PaperlinX

Full Financial Report 2005

Building Strong Partnerships

Contents

Statements of Financial Performance

For the year ended 30 June

		Consolidated		PaperlinX Limited	
	Note	2005 $m	2004 $m	2005 $m	2004 $m
Revenue from ordinary activities	2	7,600.0	6,263.3	185.5	107.8
Expenses from ordinary activities	3	(7,408.5)	(6,068.0)	(6.3)	(3.2)
Borrowing costs	4(b)	(75.1)	(54.1)	–	–
Profit from ordinary activities before income tax	4	116.4	141.2	179.2	104.6
Income tax benefit/(expense)	5	52.2	(32.5)	(0.7)	(0.2)
Profit from ordinary activities after income tax expense		168.6	108.7	178.5	104.4
Net profit attributable to outside equity interests		(0.1)	(0.2)	–	–
Net profit attributable to members of PaperlinX Limited	25	168.5	108.5	178.5	104.4
Non-owner transaction changes in equity					
Net exchange differences on translation of overseas controlled entities	24	(46.8)	27.5	–	–
Total revenues, expenses and valuation adjustments attributable to members of PaperlinX Limited recognised directly in equity		(46.8)	27.5	–	–
Total changes in equity from non-owner related transactions attributable to the members of PaperlinX Limited		121.7	136.0	178.5	104.4
Basic earnings per share (cents)	38	37.8	24.7		
Diluted earnings per share (cents)	38	37.6	24.5		

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

Statements of Financial Position

As at 30 June

	Note	Consolidated 2005 $m	Consolidated 2004 $m	PaperlinX Limited 2005 $m	PaperlinX Limited 2004 $m
CURRENT ASSETS					
Cash assets	7	429.1	448.6	–	–
Receivables	8	1,438.7	1,670.2	251.3	276.8
Inventories	9	816.0	880.8	–	–
Total current assets		2,683.8	2,999.6	251.3	276.8
NON-CURRENT ASSETS					
Receivables	10	8.4	11.9	2.7	3.4
Other financial assets	11	13.3	20.2	1,549.8	1,549.8
Property, plant and equipment	12	1,298.2	1,343.4	–	–
Intangible assets	13	332.2	364.4	–	–
Deferred tax assets	14	47.6	40.6	30.9	30.4
Total non-current assets		1,699.7	1,780.5	1,583.4	1,583.6
TOTAL ASSETS		4,383.5	4,780.1	1,834.7	1,860.4
CURRENT LIABILITIES					
Payables	15	1,040.9	1,153.5	–	–
Interest bearing liabilities	16	266.6	81.7	–	–
Current tax liabilities	17	3.8	16.1	–	0.3
Provisions	18	79.2	89.8	–	–
Total current liabilities		1,390.5	1,341.1	–	0.3
NON-CURRENT LIABILITIES					
Payables	19	0.1	0.8	–	–
Interest bearing liabilities	20	1,036.0	1,400.0	–	–
Deferred tax liabilities	21	93.0	171.6	81.3	162.9
Provisions	22	51.5	53.3	–	–
Total non-current liabilities		1,180.6	1,625.7	81.3	162.9
TOTAL LIABILITIES		2,571.1	2,966.8	81.3	163.2
NET ASSETS		1,812.4	1,813.3	1,753.4	1,697.2
EQUITY					
Contributed equity	23	1,694.2	1,693.8	1,694.2	1,693.8
Reserves	24	(63.8)	(18.7)	–	–
Retained profits	25	181.1	137.0	59.2	3.4
Total parent entity interest		1,811.5	1,812.1	1,753.4	1,697.2
Outside equity interests in controlled entities	26	0.9	1.2	–	–
TOTAL EQUITY		1,812.4	1,813.3	1,753.4	1,697.2

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

Statements of Cash Flows

For the year ended 30 June

	Note	Consolidated 2005 $m	Consolidated 2004 $m	PaperlinX Limited 2005 $m	PaperlinX Limited 2004 $m
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		7,641.6	6,164.5	8.8	5.9
Payments to suppliers and employees		(7,271.8)	(5,713.2)	(6.3)	(3.2)
Dividends received		0.3	0.3	177.0	102.0
Interest received		4.4	3.1	–	–
Interest paid		(74.3)	(43.4)	–	–
Income taxes paid		(36.9)	(22.7)	(0.3)	(0.4)
Other income received		10.1	14.1	–	–
Net cash from operating activities (1)		273.4	402.7	179.2	104.3
CASH FLOWS FROM INVESTING ACTIVITIES					
Loans (advanced to)/repaid by other persons		0.9	1.2	–	–
Acquisition of:					
• Controlled entities and assets (net of cash and bank overdraft acquired)	36	(44.6)	(1,122.7)	–	–
• Property, plant and equipment		(86.3)	(54.7)	–	–
Proceeds on disposal of:					
• Property, plant and equipment		29.5	14.9	–	–
Net cash used in investing activities		(100.5)	(1,161.3)	–	–
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid		(122.3)	(122.2)	(122.3)	(122.2)
Proceeds from issue of shares		0.4	151.0	0.4	151.0
Share issue expenses		–	(1.9)	–	(1.9)
Loans (repaid to)/received from controlled entities		–	–	(57.3)	(131.2)
Loans (repaid to)/received from other persons		(3.1)	(0.6)	–	–
Proceeds from borrowings		669.2	2,212.4	–	–
Repayment of borrowings		(711.3)	(1,464.3)	–	–
Principal lease repayments		(0.1)	(0.2)	–	–
Net cash from/(used in) financing activities		(167.2)	774.2	(179.2)	(104.3)
Net increase/(decrease) in cash held		5.7	15.6	–	–
Cash at the beginning of the year		445.0	452.0	–	–
Exchange rate changes on translation of foreign currency cash flows and cash balances		(22.9)	(22.6)	–	–
Cash at the end of the year (2)		427.8	445.0	–	–

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

Statements of Cash Flows continued

For the year ended 30 June

	Consolidated		PaperlinX Limited	
	2005 $m	2004 $m	2005 $m	2004 $m
(1) RECONCILIATION OF NET PROFIT AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES				
Net profit after income tax	168.6	108.7	178.5	104.4
Depreciation of property, plant and equipment	102.7	93.5	–	–
Amortisation of goodwill	20.1	17.5	–	–
(Profits)/losses on disposal of non-current assets	(3.0)	(9.5)	–	–
Increase/(decrease) in current and deferred taxes	(89.1)	9.9	0.4	(0.2)
Increase/(decrease) in provisions	21.6	14.9	–	–
Movement in accrued and prepaid interest	(1.4)	8.2	–	–
Other non cash items	(3.2)	0.7	–	–
Cash flow from operations before changes in assets and liabilities and significant items	216.3	243.9	178.9	104.2
Changes in assets and liabilities excluding acquisitions/disposals of controlled entities and businesses:				
(Increase)/decrease in debtors, prepayments and other items	75.8	90.0	0.3	0.1
(Increase)/decrease in inventories	18.9	26.3	–	–
Increase/(decrease) in payables	(25.7)	43.8	–	–
Significant items paid	(1.3)	(1.3)	–	–
Restructuring provision on acquisition paid	(10.6)	–	–	–
NET CASH FROM OPERATING ACTIVITIES	273.4	402.7	179.2	104.3
(2) RECONCILIATION OF CASH				
For the purposes of the Statements of Cash Flows, cash includes cash on hand and at bank and short-term money market investments, net of outstanding bank overdrafts. Cash as at 30 June as shown in the Statements of Cash Flows is reconciled to the related items in the Statements of Financial Position as follows:				
Cash – refer Note 7	429.1	448.6	–	–
Unsecured bank overdrafts – refer Note 16	(1.3)	(3.6)	–	–
	427.8	445.0	–	–

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

Notes to the Financial Statements

For the year ended 30 June 2005

Note 1. Accounting Policies

The following significant accounting policies have been applied by PaperlinX Limited and its controlled entities ('the consolidated entity'), having regard to their activities, in the preparation of the financial report.

