	–
Non-current liabilities		
Other payables	(7.2)	–
Provisions	–	(1.3)
Employee benefits	–	(0.4)
Total Liabilities	(131.6)	(36.1)
Goodwill on acquisition (1)	14.4	9.1
Total net assets acquired (2)	38.4	113.3

(1) Goodwill arises as it did not meet the criteria of recognition as a separately identifiable intangible asset at the date of the acquisition.
(2) No material fair value adjustments were booked on acquisition.

Note 42. PaperlinX's subsidiaries (continued)

	Consolidated 2007 $m	2006 $m
Cash flow impact:		
Cash paid	38.4	101.6
	38.4	101.6
Cash settlement of amounts accrued in prior period	11.5	0.6
	49.9	102.2
Less cash acquired	(14.6)	(1.3)
Cash flow impact – per Statement of Cash Flows	35.3	100.9

In relation to the above acquisitions, if the acquisition had occurred at the start of the year, consolidated entity revenue and profit after tax on a pro-rata basis would be as follows for those acquisitions that were not merged into existing businesses:

	Consolidated 2007 $m	2006 $m
Antalis SpA		
• Revenue	279.6	–
• Loss after tax	(1.4)	–
Cascades Merchanting		
• Revenue	–	524.5
• Profit after tax	–	3.5
1st Class Packaging Ltd		
• Revenue	–	10.2
• Profit after tax	–	0.8

During the current year the consolidated entity disposed of the following entity:
- Axelium SAS, effective 1 May 2007;

The operating result of this entity is not included in the consolidated profit from its effective disposal date.
The consideration received and the net assets at the date of disposal are set out in the table below:

	Consolidated 2007 $m	2006 $m
Axelium SAS		
• Consideration received in cash	37.3	–
	37.3	–
Net asset disposed:		
Current Assets		
Cash and cash equivalents	5.3	–
Trade and other receivables	45.6	–
Inventories	11.1	–
Non-current assets		
Receivables	0.5	–
Property, plant and equipment	1.3	–
Intangible assets – other	0.2	–
Total assets	64.0	–
Current Liabilities		
Trade and other payables	(18.0)	–
Loans and borrowings	(6.3)	–
Income tax payable	–	–
Non-current liabilities		
Other payables	(0.7)	–
Provisions	(1.7)	–
Employee benefits	–	–
Total Liabilities	(26.7)	–
Total net assets disposed	37.3	–

Note 42. **PaperlinX's subsidiaries** (continued)

	Consolidated 2007 $m	Consolidated 2006 $m
Cash flow impact:		
Cash received	37.3	–
	37.3	–
Cash settlement of amounts accrued in prior period	–	–
	37.3	–
Less cash disposed	(5.3)	–
Cash flow impact – per Statement of Cash Flows	32.0	–

In relation to the above disposals, if the acquisition had occurred at the end of the year, consolidated entity revenue and profit after tax on a pro-rata basis would be as follows:

	Consolidated 2007 $m	Consolidated 2006 $m
Axelium SAS		
• Revenue	181.4	–
• Profit after tax	(6.9)	–

	Note	Country of Incorporation	Consolidated Subsidiary Interest 2007	Consolidated Subsidiary Interest 2006
Paper Australia Pty Ltd	(1)	Australia	100%	100%
Australian Paper Pty Ltd	(1)	Australia	100%	100%
PaperlinX SPS Trust		Australia	100%	–
PaperlinX SPS LLC		Australia	100%	–
PaperlinX Australia Pty Ltd	(1)	Australia	100%	100%
Paperwealth Pty Ltd	(5)	Australia	100%	100%
PP CPC Pty Ltd	(5)	Australia	100%	100%
Empire Office Supplies Pty Ltd	(5)	Australia	100%	100%
PP ED Pty Ltd	(5)	Australia	100%	100%
B J Ball Pty Ltd	(1)	Australia	100%	100%
Besmac Pty Ltd	(5)	Australia	100%	100%
Paper Associates Pty Ltd	(1)	Australia	100%	100%
PPX Australia LP		Australia	100%	100%
PaperlinX (UK) Ltd	(3)	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%
21st Century Paper Ltd	(5)	United Kingdom	100%	100%
Powell & Heilbron (Paper) Ltd	(5)	United Kingdom	100%	100%
Rothera & Brereton (Sheffield) Ltd	(5)	United Kingdom	100%	100%
Michael Jackson (Paper) Ltd	(5)	United Kingdom	100%	100%
Grove Paper Company Ltd	(5)	United Kingdom	100%	100%
Rothera & Brereton Ltd	(5)	United Kingdom	100%	100%
Paramount Paper Sales (London) Ltd	(5)	United Kingdom	100%	100%
Lagan Papers Ltd	(5)	United Kingdom	100%	100%
Dixon & Roe (Birmingham) Ltd	(5)	United Kingdom	100%	100%
Alba Paper Ltd	(5)	United Kingdom	100%	100%
Mason's Paper Holdings Ltd	(5)	United Kingdom	100%	100%
The Mason's Paper Co Ltd	(5)	United Kingdom	100%	100%
Southern Paper Ltd	(5)	United Kingdom	100%	100%
Southern Paper co (Brighton)	(5)	United Kingdom	100%	100%
Donald Murray (Paper) Ltd	(5)	United Kingdom	100%	100%
Donald Murray Paper (Bristol) Ltd	(5)	United Kingdom	100%	100%

