APPENDIX 4E - PRELIMINARY FINANCIAL REPORT

(Rules 4.3A)

Name of entity:	**PAPERLINX LIMITED**
ABN:	**70 005 146 350**
For the year ended:	**30 June 2012**
Previous corresponding period:	30 June 2011

Results for announcement to the market

	2012	**2011 Restated** *(1)*		**% Change**
	A$m	**A$m**		
External revenues from ordinary activities:				
• continuing operations	3,243.2	3,671.7	down	12%
• discontinued operations	869.9	998.6	down	13%
	4,113.1	4,670.3	down	12%
Net (loss)/profit for the period after tax:				
• continuing operations	(187.4)	(116.7)	down	61%
• discontinued operations	(79.3)	8.7	down	1,011%
	(266.7)	(108.0)	down	147%
attributable to:				
Equity holders of PaperlinX Limited	(266.7)	(108.0)	down	147%
Non-controlling interest	-	-	-	unchanged
Equity holders of PaperlinX Limited	(266.7)	(108.0)	down	147%

(1) *The comparative amounts disclosed above have been re-presented as if the operations discontinued during the current year had been discontinued from the start of the comparative year.*

Dividends

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

Commentary on results for the period

Refer to ASX Release - PaperlinX 2012 Full Year Results for explanation of results.

Net tangible assets per security

	30 June 2012	**30 June 2011**
Net tangible assets per security	$0.06	$0.27

Details of entities over which control has been gained or lost

Control lost over the following entities effective 30 June 2012:

Polyedra SpA

Carthago Srl

Polyedra AG

Spicers

Kelly Paper Company

Spicers Paper Inc

Dividend reinvestment plan

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

Details of associates and joint ventures

N/A

Information on audit or review

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

X	The accounts have been audited.		The accounts have been subject to review.
	The accounts are in the process of being audited or subject to review.		The accounts have *not* yet been audited or reviewed.

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

Michelle Wong
Company Secretary
Date: 22 August 2012

FINANCIAL REPORT

of PaperlinX Limited

30 June 2012

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CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $m	2011 Restated *(1)* $m
Continuing operations			
Revenue from sale of goods		3,243.2	3,671.8
Cost of inventory sold		(2,619.8)	(2,952.3)
Gross profit		623.4	719.5
Other income	8	5.0	3.2
Personnel costs		(339.9)	(380.0)
Logistics and distribution		(172.1)	(187.4)
Sales and marketing		(7.9)	(8.2)
Impairment of assets held for sale	16,20	(0.5)	-
Impairment of property, plant and equipment	20	(3.8)	-
Impairment of intangible assets	20	(105.1)	(68.5)
Other expenses		(158.7)	(163.1)
Result from operating activities		(159.6)	(84.5)
Net movement in fair value of currency option and loan	6	4.0	(20.8)
Net finance costs	9	(20.0)	(16.7)
Loss before tax		(175.6)	(122.0)
Tax (expense)/benefit	10	(11.8)	5.3
Loss from continuing operations		(187.4)	(116.7)
Discontinued operations			
(Loss)/profit from discontinued operations, net of tax	11	(79.3)	8.7
Loss for the period		(266.7)	(108.0)
Loss for the period attributable to:			
Equity holders of PaperlinX Limited		(266.7)	(108.0)
Basic earnings per share (cents)	7	(43.8)	(21.4)
Basic earnings per share from continuing operations (cents)	7	(30.8)	(22.8)
Diluted earnings per share (cents)	7	(43.8)	(21.4)
Diluted earnings per share from continuing operations (cents)	7	(30.8)	(22.8)

(1) Refer Note 11 – Discontinued operations.

Notes 1 to 41 form part of these financial statements and are to be read in conjunction therewith.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $m	2011 $m
Loss for the period		(266.7)	(108.0)
Other comprehensive income:			
Exchange differences on translation of overseas subsidiaries		(20.0)	(62.7)
Reclassification of exchange differences on disposal of controlled entities to Income Statement		29.3	-
Reclassification of exchange differences on liquidation of controlled entities to Income Statement		0.4	-
Actuarial adjustments on defined benefit plans	32	(39.2)	4.1
Net change in fair value of cash flow hedges		1.1	(39.5)
Net change in fair value of cash flow hedges reclassified to Income Statement		(2.4)	40.4
Income tax benefit/(expense) on other comprehensive income	10	8.0	(2.4)
Other comprehensive loss for the period, net of tax		(22.8)	(60.1)
Total comprehensive loss for the period, net of tax		(289.5)	(168.1)
Total comprehensive loss for the period attributable to:			
Equity holders of PaperlinX Limited		(289.5)	(168.1)

Notes 1 to 41 form part of these financial statements and are to be read in conjunction therewith.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

	Note	2012 $m	2011 $m
Current assets			
Cash and cash equivalents	13	80.0	125.3
Trade and other receivables	14	671.6	967.9
Income tax receivable		3.4	7.3
Inventories	15	305.5	439.4
Assets held for sale	16	43.4	0.5
Total current assets		1,103.9	1,540.4
Non-current assets			
Receivables	17	13.3	6.8
Investments	18	1.0	1.5
Property, plant and equipment	19	43.3	71.5
Intangible assets	20	96.6	257.3
Deferred tax assets	21	40.6	52.6
Total non-current assets		194.8	389.7
Total assets		1,298.7	1,930.1
Current liabilities			
Bank overdrafts		-	9.8
Trade and other payables	22	441.7	731.9
Loans and borrowings	23	175.8	63.1
Income tax payable		2.7	1.9
Employee benefits	24	9.8	15.4
Provisions	25	30.0	23.5
Liabilities held for sale	16	14.8	-
Total current liabilities		674.8	845.6
Non-current liabilities			
Payables	26	1.3	1.4
Loans and borrowings	23	52.0	224.2
Deferred tax liabilities	21	2.2	12.6
Employee benefits	24	109.1	95.0
Provisions	25	12.1	14.9
Total non-current liabilities		176.7	348.1
Total liabilities		851.5	1,193.7
Net assets		447.2	736.4
Equity			
Issued capital	27	1,893.5	1,890.7
Reserves	28	(149.4)	(155.3)
Accumulated losses		(1,573.4)	(1,275.5)
Total equity attributable to holders of ordinary shares of PaperlinX Limited		170.7	459.9
PaperlinX step-up preference securities	29	276.5	276.5
Total equity		447.2	736.4

Notes 1 to 41 form part of these financial statements and are to be read in conjunction therewith.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2012

$m	Note	Attributable to equity holders of PaperlinX Limited							
		Issued capital	Exchange fluctuation reserve	Hedging reserve	Reserve for own shares	Employee share plans reserve	Accumulated losses	PaperlinX step-up preference securities	Total equity
Balance at 1 July 2011		1,890.7	(162.3)	1.2	(1.0)	6.8	(1,275.5)	276.5	**736.4**
Total comprehensive loss for the period									
Loss for the period		-	-	-	-	-	(266.7)	-	**(266.7)**
Other comprehensive income									
• Exchange differences on translation of overseas subsidiaries		-	(20.0)	-	-	-	-	-	**(20.0)**
• Reclassification of exchange differences on disposal of controlled entities to Income Statement		-	29.3	-	-	-	-	-	**29.3**
• Reclassification of exchange differences on liquidation of controlled entities to Income Statement		-	0.4	-	-	-	-	-	**0.4**
• Net change in fair value of cash flow hedges		-	-	1.1	-	-	-	-	**1.1**
• Net change in fair value of cash flow hedges reclassified to Income Statement		-	-	(2.4)	-	-	-	-	**(2.4)**
• Actuarial adjustments on defined benefit plans		-	-	-	-	-	(39.2)	-	**(39.2)**
• Income tax benefit on other comprehensive income		-	-	-	-	-	8.0	-	**8.0**
Total other comprehensive (loss)/income		-	9.7	(1.3)	-	-	(31.2)	-	**(22.8)**
Total comprehensive (loss)/income for the period		-	9.7	(1.3)	-	-	(297.9)	-	**(289.5)**
Transactions with owners recorded directly in equity									
• Employee share-based payment transactions		0.6	-	-	(0.6)	(1.8)	-	-	**(1.8)**
• Write off on disposal of controlled entities		-	-	-	-	(1.6)	-	-	**(1.6)**
• Issue of shares to employees		2.0	-	-	1.5	-	-	-	**3.5**
• Employee loans forgiven - forfeited entitlements	27	0.2	-	-	-	-	-	-	**0.2**
Total transactions with owners		2.8	-	-	0.9	(3.4)	-	-	**0.3**
Balance at 30 June 2012		1,893.5	(152.6)	(0.1)	(0.1)	3.4	(1,573.4)	276.5	**447.2**

Notes 1 to 41 form part of these financial statements and are to be read in conjunction therewith.

FOR THE YEAR ENDED 30 JUNE 2012

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

Notes 1 to 41 form part of these financial statements and are to be read in conjunction therewith.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $m	2011 $m
Cash flows from operating activities			
Receipts from customers		4,207.5	4,735.3
Payments to suppliers and employees		(4,250.0)	(4,658.7)
Interest received		2.6	2.5
Interest paid		(19.6)	(20.2)
Income taxes paid		(2.8)	(4.3)
Net cash (used in)/from operating activities	33	(62.3)	54.6
Cash flows from investing activities			
Acquisition of:			
• Controlled entities and businesses (net of cash and bank overdraft acquired)		-	(0.4)
• Property, plant and equipment and intangibles		(14.0)	(18.0)
Net (payments)/proceeds from the sale of:			
• Controlled entities and businesses (proceeds less transaction costs) - net of cash and bank overdraft disposed		(6.3)	(0.8)
• Property, plant and equipment and intangibles		1.5	5.7
• Investments		-	4.9
Tasmanian manufacturing operations closure payments		(5.5)	(32.1)
Loans repaid by other persons		-	0.7
Net cash used in investing activities		(24.3)	(40.0)
Cash flows from financing activities			
Step-up preference securities distributions paid		-	(21.2)
Proceeds from borrowings		44.5	60.0
Repayment of borrowings		(30.1)	(30.0)
Principal finance lease repayments		(0.1)	-
Currency option close out		39.2	-
Cash flow hedges		-	(3.6)
Capitalised borrowing costs paid		(2.6)	(0.1)
Other borrowing costs paid		(0.4)	(0.9)
Net cash from financing activities		50.5	4.2
Net (decrease)/increase in cash and cash equivalents		(36.1)	18.8
Cash and cash equivalents at the beginning of the period	33	115.5	107.6
Net bank overdraft transferred to liabilities held for sale		0.6	-
Effect of exchange rate changes on cash held		-	(10.9)
Cash and cash equivalents at the end of the period	33	80.0	115.5

Notes 1 to 41 form part of these financial statements and are to be read in conjunction therewith.

Note 1. Reporting entity

PaperlinX Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is 7 Dalmore Drive, Scoresby VIC 3179, Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2012 comprise the Company and its subsidiaries (together referred to as "the Consolidated Entity"). The Consolidated Entity is a for-profit entity and is primarily involved in the merchanting of paper, communication materials and diversified products and services.

Note 2. Basis of preparation

(a) Statement of compliance

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

The Financial Report was authorised for issue by the Directors of the Company on 22 August 2012.

(b) Basis of measurement

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

- Derivative financial instruments are measured at fair value; and
- Financial instruments at fair value through profit or loss are measured at fair value.

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

(c) Functional and presentation currency

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

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

(d) Use of estimates and judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

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

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

(e) Going concern basis of accounting

In preparing the Consolidated Financial Report, the Directors made an assessment of the ability of the Consolidated Entity to continue as a going concern, which contemplates the continuity of business operations, realisation of assets and settlement of liabilities in the ordinary course of business and without the necessity to curtail materially the scale of its operations.

The Consolidated Entity is primarily funded by receivables-backed and inventory-backed facilities. As disclosed in Note 23, the major line of finance is due to expire in September 2013. Management will open renewal negotiations with the financier in due course and has, at this stage, not sought any written commitment that the facility will be renewed. However, Management has held discussions with the financier and other alternative providers of funding about the Consolidated Entity's future borrowing needs and to date no matters have arisen to suggest that renewal of the existing facility or an alternative line of funding may not be forthcoming on acceptable terms before the expiration of the existing facility. Given this main facility may either be renewed or refinanced prior to 30 June 2013, the borrowing has been reclassified as a current liability.

The ability of the Consolidated Entity to meet its operational cash requirements and remain within the limits of the existing debt facilities in the foreseeable future is dependent in part on meeting forecast trading results and cash flows. These forecasts are necessarily based on best-estimate assumptions that may or may not occur as expected and are subject to influences and events outside of the control of the Consolidated Entity. The forecasts, taking into account reasonably possible changes in trading performance, show that the Consolidated Entity should be able to operate within the level and terms of its current facilities. This notwithstanding, the current economic environment in some of the major operating jurisdictions and structural changes in the traditional paper markets present challenges in terms of sales volume, pricing and input costs. Whilst Management has implemented restructuring plans and applied a significant part of the proceeds of recent asset sales towards reducing cost structures and paying down debt, the current trading environment creates uncertainties about future trading results and cash flows. In addition, the existing facilities include regional specific covenants and restrictions on the ability to draw down debt facilities and move cash within the Consolidated Entity.

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

After making enquiries, and considering the uncertainties described above, the Directors have a reasonable expectation that the Consolidated Entity will have adequate resources to continue to operate and meet its obligations as they fall due and remain within the limits of its debt facilities. For these reasons, they continue to adopt the going concern basis in preparing the Consolidated Financial Report.

(f) New and amended standards adopted

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2011:

- Revised AASB 124 *Related Party Disclosures*
- AASB 1054 *Australian Additional Disclosures and* AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project*
- AASB 2009-14 *Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement*
- AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2010-5 *Amendments to Australian Accounting Standards*
- AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets*
- AASB 2011-5 *Amendments to Australian Accounting Standards - Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation*

The adoption of these standards only affects disclosures and had no impact on consolidated net income. The changes have been applied retrospectively.