(1) Accounting Standards

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

(2) Basis of Preparation of Accounts

The financial report is a general purpose financial report prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report has been prepared on the basis of historical costs except where stated otherwise, and does not take into account changing money values or fair values of non-current assets.

(3) Consolidated Financial Statements

The consolidated financial statements comprise the financial statements of PaperlinX Limited being the parent entity and its controlled entities in accordance with Accounting Standard AASB 1024 (Consolidated Accounts). In preparing the financial statements, all balances and transactions between entities included in the consolidated entity have been eliminated.

Controlled Entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

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

Dividends from controlled entities are recognised when they are declared.

Outside interests in the equity and results of the entities that are controlled by the consolidated entity are shown as a separate item in the consolidated financial statements.

Other Entities

Other investments are brought to account at the lower of cost or recoverable amount and dividend income is recognised in the Statements of Financial Performance when received.

(4) Revenue Recognition

Sales Revenue

Sales revenue comprises revenue earned (net of returns, discounts, allowances and the amount of goods and services tax) from the provision of products to entities outside the consolidated entity. Sales revenue is recognised when control of the goods has passed to the customer.

Services

Revenue from the provision of services is recognised when the service is provided.

Interest Income

Interest income is recognised as it accrues.

Asset Sales

The gross proceeds of asset sales are included as revenue of the consolidated entity. The profit or loss on disposal of assets is brought to account at the date the control of the asset passes to the buyer.

Dividends

Revenue from distributions from controlled entities is recognised by the parent entity when they are declared by the controlled entities. Dividends received out of pre-acquisition reserves are eliminated against the carrying amount of the investment and not recognised in revenue.

Revenue from dividends from other investments is recognised when dividends are received.

Taxation

General

The consolidated entity adopts the accounting policy for treatment of company income tax as set out in Accounting Standard AASB 1020 Accounting for Income Tax (Tax-effect Accounting) whereby the taxation benefits or liabilities, which arise due to differences between the time when items are taken up in the consolidated entity's financial statements and when they are to be taken up for income tax purposes, are shown either as a future income tax benefit or as a deferred income tax liability. The future income tax benefit and deferred income tax liability are taken up at the tax rates applicable to the periods in which they are expected to reverse.

The future income tax benefit relating to tax losses is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation. These benefits will be brought to account as a reduction in income tax expense in the period in which they are recouped. The tax benefit of capital losses is not recognised unless realisation is virtually certain.

Capital gains tax, where applicable, is provided for in the period in which an asset is sold.

Note 1. Accounting Policies (continued)

Tax Consolidation

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

PaperlinX Limited has elected to form a tax-consolidated group effective from 1 July 2003. Under the consolidation rules, the PaperlinX Group has chosen to reset the tax cost base of certain depreciable assets which will result in additional tax depreciation over the lives of the assets. This has required a restatement of deferred tax balances with a consequential tax benefit of $77.0 million being recorded in the statement of financial performance for the year ended 30 June 2005 in accordance with UIG52 – Income Tax Accounting under the Tax Consolidation System.

The process of entering into the tax consolidation regime included the commissioning of detailed independent valuations of the Australian consolidated group's assets and entities as at 1 July 2003, to determine the impact of any reset tax cost bases.

The tax-consolidated group has entered into a tax funding agreement whereby wholly-owned subsidiaries make contributions to the head entity for:

- Deferred tax balances recognised by the head entity on implementation date, including the impact of any relevant reset tax cost bases; and
- Current tax assets and liabilities and deferred tax balances arising from external transactions occurring after the implementation of tax consolidation.

Under the tax funding agreement, the contributions are calculated on a stand-alone basis so that the contributions are equivalent to the tax balances generated by transactions entered into by wholly-owned subsidiaries. The contributions reflect the timing of the head entity's obligations to make payments for tax liabilities to the relevant tax authorities. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities with a consequential adjustment to income tax expense/revenue.

Goods and Services Tax

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

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

The net amount of GST payable to the ATO is included as a current liability in the Statements of Financial Position.

Cash flows are included in the Statements 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.

(6) Depreciation

Property, plant and equipment, excluding freehold land, are depreciated at rates based upon their expected useful lives using the straight-line method.

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

Land improvements:	between 1% – 3% (2004 1% – 3%)
Buildings:	between 1% – 4% (2004 1% – 4%)
Plant and equipment:	between 4% – 20% (2004 4% – 20%)
Finance leases:	between 4% – 20% (2004 4% – 20%)

Depreciation and amortisation are expensed except to the extent they are included in the carrying amount of an asset as an allocation of production overheads.

(7) Employee Entitlements

Provisions

Provisions for employee entitlements such as wages, salaries, annual leave, sick leave and other current employee entitlements are calculated at nominal amounts to cover accumulated entitlements at balance date. Provisions for other employee entitlements which are not expected to be settled within 12 months are discounted using the rate, at balance date, attaching to those national government securities which most closely match the terms of maturity of the related entitlements.

Provisions relating to long service leave have been calculated to represent the present value of estimated future cash outflows to be made resulting from employee services to reporting date.

Provisions for employee entitlements include, where appropriate, forecast future increases in wages and salaries, grossed up for on-costs, and are based on the consolidated entity's experience with staff departures.

Employee Share Plans

The consolidated entity maintains two employee share plans, the Employee Share Purchase Plan (ESPP) and the Employee Share and Option Plan (ESOP). Shares and options issued in relation to the ESPP and the ESOP are detailed in Note 23.

Employee Share Purchase Plan

Eligibility to participate in the ESPP is based on each employee's service period. An employee is to have been employed continuously by the consolidated entity for a period of 12 months or more at the date the invitation to subscribe is made, unless determined to be eligible at the discretion of the Directors. The number of shares offered and the issue price are determined at the discretion of the Directors, subject to the satisfaction of performance criteria. The performance criteria relates to the growth in the profit after tax of the consolidated entity.

When issues relating to the ESPP are made, loans to assist in the purchase of shares will be shown as receivables. The loans can be repaid at any time and must be fully paid when an individual ceases to be employed by the consolidated entity.

Note 1. **Accounting Policies** (continued)

Employee Share and Option Plan

Subject to the satisfaction of specified service criteria, senior management of the consolidated entity may be offered a specified number of options as part of their total remuneration, at the discretion of the Directors.

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

Shares

The cost of shares purchased 'on market' is expensed to profit over the measurement period of the specified performance criteria, based on assessment of whether the performance criteria will be achieved.