Note 42. PaperlinX's subsidiaries (continued)

	Note	Country of Incorporation	Consolidated Subsidiary Interest 2007	2006
Donald Murray Paper (Glasgow) Ltd	(5)	United Kingdom	100%	100%
Donald Murray Paper (Newcastle) Ltd	(5)	United Kingdom	100%	100%
Dixon & Roe Group Ltd	(5)	United Kingdom	100%	100%
Dixon & Roe Ltd	(5)	United Kingdom	100%	100%
Dixon & Roe (Herts) Ltd	(5)	United Kingdom	100%	100%
The Paper Company No. 2 Ltd	(5)	United Kingdom	100%	100%
Hopefair Ltd	(5)	United Kingdom	100%	100%
Jarvis Paper Sales Ltd	(5)	United Kingdom	100%	100%
Reel Papers Ltd	(5)	United Kingdom	100%	100%
Somerset Paper Sales Ltd	(5)	United Kingdom	100%	100%
PaperlinX Netherlands Holdings BV	(3)	Netherlands	100%	100%
BuhrmannUbbens BV		Netherlands	100%	100%
VRG Insurances BV		Netherlands	100%	100%
Brabantse Poort BV		Netherlands	100%	100%
Rhosili Amsterdam CV		Netherlands	100%	100%
PaperlinX Netherlands BV		Netherlands	100%	100%
Proost en Brandt BV		Netherlands	100%	100%
Velpa Enveloppen BV		Netherlands	100%	100%
Polyedra SpA		Italy	100%	100%
Antalis SpA	(2)	Italy	100%	–
Josef Frohlen Papiergrosshandlung – WilliReddeman Import – Export GmbH		Germany	100%	100%
Deutsche Papier Holding GmbH		Germany	100%	100%
Deutsche adp Wilhelm GmbH		Germany	100%	100%
Deutsche Papier Vertriebs GmbH		Germany	100%	100%
PaperlinX Austria GmbH		Austria	100%	100%
PaperNet GmbH		Austria	100%	100%
PaperNet GmbH & Co KG		Austria	100%	100%
Adria Papir doo		Croatia	100%	100%
Budapest Papir Kft		Hungary	100%	100%
Tulipel – Comercio de Paperis Lda		Portugal	100%	100%
Alpe Papir Trgovina na Veliko doo		Slovenia	100%	100%
Dunav Papir D.o.o.		Serbia	100%	100%
Bratislavska Papierenska Spolocnost		Slovakia	100%	100%
Ospap Velkoobchod Papirem AS		Czech Republic	100%	100%
Multiexpo Spol sro		Czech Republic	100%	100%
PaperlinX Denmark ApS		Denmark	100%	100%
PaperlinX Scandinavia AS	(3)	Denmark	100%	100%
Epacar NV		Belgium	100%	100%
Mercator Papier Spzoo		Poland	100%	100%
PaperNet Oy		Finland	100%	100%
Union Papelera Merchanting SL		Spain	100%	100%
Interpapier AG		Switzerland	100%	100%
The 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%
Savory Paper Ltd		United Kingdom	100%	100%
Trade Paper Ltd		United Kingdom	100%	100%
Howard Smith Paper (Scotland) Ltd		United Kingdom	100%	100%
The M6 Paper Group Ltd		United Kingdom	100%	100%
Robert Horne UK Ltd		United Kingdom	100%	100%
Cogladle 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		United Kingdom	100%	100%
Robert Horne Paper Company Ltd		United Kingdom	100%	100%
W Lunnon & Company Ltd		United Kingdom	100%	100%
Glenmore Lomond Paper Group Ltd		United Kingdom	100%	100%
Robert Horne Paper (Scotland) Ltd		United Kingdom	100%	100%
Pinnacle Film & Board Sales Ltd		United Kingdom	100%	100%
Sheet & Roll Converters Ltd		United Kingdom	100%	100%