Note 3. Accounting policies

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

Certain comparative amounts have been reclassified to conform with the current year's presentation. In addition, the comparative consolidated income statement has been re-presented as if the operations discontinued during the current year had been discontinued from the start of the comparative year.

(a) Basis of consolidation

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

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. Investments in subsidiaries are carried at cost less accumulated impairment losses.

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

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

Other entities

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

PaperlinX Step-up Preference Securities

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

(b) Revenue recognition

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

(c) Government grants

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

(d) Taxation

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or in other comprehensive income.

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

Deferred tax is recognised for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not recognised:

- initial recognition of goodwill;
- the initial recognition of assets or liabilities in a transaction that is not a business combination that affect neither accounting nor taxable profit or loss; and
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

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

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

Tax consolidation - Australia

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

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

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

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

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

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Note 3. Accounting policies – (continued)

Nature of tax funding arrangements and tax sharing agreements - Australia

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

The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising inter-entity receivables (payables) in the separate financial statements of the members of the tax consolidated group equal in amount to the tax liability (asset) assumed. The inter-entity receivables/payables are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

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

(e) Goods and Services Tax – Australia

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

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

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

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

(f) Depreciation

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

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

Land improvements:	between 1% - 3% (2011: 1% - 3%)
Buildings:	between 1% - 4% (2011: 1% - 4%)
Plant and equipment:	between 4% - 20% (2011: 4% - 20%)
Finance leases for equipment:	between 4% - 20% (2011: 4% - 20%)

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

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

(g) Employee benefits

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

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Consolidated Entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as medical care, housing, cars and subsidised goods and services, are expenses based on the net marginal cost to the Consolidated Entity as the benefits are taken by the employees.

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

Workers' compensation

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

Share-based payments

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

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

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

Note 3. Accounting policies – (continued)

Employee retirement benefit obligations

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

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

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

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

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

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

(h) Net financing costs

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

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

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

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

(i) Property, plant and equipment

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

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

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

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

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

(j) Inventories

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

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

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

(k) Cash and cash equivalents

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

(l) Foreign currency

Functional currency

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

Transactions

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

Note 3. Accounting policies – (continued)

Translation of foreign subsidiaries

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

Any exchange gains/losses arising on transactions entered into to hedge the currency fluctuations on the net investment in foreign subsidiaries are recorded, net of tax, in the exchange fluctuation reserve on consolidation where it is determined to be an effective hedge. When a foreign operation is disposed of, the cumulative amount in the exchange translation reserve related to that foreign operation is reclassified to profit and loss as part of the gain or loss on disposal.

(m) Financial instruments

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

Derivative instruments

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

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

Cash flow hedges

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

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

Financial instruments included in liabilities

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

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

Financial instruments included in assets

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

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

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

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

Cash and cash equivalents comprise cash balances and call deposits.

(n) Leased assets

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

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

Other leases are operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(o) Intangible assets

Goodwill

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

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

Brand names

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

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

Note 3. Accounting policies – (continued)

Other intangible assets

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

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

Amortisation rates used for other intangible assets are as follows:

Computer software:	10.0% - 40.0% (2011: 10% - 40.0%)
Customer lists:	6.7% - 14.3% (2011: 6.7% - 14.3%)

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

(p) Business combinations

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

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

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

Acquisitions on or after 1 July 2009

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

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

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

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

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

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

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

Acquisitions between 1 July 2004 and 1 July 2009

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

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

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

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

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

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

(q) Impairment of assets

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

Recoverable amount

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

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Note 3. Accounting policies – (continued)

Reversals of impairment

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

In respect of other assets, an impairment loss is reversed only if there is an indication that the impairment loss may no longer exist or there has been a change in estimates used to determine the recoverable amount.

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

(r) Provisions

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

Dividends on ordinary shares

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

Distribution on PaperlinX Step-up Preference Securities

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

Surplus leased premises

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

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

Restructuring

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

Environmental remediation

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

(s) Earnings per share

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

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

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

(t) Discontinued operation

A discontinued operation is a component of the Consolidated Entity's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as discontinued, the comparative consolidated income statement is re-presented as if the operation had been discontinued from the start of the comparative period.

(u) Accounting estimates and judgements

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

Revisions of accounting estimates

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

Impairment of non-current assets

The Consolidated Entity assesses whether non-current assets (including assets held for sale) are impaired at least annually. These calculations involve an estimation of the recoverable amount of the cash generating units to which the non-current assets are allocated based on forecast future cash flows and certain related assumptions. These assumptions are discussed in Note 20.

Defined benefit plan obligations

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

Sale of USA and Italy operations

During the current reporting period, the Consolidated Entity sold its USA and Italian merchanting operations. The calculation of the profit or loss on sale of these businesses includes estimates of transaction costs and net asset adjustments based on preliminary results as at the sale date. Completion accounts have not yet been finalised. Any differences from preliminary estimates will be reflected in the 2013 accounts as an adjustment to the net profit or loss from discontinued operations.

Tasmania closure costs

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

Sale of Australian Paper

The results for this reporting period include additional costs related to the sale of the Australian Paper business. The sale of Australian Paper occurred in a prior period. Any changes to these amounts will be reflected in future reporting periods as an adjustment to the net loss from discontinued operations.

Note 3. Accounting policies – (continued)

(v) Segment reporting

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

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

Segment information is further split between continuing operations and discontinued operations.

(w) Non-current assets held for sale

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

(x) New standards and interpretations not yet adopted

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

- AASB 9 *Financial Instruments* (Dec 2009) includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become applicable to annual reporting periods beginning on or after 1 January 2013.
- AASB 9 *Financial Instruments* (Dec 2010) includes requirements for the classification and measurement of financial liabilities resulting from Phase 2 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become applicable to annual reporting periods beginning on or after 1 January 2013.
- AASB 10 *Consolidated Financial Statements* includes requirements for parent entities to present consolidated financial statements as those of a single economic entity, which replaces the requirements of AASB 127 *Consolidated and Separate Financial Statements.* AASB 10 will become applicable to annual reporting periods beginning on or after 1 January 2013.
- AASB 13 *Fair Value Measurement* includes definitions for fair value, provides guidance on how to determine fair value and required disclosures about fair value measurement in a single standard. AASB 13 will become applicable to annual reporting periods beginning on or after 1 January 2013.
- AASB 119 *Employee Benefits (2011)* amendments include enhanced disclosure requirements for defined benefit plans and clarification of various miscellaneous issues. AASB 119 will become applicable to annual reporting periods beginning on or after 1 January 2013.
- AASB 127 *Separate Financial Statements (2011)* amends the prior version of the standard to remove requirements relating to consolidated financial statements which are now contained in AASB 10. AASB 127 will become applicable to annual reporting periods beginning on or after 1 January 2013.
- AASB 128 *Investments in Associates and Joint Ventures (2011)* amends the prior version of the standard and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. AASB 128 will become applicable to annual reporting periods beginning on or after 1 January 2013.
- AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* includes consequential amendments as a result of the issuance of AASB 10, AASB 11, AASB 12, AASB 127 and AASB 128. The amendments will become applicable to annual reporting periods beginning on or after 1 January 2013.
- AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income* includes requirements to group items that may be potentially reclassifiable to profit or loss and to show tax on these items separately from other tax amounts. The amendments will become applicable to annual reporting periods beginning on or after 1 July 2012.

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

Note 4. Determination of fair values

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

(a) Property, plant and equipment

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

(b) Intangible assets

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

(c) Inventories

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

(d) Trade and other receivables

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

Note 4. Determination of fair values – (continued)

(e) Derivatives

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

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

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

(f) Non-derivative financial liabilities

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

(g) Share-based payment transactions

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

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

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

(h) Financial guarantees

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

Note 5. Operating segments

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

Segment	Description of operations
Merchanting	International merchant supplying the printing and publishing industry and office supplies. North America comprises Canada and Europe comprises the United Kingdom, Ireland and Continental Europe.
Discontinued operations	Comprises merchanting operations in United States of America (sale announced 26 June 2012); Italy (sale announced 9 March 2012); South Africa (sale announced 17 July 2012); and Hungary, Slovakia, Slovenia, Serbia and Croatia (sale announced 17 July 2012). Also comprises paper manufacturing - Australian Paper business (sale completed May 2009) and Tas Paper (closure completed in June 2010). Refer Note 11 for further details.

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

	Note	Merchanting Europe $m	Merchanting North America $m	Merchanting Australia, New Zealand, Asia $m	Unallocated $m	Total Continuing Operations $m	Discontinued Operations $m	Group Eliminations $m	Group $m
For the year ended 30 June 2012									
External sales revenue		2,333.8	442.1	467.3	-	3,243.2	869.9	-	4,113.1
Inter-segment sales revenue		-	-	4.9	(4.9)	-	0.1	(0.1)	-
Total revenue		2,333.8	442.1	472.2	(4.9)	3,243.2	870.0	(0.1)	4,113.1
(Loss)/profit before net finance costs, tax and significant items		(23.6)	8.3	10.9	(16.4)	(20.8)	8.6	-	(12.2)
Significant items (pre-tax)	6	(133.0)	(1.5)	(1.0)	0.7	(134.8)	(79.2)	-	(214.0)
Net other finance costs	9,11	-	-	-	(6.4)	(6.4)	(0.6)	-	(7.0)
(Loss)/profit before interest and tax		(156.6)	6.8	9.9	(22.1)	(162.0)	(71.2)	-	(233.2)
Net interest	9,11				(13.6)	(13.6)	(4.7)	-	(18.3)
Loss before tax					(35.7)	(175.6)	(75.9)	-	(251.5)
Tax expense - pre-significant items					(13.5)	(13.5)	(3.4)	-	(16.9)
Tax benefit - significant items	6,11				1.7	1.7	-	-	1.7
Loss for the period					(47.5)	(187.4)	(79.3)	-	(266.7)
The loss before tax includes:									
Depreciation and amortisation	19,20	(11.3)	(2.1)	(2.0)	(0.7)	(16.1)	(3.9)	-	(20.0)
Impairment of non-current assets		(109.2)	-	(0.2)	-	(109.4)	(16.5)	-	(125.9)
Depreciation, amortisation and impairment		(120.5)	(2.1)	(2.2)	(0.7)	(125.5)	(20.4)	-	(145.9)
Capital expenditure		10.3	0.4	0.6	0.1	11.4	2.5	-	13.9
As at 30 June 2012									
Total assets		764.8	150.3	225.4	48.7	1,189.2	109.5	-	1,298.7
Total liabilities		405.9	73.4	79.3	258.2	816.8	34.7	-	851.5
Net assets/(liabilities)		358.9	76.9	146.1	(209.5)	372.4	74.8	-	447.2

Note 5. Operating segments – (continued)

	Note	Merchanting Europe $m	Merchanting North America $m	Merchanting Australia, New Zealand, Asia $m	Unallocated $m	Total Continuing Operations $m	Discontinued Operations $m	Group Eliminations $m	Group $m
For the year ended 30 June 2011 - Restated *(1)*									
External sales revenue		2,698.5	463.8	509.4	-	3,671.7	998.6	-	4,670.3
Inter-segment sales revenue		-	-	6.3	(6.2)	0.1	4.5	(4.6)	-
Total revenue		2,698.5	463.8	515.7	(6.2)	3,671.8	1,003.1	(4.6)	4,670.3
Profit/(loss) before net finance costs, tax and significant items		5.7	6.6	14.9	(24.0)	3.2	17.7	-	20.9
Significant items (pre-tax)	6	(46.6)	(0.4)	(40.6)	(20.9)	(108.5)	(0.8)	-	(109.3)
Net other finance costs	9,11	-	-	-	(2.9)	(2.9)	(0.6)	-	(3.5)
(Loss)/profit before interest and tax		(40.9)	6.2	(25.7)	(47.8)	(108.2)	16.3	-	(91.9)
Net interest	9,11				(13.8)	(13.8)	(5.1)	-	(18.9)
(Loss)/profit before tax					(61.6)	(122.0)	11.2	-	(110.8)
Tax expense - pre-significant items					(3.3)	(3.3)	(3.1)	-	(6.4)
Tax benefit - significant items	6,11				8.6	8.6	0.6	-	9.2
(Loss)/profit for the period					(56.3)	(116.7)	8.7	-	(108.0)
The (loss)/profit before tax includes:									
Depreciation and amortisation	19,20	(13.5)	(2.0)	(2.1)	(0.5)	(18.1)	(4.6)	-	(22.7)
Impairment of non-current assets		(33.4)	-	(35.1)	-	(68.5)	-	-	(68.5)
Depreciation, amortisation and impairment		(46.9)	(2.0)	(37.2)	(0.5)	(86.6)	(4.6)	-	(91.2)
Capital expenditure		11.3	1.1	1.8	0.6	14.8	3.2	-	18.0
As at 30 June 2011									
Total assets		1,057.3	160.1	252.0	57.1	1,526.5	403.6	-	1,930.1
Total liabilities		486.7	64.4	85.3	325.1	961.5	232.2	-	1,193.7
Net assets/(liabilities)		570.6	95.7	166.7	(268.0)	565.0	171.4	-	736.4

(1) The comparative period has been restated to reflect the sale of the USA and Italy merchanting operations, and the reclassification of Hungary, Slovakia, Slovenia, Serbia, Croatia and South Africa as held for sale. Refer Note 11 – Discontinued operations and Note 16 – Assets and liabilities held for sale.