Options

No expense to profit is recognised for options. If exercised, the exercise price paid is recognised as equity.

Superannuation Funds

The consolidated entity contributes to employee superannuation funds. Contributions are charged against profit as and when they are incurred. Further information is set out in Note 35.

(8) Borrowing Costs

Interest and other financing charges are brought to account in determining profit for the year, except to the extent the interest incurred relates to major capital items in which case interest is capitalised as a cost of the asset up to the time it is ready for its intended use or sale.

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

(9) Property, Plant and Equipment

Depreciable property, plant and equipment are shown in the financial statements at cost less accumulated depreciation.

The carrying amounts of all property, plant and equipment are reviewed annually. If the carrying amount of an item of property, plant and equipment exceeds its recoverable amount, the asset is written down to the lesser amount. In assessing recoverable amounts of individual items, the relevant cash flows are not discounted to their present value.

(10) Inventories

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

(11) Foreign Currency Translation

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. All material foreign currency transactions, which are not offset by a natural hedge, are subject to forward cover contracts and any exchange gains/losses arising from the effect of currency fluctuations on the underlying transactions are offset by the exchange gains/losses on the forward cover contract. As a result, exchange rate movements on such foreign currency transactions are largely eliminated.

Translation of Foreign Controlled Entities

The financial statements of foreign controlled entities which are classified as being financially and operationally independent are converted to Australian currency at balance date using the current rate method as set out in Accounting Standard AASB 1012 (Foreign Currency Translation). Any exchange gains/losses arising from the effect of currency fluctuations on these investments are recorded to the exchange fluctuation reserve on consolidation.

Any exchange gains/losses arising on transactions entered into to hedge the currency fluctuations on the net investment in foreign controlled entities are recorded, net of tax, in the exchange fluctuation reserve on consolidation.

(12) Financial Instruments

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

Financial Instruments Included in Equity

Details of shares issued and options outstanding over ordinary shares at balance date are set out in Note 23.

Financial Instruments Included in Liabilities

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Bank overdrafts, bank loans and other loans are carried at their principal amounts. Interest is charged as an expense as it accrues other than for amounts capitalised. Refer Note 1(8).

Financial Instruments Included in Assets

Trade debtors are carried at nominal amounts due less any provision for doubtful debts. Collectability of overdue accounts is assessed on an ongoing basis. Specific provision is made for all doubtful accounts. A provision for doubtful debts is recognised when collection of the full nominal amount is no longer probable.

Receivables other than trade debtors are carried at nominal amounts due.

Note 1. Accounting Policies (continued)

(13) Leased Assets

The consolidated entity adopts the provisions of Accounting Standard AASB 1008 (Accounting for Leases) in respect of leased assets.

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

Operating Leases

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

(14) Research and Development Expenditure

Expenditure on research and development is reported as a charge against operating profit in the year in which the expenditure is incurred.

(15) Goodwill

The consolidated entity recognises goodwill on acquisitions of controlled entities and businesses as required by Accounting Standard AASB 1013 (Accounting for Goodwill). Goodwill represents the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired.

All goodwill is amortised in equal instalments over the period of time during which the benefits are expected to arise but for a period not exceeding 20 years.

The unamortised balance of goodwill is reviewed bi-annually. If the carrying amount exceeds its recoverable amount, the asset is written down to the lesser amount.

(16) Brand Names

Brand names acquired are carried at cost and not amortised, on the basis that they have indefinite lives.

The carrying amounts of brand names are reviewed bi-annually. If the carrying amount exceeds its recoverable amount, the asset is written down to the lesser amount.

(17) Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

Dividends

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.

Surplus Leased Premises

Provision is made for non-cancellable operating lease rentals payable on surplus lease premises when it is determined that no substantive future benefit will be obtained from its occupancy and sub-lease rentals are less than the amount payable.

Workers' Compensation

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

Restructuring

A provision for restructuring is recognised at the date of acquisition where:

- the main features of the restructuring were announced, implementation of the restructuring commenced, or contracts were entered by the date of acquisition
- a detailed formal plan is developed by the earlier of three months after the date of acquisition and the completion of this financial report

The provision relates to costs associated with the acquired entity, and is included in the determination of the fair value of the net assets acquired. The provision includes, where applicable, liabilities for termination benefits that will be paid to employees of the acquired entity as a result of the restructuring.

(18) Earnings per Share

Basic earnings per share (EPS) is calculated by dividing the net profit attributable to members of the parent entity by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

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

(19) Revisions of Accounting Estimates

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

(20) Comparatives

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with changes in presentation in the current year.

	Consolidated		PaperlinX Limited	
	2005 $m	2004 $m	2005 $m	2004 $m
Note 2. Revenue from ordinary activities				
Revenue from operating activities				
Sales of goods	7,574.1	6,211.6	–	–
Rendering of services:				
• Controlled entities	–	–	8.5	5.8
• Commissions	8.8	12.9	–	–
TOTAL REVENUE FROM OPERATING ACTIVITIES	7,582.9	6,224.5	8.5	5.8
Revenue from outside operating activities				
Insurance proceeds	0.1	0.1	–	–
Rent	1.2	0.9	–	–
Other	–	0.2	–	–
	1.3	1.2	–	–
Net foreign exchange gains	0.2	0.8	–	–
Interest received/receivable:				
• Other	4.1	3.4	–	–
Dividends received/receivable:				
• Controlled entities	–	–	177.0	102.0
• Other	0.3	0.3	–	–
Proceeds on disposal of:				
• Non-current assets	11.2	33.1	–	–
	15.8	37.6	177.0	102.0
Total revenue from outside operating activities	17.1	38.8	177.0	102.0
TOTAL REVENUE FROM ORDINARY ACTIVITIES	7,600.0	6,263.3	185.5	107.8
Note 3. Expenses from ordinary activities				
Cost of sales	6,103.6	4,982.5	–	–
Distribution and warehousing expenses	423.2	326.8	–	–
Sales and marketing expenses	393.1	368.8	–	–
General and administration expenses (1)	485.1	387.4	6.3	3.2
Research and development expenses	3.5	2.5	–	–
TOTAL EXPENSES FROM ORDINARY ACTIVITIES	7,408.5	6,068.0	6.3	3.2

(1) *Included in general and administration expenses is the book value of non-current assets disposed of and the book value of businesses and controlled entities disposed of totalling $8.2 million (2004: $23.6 million).*