Note 42. PaperlinX's subsidiaries (continued)

	Note	Country of Incorporation	Consolidated Subsidiary Interest 2007	2006
Transplastix Ltd		United Kingdom	100%	100%
Williaam Cox Plastics Ltd		United Kingdom	100%	100%
PaperlinX North America Inc		USA	100%	100%
Kelly Paper Company		USA	100%	100%
Spicers Paper Inc		USA	100%	100%
Paper Products Marketing (USA) Inc		USA	100%	100%
PPX Investment Corp		Canada	100%	100%
PaperlinX Canada (2001) Corp		Canada	100%	100%
PaperlinX Canada Ltd		Canada	100%	100%
PPX Canada Corp		Canada	100%	100%
PaperlinX Holdings (Asia) Pte Ltd		Singapore	100%	100%
Spicers Paper (Asia) Trading Pte Ltd		Singapore	100%	100%
Norscan Forest Products Pte Ltd		Singapore	100%	100%
Spicers Paper (Singapore) Pte Ltd		Singapore	100%	100%
Paper Products Marketing (Singapore) Pte Ltd		Singapore	100%	100%
VRG Paper (Malaysia) Sdn Bhd		Malaysia	100%	100%
Winpac Paper Pte Ltd		Singapore	100%	100%
Spicers Paper (Hong Kong) Ltd		Hong Kong	100%	100%
Paper Products Marketing (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		Ireland	100%	100%
Robert Horne Paper (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		New Zealand	100%	100%
Spicers Paper (NZ) Ltd		New Zealand	100%	100%
PaperlinX Investments Pty Ltd	(1)	Australia	100%	100%
Paper Products Marketing Pty Ltd	(1)	Australia	100%	100%
Paper Products Marketing (Taiwan) Ltd		Taiwan	80%	80%
Pacific Paper Marketing Australia Pty Ltd	(5)	Australia	100%	100%
PaperlinX (NZ) Ltd		New Zealand	100%	100%

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

(2) Subsidiaries acquired since 30 June 2006

(3) Subsidiaries renamed since 30 June 2006
PaperlinX Netherlands Holdings BV (formerly PaperlinX Cooperatief WA)
PaperlinX Scandinavia AS (formerly Aktieselskabet Christian Christensen Og Co)
PaperlinX (UK) Ltd (formerly Paramount Paper Sales Ltd)

(4) Subsidiaries no longer controlled since 30 June 2006
Axelium SAS
Thomas Papier SARL
PaperlinX Netherlands Holdings BV
BuhrmannUbbens Holding BV
PaperlinX Shared Services BV
DRiem Papier BV
Tricom Paper International BV
Printaco BV
Proost en Brandt Holdings BV
Deutsche Papier Grundstucks GmbH & Co KG
Bouwmaatschappij 'Het Wapen van Amsterdam' NV
Velpa Holdings BV
PaperNet Scandinavia AS
Udesen A/S Grafisk Fagcenter
CC&Co Holdings ApS
CC&Co Ejendomme AS
Plus Office AS
Corporate Express Denmark AS
Grafiskt Papper Norden AB
Badger Paper Ltd

(5) Subsidiaries placed in liquidation/merged since 30 June 2006

Note 43. Other related party disclosures

The ownership interest in subsidiaries is disclosed in Note 42 to the financial statements.

There were no other material related party transactions during the year other than those disclosed in Note 38.

Directors of PaperlinX Limited

Directors of PaperlinX Limited, who held office during the year ended 30 June 2007 are:
D E Meiklejohn
T P Park
A F Guy
J W Hall (appointed 16 May 2007)
B J Jackson
N L Scheinkestel
D A Walsh
L J Yelland

The remuneration of Directors is disclosed in Note 38 to the financial statements.

A full analysis of the components of the remuneration of individual Directors is contained in Note 38 and in the Directors' Report.

Loans to Directors of PaperlinX Limited in Note 38 total $Nil (2006: $Nil).

Directors of Subsidiaries

Loans to Directors of subsidiaries $31,000 (2006: $33,000). This amount comprises employee share plan loans only.

During the year, employee share plan loan repayments totalling $2,000 were received from:
G C Butcher, C B Creighton, P N Jones, B A Smart, A J Kennedy, J R Peters, A O Knight, P G Holloway.

During the prior year, employee share plan loan repayments totalling $4,000 were received from:
D G Abotomey, G C Butcher, C B Creighton, P N Jones, B A Smart, A J Kennedy, J R Peters, A O Knight, P G Holloway.