Note 6. Individually significant items

		Continuing			Discontinued			Total		
For the year ended 30 June	Note	Pre -tax $m	Tax impact $m	Post -tax $m	Pre -tax $m	Tax impact $m	Post -tax $m	Pre -tax $m	Tax impact $m	Post -tax $m
2012										
Loss on sale of controlled entities	11	-	-	-	(62.4)	-	(62.4)	(62.4)	-	(62.4)
Impairment of assets held for sale	16	(0.5)	-	(0.5)	(1.2)	-	(1.2)	(1.7)	-	(1.7)
Impairment of property, plant and equipment	20	(3.8)	-	(3.8)	(1.1)	-	(1.1)	(4.9)	-	(4.9)
Impairment of intangible assets	20	(105.1)	-	(105.1)	(14.2)	-	(14.2)	(119.3)	-	(119.3)
Restructuring costs		(29.4)	2.7	(26.7)	(1.7)	-	(1.7)	(31.1)	2.7	(28.4)
Net movement in fair value of currency option and loan *(1)*		4.0	(1.0)	3.0	-	-	-	4.0	(1.0)	3.0
Net benefits related to closure of discontinued Tasmanian operations		-	-	-	1.4	-	1.4	1.4	-	1.4
Total individually significant items		(134.8)	1.7	(133.1)	(79.2)	-	(79.2)	(214.0)	1.7	(212.3)
2011 - Restated *(2)*										
Impairment of intangible assets		(68.5)	-	(68.5)	-	-	-	(68.5)	-	(68.5)
Restructuring costs		(19.2)	3.2	(16.0)	(2.2)	0.6	(1.6)	(21.4)	3.8	(17.6)
Net movement in fair value of currency option and loan *(1)*		(20.8)	5.4	(15.4)	-	-	-	(20.8)	5.4	(15.4)
Transaction costs related to sale of Australian Paper		-	-	-	(4.5)	-	(4.5)	(4.5)	-	(4.5)
Net benefits related to closure of discontinued Tasmanian operations		-	-	-	5.9	-	5.9	5.9	-	5.9
Total individually significant items		(108.5)	8.6	(99.9)	(0.8)	0.6	(0.2)	(109.3)	9.2	(100.1)

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

(2) Refer Note 11 – Discontinued operations.

Note 7. Earnings per share

		Continuing		Discontinued		Total	
		2012	2011 Restated *(1)*	2012	2011 Restated *(1)*	2012	2011
	Note	$m	$m	$m	$m	$m	$m
(Loss)/profit for the period		(187.4)	(116.7)	(79.3)	8.7	(266.7)	(108.0)
Less PaperlinX step-up preference securities distributions	12	-	(21.2)	-	-	-	(21.2)
(Loss)/profit for the period attributable to holders of ordinary shares in PaperlinX Limited		(187.4)	(137.9)	(79.3)	8.7	(266.7)	(129.2)
Weighted average number of shares - basic (millions)		608.3	603.6	608.3	603.6	608.3	603.6
Basic EPS (cents)		(30.8)	(22.8)	(13.0)	1.4	(43.8)	(21.4)
Weighted average number of shares - diluted (millions)		608.3	603.6	608.3	603.6	608.3	603.6
Diluted EPS (cents)		(30.8)	(22.8)	(13.0)	1.4	(43.8)	(21.4)

(1) Refer Note 11 – Discontinued operations.

The options to purchase shares and rights on issue during the years ended 30 June 2012 and 30 June 2011 have not been included in determining the basic earnings per share.

The options to purchase shares and rights on issue during the year ended 30 June 2012 (weighted average 9.5 million shares) have not been included in determining the diluted earnings per share because they are anti-dilutive. The options to purchase shares and rights on issue during the year ended 30 June 2011 (weighted average 18.1 million shares) have not been included in determining the diluted earnings per share for the prior period because they are anti-dilutive.

Nil options or rights have been issued since 30 June 2012 up to the date of this report.

No options or rights have been exercised, resulting in the issuing of nil shares since 30 June 2012 up to the date of this report. Nil rights have vested since 30 June 2012 and are exercisable as at the date of this report. In addition, 589,300 options and 545,452 rights have lapsed since 30 June 2012 in respect of the plan period ended 30 June 2012.

Note 8. Other income from continuing operations

	2012 $m	2011 Restated *(1)* $m
Net profit on disposal of non-current assets	0.2	0.3
Other	4.8	2.9
Total other income	5.0	3.2

(1) Refer Note 11 – Discontinued operations.

Note 9. Net finance costs from continuing operations

	2012 $m	2011 Restated *(1)* $m
Net interest		
Interest expense	(16.2)	(16.4)
Interest income	2.6	2.6
Total net interest	(13.6)	(13.8)
Other finance costs		
Net other foreign exchange losses	(2.4)	(0.4)
Other borrowing costs	(4.0)	(2.5)
Total other finance costs	(6.4)	(2.9)
Total net finance costs	(20.0)	(16.7)

(1) Refer Note 11 – Discontinued operations.

Note 10. Income tax expense

	2012 $m	2011 $m
Prima facie income tax benefit attributable to loss from continuing and discontinued operations at the Australian tax rate of 30% (2011: 30%)	75.4	33.2
(Add)/deduct the tax effect of:		
• Tax losses not brought to account	(19.3)	(16.7)
• Prior year booked tax losses written off in the current year	(6.9)	(0.7)
• Overseas tax rate differential	(8.6)	(3.5)
• Other non-deductible/non-assessable items	(3.4)	0.2
• Amortisation of goodwill allowable	0.7	1.5
• Tax benefit of deductions in foreign operations	2.7	6.5
• (Under)/over provision in prior years	(1.6)	2.8
• Non-deductible impairment expenses - significant item	(35.5)	(19.2)
• Non-deductible loss on sale of Australian Paper business - discontinued significant item	-	(1.3)
• Non-deductible loss on sale of merchanting businesses - discontinued significant item	(18.7)	-
Total tax (expense)/benefit in income statement	(15.2)	2.8
comprising:		
Tax (expense)/benefit from continuing operations	(11.8)	5.3
Tax expense from discontinued operations	(3.4)	(2.5)
	(15.2)	2.8
Recognised in the income statement		
Current tax expense		
• Current year	(8.7)	5.9
• (Under)/over provision in prior years	(1.6)	2.8
Deferred tax expense	(4.9)	(5.9)
Total tax (expense)/benefit in income statement	(15.2)	2.8
Recognised in other comprehensive income		
Tax effect of actuarial adjustments on defined benefit plans	8.0	(2.4)
Total tax benefit/(expense) recognised in other comprehensive income	8.0	(2.4)

The balance of the consolidated franking account as at the reporting date was $Nil (2011: $Nil).

Note 11. Discontinued operations

On 9 March 2012, the Company announced the sale of its Italian merchanting business (Polyedra), part of the Europe segment. On 26 June 2012, the Company announced the sale of its USA merchanting operations, Spicers USA and Kelly Paper. The USA merchanting operations were part of the North America segment.

On 17 July 2012, the Company announced that it had entered into agreements to sell:

- its merchanting operations in Slovakia, Hungary, Slovenia, Croatia and Serbia (Europe segment); and
- its merchanting operations in South Africa (Europe segment).

Accordingly, these operations have been treated as assets held for sale as at 30 June 2012 and have been disclosed as discontinued in the current and comparative reporting periods. They were sold in order to improve liquidity and provide funds for major restructuring in key European markets.

Discontinued operations also includes the Consolidated Entity's paper manufacturing businesses. Australian Paper was sold effective 31 May 2009 and Tas Paper was closed the following year.

Result from discontinued operations

	2012	2011	2012	2011	2012	2011	2012	2011
	Europe		North America		Manufacturing & Group Elims			Restated
	$m	$m	$m	$m	$m	$m	$m	$m
Revenue	409.5	491.4	460.5	495.7	-	16.0	870.0	1,003.1
Other income	-	0.7	0.9	0.7	1.2	0.6	2.1	2.0
Trading expenses	(404.8)	(482.0)	(456.9)	(488.1)	(1.8)	(17.3)	(863.5)	(987.4)
Result from operating activities before significant items, net finance costs, interest and tax	4.7	10.1	4.5	8.3	(0.6)	(0.7)	8.6	17.7
Significant items - operating activities	(19.0)	(2.2)	-	-	2.2	1.4	(16.8)	(0.8)
Significant items - loss on sale of discontinued operations *(1)*	(9.2)	-	(53.2)	-	-	-	(62.4)	-
Net other finance costs	(0.3)	(0.1)	(0.3)	(0.5)	-	-	(0.6)	(0.6)
Result before interest and tax	(23.8)	7.8	(49.0)	7.8	1.6	0.7	(71.2)	16.3
Net interest	(1.4)	(1.6)	(0.9)	(1.3)	(2.4)	(2.2)	(4.7)	(5.1)
Result before tax	(25.2)	6.2	(49.9)	6.5	(0.8)	(1.5)	(75.9)	11.2
Tax expense pre-significant items	(1.8)	(3.2)	(1.6)	0.1	-	-	(3.4)	(3.1)
Tax expense significant items - operating activities	-	0.6	-	-	-	-	-	0.6
(Loss)/profit for the period	(27.0)	3.6	(51.5)	6.6	(0.8)	(1.5)	(79.3)	8.7

(1) There was no tax benefit applicable to the loss on sale of discontinued operations.

Cash flows from discontinued operations

	2012	2011
	$m	$m
Net cash (used in)/from operating activities	(13.4)	25.1
Net cash used in investing activities	(13.2)	(33.0)
Net cash from financing activities (excluding internal transactions)	7.7	35.6
Net cash (used in)/from discontinued operations	(18.9)	27.7

Note 11. Discontinued operations – (continued)

Effect of disposal on the financial position of the Consolidated Entity

The effect of the disposal of the USA (North America segment) and Italy (Europe segment) merchanting operations on the financial position of the Consolidated Entity is set out below.

	Europe 2012 $m	North America 2012 $m	Total 2012 $m
Current assets			
Cash and cash equivalents	2.3	11.9	14.2
Trade and other receivables	112.8	45.0	157.8
Inventories	31.1	54.1	85.2
Income tax receivable	-	2.3	2.3
Other	-	0.2	0.2
Total current assets	146.2	113.5	259.7
Non-current assets			
Receivables	0.0	0.5	0.5
Property, plant and equipment	2.6	7.7	10.3
Intangible assets	0.5	28.2	28.7
Deferred tax assets	3.0	10.5	13.5
Total non-current assets	6.1	46.9	53.0
Total assets	152.3	160.4	312.7
Current liabilities			
Bank overdraft	8.7	-	8.7
Trade and other payables	84.7	51.5	136.2
Loans and borrowings	20.0	35.6	55.6
Income tax payable	0.7	0.2	0.9
Employee benefits	-	2.2	2.2
Provisions	3.6	-	3.6
Total current liabilities	117.7	89.5	207.2
Non-current liabilities			
Loans and borrowings	-	(0.0)	(0.0)
Deferred tax liabilities	-	8.8	8.8
Employee benefits	3.8	-	3.8
Provisions	2.3	-	2.3
Total non-current liabilities	6.1	8.8	14.9
Total liabilities	123.8	98.3	222.1
Total net assets disposed	28.5	62.1	90.6
Gross consideration	59.7	77.1	136.8
Cash and cash equivalents disposed	(6.4)	11.9	5.5
Debt disposed	(20.0)	(35.6)	(55.6)
Working capital and other adjustments	(8.1)	(15.5)	(23.6)
Net proceeds	25.2	37.9	63.1
less Proceeds receivable *(1)*	(25.2)	(37.9)	(63.1)
Net proceeds received, satisified in cash	-	-	-
Transaction costs paid	(0.8)	(0.3)	(1.1)
Net cash outflow for the period	(0.8)	(0.3)	(1.1)

(1) Consideration receivable in the subsequent reporting period. $56.0m of the net proceeds was received in July 2012.

Note 12. Dividends and distributions

(a) Dividends on PaperlinX Limited ordinary shares

No dividends have been declared or paid on PaperlinX Limited ordinary shares during the current or comparative reporting periods. Refer Note 29 for restrictions on dividend payments.

(b) Distributions on PaperlinX step-up preference securities

	2012 $m	2011 $m
Final distribution paid:		
• Rate of 7.5317% for the period 1 January 2011 to 30 June 2011		10.6
Interim distribution paid:		
• Rate of 7.365% for the period 1 July 2010 to 31 December 2010	-	10.6
Total distributions on PaperlinX step-up preference securities	-	21.2

The interim distribution rate for the period 1 July 2012 to 31 December 2012 is 8.1933%. The distribution is payable at the discretion of the directors of the Company. In addition, the main lending facility in Europe contains a requirement to obtain lender approval for future hybrid distributions.

Note 13. Cash and cash equivalents

	2012 $m	2011 $m
Cash on hand and at bank	60.0	120.0
Deposits at call	20.0	5.3
Total cash and cash equivalents	80.0	125.3

Under certain regional asset backed loan facilities, lender approval is required to move cash within the Consolidated Entity. Balances subject to these approvals at reporting date were $71.4m (2011: $118.9m).

Note 14. Trade and other receivables

	2012 $m	2011 $m
Trade debtors	583.3	899.4
Provision for impairment losses	(26.4)	(53.9)
Net trade debtors	556.9	845.5
Accrued rebates	27.8	38.3
Amounts receivable on sale of property, plant and equipment, controlled entities and investments	60.9	6.9
Currency option	-	31.7
Other debtors	4.6	15.1
Prepayments	21.4	30.4
Total trade and other receivables	671.6	967.9

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

The amount of receivables pledged as part of the regional loan facilities at balance date was $211.1 million (2011: $271.5 million).

Note 15. Inventories

	2012 $m	2011 $m
Finished goods	311.1	445.8
Provision for impairment losses	(5.6)	(6.4)
Net finished goods	305.5	439.4
Total inventories	305.5	439.4

The amount of provision charged to the Income Statement for diminution in value of inventories was $0.5 million for continuing operations (2011: $(1.7) million) and $0.7 million for discontinued operations (2011: $(4.7) million).

The amount of inventories pledged as part of the regional loan facilities in Canada and New Zealand at balance date was $6.8 million (2011: USA, Canada and New Zealand $15.8 million).

Note 16. Assets and liabilities held for sale

On 17 July 2012, the Company announced that it had entered into agreements to sell:

- its merchanting operations in Slovakia, Hungary, Slovenia, Croatia and Serbia; and
- its merchanting operations in South Africa.

In accordance with AASB 5 – *Non-current Assets Held for Sale and Discontinued Operations,* the assets and liabilities of these operations have been reclassified as held for sale. An impairment loss of $2.0m was recognised on the remeasurement of the South African disposal group to the lower of its carrying amount and fair value less costs to sell.