As at 30 June 2005

	Consolidated 2005 $m	Consolidated 2004 $m	PaperlinX Limited 2005 $m	PaperlinX Limited 2004 $m
Note 4. Profit from ordinary activities before income tax				
(a) Profit from ordinary activities before income tax comprises the following:				
Profit from ordinary activities before depreciation, amortisation, net interest and income tax	307.7	300.7	179.2	104.6
Depreciation and amortisation	(122.8)	(111.0)	–	–
Profit from ordinary activities before net interest and income tax	184.9	189.7	179.2	104.6
Net interest	(68.5)	(48.5)	–	–
Profit from ordinary activities before income tax	116.4	141.2	179.2	104.6
(b) Profit from ordinary activities before income tax has been arrived at after (charging)/crediting:				
Depreciation:				
• of land improvements	(0.2)	(0.2)	–	–
• of buildings	(9.4)	(10.5)	–	–
• of plant and equipment	(93.1)	(82.8)	–	–
	(102.7)	(93.5)	–	–
Amortisation:				
• of goodwill	(20.1)	(17.5)	–	–
Total depreciation and amortisation	(122.8)	(111.0)	–	–
Borrowing costs:				
• interest paid – other persons	(72.6)	(51.9)	–	–
Total interest expense	(72.6)	(51.9)	–	–
Other borrowing costs	(2.5)	(2.2)	–	–
Total borrowing costs	(75.1)	(54.1)	–	–
Net interest expense:				
• interest expense	(72.6)	(51.9)	–	–
• interest received – refer Note 2	4.1	3.4	–	–
Total net interest expense	(68.5)	(48.5)	–	–
Provisions:				
• employee entitlements and directors' retiring allowances	(23.9)	(17.0)	–	–
• doubtful debts	(16.6)	(22.3)	–	–
• diminution in value of inventories	(3.2)	(3.0)	–	–
• other	(7.1)	(3.4)	–	–
Total provisions	(50.8)	(45.7)	–	–
Lease rentals:				
• Operating leases	(60.4)	(41.2)	–	–
Bad debts written off:				
• Trade debtors	–	(0.2)	–	–
Net profit/(loss) on disposal of property, plant and equipment (1)	3.0	9.5	–	–

(1) *Included in the amount in the prior year is $6.9 million in relation to profits arising on the disposal of two properties under commercial sale and lease-back arrangements. In accordance with the ongoing review of the owned properties, it is expected that further commercial sale and lease-back arrangements may be undertaken in the future.*

	Consolidated		PaperlinX Limited	
	2005 $m	2004 $m	2005 $m	2004 $m
Note 5. Income tax benefit/(expense)				
Prima facie income tax expense calculated at standard rates of tax on profit from ordinary activities	(34.9)	(42.3)	(53.8)	(31.3)
(Add)/deduct the tax effect of:				
• Tax rebate on dividends from investments	0.1	0.1	–	–
• Non assessable dividends from Australian subsidiaries	–	–	53.1	30.6
• Amortisation of goodwill not allowable	(6.0)	(4.1)	–	–
• Amortisation of goodwill allowable	8.7	6.3	–	–
• Overseas tax rate differential	(1.2)	0.6	–	–
• Research and development incentives	1.5	1.2	–	–
• Tax losses not brought to account	5.6	–	–	–
• Income tax expense related to current and deferred tax transactions of the wholly-owned subsidiaries in the tax-consolidated group	–	–	4.8	(17.0)
• Recovery of income tax expense under a tax funding agreement	–	–	(4.8)	17.0
• Other	(2.6)	4.4	–	0.5
• Over provision in prior years	4.0	1.3	–	–
Individually significant income tax items:				
• Impact of resetting the tax values initially determined on implementation of tax consolidation	77.0	–	77.0	–
• Net deferred tax balances recognised by the head entity in relation to wholly-owned subsidiaries within the tax-consolidated group upon implementation of tax consolidation	–	–	–	(117.4)
• Recovery of income tax under a tax funding agreement at transition	–	–	(77.0)	117.4
TOTAL INCOME TAX BENEFIT/(EXPENSE)	52.2	(32.5)	(0.7)	(0.2)

As stated in Note 1(5) the company has adopted UIG 52 (Income Tax Accounting under the Tax Consolidation System).

The balance of the consolidated franking account as at 30 June 2005 was $3.6 million (2004: $2.2 million). After taking into account the estimated income tax payable/(refund) as at year end, the balance of the franking account is estimated to be $nil (2004: $nil).

The balance of the franking account, as referred to above, is stated at a 30% tax rate.

Under the tax consolidation legislation, a tax-consolidated group is required to keep a single franking account. The amount of franking credits available to shareholders disclosed above as at 30 June 2005 has been measured as those available from the tax-consolidated group. There is no overall impact on the group of the change to maintaining a single franking account.

Notes to the Financial Statements continued

As at 30 June 2005

	Consolidated 2005 $m	Consolidated 2004 $m	PaperlinX Limited 2005 $m	PaperlinX Limited 2004 $m
Note 6. Dividends				
Interim dividend paid:				
• 13.5 cents per share paid on 4 April 2005, nil% franked at a 30% tax rate on fully paid shares	60.2	–	60.2	–
• 13.5 cents per share paid on 7 April 2004, nil% franked at a rate of 30% tax rate on fully paid shares	–	60.2	–	60.2
Final dividend paid:				
• 14 cents per share paid on 30 September 2004, nil% franked at a 30% tax rate on fully paid shares	62.5	–	62.5	–
• 14 cents per share paid on 29 September 2003, 50% franked at a 30% tax rate on fully paid shares	–	62.3	–	62.3
	122.7	122.5	122.7	122.5

PaperlinX Limited has declared a dividend, at the date of this report, on ordinary shares payable 28 September 2005 – 12.0 cents per share, unfranked on fully paid shares.This dividend has not been provided for in the accounts as at 30 June 2005. This dividend includes 2.0 cents per share, special dividend, in relation to the tax credit of $77.0 million arising on the impact of resetting the tax values initially determined on implementation of tax consolidation.

It is expected that the interim dividend in respect of the year ending 30 June 2006 will be unfranked.

	Consolidated 2005 $m	Consolidated 2004 $m	PaperlinX Limited 2005 $m	PaperlinX Limited 2004 $m
Note 7. Cash assets				
Cash on hand and at bank	362.3	363.1	–	–
Deposits at call	66.8	85.5	–	–
TOTAL CASH ASSETS	429.1	448.6	–	–
Note 8. Current receivables				
Trade debtors (1)	1,366.6	1,576.9	–	–
Provision for doubtful debts	(57.4)	(69.2)	–	–
Net trade debtors	1,309.2	1,507.7	–	–
Other debtors	70.4	102.2	–	–
Prepayments	59.1	60.1	–	–
Loans to Executive Directors, officers and employees in the full time employment of the Companies:				
• Other employees	–	0.2	–	–
Amounts owing from controlled entities	–	–	251.3	276.8
TOTAL CURRENT RECEIVABLES	1,438.7	1,670.2	251.3	276.8

(1) Credit terms for trade debtors vary across the consolidated entity.