During the year, employee share plan loans totalling $Nil were advanced.

During the prior year, employee share plan loans totalling $Nil were advanced.

The amount of dividends received by PaperlinX Limited from its subsidiaries is disclosed in Note 3.

The amounts owing from subsidiaries and the amounts owing to subsidiaries for PaperlinX Limited are disclosed in Note 9 and Note 17 respectively. These amounts are non-interest bearing.

Note 44. Earnings per share

June 2007 $m	**Continuing**	**Discontinued**	**Total**
Profit for the period	79.6	0.6	80.2
Less attributable to holders of PaperlinX step-up preference securities	(6.6)	–	(6.6)
Less attributable to minority interest	(0.1)	–	(0.1)
Profit for the period attributable to holders of ordinary shares of PaperlinX Limited	72.9	0.6	73.5
Weighted average number of shares – basic (millions)	447.6	447.6	447.6
Basic EPS (cents)	16.3	0.1	16.4
Weighted average number of shares – diluted (millions)	451.9	451.9	451.9
Diluted EPS (cents)	16.2	0.1	16.3

June 2006 $m	**Continuing**	**Discontinued**	**Total**
Profit for the period	64.7	0.7	65.4
Profit for the period attributable to holders of ordinary shares of PaperlinX Limited	64.7	0.7	65.4
Weighted average number of shares – basic (millions)	446.2	446.2	446.2
Basic EPS (cents)	14.5	0.2	14.7
Weighted average number of shares – diluted (millions)	449.6	449.6	449.6
Diluted EPS (cents)	14.3	0.2	14.5

The earnings per share have been calculated in accordance with Accounting Standard AASB 133 (Earnings per Share). This standard defines the basic earnings per share to be the operating profit after income tax for the consolidated entity attributable to ordinary shareholders of the parent entity for the financial year, divided by the weighted average number of ordinary shares of the parent entity on issue during the financial year.

The options to purchase shares on issue during the years ended 30 June 2007 and 30 June 2006 have not been included in determining the basic earnings per share.

The diluted earnings per share are calculated in accordance with the requirements of Accounting Standard AASB 133 Earnings per Share, whereby options are considered to be potential shares.

Note 44. Earnings per share (continued)

The options to purchase shares on issue during the years ended 30 June 2007 and 30 June 2006 have been included in determining the diluted earnings per share. The impact of this inclusion is the weighted average number of shares on issue increases by 4.3 million shares for the year ended 30 June 2007 (2006: 3.4 million shares).

The inclusion of these options in the calculation of the diluted earnings per share has an immaterial impact as compared to the basic earnings per share.

Nil options have been issued since 30 June 2007 up to the date of this report.

Nil options have been exercised, resulting in the issuing of nil shares since 30 June 2007 up to the date of this report. In addition, 76,800 options have lapsed since 30 June 2007.

Shares issued since 30 June 2006 up to the date of this report have not been included in the calculation of the basic earnings per share calculation at 30 June 2006.

Note 45. Additional financial instruments disclosure

Interest rate risk

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 fixed rate interest bearing liabilities.

Interest rate risk exposures

Exposure to interest rate risk and the effective interest rate for classes of financial assets and liabilities is set out below:

		Fixed interest maturing in:					
Consolidated 2007 $m	**Floating interest rate**	**1 year or less**	**1 to 5 years**	**More than 5 years**	**Non-interest bearing**	**Total**	**Effective interest rate (1)**
Financial assets							
Cash and cash equivalents	448.8	–	–	–	–	448.8	4.90
Trade and other receivables	–	–	–	–	1,581.7	1,581.7	–
Investments	–	–	–	–	13.3	13.3	–
Financial liabilities							
Trade and other payables	–	–	–	–	1,310.6	1,310.6	–
Interest bearing loans and borrowings	600.8	–	–	–	–	600.8	6.61
USD Notes	–	–	–	144.1	–	144.1	6.75
CAD Notes	–	3.4	13.6	55.7	–	72.7	7.91
GBP Notes	–	–	–	242.6	–	242.6	6.59
Finance leases liabilities	–	0.3	0.1	–	–	0.4	8.00

		Fixed interest maturing in:					
Consolidated 2006 $m	**Floating interest rate**	**1 year or less**	**1 to 5 years**	**More than 5 years**	**Non-interest bearing**	**Total**	**Effective interest rate (1)**
Financial assets							
Cash and cash equivalents	455.1	–	–	–	–	455.1	4.17
Trade and other receivables	–	–	–	–	1,550.7	1,550.7	–
Investments	–	–	–	–	14.1	14.1	–
Financial liabilities							
Trade and other payables	–	–	–	–	1,266.0	1,266.0	–
Interest bearing loans and borrowings	856.7	–	–	–	–	856.7	4.26
USD Notes	–	–	–	165.0	–	165.0	6.75
CAD Notes	–	3.7	14.8	64.5	–	83.0	7.88
GBP Notes	–	–	–	253.1	–	253.1	6.59
Finance leases liabilities	–	0.5	0.1	–	–	0.6	8.00

(1) Includes the effect of applicable credit margins.