An impairment reversal of $0.8m was recognised in relation to Tas Paper plant and equipment to reinstate items previously impaired, which were subject to a contract of sale at reporting date.

A warehouse, part of the Europe continuing segment, was reclassified as held for sale during the current reporting period. On remeasurement to fair value less costs to sell, an impairment loss of $0.5m was recognised.

Refer Note 6 for a summary of impairment charges and reversals for assets held for sale.

	2012 $m	2011 $m
Cash	1.7	-
Trade and other receivables	26.3	-
Inventories	9.5	-
Property, plant and equipment and intangibles	5.8	0.5
Other	0.1	-
Total assets held for sale	43.4	0.5
Trade and other payables	12.3	-
Loans and borrowings	2.3	-
Income tax payable	0.2	-
Total liabilities held for sale	14.8	-

Note 17. Receivables - non-current

	2012 $m	2011 $m
Amounts receivable on sale of property, plant and equipment, controlled entities and investments	12.7	4.4
Other debtors	0.6	2.4
Total receivables non-current	13.3	6.8

Note 18. Investments

	2012 $m	2011 $m
Shares in other companies - not listed on stock exchanges:		
• At cost	2.0	2.5
• Impairment	(1.0)	(1.0)
Total investment in shares in unlisted companies	1.0	1.5
Total investments	1.0	1.5

Note 19. Property, plant and equipment

$ million	Land	Land improve-ments	Buildings	Plant and equipment	Leased assets	Total
Cost or deemed cost:						
Balance at 1 July 2011	7.4	1.6	100.0	442.0	0.8	551.8
Additions	-	-	0.6	8.2	-	8.8
Disposals *(1)*	-	-	(2.4)	(142.5)	-	(144.9)
Disposal of businesses	-	-	(7.9)	(54.2)	-	(62.1)
Transfers from/(to) assets held for sale	-	-	(9.7)	(3.9)	(0.6)	(14.2)
Foreign currency movements	(0.4)	-	(2.6)	(16.7)	(0.2)	(19.9)
Balance at 30 June 2012	7.0	1.6	78.0	232.9	-	319.5
Depreciation and impairment losses:						
Balance at 1 July 2011	(2.1)	(1.6)	(77.1)	(398.8)	(0.7)	(480.3)
Depreciation	-	-	(2.0)	(10.9)	-	(12.9)
Impairment	(1.7)	-	(2.3)	(0.8)	(0.1)	(4.9)
Disposals *(1)*	-	-	2.4	142.2	-	144.6
Disposal of businesses	-	-	7.4	44.5	-	51.9
Transfers (from)/to assets held for sale	-	-	4.6	3.2	0.6	8.4
Foreign currency movements	0.3	-	1.6	14.9	0.2	17.0
Balance at 30 June 2012	(3.5)	(1.6)	(65.4)	(205.7)	-	(276.2)
Carrying amount as at 30 June 2012	3.5	-	12.6	27.2	-	43.3
Cost or deemed cost:						
Balance at 1 July 2010	5.7	1.6	110.4	473.4	0.8	591.9
Additions	-	-	0.7	9.5	-	10.2
Disposals	(0.1)	-	(2.5)	(16.8)	-	(19.4)
Transfers	2.3	-	(2.3)	(0.7)	-	(0.7)
Foreign currency movements	(0.5)	-	(6.3)	(23.4)	-	(30.2)
Balance at 30 June 2011	7.4	1.6	100.0	442.0	0.8	551.8
Depreciation and impairment losses:						
Balance at 1 July 2010	(2.1)	(1.6)	(80.1)	(420.8)	(0.7)	(505.3)
Depreciation	-	-	(2.5)	(12.5)	(0.0)	(15.0)
Disposals	-	-	1.9	15.6	-	17.5
Foreign currency movements	-	-	3.6	18.9	-	22.5
Balance at 30 June 2011	(2.1)	(1.6)	(77.1)	(398.8)	(0.7)	(480.3)
Carrying amount as at 30 June 2011	5.3	-	22.9	43.2	0.1	71.5

(1) Includes $130.8m of fully depreciated Tas Paper plant and equipment scrapped during the reporting period.

Refer Note 20 for details of the impairment review.

Note 20. Intangible assets and impairment of non-current assets

$ million	Goodwill	Computer software	Brand names	Other	Total
Cost or deemed cost:					
Balance at 1 July 2011	277.3	95.0	16.8	8.4	397.5
Additions	-	5.1	-	-	5.1
Disposal of businesses	(39.7)	(16.3)	-	-	(56.0)
Transfers	-	2.4	-	-	2.4
Foreign currency movements	(13.0)	(8.9)	(0.5)	(0.2)	(22.6)
Balance at 30 June 2012	224.6	77.3	16.3	8.2	326.4
Amortisation and impairment losses:					
Balance at 1 July 2011	(68.4)	(62.8)	(5.2)	(3.8)	(140.2)
Amortisation	-	(5.9)	-	(1.2)	(7.1)
Impairment	(116.3)	0.1	(3.1)	-	(119.3)
Disposal of businesses	14.2	13.7	-	-	27.9
Transfers	-	(2.4)	-	-	(2.4)
Foreign currency movements	5.3	5.6	0.3	0.1	11.3
Balance at 30 June 2012	(165.2)	(51.7)	(8.0)	(4.9)	(229.8)
Carrying amount as at 30 June 2012	59.4	25.6	8.3	3.3	96.6
Cost or deemed cost:					
Balance at 1 July 2010	305.1	114.4	19.4	9.7	448.6
Additions	-	7.8	-	-	7.8
Disposals/retirements	-	(20.4)	-	-	(20.4)
Transfers	-	0.7	-	-	0.7
Foreign currency movements	(27.8)	(7.5)	(2.6)	(1.3)	(39.2)
Balance at 30 June 2011	277.3	95.0	16.8	8.4	397.5
Amortisation and impairment losses:					
Balance at 1 July 2010	(1.8)	(81.6)	(6.1)	(3.4)	(92.9)
Amortisation	-	(6.8)	-	(0.9)	(7.7)
Impairment	(68.5)	-	-	-	(68.5)
Disposals/retirements	-	20.4	-	-	20.4
Foreign currency movements	1.9	5.2	0.9	0.5	8.5
Balance at 30 June 2011	(68.4)	(62.8)	(5.2)	(3.8)	(140.2)
Carrying amount as at 30 June 2011	208.9	32.2	11.6	4.6	257.3

Impairment loss and reversals

A summary of the impairment charges/reversals by asset category is as follows:

		Property, plant and equipment					Intangibles			
$ million 2012	Assets held for sale	Land	Buildings	Plant and equip't	Leased assets	Total	Goodwill	Brands	Computer software	Total
Impairment charges:										
• Continental Europe	(0.5)	(1.7)	(1.4)	-	-	(3.1)	(57.8)	(3.1)	0.1	(60.8)
• United Kingdom, Ireland, Spain and South Africa	-	-	(0.3)	(0.2)	-	(0.5)	(44.3)	-	-	(44.3)
• Australia, New Zealand and Asia	-	-	-	(0.2)	-	(0.2)	-	-	-	-
Total continuing operations	(0.5)	(1.7)	(1.7)	(0.4)	-	(3.8)	(102.1)	(3.1)	0.1	(105.1)
• Continental Europe	-	-	-	(0.1)	-	(0.1)	(14.2)	-	-	(14.2)
• United Kingdom, Ireland, Spain and South Africa	(2.0)	-	(0.6)	(0.3)	(0.1)	(1.0)	-	-	-	-
• Australia, New Zealand and Asia	0.8	-	-	-	-	-	-	-	-	-
Total discontinued operations	(1.2)	-	(0.6)	(0.4)	(0.1)	(1.1)	(14.2)	-	-	(14.2)
Total	(1.7)	(1.7)	(2.3)	(0.8)	(0.1)	(4.9)	(116.3)	(3.1)	0.1	(119.3)

Note 20. Intangible assets and impairment of non-current assets – (continued)

$ million 2011	Assets held for sale	Property, plant and equipment: Land	Build-ings	Plant and equip't	Leased assets	Total	Intangibles: Good-will	Brands	Computer software	Total
Impairment charges:										
• United Kingdom, Ireland, Spain and South Africa	-	-	-	-	-	-	(33.4)	-	-	(33.4)
• Australia, New Zealand and Asia	-	-	-	-	-	-	(35.1)	-	-	(35.1)
Total continuing operations	-	-	-	-	-	-	(68.5)	-	-	(68.5)
Total	-	-	-	-	-	-	(68.5)	-	-	(68.5)

Impairment review

As required under AASB 136 *Impairment of Assets*, the Consolidated Entity performs an impairment assessment when there is an indication or 'trigger' of a possible impairment of its non-current assets and in addition, at least annually performs an impairment review of goodwill and indefinite life intangible assets, regardless of whether an impairment trigger has been identified. An impairment review was performed at 30 June 2012.

Cash generating units

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

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

	Goodwill 2012 $m	Goodwill 2011 $m	Intangible assets with indefinite useful lives 2012 $m	Intangible assets with indefinite useful lives 2011 $m
Merchanting CGU's				
• Continental Europe	-	78.8	-	-
• United Kingdom, Ireland, Spain and South Africa *(1)*	-	42.8	8.3	11.6
• USA *(2)*	-	25.1	-	-
• Canada	34.7	36.7	-	-
• Australia, New Zealand and Asia	24.7	25.5	-	-
	59.4	208.9	8.3	11.6

(1) South Africa is held for sale and presented as part of discontinued operations – refer Note 11. South Africa has no goodwill or intangible assets with indefinite useful lives.

(2) Sale of USA operations announced 26 June 2012 - refer Note 11. Goodwill reversed to profit and loss on disposal.

Impairment testing

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

Note 20. Intangible assets and impairment of non-current assets – (continued)

Assumptions

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

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

Discount rates:	Continental Europe – 11.4% (2011: 12.1%), United Kingdom, Ireland, Spain and South Africa – 12.5% (2011: 12.4%), Canada – 12.3% (2011: 12.3%) and Australia, New Zealand and Asia – 14.1% (2011: 14.1%). The discount rates represent the pre-tax discount rate applied to the cash flow projections. The discount rates reflect the market determined, risk adjusted discount rates.
Terminal growth rate:	Terminal growth rate: 2.0% (2011: 2.0%). The terminal growth rate represents the growth rate applied to extrapolate cash flows beyond the five year forecast period. The growth rate is based upon expectations of the CGUs' long-term performance.
Gross margin:	An overall improvement in gross profit percentage as a result of a change in the sales mix from lower margin core paper to higher margin diversified products over the forecast period and operational efficiencies in the core paper business.
Trading expenses:	An overall improvement in the ratio of trading expenses to sales as a result of certain Board approved restructuring programs and operating efficiencies over the forecast period.
Sales volumes:	For the core paper business, sales volumes are forecast to remain flat or decline based on industry forecasts for each CGU. For the diversified business, volume growth is based on management's estimates of market growth and market share.
Sales prices:	Forecast to increase or decrease based on assumptions about local industry conditions and, where relevant, exchange rates.

Results - goodwill

The valuations for Continental Europe CGU and United Kingdom, Ireland and Spain CGU exceed net assets. However, testing at the country level within both CGUs highlighted several operations where the carrying value of net assets exceeded the valuation.

Ongoing weak demand for core paper products in Continental Europe and the United Kingdom combined with a subdued outlook for paper in the foreseeable future has resulted in an impairment charge of $72.0m being booked against the carrying value of goodwill in the Continental Europe CGU and an impairment charge of $44.3m being booked against the carrying value of goodwill in the United Kingdom, Ireland and Spain CGU. The impairment charges both fall within the merchanting Europe segment and have been disclosed as impairment of intangible assets in the income statement.

In the prior comparative period, an impairment charge of $35.1m was booked against the carrying value of goodwill in the Australia, New Zealand and Asia CGU, and goodwill impairment of $33.4m was booked in the United Kingdom, Ireland and Spain CGU.

Sensitivity analysis - goodwill

Continental Europe:	Following the impairment charge of $72.0m, there is no goodwill remaining in the Continental Europe CGU.
United Kingdom, Ireland, Spain and South Africa:	Following the impairment charge of $44.3m, there is no goodwill remaining in the United Kingdom, Ireland, Spain and South Africa CGU.
Canada:	The recoverable amount for this CGU comfortably exceeds the carrying value. There would need to be a significantly adverse movement in one or more key assumptions, being core paper volumes, gross margin, trading expenses to sales or selling prices, in order for an impairment to arise in future reporting periods.
Australia, New Zealand and Asia:	Following the impairment charge of $35.1m booked against goodwill in Australia in the prior reporting period, the recoverable amount of the CGU comfortably exceeds the carrying value. There would need to be a significantly adverse movement in one or more key assumptions, particularly paper gross margin or trading expenses to sales, in order for an impairment to arise.

Results – other intangible assets

Brand names are valued based upon a royalty stream valuation methodology. Using this methodology, management identified several brands which have experienced volume reductions and projected a similar negative outlook in the forecast period used for the valuation model. As a result, an impairment charge of $3.1m has been booked against the carrying value of brand names. The impairment, relating to the merchanting Europe segment, has been disclosed as impairment of intangible assets in the Income Statement.

In the comparative period, no impairment of other intangible assets was identified.

Note 21. Deferred tax balances

	2012 $m	2011 $m
Deferred taxes		
Deferred tax assets	40.6	52.6
Deferred tax liabilities	(2.2)	(12.6)
Net deferred tax balances	38.4	40.0
Movement in net deferred tax balances during the reporting period:		
Opening balance	40.0	48.3
Recognised in profit or loss	(4.9)	(5.9)
Recognised in other comprehensive income	8.0	(2.4)
Disposal of controlled entities and businesses *(1)*	(4.7)	-
Closing balance	38.4	40.0
Deferred tax balances are attributable to the following:		
Provisions and employee benefits	26.4	23.4
Tax losses	13.2	21.9
Foreign tax credits carried forward	-	3.1
Inventories	-	(6.8)
Property, plant and equipment	(0.8)	(3.2)
Intangible assets	(1.8)	(3.2)
Accrued expenses not claimed	-	0.3
Other items	1.4	4.5
Net deferred tax balances	38.4	40.0
Unrecognised deferred tax assets *(2)*		
Capital losses - no expiry date	149.8	149.2
Revenue losses - no expiry date	240.2	228.8
Total unrecognised deferred tax assets	390.0	378.0

(1) This amount relates to deferred tax balances for the USA and Italian merchanting operations on disposal during the current reporting period.