	Consolidated		PaperlinX Limited	
	2005 $m	2004 $m	2005 $m	2004 $m
Note 9. Inventories				
At cost:				
Raw materials and stores	101.6	113.4	–	–
Provision for diminution in value	(6.9)	(7.2)	–	–
Net raw materials and stores	94.7	106.2	–	–
Work in progress	17.1	14.4	–	–
Finished goods	714.2	766.6	–	–
Provision for diminution in value	(26.0)	(29.3)	–	–
Net finished goods	688.2	737.3	–	–
At net realisable value:				
Finished goods	16.0	22.9	–	–
Net realisable value	16.0	22.9	–	–
TOTAL INVENTORIES	816.0	880.8	–	–
Note 10. Non-current receivables				
Other debtors	5.7	8.4	–	–
Loans to Executive Directors, Officers and employees in the full time employment of the Companies: [1]				
• Directors of PaperlinX Limited	–	0.1	–	0.1
• Other employees	2.7	3.4	2.7	3.3
TOTAL NON-CURRENT RECEIVABLES	8.4	11.9	2.7	3.4

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

	Consolidated		PaperlinX Limited	
	2005 $m	2004 $m	2005 $m	2004 $m
Note 11. Other financial assets				
Shares in controlled entities (refer Note 36):				
• At cost	–	–	1,549.8	1,549.8
Total investment in shares in controlled entities	–	–	1,549.8	1,549.8
Shares in other companies not listed on stock exchanges:				
• At cost	13.3	20.2	–	–
Total investment in other companies	13.3	20.2	–	–
TOTAL OTHER FINANCIAL ASSETS	13.3	20.2	1,549.8	1,549.8

	Consolidated		PaperlinX Limited	
	2005 $m	2004 $m	2005 $m	2004 $m
Note 12. Property, plant and equipment				
Land: (1)				
• At cost	77.6	80.8	–	–
Total land	77.6	80.8	–	–
Land improvements: (1)				
• At cost	9.3	7.8	–	–
Accumulated depreciation	(1.2)	(1.0)	–	–
Total net land improvements	8.1	6.8	–	–
Buildings: (1)				
• At cost	389.3	415.9	–	–
Accumulated depreciation	(109.8)	(114.4)	–	–
Total net buildings	279.5	301.5	–	–
Plant and equipment:				
• At cost	1,968.1	1,968.2	–	–
Accumulated depreciation	(1,035.3)	(1,013.9)	–	–
Total net plant and equipment	932.8	954.3	–	–
Leased assets:				
• Finance leases	0.4	0.2	–	–
Accumulated amortisation	(0.2)	(0.2)	–	–
Total net leased assets	0.2	–	–	–
TOTAL PROPERTY, PLANT AND EQUIPMENT	1,298.2	1,343.4	–	–

(1) *An independent valuation, as at June 2003, of the consolidated entity's land, land improvements and buildings was undertaken on a fair value basis, being the amount for which assets could be exchanged between knowledgeable and willing parties in an arm's length transaction, having regard to the highest and best use of the asset for which other parties would be willing to pay.*

As land, land improvements and buildings are recorded at cost, the excess in the valuation of $11.1 million, as compared to the net book value as at 30 June 2003, has not been brought to account.

	Consolidated		PaperlinX Limited	
	2005 $m	2004 $m	2005 $m	2004 $m
Note 12. Property, plant and equipment (continued)				
The reconciliation of the movement in each class of property, plant and equipment is as follows:				
Land:				
Balance at beginning of year	80.8	16.4	–	–
Disposals (3)	(0.1)	(8.7)	–	–
Acquisition of controlled entities (4)	0.5	66.9	–	–
Foreign currency movements	(3.6)	6.2	–	–
Balance at end of year	77.6	80.8	–	–
Land improvements:				
Balance at beginning of year	6.8	6.0	–	–
Additions (2)	1.3	1.0	–	–
Depreciation	(0.2)	(0.2)	–	–
Transfers	0.2	–	–	–
Balance at end of year	8.1	6.8	–	–
Buildings:				
Balance at beginning of year	301.5	171.5	–	–
Additions (2)	6.1	1.2	–	–
Disposals (3)	(3.5)	(13.4)	–	–
Depreciation	(9.4)	(10.5)	–	–
Acquisition of controlled entities (4)	4.1	138.6	–	–
Transfers	–	0.3	–	–
Foreign currency movements	(19.3)	13.8	–	–
Balance at end of year	279.5	301.5	–	–
Plant and equipment:				
Balance at beginning of year	954.3	885.5	–	–
Additions (2)	86.3	54.5	–	–
Disposals (3)	(4.6)	(1.5)	–	–
Depreciation	(93.1)	(82.8)	–	–
Acquisition of controlled entities (4)	1.6	98.4	–	–
Transfers	(0.2)	(1.3)	–	–
Foreign currency movements	(11.5)	1.5	–	–
Balance at end of year	932.8	954.3	–	–
Leased assets:				
Balance at beginning of year	–	0.1	–	–
Additions	0.2	–	–	–
Foreign currency movements	–	(0.1)	–	–
Balance at end of year	0.2	–	–	–

(2) The total additions included above are $93.7 million (2004 $56.7 million).
(3) The total disposals included above are $8.2 million (2004 $23.6 million).
(4) The total acquisitions of property, plant and equipment of controlled entities included above are $6.2 million (2004 $303.9 million).

	Consolidated		PaperlinX Limited	
	2005 $m	2004 $m	2005 $m	2004 $m
Note 13. Intangible assets				
Goodwill at cost	387.5	392.0	–	–
Accumulated amortisation	(80.0)	(54.9)	–	–
	307.5	337.1	–	–
Brand names at cost	24.7	27.3	–	–
Total intangible assets	332.2	364.4	–	–
Note 14. Deferred tax assets				
Future income tax benefits (1)	47.6	40.6	30.9	30.4
Total deferred tax assets	47.6	40.6	30.9	30.4

(1) Included in the above future income tax benefits of the consolidated entity is $6.4 million (2004: $1.1 million) relating to accumulated tax losses. Potential further future income tax benefits of the consolidated entity relating to accumulated tax losses at balance date of $64.9 million (2004: $19.7 million) are not included in the above, on the basis that recoverability is not virtually certain.

The potential further future income tax benefits will only be obtained if:

(i) the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised

(ii) the relevant company continues to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the relevant company in realising the benefit.

	Consolidated		PaperlinX Limited	
	2005 $m	2004 $m	2005 $m	2004 $m
Note 15. Current payables				
Trade creditors (1)	801.6	867.2	–	–
Other creditors	239.3	286.3	–	–
TOTAL CURRENT PAYABLES	1,040.9	1,153.5	–	–

(1) Credit terms for trade creditors vary across the consolidated entity.

	Consolidated		PaperlinX Limited	
	2005 $m	2004 $m	2005 $m	2004 $m
Note 16. Current interest bearing liabilities				
Unsecured interest bearing liabilities:				
• Bank overdrafts [1]	1.3	3.6	–	–
• Bank loans [2]	260.1	76.0	–	–
• CAD notes [3]	3.3	–	–	–
• Other loans	1.5	1.5	–	–
Lease liabilities	0.4	0.6	–	–
Total current/interest bearing liabilities	266.6	81.7	–	–

(1) The consolidated entity has committed bank overdraft facilities to a maximum of $50.8 million (2004: $37.1 million). As at 30 June 2005, the unused portions of the facilities were $49.5 million (2004: $33.5 million). The bank overdrafts are payable on demand and are subject to annual review.

(2) Relates to the following bank borrowings:

- *$185.3 million (2004: $nil) drawn under a USD 150 million facility maturing in February 2006. Drawings under this facility incur interest at BBSY plus an applicable credit margin.*
- *$4.4 million (2004: $4.3 million) drawn under a SGD 20 million facility maturing in March 2006.*
- *$23.3 million (2004: $23.3 million) drawn under a NZD 45 million facility maturing in November 2005. $4.1 million (2004: $1.5 million) drawn under a MYR 12 million facility maturing in April 2006.*
- *$1.4 million (2004: $0.5 million) drawn under a MYR 9.5 million facility maturing in December 2005.*
- *$Nil million (2004: $7.1 million) drawn under a EUR 4 million facility maturing in November 2005.*
- *$41.6 million (2004: $39.3) drawn under various other facilities.*

(3) Relates to $3.3 million (2004: $nil) being CAD 3.0 million of the CAD 21 million Senior Unsecured Notes detailed in Note 20.