Note 45. Additional financial instruments disclosure (continued)

Foreign exchange risk

In relation to recognised assets and liabilities denominated in a foreign currency, the consolidated entity's policy is to hedge all material foreign currency exposures. 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 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 foreign exchange gains and losses relating to the monetary items are recognised as part of 'net financing costs' (see Note 5).

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.

Credit risk

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. There is no material exposure to any individual overseas country or individual customer.

In order to control any exposure which may result from non-performance by counterparties, foreign exchange contracts are only entered into with major banks with a minimum long-term rating of A+ by Standard & Poor's or A2 by Moody's. In addition, the PaperlinX Limited Board must approve these banks for use, and specific internal guidelines have been established with regard to limits, dealing and settlement procedures.

The maximum credit risk exposure on foreign currency 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.

Net fair values

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

The net fair value of other monetary financial assets and financial liabilities approximates their carrying value.

The carrying amounts and net fair values of financial assets and liabilities approximate each other as at reporting date for both the company and the consolidated entity.

The net fair value of foreign exchange contracts are 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 reporting date. This is based on independent market quotations and determined using standard valuation techniques.

For forward foreign exchange contracts, the net fair value is taken to be the unrealised gain or loss at balance date calculated by reference to current market rates.

The net fair value of foreign exchange contracts held as at reporting date is a loss of $1.8 million (2006: a gain of $2.9 million).

Note 46. Events subsequent to balance date

Dividends on PaperlinX Limited ordinary shares

For dividends declared after 30 June 2007, see Note 7.

Distributions on PaperlinX step-up preference securities

For the distribution rate for the period 30 June 2007 to 31 December 2007, see Note 7.

Directors' declaration

In the opinion of the Directors of PaperlinX Limited ('the Company'):

(a) the financial statements and notes, including the remuneration disclosures that are contained in sections 1 to 3 and sections 5 to 7 of the Remuneration Report in the Directors' Report, set out on 1 to 50, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2007 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) the remuneration disclosures that are contained in sections 1 to 3 and sections 5 to 7 of the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures;

(c) 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 controlled entities identified in Note 42 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 controlled 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 2007.

Signed in accordance with a resolution of the Directors:

David E Meiklejohn
Chairman

Thomas P Park
Managing Director

Dated at Melbourne, in the State of Victoria this 23rd day of August 2007.

Independent audit report to the members of PaperlinX Limited

Report on the financial report and AASB124 remuneration disclosures contained in the Directors' report

We have audited the accompanying financial report of PaperlinX Limited (the Company), which comprises the balance sheets as at 30 June 2007, and the income statements, statements of recognised income and expense and statements of cash flows for the year ended on that date, significant accounting policies and other explanatory notes 1 to 46 and the Directors' declaration set out on pages 1 to 51 for both the Company and the entities it controlled (the Consolidated Entity) at the year's end or from time to time during the financial year.

As permitted by the Corporations Regulations 2001, the Company has disclosed information about the remuneration of Directors and Executives (remuneration disclosures), required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading 'Remuneration report' in sections 1 to 3 and sections 5 to 7 of the Directors' report and not in the financial report. We have audited these remuneration disclosures.

Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the Directors' report.

The Directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Directors of the Company are also responsible for the remuneration disclosures contained in the Directors' report.

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. Our responsibility is also to express an opinion on the remuneration disclosures contained in the Directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the Directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the Directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the Directors' report 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 entity'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 and the remuneration disclosures contained in the Directors' 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 (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position and of their performance and whether the remuneration disclosures are in accordance with Australian Accounting Standard AASB 124.

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

Auditor's opinion on the financial report

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 Company's and the Consolidated Entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) other mandatory financial reporting requirements in Australia

Auditor's opinion on AASB 124 remuneration disclosures contained in the Directors' report

In our opinion, the remuneration disclosures that are contained in sections 1 to 3 and sections 5 to 7 of the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 Related Party Disclosures.

KPMG

Peter Jovic
Partner

Melbourne
23 August 2007

Corporate directory

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Full Financial Report 2007

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