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

Note 22. Trade and other payables

	2012 $m	2011 $m
Trade creditors	332.7	548.8
Accrued expenses	9.3	17.3
Sales tax, GST and VAT	27.4	38.3
Rebates	16.7	19.6
Other creditors	55.6	107.9
Total trade and other payables	441.7	731.9

Note 23. Loans and borrowings

(a) Current

	Currency	Nominal interest rate *(1)*	Year of Maturity	2012 $m	2011 $m
• Bank loans - secured *(2)*	EUR	CP Rate *(3)*	2013 *(9)*	34.3	1.3
• Bank loans - secured *(2)*	GBP	CP Rate *(3)*	2013 *(9)*	112.4	3.3
• Bank loans - secured *(2)*	AUD	BBSR *(5)*	2016 *(10)*	16.0	23.7
• Bank loans - secured *(2)*	NZD	BKBM *(6)*	2014 *(10)*	2.7	3.8
• Bank loans - secured *(2)*	EUR	Euribor *(7)*	2012-13	-	27.7
• Other bank loans - secured	EUR	various	various	5.8	0.6
• Capitalised borrowing costs				(0.6)	(0.7)
Bank loans - secured				170.6	59.7
Bank loans - unsecured	various	various	various	5.2	3.3
Finance lease liabilities				-	0.1
Total loans and borrowings - current				175.8	63.1

(b) Non-current

	Currency	Nominal interest rate *(1)*	Year of Maturity	2012 $m	2011 $m
• Bank loans - secured *(2)*	EUR	CP Rate *(3)*	2013 *(9),(10)*	-	47.9
• Bank loans - secured *(2)*	GBP	CP Rate *(3)*	2013 *(9),(10)*	-	122.7
• Bank loans - secured *(2)*	GBP	BBLR *(8)*	2014	34.0	16.3
• Bank loans - secured *(2)*	AUD	BBSR *(5)*	2016 *(10)*	-	3.8
• Bank loans - secured *(2)*	USD	Prime	2016	-	22.7
• Bank loans - secured *(2)*	CAD	C Prime *(4)*	2016	16.4	13.7
• Bank loans - secured *(2)*	NZD	BKBM *(6)*	2014 *(10)*	2.2	-
• Capitalised borrowing costs				(0.6)	(3.0)
Bank loans - secured				52.0	224.1
Other loans - unsecured				-	0.1
Total loans and borrowings - non-current				52.0	224.2

(1) Excludes company specific margins.
(2) These bank loans are facilities secured by certain assets.
(3) CP Rate: Commercial Paper Rate.
(4) C Prime: Canadian Prime rate.
(5) BBSR: Bank Bill Swap Rate.
(6) BKBM: Bank Bill Market Rate.
(7) Euribor: Euro Inter Bank Offer Rate
(8) BBLR: Bank Based Lending Rate.
(9) As this facility may either be renewed or refinanced prior to 30 June 2013, the borrowing has been reclassified as a current liability.
(10) The Consolidated Entity has the discretion and intention to extend a portion of these facilities for at least twelve months from balance date. The amount that has been determined as non-current is the lowest expected balance of these facilities in the twelve month period post balance date based upon Management approved budgets.

The regional asset backed facilities in Australia, NZ, Canada and Europe have availability periods of between 1 to 4 years, and include regional covenant measures. These will vary by region and may include fixed charge coverage ratios, interest cover, EBITDA, net worth tests and gearing levels. These facilities have restrictions on the ability to draw down and move cash within the Consolidated Entity.

The regional asset backed facilities in Australia, New Zealand and Europe involve the sale of receivables. In Canada, the regional facility is secured by both receivables and inventory. In the United Kingdom, the facility is secured by receivables.

(c) Reconciliation of consolidated loans and borrowings

	Note	2012 $m	2011 $m
Current loans and borrowings		175.8	63.1
Non-current loans and borrowings		52.0	224.2
Total loans and borrowings		227.8	287.3
Cash and cash equivalents	13	(80.0)	(125.3)
Bank overdrafts		-	9.8
Net loans and borrowings		147.8	171.8

Note 24. Employee benefits

(a) Current

	Note	2012 $m	2011 $m
Leave entitlements		6.4	9.2
Workers' compensation *(1)*		3.1	4.9
Other entitlements		0.3	1.3
Total current employee benefits		9.8	15.4

(b) Non-current

	Note	2012 $m	2011 $m
Defined benefit obligations	32	105.9	88.5
Leave entitlements		0.6	0.8
Directors' retirement allowances *(2)*		-	1.4
Other entitlements		2.6	4.3
Total non-current employee benefits		109.1	95.0

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

(2) In the comparative period, these benefits related to Non-executive Directors of the Company appointed before 31 December 2006 and were in accordance with the Company's Constitution and with agreements between the Company and individual Directors, and were frozen in 2006. An earnings rate equal to the 5 year Australian Government Bond Rate applied to frozen entitlements. All outstanding entitlements were paid out during the current reporting period.

(c) Total employee benefits

	2012 $m	2011 $m
Current	9.8	15.4
Non-current	109.1	95.0
Total employee benefits	118.9	110.4

Note 25. Provisions

(a) Current

$ million	Step-up Preference Securities distrib-utions	Tas Paper closure	Restruct-uring	Other	Total
Balance at 1 July 2011	-	8.4	12.6	2.5	23.5
Provided/(released) during the year	-	-	19.0	1.4	20.4
Paid during the year	-	(5.5)	(10.5)	(1.1)	(17.1)
Transfers	-	5.7	1.8	0.7	8.2
Disposal of businesses	-	-	(3.0)	(0.6)	(3.6)
Foreign currency movements	-	-	(1.3)	(0.1)	(1.4)
Balance at 30 June 2012	-	8.6	18.6	2.8	30.0
Balance at 1 July 2010	-	34.4	2.6	4.1	41.1
Provided/(released) during the year	21.2	0.5	9.5	0.9	32.1
Paid during the year	(21.2)	(32.1)	(4.5)	(3.1)	(60.9)
Transfers	-	5.6	5.4	0.9	11.9
Foreign currency movements	-	-	(0.4)	(0.3)	(0.7)
Balance at 30 June 2011	-	8.4	12.6	2.5	23.5

(b) Non-current

$ million	Step-up Preference Securities distrib-utions	Tas Paper closure	Restruct-uring	Other	Total
Balance at 1 July 2011	-	4.6	2.8	7.5	14.9
Provided/(released) during the year	-	(0.1)	6.9	0.1	6.9
Paid during the year	-	-	-	(0.3)	(0.3)
Transfers	-	(5.7)	(1.8)	(0.7)	(8.2)
Unwind of discount	-	1.2	-	0.6	1.8
Disposal of businesses	-	-	-	(2.3)	(2.3)
Foreign currency movements	-	-	(0.5)	(0.2)	(0.7)
Balance at 30 June 2012	-	-	7.4	4.7	12.1
Balance at 1 July 2010	-	12.0	3.6	5.0	20.6
Provided/(released) during the year	-	(3.4)	3.5	4.7	4.8
Transfers	-	(5.6)	(4.1)	(2.2)	(11.9)
Unwind of discount	-	1.6	-	0.4	2.0
Foreign currency movements	-	-	(0.2)	(0.4)	(0.6)
Balance at 30 June 2011	-	4.6	2.8	7.5	14.9

(c) Total provisions

$ million	Step-up Preference Securities distrib-utions	Tas Paper closure	Restruct-uring	Other	Total
Balance at 30 June 2012					
Current	-	8.6	18.6	2.8	30.0
Non-current	-	-	7.4	4.7	12.1
Total provisions	-	8.6	26.0	7.5	42.1
Balance at 30 June 2011					
Current	-	8.4	12.6	2.5	23.5
Non-current	-	4.6	2.8	7.5	14.9
Total provisions	-	13.0	15.4	10.0	38.4

Dividends

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

Step-up preference securities distributions

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

Note 25. Provisions – (continued)

Tas Paper closure

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

- Environmental works at the Burnie and Wesley Vale mills. The remaining work is expected to be completed within the next 12 months.
- Redundancy payments to be made in accordance with employee's rights under their contract of employment or industrial awards (excluding entitlements to annual and long service leave and accrued wages).
- Other costs associated with the Tas Paper closure, including transaction costs (e.g. legal and consulting fees), additional labour and termination of long-term supply agreements. The remaining costs are expected to be incurred within the next 12 months.

Restructuring

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

Other

Other provisions relate to remediation for the discontinued Australian Paper operations, and provisions relating to agents and onerous contracts in Europe.

Note 26. Payables - non-current

	2012 $m	2011 $m
Other creditors	1.3	1.4
Total payables non-current	1.3	1.4

Note 27. Share capital

	2012 $m	2011 $m
Issued capital		
Issued and paid-up share capital - 609,280,761 ordinary shares (2011: 603,580,761)	1,894.0	1,891.4
Employee share plan loans	(0.5)	(0.7)
Total issued capital	1,893.5	1,890.7
Movement in employee share plan loans:		
Balance at beginning of reporting period	(0.7)	(0.8)
Loans forgiven - forfeited entitlements	0.2	0.1
Balance at end of reporting period	(0.5)	(0.7)

	2012 thousands of shares	2011 thousands of shares
Movement in issued shares		
Ordinary shares on issue at beginning of reporting period	603,580.8	603,580.8
Shares issued under employee short and long-term incentive plans	5,700.0	-
Ordinary shares on issue at end of reporting period	609,280.8	603,580.8

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

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

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

Note 28. Reserves

Reserve for own shares

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

Exchange fluctuation reserve

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

Hedging reserve

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

Employee share plans reserve

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

Note 29. PaperlinX Step-up Preference Securities

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

Distributions on the PSPS are at the discretion of The Trust Company (RE Services) Limited ("the Responsible Entity") and ultimately, the Directors of PaperlinX Limited. Distributions are paid on a floating rate, unfranked, non-cumulative, discretionary and semi-annual basis. If a distribution is not paid in full, the distribution does not accumulate and may never be paid on the PSPS. If a distribution is not paid in full, the Company will be restricted from paying dividends or making other distributions on any class of its share capital until such time as two consecutive distributions are paid by the PaperlinX SPS Trust or an optional distribution is paid equal to the unpaid amount of scheduled distributions for the 12 months preceding (but not including) the payment date of the optional distribution. In addition, the main lending facility in Europe contains a requirement to obtain lender approval for future hybrid distributions.

The distribution rate was the 180 day bank bill swap rate plus a margin of 2.40%. On the first periodic remarketing date 30 June 2012 the PSPS were stepped-up so that the distribution rate for future discretionary distributions will be the 180 day bank bill swap rate plus a margin of 4.65%. The next remarketing date is 31 December 2012.

During the reporting period no distribution (2011: $21.2 million) was paid on the PSPS - refer Note 12(b) for details of distributions.

Note 30. Share-based payments arrangements

At 30 June 2012, the Consolidated Entity has the following share-based payment arrangements:

Employee share plan loans

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

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

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

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

Employee shares

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

The shares are held in trust. The voting rights attached to the shares are held in trust, and the dividends attached to the shares are retained by the trust. Shares retained in the trust are available to satisfy future issues under other share-based payment arrangements. During the reporting period 4,886,832 shares were distributed from the reserve to satisfy issues under other share-based payment plans.

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

	Opening balance	Distributed	New shares issued to plan	Closing balance
2012				
Number of shares	191,280	(4,886,832)	5,700,000	1,004,448
2011				
Number of shares	1,364,510	(1,173,230)	-	191,280

None of the shares retained by the trust at 30 June 2012 or 30 June 2011 have vested.

The shares on hand at the reporting date have an aggregate fair value of $0.06 million (2011: $0.03 million).

Options

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

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

At balance date there are 744,153 (2011: 4,494,454) unissued shares of the Company which are under option. Each option entitles the holder to purchase one fully paid ordinary share in the Company at the exercise price, subject to the satisfaction of the terms of the option agreements.

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

2012					Number of options					
Grant date	Initial measurement/ service date	Expiry date	Exer-cise price	Fair value at date of grant	Balance 1 July 2011	Granted	Lapsed	Exercised	Balance 30 June 2012	Exercisable at balance date
14/4/2000	14/4/2003	*(1)*	$3.13	$0.36	25,000	-	-	-	25,000	25,000
20/11/2000	20/11/2003	*(1)*	$3.32	$0.33	20,000	-	-	-	20,000	20,000
19/4/2001	19/4/2004	*(1)*	$3.50	$0.92	110,000	-	(90,000)	-	20,000	20,000
13/9/2001	13/9/2004	*(1)*	$4.12	$0.47	56,200	-	(27,000)	-	29,200	29,200
20/9/2002	20/9/2005	20/9/2012	$5.13	$0.64	35,000	-	(19,000)	-	16,000	16,000
18/6/2003	18/6/2006	*(1)*	$4.76	$0.50	150,000	-	(150,000)	-	-	-
24/8/2007	24/8/2010	24/8/2017	$3.80	$1.05	89,654	-	(89,654)	-	-	-
30/10/2008	30/10/2011	30/10/2018	$2.05	$0.51	916,700	-	(872,047)	-	44,653	44,653
11/12/2009	30/12/2012	11/12/2016	$0.49	$0.30	1,430,860	-	(1,235,770)	-	195,090	-
19/10/2010	31/8/2013	7/8/2017	$0.64	$0.16	1,661,040	-	(1,266,830)	-	394,210	-
					4,494,454	-	(3,750,301)	-	744,153	154,853
Weighted average exercise price					$1.25	-	$1.28	-	$1.15	$3.28

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

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

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

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

Since balance date up to the date of this report, 589,300 options have lapsed in respect of the plan period ended 30 June 2012. In addition, no options on issue at balance date have been exercised up to the date of this report.