These amounts will be repaid from other undrawn facilities and proceeds from operations.

	Consolidated		PaperlinX Limited	
	2005 $m	2004 $m	2005 $m	2004 $m
Note 17. Current tax liabilities				
Income tax	3.8	16.1	–	0.3
TOTAL CURRENT TAX LIABILITIES	3.8	16.1	–	0.3

	Consolidated		PaperlinX Limited	
	2005 $m	2004 $m	2005 $m	2004 $m
Note 18. Current provisions				
Dividend payable (1)	–	–	–	–
Employee entitlements	40.9	38.6	–	–
Restructuring provision (2)	0.4	12.0	–	–
Other provisions (3)	37.9	39.2	–	–
TOTAL CURRENT PROVISIONS	79.2	89.8	–	–
(1) The reconciliation of the movement in the provision for dividend payable is as follows:				
Balance at the beginning of the year	–	–	–	–
Provided during the year	122.7	122.5	122.7	122.5
Paid during the year – cash	(122.3)	(122.2)	(122.3)	(122.2)
Paid during the year – non-cash	(0.4)	(0.3)	(0.4)	(0.3)
	–	–	–	–
(2) The reconciliation of the movement in the restructuring provision is as follows:				
Balance at the beginning of the year	12.0	–	–	–
Provided for at acquisition date	1.3	11.3	–	–
Paid during the year	(10.6)	–	–	–
Utilised amount written back to assets on acquisition	(1.0)	–	–	–
Unutilised amount written back to goodwill on acquisition	(0.8)	–	–	–
Foreign currency movements	(0.5)	0.7	–	–
	0.4	12.0	–	–
(3) The reconciliation of the movement in the other provisions is as follows:				
Balance at the beginning of the year	39.2	12.4	–	–
Provided during the year	4.8	3.4	–	–
Paid during the year	(8.0)	(16.5)	–	–
Transfers from non-current provision	1.6	2.0	–	–
Provision acquired	–	36.3	–	–
Foreign currency movements	0.3	1.6	–	–
	37.9	39.2	–	–
Note 19. Non-current payables				
Other creditors	0.1	0.8	–	–
TOTAL NON-CURRENT PAYABLES	0.1	0.8	–	–

	Consolidated		PaperlinX Limited	
	2005 $m	2004 $m	2005 $m	2004 $m
Note 20. Non-current interest bearing liabilities				
Unsecured interest bearing liabilities:				
• Bank loans (1)	559.7	877.2	–	–
• USD notes (2)	159.9	177.0	–	–
• CAD notes (3)	72.8	76.7	–	–
• GBP notes (4)	242.9	269.1	–	–
Lease liabilities	0.7	–	–	–
TOTAL NON-CURRENT INTEREST BEARING LIABILITIES	1,036.0	1,400.0	–	–
Reconciliation of consolidated net interest bearing liabilities				
Current interest bearing liabilities – refer Note 16	266.6	81.7		
Non-current interest bearing liabilities – refer above in Note 20	1,036.0	1,400.0		
Total interest bearing liabilities	1,302.6	1,481.7		
Cash assets – refer Note 7	(429.1)	(448.6)		
Net interest bearing liabilities	873.5	1,033.1		

(1) Relates to the following bank borrowings:

- *$549.8 million (2004: $861.3 million) drawn under a USD 850 million (2004: USD 700 million) facility maturing USD 150 million in February 2006, USD 300 million in February 2008 and USD 400 million in February 2010. Drawings under this facility incur interest at BBSY plus an applicable credit margin. The current portion of this facility is shown in Note 16.*
- *$9.9 million (2004: $15.9 million) drawn under various other facilities.*

(2) Relates to the following USD notes:

- *$74.0 million (2004: $81.9 million), being USD 56 million of Senior Unsecured Notes, maturing 2017 at 7.88%, repayments are in equal instalments from 2011 to 2017.*
- *$85.9 million (2004: $95.1 million), being USD 50 million Senior Unsecured Notes, maturing in 2014 at 5.70%, and USD 15.0 million Senior Unsecured Notes, maturing in 2019 at 6.05%.*

(3) Relates to $72.8 million (2004: $76.7 million), being CAD 21 million Senior Unsecured Notes, maturing 2012 at 7.59%, repayments are in equal instalments from 2006 to 2012, and CAD 49 million Senior Unsecured Notes, maturing 2017 at 8.01%, repayments are in equal instalments from 2011 to 2017. The current portion of this facility is shown in Note 16.

(4) Relates to $242.9 million (2004: $269.1 million), being GBP 57.5 million Senior Unsecured Notes, maturing in 2014 at 6.67%, and GBP 43.8 million Senior Unsecured Notes, maturing in 2019 at 6.48%.

(5) As at 30 June 2005, the unused portions of both current and non-current facilities were $439.9 million (2004: $219.5 million).

	Consolidated		PaperlinX Limited	
	2005 $m	2004 $m	2005 $m	2004 $m
Note 21. Deferred tax liabilities				
Deferred income tax	93.0	171.6	81.3	162.9
Total deferred tax liabilities	93.0	171.6	81.3	162.9

	Consolidated 2005 $m	Consolidated 2004 $m	PaperlinX Limited 2005 $m	PaperlinX Limited 2004 $m
Note 22. Non-current provisions				
Employee entitlements (1)	48.3	50.2	–	–
Other provisions (2)	3.2	3.1	–	–
TOTAL NON-CURRENT PROVISIONS	51.5	53.3	–	–
(1) Included in the above employee entitlements of the consolidated entity are provisions relating to Directors' retiring allowances of $1.9 million (2004: $1.5 million), which are disclosed in detail in the Directors' Report. These provisions only relate to Non-executive Directors of PaperlinX Limited and are in accordance with the Company's Constitution and with agreements between the Company and individual Directors. No liability exists for Directors' retiring allowances in respect of Directors in the full time employment of PaperlinX Limited or its controlled entities.				
The aggregate provision for employee entitlements at balance date is:				
Current – refer Note 18	40.9	38.6	–	–
Non-current – refer above in Note 22	48.3	50.2	–	–
TOTAL PROVISION FOR EMPLOYEE ENTITLEMENTS	89.2	88.8	–	–
(2) The reconciliation of the movement in other provisions is as follows:				
Balance at beginning of year	3.1	5.8	–	–
Provided during the year	2.3	(0.4)	–	–
Paid during the year	(0.2)	(0.3)	–	–
Transfers to current provisions	(1.6)	(2.0)	–	–
Foreign currency movements	(0.4)	–	–	–
	3.2	3.1	–	–
The aggregate other provisions at balance date is:				
Current – refer Note 18 (3)	37.9	39.2	–	–
Non-current – refer above in Note 22 (3)	3.2	3.1	–	–
TOTAL OTHER PROVISIONS	41.1	42.3	–	–

(3) Included in the above aggregate other provisions of the consolidated entity are provisions relating to surplus leased premises of $4.8 million, self-insurance for workers compensation in Tasmania and Victoria of $8.1 million and contractual obligations pursuant to an acquisition in the prior year of $19.2 million.