Rights

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

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

At reporting date there are 4,000,553 (2011: 12,336,327) unissued shares of the Company which are subject to performance rights. Each performance right entitles the holder to receive one fully paid ordinary share in the Company when the relevant performance conditions are met. The details of the performance rights on issue at balance date and movements during the reporting period are as follows:

2012					Number of rights				
Grant date	Initial measurement/ service date	Expiry date	Exercise price	Fair value at date of grant	Balance 1 July 2011	Granted	Lapsed	Exercised	Balance 30 June 2012
24/8/2007	31/8/2010	27/8/2017	$nil	$2.65	193,010	-	(193,010)	-	-
30/10/2008	30/6/2011	*(1)*	$nil	$1.30	1,295,567	-	-	(1,295,567)	-
30/10/2008	31/8/2011	27/8/2018	$nil	$1.18	387,120	-	(368,450)	-	18,670
30/11/2009	31/10/2011	*(1)*	$nil	$0.47	3,099,000	-	(10,000)	(3,089,000)	-
11/12/2009	31/8/2012	11/12/2016	$nil	$0.47	858,520	-	(741,465)	-	117,055
11/12/2009	29/8/2012	*(1)*	$nil	$0.50	391,730	-	(107,120)	(236,050)	48,560
7/8/2010	7/8/2012	*(1)*	$nil	$0.60	3,425,000	-	(135,000)	(245,000)	3,045,000
19/10/2010	30/6/2013	*(1)*	$nil	$0.39	1,689,760	-	(1,533,807)	(21,215)	134,738
19/10/2010	31/8/2013	*(1)*	$nil	$0.32	996,620	-	(760,090)	-	236,530
20/6/2012	1/8/2013	*(1)*	$nil	$0.06	-	400,000	-	-	400,000
					12,336,327	400,000	(3,848,942)	(4,886,832)	4,000,553

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

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

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

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

Since balance date up to the date of this report, 545,452 rights have lapsed in respect of the plan period ended 30 June 2012. No rights on issue at balance date have been exercised. In addition, no rights have been issued since balance date up to the date of this report.

No rights were exercisable as at balance date.

Share-based payments expense

	2012 $m	2011 $m
Equity settled share-based payments expense	(0.4)	(1.8)
Total share-based payments expense	(0.4)	(1.8)

Note 31. Financial risk management and financial instrument disclosures

Overview

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

- Credit risk
- Liquidity risk
- Market risk.

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

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

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

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

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

Credit risk

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

Trade and other receivables

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

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

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

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

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

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

Foreign exchange contracts

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

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

Guarantees

Details of guarantees provided by the Company and the Consolidated Entity are detailed in Note 34 and Note 37 respectively.

Liquidity risk

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

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

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

Market risk

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

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

The Consolidated Entity does not enter into commodity contracts.

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

Currency risk - transactional

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

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

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

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

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

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

Currency risk - translational

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

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

Interest rate risk

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

Capital management

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

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Consolidated Entity's target is to achieve a return on average funds employed (net debt plus total equity) of between 12 and 15 percent. During the year ended 30 June 2012 the return was (25.5) percent (2011: (8.3) percent). This underperformance is largely due to weaker trading performance, losses on sale of USA and Italy, restructuring costs and impairments. In comparison the weighted average interest rate on interest-bearing borrowings was 4.5 percent (2011: 3.4 percent).

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

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

Exposure to credit risk

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

	Note	2012 $m	2011 $m
Current net trade receivables		556.9	845.5
Currency option		-	31.7
Forward exchange contracts		0.5	0.2
Current other receivables		114.2	90.5
Total current trade and other receivables	14	671.6	967.9
Interest rate option		-	0.2
Non-current other receivables		13.3	6.6
Total non-current trade and other receivables	17	13.3	6.8
Total trade and other receivables		684.9	974.7
Cash and cash equivalents	13	80.0	125.3
		764.9	1,100.0

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

	2012 $m	2011 $m
Australia, Asia, New Zealand	138.7	110.8
Europe	496.1	760.7
North America	50.1	103.2
Total trade and other receivables	684.9	974.7

Receivables relate to wholesale and end-user customers.

The ageing of trade debtors at the reporting date was:

	Note	Gross 2012 $m	Gross 2011 $m
Not past due		483.6	743.6
Past due 0-30 days		58.9	74.1
Past due 31-120 days		18.4	30.7
Past due 121 days to one year		4.9	7.0
Past due more than one year		17.5	44.0
Total gross trade debtors	14	583.3	899.4

Impairment losses

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

	Note	2012 $m	2011 $m
Balance at 1 July		(53.9)	(54.1)
Impairment loss recognised		(15.4)	(23.9)
Net write-off		16.4	20.9
Disposal of businesses		22.0	-
Foreign currency movements		4.5	3.2
Balance at 30 June	14	(26.4)	(53.9)

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

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

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

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

Exposure to liquidity risk

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

	Carrying amount $m	Contractual Cash Flows Total $m	1 year or less $m	1 to 5 years $m	More than 5 years $m
2012					
Non-derivative financial liabilities					
Trade and other payables	442.9	442.9	441.6	1.3	-
Interest bearing loans and borrowings	227.8	229.0	176.4	52.6	-
Derivative financial liabilities					
Other foreign exchange contracts	0.1	0.1	0.1	-	-
2011					
Non-derivative financial liabilities					
Trade and other payables	729.4	729.4	728.0	1.4	-
Bank overdrafts	9.8	9.8	9.8	-	-
Interest bearing loans and borrowings	287.2	290.9	63.7	227.2	-
Finance lease liabilities	0.1	0.1	0.1	-	-
Derivative financial liabilities					
Cash flow hedges *(1)*	3.0	3.0	3.0	-	-
Other foreign exchange contracts	0.9	0.9	0.9	-	-

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

Exposure to currency risks

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

	2012					2011				
Currency Exposure (in AUD)	**AUD $m**	**EUR $m**	**USD $m**	**GBP $m**	**CAD $m**	**AUD $m**	**EUR $m**	**USD $m**	**GBP $m**	**CAD $m**
Trade and other receivables	0.6	10.3	47.0	0.1	-	1.1	37.5	7.6	1.0	-
Trade and other payables	(1.0)	(32.2)	(39.3)	(8.6)	-	(1.3)	(56.8)	(33.6)	(2.1)	-
Loans and borrowings *(1)*	-	(11.8)	(1.8)	-	40.4	(285.0)	(27.2)	(24.6)	(191.3)	46.1
Gross balance sheet exposure	(0.4)	(33.7)	5.9	(8.5)	40.4	(285.2)	(46.5)	(50.6)	(192.4)	46.1
Foreign exchange contracts	0.2	25.7	15.5	(2.2)	-	285.3	5.5	46.8	126.0	-
Net balance sheet exposure	(0.2)	(8.0)	21.4	(10.7)	40.4	0.1	(41.0)	(3.8)	(66.4)	46.1

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

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

	Reporting date spot rate	
	2012	**2011**
EUR	0.8065	0.7032
USD	0.9881	1.0279
GBP	0.6468	0.6335
CAD	1.0370	0.9828

Sensitivity analysis

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

	2012 $m	2011 $m
EUR	0.7	3.7
USD	(1.9)	0.3
GBP	1.0	6.0
CAD	(3.7)	(4.2)

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

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

Exposure to interest rate risks

Profile

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

	Floating interest $m	Fixed interest $m	Total $m	Effective interest rate % *(1)*
2012				
Financial assets				
Cash and cash equivalents	80.0	-	80.0	0.4
Financial liabilities				
Interest bearing loans and borrowings *(2)*	229.0	-	229.0	4.5
2011				
Financial assets				
Cash and cash equivalents	125.3	-	125.3	0.3
Financial liabilities				
Bank overdrafts	9.8	-	9.8	5.5
Interest bearing loans and borrowings	290.9	-	290.9	3.4
Finance lease liabilities	-	0.1	0.1	-

(1) Excludes company specific margins.
(2) €85m of floating interest rate debt is hedged via an interest rate cap.

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

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

	2012 $m	2011 $m
Floating interest	(2.2)	(3.0)

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

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

Fair values

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

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

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

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

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

The carrying values and net fair values of financial assets and liabilities shown in the statement of financial position are as follows:

	Note	Fair value hedging instruments $m	Loans and receivables $m	Other financial assets $m	Other financial liabilities $m	Total carrying amount $m	Fair value $m
2012							
Cash and cash equivalents	13	-	80.0	-	-	80.0	80.0
Trade and other receivables		-	684.4	-	-	684.4	684.4
Foreign exchange contracts		0.5	-	-	-	0.5	0.5
Income tax receivable			3.4			3.4	3.4
Investments	18	-	-	1.0	-	1.0	1.0
		0.5	767.8	1.0	-	769.3	769.3
Trade and other payables		-	-	-	(442.9)	(442.9)	(442.9)
Foreign exchange contracts		(0.1)	-	-	-	(0.1)	(0.1)
Bank loans - secured		-	-	-	(222.6)	(222.6)	(223.8)
Bank loans - unsecured	23	-	-	-	(5.2)	(5.2)	(5.2)
		(0.1)	-	-	(670.7)	(670.8)	(672.0)
2011							
Cash and cash equivalents	13	-	125.3	-	-	125.3	125.3
Trade and other receivables		-	942.6	-	-	942.6	942.6
Currency option	14	31.7	-	-	-	31.7	31.7
Interest rate option		0.2	-	-	-	0.2	0.2
Foreign exchange contracts		0.2				0.2	0.2
Investments	18	-	-	1.5	-	1.5	1.5
		32.1	1,067.9	1.5		1,101.5	1,101.5
Bank overdrafts	23	-	-	-	(9.8)	(9.8)	(9.8)
Trade and other payables		-	-	-	(729.4)	(729.4)	(729.4)
Foreign exchange contracts		(3.9)	-	-	-	(3.9)	(3.9)
Bank loans - secured		-	-	-	(283.8)	(283.8)	(287.5)
Bank loans - unsecured		-	-	-	(3.4)	(3.4)	(3.4)
Finance lease liabilities	23	-	-	-	(0.1)	(0.1)	(0.1)
		(3.9)	-	-	(1,026.5)	(1,030.4)	(1,034.1)

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

Fair value hierarchy

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

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

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
2012				
Foreign exchange contracts - receivables	-	0.5	-	0.5
	-	0.5	-	0.5
Foreign exchange contracts - payables	-	(0.1)	-	(0.1)
	-	(0.1)	-	(0.1)
2011				
Foreign exchange contracts - receivables	-	0.2	-	0.2
Interest rate option	-	0.2	-	0.2
Currency option	-	31.7	-	31.7
	-	32.1	-	32.1
Cash flow hedges		(3.0)		(3.0)
Foreign exchange contracts - payables	-	(0.9)	-	(0.9)
	-	(3.9)	-	(3.9)

Note 32. Employee retirement benefit obligations

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

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

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

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

Basis of estimation

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

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

Note 32. Employee retirement benefit obligations – (continued)

	2012 $m	2011 $m
The amounts recognised in the Statement of Financial Position are determined as follows:		
Present value of the defined benefit obligation	435.7	428.9
Less fair value of plan assets	(333.6)	(342.3)
Add limitation on recoupment of net surplus position	3.8	1.9
Net liability in the Statement of Financial Position	105.9	88.5
Changes in the present value of the defined benefit obligations are as follows:		
Balance at the beginning of year	428.9	476.9
Current service costs	4.0	5.0
Interest on obligation	22.5	23.2
Past service costs	-	(3.4)
Actuarial losses on defined benefit obligations	22.5	0.2
Contributions by members	0.4	0.5
Disposal of business *(1)*	(3.9)	-
Curtailment gain	-	(0.7)
Exchange differences on foreign plans	(21.9)	(52.2)
Benefits paid	(17.3)	(20.0)
Other	0.5	(0.6)
Balance at end of year	435.7	428.9
Changes in the fair value of plan assets are as follows:		
Balance at the beginning of year	342.3	358.8
Expected return on plan assets	21.8	20.7
Actuarial (losses)/gains on fair value of plan assets	(14.4)	6.2
Contributions by employer	15.7	14.8
Contributions by members	0.4	0.5
Exchange differences on foreign plans	(17.3)	(40.4)
Benefits paid	(15.2)	(17.4)
Other	0.3	(0.9)
Closing fair value of plan assets	333.6	342.3
Less limitation on recoupment of net surplus position	(3.8)	(1.9)
Balance at end of year	329.8	340.4

(1) Due to the sale of Italy during the current reporting period. Refer Note 11 – Discontinued operations.

	2012 $m	2011 $m
Expense recognised in the Income Statement:		
Current service costs	4.0	5.0
Interest on obligation	22.5	23.2
Expected return on plan assets	(21.8)	(20.7)
Past service costs	-	(3.4)
Curtailment gain	-	(0.7)
Other	0.3	0.3
Total recognised expense	5.0	3.7
Amount recognised in the Statement of Comprehensive Income:		
Actuarial losses on defined benefit obligations	(22.5)	(0.2)
Actuarial (losses)/gains on fair value of plan assets	(14.4)	6.2
Movement in limitation on recoupment of net surplus position	(2.3)	(1.9)
	(39.2)	4.1
Less tax effect, where applicable	8.0	(2.4)
Total recognised comprehensive (loss)/income	(31.2)	1.7
Cumulative actuarial gains and losses recognised in the Statement of Comprehensive Income:		
Cumulative losses at beginning of year	76.4	92.2
Actuarial losses/(gains) recognised during the year	36.9	(6.0)
Exchange differences on foreign plans	(4.6)	(9.8)
Cumulative losses at end of year	108.7	76.4

Note 32. Employee retirement benefit obligations – (continued)

Principal actuarial assumptions

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

	2012	2011
Discount rate	3.1% to 4.9%	4.0% to 5.75%
Salary increase rate	1.7% to 4.0%	1.0% to 4.0%
Inflation	2.0% to 3.0%	2.0% to 3.6%
Expected asset return	4.7% to 7.6%	4.4% to 7.36%

Plan assets

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

	2012	2011
Equity securities	46%	48%
Bonds	43%	41%
Property	3%	3%
Other	8%	8%
Total plan assets	100%	100%

Defined benefit plans

	Plans as at 30 June 2012			Plans as at 30 June 2011		
	Plan assets $m	Defined benefit obligation $m	Surplus/ (deficit) $m	Plan assets $m	Defined benefit obligation $m	Surplus/ (deficit) $m
Plans with funded obligations:						
PaperlinX Superannuation Fund (Australia)	11.7	12.2	(0.5)	9.6	11.0	(1.4)
Pension Plan for Employees of PaperlinX Canada	39.2	55.1	(15.9)	45.7	52.1	(6.4)
PaperlinX Pensioenfonds (Netherlands)	42.8	42.8	-	43.8	43.8	-
Pension Plan for Bührmann Ubbens employees with Nationale Nederlanden (Netherlands)	23.9	29.2	(5.3)	25.0	37.2	(12.2)
The Howard Smith Paper Group Pension Scheme (UK)	48.9	56.7	(7.8)	48.7	54.5	(5.8)
Robert Horne Group Pension Scheme (UK)	148.4	211.0	(62.6)	150.7	196.2	(45.5)
Other	14.9	20.2	(5.3)	16.9	19.9	(3.0)
	329.8	427.2	(97.4)	340.4	414.7	(74.3)
Other plans funded directly by employer subsidiaries	-	8.5	(8.5)	-	14.2	(14.2)
	329.8	435.7	(105.9)	340.4	428.9	(88.5)

Historical information

	2012 $m	2011 $m	2010 $m	2009 $m	2008 $m
Present value of defined benefit obligation	435.7	428.9	476.9	464.8	521.6
Fair value of plan assets	(333.6)	(342.3)	(358.8)	(354.0)	(439.1)
Deficit in the plans *(1)*	102.1	86.6	118.1	110.8	82.5
Plan asset (gain)/loss due to experience	14.4	(6.2)			
Plan liability (gain)/loss due to experience	(4.7)	(18.0)			

(1) Before limitation on recoupment of net surplus positions $3.8 million (2011: $1.9 million; 2010: $nil; 2009: $9.7 million; 2008: $2.5 million).

Future contributions

Based on the periodic funding valuations and local funding requirements, the Consolidated Entity estimates $12.5 million in contributions to be paid to its defined benefit plans during the year ending 30 June 2013 (Actual contributions for year ended 30 June 2012: $15.7 million).

Note 33. Reconciliation of cash flows from operating activities

	Note	2012 $m	2011 $m
Reconciliation of loss after tax to net cash from operating activities			
Loss for the period		(266.7)	(108.0)
Add back non-cash items:			
• Depreciation and amortisation of property, plant, equipment and intangibles		20.0	22.7
• Impairment of property, plant, equipment and intangibles	6	125.9	68.5
• Loss on disposal of controlled entities	6	62.4	-
• Profit on disposal of property, plant and equipment		(0.9)	(1.4)
• Revaluations of assets held for sale		-	(1.8)
• Employee share based payments expense		0.4	1.8
• Movement in fair value of currency option and loan	6	(4.0)	20.8
• Amortisation of capitalised borrowing costs		4.0	2.3
Add back other items classified as investing/financing:			
• Provision for costs related to closure of discontinued Tasmanian operations		0.2	(5.9)
• Additional transaction costs relating to the sale of Australian Paper		-	4.5
• Borrowing costs expensed		0.4	0.6
Decrease in trade and other receivables		71.6	78.8
Decrease in inventories		12.0	39.3
Decrease in trade and other payables		(109.8)	(53.6)
Increase/(decrease) in provisions		9.8	(6.9)
Decrease/(increase) in current and deferred taxes		12.4	(7.1)
Net cash (used in)/from operating activities		(62.3)	54.6

Reconciliation of cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank and short-term money market investments, net of outstanding bank overdrafts.
Cash as at 30 June as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

		2012 $m	2011 $m
Cash and cash equivalents		80.0	125.3
Bank overdrafts		-	(9.8)
		80.0	115.5

Note 34. Parent entity disclosures

As at and throughout the financial year ended 30 June 2012, the parent company of the Consolidated Entity was PaperlinX Limited.

For the year ended 30 June	Parent Entity 2012 $m	2011 $m
Comprehensive Income		
Other income	25.8	7.9
Other expenses	(5.3)	(8.3)
Individually significant items	(556.7)	(13.3)
Result from operating activities	(536.2)	(13.7)
Net finance costs	(0.9)	(0.3)
Loss before tax	(537.1)	(14.0)
Tax expense	-	(0.1)
Total comprehensive loss for the period, net of tax	(537.1)	(14.1)

As at 30 June	Parent Entity 2012 $m	2011 $m
Statement of Financial Position		
Current assets		
Other receivables	692.7	669.5
Non-current assets		
Investments in subsidiaries	41.3	407.0
Total assets	734.0	1,076.5
Non-current liabilities		
Loans and borrowings	191.0	-
Total liabilities	191.0	-
Net assets	543.0	1,076.5
Equity		
Issued capital	1,893.5	1,890.7
Reserve for own shares	(0.1)	(0.9)
Accumulated losses	(1,350.4)	(813.3)
Total equity	543.0	1,076.5

	Parent Entity 2012 $m	2011 $m
Contingent liabilities		
Contingent liabilities arising in respect of related bodies corporate:		
• Bank guarantees (government)	2.2	3.6
• Bank guarantees (trade)	3.2	3.7
• Loan guarantees (subsidiaries)	253.7	310.7
Total contingent liabilities	259.1	318.0

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

Note 35. Capital expenditure commitments

	2012 $m	2011 $m
Capital expenditure contracted but not provided for:		
• Property, plant and equipment	0.6	0.2
• Intangibles	-	0.1
Total capital expenditure commitments	0.6	0.3

Note 36. Lease commitments

	Note	2012 $m	2011 $m
Finance lease liability			
Lease expenditure contracted and provided for:			
• Not later than one year		-	0.1
Minimum lease payments		-	0.1
Less: Future finance charges		-	-
Total finance lease liability		-	0.1
Current lease liabilities	23	-	0.1
Total finance lease liability		-	0.1

	2012 $m	2011 $m
Operating lease commitments		
Lease expenditure contracted but not provided for:		
• Not later than one year	58.4	83.2
• Later than one year but not later than five years	146.9	199.7
• Later than five years	141.1	175.1
Total operating lease commitments	346.4	458.0

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

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

Note 37. Contingent liabilities

	2012 $m	2011 $m
Contingent liabilities arising in respect of related bodies corporate:		
• Bank guarantees (trade)	6.8	6.0
• Other guarantees	2.9	3.6
• Other	0.4	0.6
Total contingent liabilities	10.1	10.2

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

Other guarantees, the beneficiaries of which are government departments, include bank guarantees in relation to the specific requirement of self-insurance licences for workers' compensation in Australia.

Under the terms of the ASIC Class Order 98/1418 dated 13 August 1998 (as amended), the Company and certain subsidiaries have entered into approved deeds for the cross guarantee of liabilities with those subsidiaries identified in Note 40.

The Consolidated Entity has given certain warranties and indemnities to the purchasers of the USA and Italian businesses that were sold during the period. Warranties have been given in relation to matters including the sale assets, taxes, people, legal, environmental and intellectual property. Indemnities have also been given in relation to matters including legal and employee claims and pre-completion taxes.

At the time of signing this report, no claims have been made by the buyers under any such warranties and indemnities and, accordingly, it is not possible to quantify the potential financial obligation (if any) of the Consolidated Entity under these indemnities.

Note 38. Auditors' remuneration

	2012 $m	2011 $m
Audit services		
Auditors of the Consolidated Entity		
• KPMG - Australia	0.960	0.895
• KPMG - other member firms	1.985	2.442
	2.945	3.337
• Other auditors *(1)*	0.164	0.170
	3.109	3.507
Other services		
Auditors of the Consolidated Entity		
• KPMG - Australia		
Other assurance services	0.044	0.034
• KPMG - other member firms		
Other assurance services	0.058	0.125
Taxation services	0.014	0.014
Other services	-	0.036
	0.116	0.209
Total auditors' remuneration	3.225	3.716

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

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

Note 39. Related parties

Key management personnel (KMP) compensation

	2012 $	2011 $
Short-term benefits	3,675,273	4,528,687
Post-employment benefits	664,397	658,016
Equity plans	(325,529)	471,526
Termination benefits	-	3,292,075
	4,014,141	8,950,304

Directors and Senior Executives compensation contracts

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

Loans to KMP and their related parties

The Company has not made any loan to any KMP and their related parties other than those in accordance with the terms of the Employee Share Purchase Plan (up to 2004) – refer Note 30. No individual loan is greater than $100,000.

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

	Number of loans	Opening balance $	Other move-ments $	Repay-ments *(1)* $	Closing balance $
2012					
Executive Directors	-	-	-	-	-
Senior Executives	3	24,968	-	(24,968)	-
Total	3	24,968	-	(24,968)	-
2011					
Executive Directors	-	-	-	-	-
Senior Executives	3	24,663	305	-	24,968
Total	3	24,663	305	-	24,968

(1) Loans forgiven on disposal of businesses.

The plan has been dormant since 2004.

Note 39. Related parties – (continued)

Shareholdings of KMP

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

	Opening balance	Purch-ased	Earned as remuner-ation	Ceased employ-ment	Exercise of options	Sold	Closing balance	Shares held nominally at reporting date
2012								
Directors								
T R Marchant *(1)*	12,300	900,000	112,602	-	-	-	1,024,902	-
H Boon	21,000	229,000	-	-	-	-	250,000	-
M L Cattermole	226,510	2,022,280	-	-	-	-	2,248,790	-
A J Clarke	-	250,000	-	-	-	-	250,000	-
M J McConnell *(2)*	-	1,000	-	-	-	-	1,000	-
D E Meiklejohn *(3)*	194,657	-	-	(194,657)	-	-	-	-
J W Hall *(4)*	19,800	-	-	(19,800)	-	-	-	-
L J Yelland *(5)*	95,468	-	-	(95,468)	-	-	-	-
Senior Executives								
D S Allen *(6)*	8,520	-	112,022	-	-	-	120,542	-
C B Creighton *(7)*	208,744	-	105,866	(314,610)	-	-	-	-
M Gillioen	-	-	75,000	-	-	-	75,000	-
P L Jackson *(8)*	8,825	-	-	(8,825)	-	-	-	-
A J Kennedy *(9)*	16,600	-	103,073	(119,673)	-	-	-	-
R Barfield *(10)*	-	400,000	-	-	-	-	400,000	-
Total	812,424	3,802,280	508,563	(753,033)	-	-	4,370,234	-
2011								
Directors								
D E Meiklejohn	194,657	-	-	-	-	-	194,657	-
T R Marchant	-	-	12,300	-	-	-	12,300	-
T P Park	860,000	-	-	(860,000)	-	-	-	-
H Boon	21,000	-	-	-	-	-	21,000	-
M L Cattermole	6,730	219,780	-	-	-	-	226,510	-
A J Clarke	-	-	-	-	-	-	-	-
J W Hall	19,800	-	-	-	-	-	19,800	-
M R Hooper	-	-	-	-	-	-	-	-
B J Jackson	57,372	-	-	(57,372)	-	-	-	-
L J Yelland	95,468	-	-	-	-	-	95,468	-
Senior Executives								
D S Allen	-	-	8,520	-	-	-	8,520	-
C B Creighton	91,700	102,250	14,794	-	-	-	208,744	-
M Gillioen	-	-	-	-	-	-	-	-
P L Jackson	1,055	-	7,770	-	-	-	8,825	-
A J Kennedy	7,200	-	9,400	-	-	-	16,600	-
Total	1,354,982	322,030	52,784	(917,372)	-	-	812,424	-

(1) Ceased employment and resigned as a Director on 31 July 2012.
(2) Appointed as a Director on 1 August 2011.
(3) Retired as a Director and Chairman of the Company on 31 August 2011.
(4) Retired as a Director effective 30 September 2011.
(5) Retired as a Director on 21 October 2011.
(6) Appointed Interim Chief Executive Officer from 1 August 2012.
(7) Classification as KMP ended on 30 June 2012 with the sale of the USA merchanting operations.
(8) Ceased employment on 31 July 2011.
(9) Resigned effective 30 June 2012.
(10) Appointed Group Chief Financial Officer on 1 June 2012.

Note 39. Related parties – (continued)

Option holdings of KMP

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

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

	Maximum potential entitlement - number of options						
	Opening balance	Other movements	Granted as compen-sation *(1)*	Exercised	Lapsed	Closing balance	Vested and exercis-able at 30 June
2012							
Executive Directors							
T R Marchant *(2)*	883,773	-	-	-	(283,331)	600,442	-
Senior Executives							
D S Allen *(3)*	58,518	-	-	-	(52,090)	6,428	-
C B Creighton *(4)*	894,668	-	-	-	(894,668)	-	-
M Gillioen	-	-	-	-	-	-	-
P L Jackson *(5)*	620,058	-	-	-	(620,058)	-	-
A J Kennedy *(6)*	344,195	-	-	-	(344,195)	-	-
R Barfield *(7)*	-	-	-	-	-	-	-
2011							
Executive Directors							
T R Marchant	520,320	-	394,210	-	(30,757)	883,773	-
T P Park	2,226,651	-	-	-	(2,226,651)	-	-
M R Hooper	721,790	-	-	-	(721,790)	-	-
Senior Executives							
D S Allen	-	79,810	-	-	(21,292)	58,518	-
C B Creighton	612,310	-	317,180	-	(34,822)	894,668	66,300
M Gillioen	-	-	-	-	-	-	-
P L Jackson	404,770	-	234,720	-	(19,432)	620,058	21,100
A J Kennedy	-	85,110	282,590	-	(23,505)	344,195	-

(1) Options granted during the year are outlined in Note 30.
(2) Ceased employment and resigned as a Director on 31 July 2012.
(3) Appointed Interim Chief Executive Officer from 1 August 2012.
(4) Classification as KMP ended on 30 June 2012 with the sale of the USA merchanting operations.
(5) Ceased employment on 31 July 2011.
(6) Resigned effective 30 June 2012.
(7) Appointed Group Chief Financial Officer on 1 June 2012.