	Consolidated		PaperlinX Limited	
	2005 $m	2004 $m	2005 $m	2004 $m
Note 23. Contributed equity				
Issued and paid-up share capital				
446,172,209 ordinary shares (2004: 446,066,609 ordinary shares)	1,694.2	1,693.8	1,694.2	1,693.8
TOTAL CONTRIBUTED EQUITY	1,694.2	1,693.8	1,694.2	1,693.8
Movement in ordinary share capital:				
Balance at beginning of year	1,693.8	1,541.3	1,693.8	1,541.3
Nil (2004: 33,150,860) shares issued at $4.46 pursuant to a share purchase plan as part of the funding for the acquisition of the Paper Merchanting Division of the Bührmann NV Group	–	149.5	–	149.5
Nil (2004: 135,000) shares issued at $3.13 each pursuant to options exercised	–	0.4	–	0.4
27,500 (2004: 37,500) shares issued at $3.32 each pursuant to options exercised	0.1	0.1	0.1	0.1
55,000 (2004: 50,000) shares issued at $3.50 each pursuant to options exercised	0.2	0.2	0.2	0.2
23,100 (2004: 18,700) shares issued at $4.12 each pursuant to options exercised	0.1	0.1	0.1	0.1
Nil (2004: 175,000) shares issued at $4.18 pursuant to options exercised	–	0.7	–	0.7
Nil (2004: 690,560) shares issued at an average price of $2.46 each pursuant to the Employee Share Purchase Plan	–	1.7	–	1.7
Share issue expenses	–	(0.2)	–	(0.2)
Balance at end of year	1,694.2	1,693.8	1,694.2	1,693.8

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

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

Shares

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

The granting of employee shares is generally subject to specific performance criteria being achieved – refer Note 1(7).

Employee Share Purchase Plan

During the year, no shares were issued pursuant to the Employee Share Purchase Plan.

During the prior year, 690,560 shares were issued pursuant to the Employee Share Purchase Plan. The market price of the shares on the date of issue was $4.91 per share.

453,800 shares issued to employees in Australia at a discount of 40%

37,800 shares to employees in USA at a discount of 40%

18,000 shares to employees in California USA at no discount

12,000 shares to employees in California USA at a discount of 100%

58,400 shares to employees in Canada at a discount of 40%

89,640 shares to employees in UK at a discount of 100%

3,720 shares to employees in Ireland at a discount of 100%, and

17,200 shares to employees in New Zealand at a discount of 75%

Long Term Incentive Plan

During the year, no shares were issued pursuant to the Long Term Incentive Plan, as approved by PaperlinX Limited shareholders.

During the prior year, 85,831 shares were issued to the former Managing Director pursuant to the Long Term Incentive Plan as approved by PaperlinX Limited shareholders.

Note 23. Contributed equity (continued)

Options

During the year, the following options over shares were exercised:

- 27,500 options, which had been granted on 20 November 2000 at an exercise price of $3.32, were exercised between 2 September 2004 and 24 September 2004. The market price of the shares was between $5.14 and $5.38.
- 55,000 options, which had been granted on 19 April 2001 at an exercise price of $3.50, were exercised between 7 September 2004 and 30 March 2005. The market price of the shares was between $4.07 and $5.18.
- 23,100 options, which had been granted on 13 September 2001 at an exercise price of $4.12, were exercised between 23 September 2004 and 7 October 2004. The market price of the shares was between $5.14 and $5.32.

  This resulted in the aggregate issue of 105,600 shares.

During the prior year, the following options over shares were exercised:

- 135,000 options, which had been granted on 14 April 2000 at an exercise price of $3.13, were exercised between 18 August 2003 and 10 December 2003. The market price of the shares was between $4.75 and $5.39.
- 37,500 options, which had been granted on 20 November 2000 at an exercise price of $3.32, were exercised between 10 December 2003 and 19 January 2004. The market price of the shares was between $4.61 and $4.94.
- 50,000 options, which had been granted on 19 April 2001 at an exercise price of $3.50, were exercised between 15 July 2003 and 8 June 2004. The market price of the shares was between $4.66 and $5.08.
- 18,700 options, which had been granted on 13 September 2001 at an exercise price of $4.12, were exercised between 15 July 2003 and 24 March 2004. The market price of the shares was between $4.66 and $5.08.
- 175,000 options, which had been granted on 13 September 2001 at an exercise price of $4.18, were exercised between 6 October 2003 and 24 March 2004. The market price of the shares was between $4.84 and $5.38.

  This resulted in the aggregate issue of 416,200 shares.

During the year, the following options lapsed:

- 9,000 options, which had been granted on 20 September 2002 at an exercise price of $5.13.
- 4,200 options, which had been granted on 13 September 2001 at an exercise price of $4.12.

During the prior year, 15,000 options, which had been granted on 20 September 2002 at an exercise price of $5.13 lapsed.

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

- *Employee Share and Option Plan*

  613,090 performance options over 613,090 ordinary shares on the grant date of 30 November 2004 at an exercise price of $4.85 per option, which was the weighted average price on the Australian Stock Exchange for the 30 days prior to 30 June 2004.

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

- *Employee Share and Option Plan*

  150,000 options over 150,000 ordinary shares at an exercise price of $4.64 per option, which was the average price for the five days of trading on the Australian Stock Exchange prior to the grant date of 26 November 2003.

At reporting date, there are 2,735,690 (2004: 2,241,400) unissued shares of PaperlinX Limited which are under option whose exercise is subject to the satisfaction of the terms of the option agreements. The options cannot be exercised for three years from the date of being granted, except on termination of employment, in which case they must be exercised within 30 days of the termination date or as otherwise determined by the Board. The details of the options on issue are as follows:

475,000 (2004: 475,000)	at	$3.13 at the grant date of 14 April 2000
217,500 (2004: 245,000)	at	$3.32 at the grant date of 20 November 2000
610,000 (2004: 665,000)	at	$3.50 at the grant date of 19 April 2001
259,100 (2004: 286,400)	at	$4.12 at the grant date of 13 September 2001
65,000 (2004: 65,000)	at	$4.18 at the grant date of 13 September 2001
196,000 (2004: 205,000)	at	$5.13 at the grant date of 20 September 2002
150,000 (2004: 150,000)	at	$4.76 at the grant date of 18 June 2003
150,000 (2004: 150,000)	at	$4.64 at the grant date of 26 November 2003
613,090 (2004: nil)	at	$4.85 at the grant date of 30 November 2004

	Consolidated		PaperlinX Limited	
	2005 $m	2004 $m	2005 $m	2004 $m
Note 24. Reserves				
Asset revaluation				
Balance at beginning of year	–	8.8	–	–
Transfer to retained profits	–	(8.8)	–	–
Balance at end of year	–	–	–	–
Exchange fluctuation				
Balance at beginning of year	(18.7)	(46.2)	–	–
Exchange fluctuation on translation of overseas controlled entities	(46.8)	27.5	–	–
Transfer from retained profits, amounts now realised	1.7	–	–	–
Balance at end of year	(63.8)	(18.7)	–	–
TOTAL RESERVES	(63.8)	(18.7)	–	–

Nature and purpose of reserves

Exchange fluctuation

The exchange fluctuation reserve records the foreign currency differences arising from the translation of the financial statements of foreign controlled entities, which are classified as being financially and operationally independent, and the impact of transactions that hedge the company's net investment in a foreign operation, net of tax. Refer to Note 1(11).