Up to the date of this report, 589,300 options on issue at balance date in respect of KMP have lapsed.

Note 39. Related parties – (continued)

Rights holdings of KMP

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

	Maximum potential entitlement - number of rights					
	Opening balance	Other movements	Granted as compen-sation *(1)*	Exercised	Lapsed	Closing balance
2012						
Executive Directors						
T R Marchant *(2)*	1,157,400	-	-	(112,602)	(501,230)	543,568
Senior Executives						
D S Allen *(3)*	223,195	-	-	(112,022)	(32,316)	78,857
C B Creighton *(4)*	1,080,449	-	-	(105,866)	(974,583)	-
M Gillioen	150,000	-	-	(75,000)	-	75,000
P L Jackson *(5)*	817,226	-	-	(197,258)	(619,968)	-
A J Kennedy *(6)*	700,178	-	-	(103,073)	(597,105)	-
R Barfield *(7)*	-	-	400,000	-	-	400,000
2011						
Executive Directors						
T R Marchant	942,702	-	693,270	(12,300)	(466,272)	1,157,400
T P Park	3,950,165	-	-	-	(3,950,165)	-
M R Hooper	934,990	-	-	-	(934,990)	-
Senior Executives						
D S Allen	-	172,682	75,000	(8,520)	(15,967)	223,195
C B Creighton	954,290	-	550,300	(14,794)	(409,347)	1,080,449
M Gillioen	-	75,000	75,000	-	-	150,000
P L Jackson	633,928	-	400,450	(7,770)	(209,382)	817,226
A J Kennedy	-	152,103	575,100	(9,400)	(17,625)	700,178

(1) Rights granted during the year are outlined in Note 30.
(2) Ceased employment and resigned as a Director on 31 July 2012.
(3) Appointed Interim Chief Executive Officer from 1 August 2012.
(4) Classification as KMP ended on 30 June 2012 with the sale of the USA merchanting operations.
(5) Ceased employment on 31 July 2011.
(6) Resigned effective 30 June 2012.
(7) Appointed Group Chief Financial Officer on 1 June 2012.

The closing balance represents the rights on hand at 30 June 2012 which have not vested. Rights automatically vest after the qualifying period, subject to performance and/or service conditions being achieved. Nil rights vested to the Executive Director and Senior Executives during the current reporting period.

Up to the date of this report, 543,568 rights on issue at balance date in respect of KMP have lapsed.

Transactions with entities in the Consolidated Entity

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

Other related party disclosures

The ownership interest in subsidiaries is disclosed in Note 40.

Loans to Directors of subsidiaries total $384 (2011: $25,352). This amount is comprised of employee share plan loans only.

Note 40. Subsidiaries

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

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

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

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

	Deed of Cross Guarantee Consolidated	
For the year ended 30 June	**2012 $m**	**2011 $m**
Income Statement		
Loss before tax	(182.1)	(240.0)
Tax (expense)/benefit	(1.3)	1.2
Loss for the period	(183.4)	(238.8)
Accumulated losses at beginning of period	(1,222.8)	(982.7)
Actuarial losses on defined benefit plans	(0.8)	(1.3)
Accumulated losses at end of period	(1,407.0)	(1,222.8)

Note 40. Subsidiaries – (continued)

	Deed of Cross Guarantee Consolidated	
As at 30 June	**2012 $m**	**2011 $m**
Statement of Financial Position		
Current assets		
Cash and cash equivalents	6.0	4.6
Trade and other receivables	135.8	112.3
Inventories	54.6	65.3
Assets held for sale	0.9	0.5
Income tax receivable	2.3	-
Total current assets	199.6	182.7
Non-current assets		
Receivables	6.8	4.4
Investments in other Consolidated Entity subsidiaries	604.8	712.3
Property, plant and equipment	6.3	7.9
Intangible assets	0.3	0.6
Total non-current assets	618.2	725.2
Total assets	817.8	907.9
Current liabilities		
Trade and other payables	65.8	63.2
Loans and borrowings	56.1	140.0
Income tax payable	2.1	1.0
Employee benefits	9.5	13.0
Provisions	11.3	13.8
Total current liabilities	144.8	231.0
Non-current liabilities		
Payables	0.5	1.4
Loans and borrowings	191.0	3.6
Employee benefits	0.5	2.1
Provisions	3.5	8.3
Total non-current liabilities	195.5	15.4
Total liabilities	340.3	246.4
Net assets	477.5	661.5
Equity		
Issued capital	1,893.5	1,890.7
Reserves	(0.5)	2.1
Accumulated losses	(1,407.0)	(1,222.8)
	486.0	670.0
PaperlinX Step-up Preference Securities	(8.5)	(8.5)
Total equity	477.5	661.5

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

Note 40. Subsidiaries – (continued)

	Note	Country of incorporation	Consolidated subsidiary interest 2012	2011
PaperlinX Services Pty Ltd	*(1)*	Australia	100%	100%
Tas Paper Pty Ltd	*(1)*	Australia	100%	100%
PaperlinX SPS Trust		Australia	100%	100%
PaperlinX SPS LLC		USA	100%	100%
PaperlinX Australia Pty Ltd	*(1)*	Australia	100%	100%
Pebmis Pty Ltd	*(1)*	Australia	100%	100%
Paper Associates Pty Ltd	*(1)*	Australia	100%	100%
PaperlinX (UK) Ltd		United Kingdom	100%	100%
PaperlinX (Europe) Ltd		United Kingdom	100%	100%
PaperlinX Brands (Europe) Ltd		United Kingdom	100%	100%
PaperlinX Services (Europe) Ltd		United Kingdom	100%	100%
PaperlinX Investments (Europe) Ltd		United Kingdom	100%	100%
PaperlinX Treasury (Europe) Ltd		United Kingdom	100%	100%
1st Class Packaging Ltd		United Kingdom	100%	100%
The Paper Company Ltd		United Kingdom	100%	100%
Parkside Packaging Ltd		United Kingdom	100%	100%
Donnington Packaging Supplies Ltd		United Kingdom	100%	100%
The M6 Paper Group Ltd		United Kingdom	100%	100%
Howard Smith Paper Group Ltd		United Kingdom	100%	100%
Contract Paper Ltd		United Kingdom	100%	100%
Howard Smith Paper Ltd		United Kingdom	100%	100%
Precision Publishing Papers Ltd		United Kingdom	100%	100%
Trade Paper Ltd		United Kingdom	100%	100%
Robert Horne UK Ltd		United Kingdom	100%	100%
PaperlinX UK Pensions Trustees Ltd	*(2)*	United Kingdom	100%	100%
Robert Horne Group Ltd		United Kingdom	100%	100%
W Lunnon & Company Ltd		United Kingdom	100%	100%
Pinnacle Film & Board Sales Ltd		United Kingdom	100%	100%
Sheet & Roll Converters Ltd		United Kingdom	100%	100%
Deutsche Papier Holding GmbH		Germany	100%	100%
Deutsche adp Wilhelm GmbH		Germany	100%	100%
Deutsche Papier Vertriebs GmbH		Germany	100%	100%
PaperlinX Holdings Cooperatieve UA		Netherlands	100%	100%
PaperlinX Netherlands Holdings BV		Netherlands	100%	100%
PaperlinX Netherlands BV		Netherlands	100%	100%
BührmannUbbens BV	*(3)*	Netherlands	100%	100%
PaperNet GmbH		Austria	100%	100%
PN Beteiligungs GmbH	*(4)*	Austria	0%	100%
Tulipel - Comercio de Paperis Lda		Portugal	100%	100%
Adria Papir D.o.o.	*(5)*	Croatia	100%	100%
Budapest Papir Kft	*(5)*	Hungary	100%	100%
Alpe Papir Trgovina na Veliko D.o.o.	*(5)*	Slovenia	100%	100%
Dunav Papir D.o.o.	*(5)*	Serbia	100%	100%
Bratislavska Papierenska Spolocnost	*(5)*	Slovakia	100%	100%
Polyedra SpA	*(6)*	Italy	0%	100%
Carthago Srl	*(6)*	Italy	0%	100%
Ospap AS	*(7)*	Czech Republic	100%	100%
PaperlinX Denmark Holdings ApS		Denmark	100%	100%
CC&Co AS		Denmark	100%	100%
Bührmann Ubens NV		Belgium	100%	100%
Zing Sp.z.o.o		Poland	100%	100%
Union Papelera Merchanting SL		Spain	100%	100%
Polyedra AG	*(6)*	Switzerland	0%	100%

Note 40. Subsidiaries – (continued)

	Note	Country of incorporation	Consolidated subsidiary interest 2012	2011
Spicers	(2), (6)	USA	0%	100%
Kelly Paper Company	(6)	USA	0%	100%
Spicers Paper Inc	(6)	USA	0%	100%
Spicers Paper Ltd	(2)	Canada	100%	100%
PaperlinX Holdings (Asia) Pte Ltd		Singapore	100%	100%
Spicers Paper (Singapore) Pte Ltd		Singapore	100%	100%
Winpac Paper Pte Ltd		Singapore	100%	100%
Spicers Paper (Hong Kong) Ltd		Hong Kong	100%	100%
Spicers Paper (Malaysia) Sdn Bhd		Malaysia	100%	100%
Finwood Papers (Pty) Ltd	(5)	South Africa	100%	100%
Finwood Properties Pty Ltd	(5)	South Africa	100%	100%
PaperlinX Ireland Holdings Ltd		Ireland	100%	100%
PaperlinX Ireland Ltd		Ireland	100%	100%
Paper Sales Ltd		Ireland	100%	100%
Contact Papers Ltd		Ireland	100%	100%
Supreme Paper Company Ltd		Ireland	100%	100%
DM Paper Ltd		Ireland	100%	100%
PPX Insurance Ltd	(8)	New Zealand	0%	100%
PaperlinX Investments Pty Ltd	(1)	Australia	100%	100%
PaperlinX (N.Z.) Ltd		New Zealand	100%	100%

(1) Subsidiaries entered into an approved deed for the cross guarantee of liabilities.
(2) Subsidiaries renamed since 30 June 2011:
PaperlinX UK Pensions Trustees Ltd (formerly Robert Horne Pensions Trustees Ltd)
Spicers (formerly PaperlinX North America Inc)
Spicers Paper Ltd (formerly PaperlinX Canada Ltd)
(3) Velpa Enveloppen BV was merged into BuhrmannUbbens BV effective 1 May 2012. Proost en Brandt BV was merged into BuhrmannUbbens BV effective 30 June 2012.
(4) PN Beteiligungs GmbH was liquidated effective 15 May 2012.
(5) Subsidiaries subject to a sale agreement entered into after 30 June 2012.
(6) Subsidiaries sold since 30 June 2011 - Refer Note 11.
(7) Multiexpo Spol sro was merged into Ospap AS effective 31 Dec 2011.
(8) PPX Insurance Ltd was liquidated effective 27 Jan 2012.

Note 41. Events subsequent to balance date

Dividends on the Company's ordinary shares

No final dividend has been declared for the reporting period ended 30 June 2012.

Sale of European businesses

On 17 July 2012, the Company announced that it had entered into agreements to sell its operations in:

- Slovakia, Hungary, Slovenia, Croatia and Serbia to the Heinzel Group; and
- South Africa to local management.

Refer Note 16 for further details.

Departure of Chief Executive Officer

On 17 July 2012, the Company announced that the Chief Executive Officer, Toby Marchant, would be leaving the Company at the end of July 2012 and that Dave Allen had been appointed Interim Chief Executive.

Appointment of additional Director

On 1 August 2012, the Company announced the appointment of Andrew Price as a non-executive Director of the Company, effective 1 September 2012.

Acquisition of Canterbury Packaging Limited

On 6 August 2012, the Company announced that it had entered an agreement to acquire the business and assets of Canterbury Packaging Limited, based in Christchurch, New Zealand. Canterbury Packaging has annual turnover of $2.9m.

DIRECTORS' DECLARATION

1 In the opinion of the Directors of PaperlinX Limited (the “Company”):

   (a) the consolidated financial statements and notes, and the Remuneration report in the Directors’ report are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the Consolidated Entity’s financial position as at 30 June 2012 and of its performance for the financial year ended on that date; and

      (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

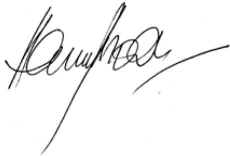
   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 There are reasonable grounds to believe that the Company and the consolidated entities identified in Note 40 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those consolidated entities pursuant to ASIC Class Order 98/1418.

3 The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Interim Chief Executive and Chief Financial Officer for the financial year ended 30 June 2012.

4 The Directors draw attention to Note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

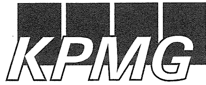
Signed in accordance with a resolution of the Directors:



Harry Boon
Chairman

Anthony J Clarke
Director

Dated at Melbourne, in the State of Victoria this 22 August 2012.



Independent auditor's report to the members of PaperlinX Limited

We have audited the accompanying financial report of PaperlinX Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2012, and consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 41 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

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

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

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

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

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

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

Auditor's opinion
In our opinion:

(a) the financial report of PaperlinX Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

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

(b) the financial report of the Group also complies with International Financial Reporting Standards as disclosed in note 2(a).

Report on the Remuneration Report
We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2012. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion
In our opinion, the Remuneration Report of PaperlinX Limited for the year ended 30 June 2012, complies with Section 300A of the *Corporations Act 2001*.

KPMG
KPMG

Paul J McDonald
Partner

Melbourne
22 August 2012

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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