	Consolidated		PaperlinX Limited	
	2005 $m	2004 $m	2005 $m	2004 $m
Note 25. Retained profits				
Balance at beginning of year	137.0	142.2	3.4	21.5
Net profit attributable to members of PaperlinX Limited	168.5	108.5	178.5	104.4
Transfer to exchange fluctuation reserve, amounts now realised	(1.7)	–	–	–
Transfer from asset revaluation reserve	–	8.8	–	–
Dividends paid	(122.7)	(122.5)	(122.7)	(122.5)
TOTAL RETAINED PROFITS	181.1	137.0	59.2	3.4
Note 26. Outside equity interests in controlled entities				
Contributed equity	0.9	1.2	–	–
Total outside equity interests in controlled entities	0.9	1.2	–	–
Note 27. Capital expenditure commitments				
Capital expenditure contracted but not provided for:				
• Not later than one year	3.8	0.1	–	–
• Later than one year but not later than five years	0.1	0.2	–	–
TOTAL CAPITAL EXPENDITURE COMMITMENTS	3.9	0.3	–	–

	Consolidated		PaperlinX Limited	
	2005 $m	2004 $m	2005 $m	2004 $m
Note 28. Lease commitments				
Finance lease liability				
Lease expenditure contracted and provided for:				
• Not later than one year	0.4	0.6	–	–
• Later than one year but not later than five years	0.7	–	–	–
Minimum lease payments	1.1	0.6	–	–
Less: future finance charges	–	–	–	–
TOTAL FINANCE LEASE LIABILITY	1.1	0.6	–	–
Current lease liabilities – refer Note 16	0.4	0.6	–	–
Non-current lease liabilities – refer Note 20	0.7	–	–	–
TOTAL FINANCE LEASE LIABILITY	1.1	0.6	–	–

The consolidated entity enters into finance leases from time to time in relation to plant and equipment. At the end of the lease term, the consolidated entity has the option to purchase the plant and equipment at a price established at the time of entering the lease.
Some leases involve lease payments comprising a base amount plus an incremental contingent rental. Contingent rentals are based on the relevant index, as detailed in the lease agreement.

	Consolidated		PaperlinX Limited	
Operating lease commitments				
Lease expenditure contracted but not provided for:				
• Not later than one year	83.3	77.1	–	–
• Later than one year but not later than five years	172.8	180.1	–	–
• Later than five years	117.1	73.5	–	–
TOTAL OPERATING LEASE COMMITMENTS	373.2	330.7	–	–

The consolidated entity enters into operating leases from time to time in relation to property, plant and equipment. The major component relates to the leases of buildings. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated.
Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on the relevant index or operating criteria.

	Consolidated		PaperlinX Limited	
	2005 $m	2004 $m	2005 $m	2004 $m
Note 29. Other expenditure commitments				
Expenditure contracted but not provided for covering supplies and services to be provided:				
• Not later than one year	58.8	53.7	–	–
• Later than one year but not later than five years	119.4	121.3	–	–
• Later than five years	230.2	219.4	–	–
TOTAL OTHER EXPENDITURE COMMITMENTS	408.4	394.4	–	–

	Consolidated		PaperlinX Limited	
	2005 $m	2004 $m	2005 $m	2004 $m
Note 30. Contingent liabilities				
Contingent liabilities arising in respect of:				
Related bodies corporate:				
• Bank guarantees (trade)	5.2	5.4	–	–
• Bank guarantees (acquisition)	–	21.3	–	21.3
• Loan guarantees	–	–	530.8	577.5
Total contingent liabilities	5.2	26.7	530.8	598.8

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

The bank guarantees (acquisition) relate to a bank guarantee, the beneficiary of which was Bunzl plc, in relation to the deferred settlement payment for the acquisition of The Paper Company. The bank guarantee of $21.3 million (GBP 8.0 million) on issue at 30 June 2004 expired on 1 July 2004, after the required cash settlement was made.

The loan guarantees of $530.8 million (2004: $577.5 million) relate to the following items:

- $74.0 million (2004: $81.9 million), being USD 56.0 million Senior Unsecured Notes issued by subsidiary companies
- $76.0 million (2004: $76.7 million), being CAD 70.0 million Senior Unsecured Notes issued by subsidiary companies
- $85.9 million (2004: $95.1 million), being USD 65.0 million Senior Unsecured Notes issued by subsidiary companies
- $242.9 million (2004: $269.1 million), being GBP 101.2 million Senior Unsecured Notes issued by subsidiary companies
- $52.0 million (2004: $54.7 million), other working capital facilities

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

Under the terms of the ASIC Class Order 98/1418 dated 13 August 1998 (as amended) PaperlinX Limited and certain subsidiaries have entered into approved deeds for the cross guarantee of liabilities with those subsidiaries identified in Note 36.

	Consolidated		PaperlinX Limited	
	2005 $m	2004 $m	2005 $m	2004 $m
Note 31. Auditors' remuneration				
Amounts received or due and receivable for audit services by:				
• Auditors of the Company	4.406	4.941	–	–
• Other auditors	–	0.146	–	–
Amounts received or due and receivable for other services by:				
• Auditors of the Company				
Other assurance services	0.037	0.229	–	–
Taxation services	0.165	0.181	–	–
Other services	0.019	0.052	–	–
• KPMG related practices				
Legal services	–	0.278	–	–

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

Note 32. Remuneration of Directors and Executives

(a) Details of Specified Directors and Specified Executives

Specified Directors

D E Meiklejohn	Chairman (non-executive)
T P Park	Managing Director & Chief Executive Officer
D G Abotomey	Director & Chief Financial Officer
A F Guy	Director (non-executive)
B J Jackson	Director (non-executive)
N L Scheinkestel	Director (non-executive)
D A Walsh	Director (non-executive)
P R Waterworth	Former Director & Chief Operating Officer Merchanting & Paper Trading (resigned 29 October 2004)
L J Yelland	Director (non-executive)

Specified Executives

R J Breen	Group General Manager Merchanting Australia & New Zealand
C B Creighton	President North America
M J Fothergill	Regional President – UK & Ireland
D M Goldthorp	Chief Operating Officer Australian Paper
R F O'Brien	Executive General Manager Human Resources
E de Voogd	Chief Executive Officer PaperlinX Europe
T Heine-Geldern	Regional President – France, Southern and Central Europe

(b) Remuneration of Specified Directors and Specified Executives

Disclosures of remuneration policies, service contracts and details of remuneration are included in the Remuneration Report as set out on pages 60 to 66 of the Directors' Report published in the Concise Annual Report.

(c) Maximum Potential Shares – Specified Directors and Specified Executives

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

	Maximum Potential Entitlement		
	At 1 July 2004	Movement	At 30 June 2005
Specified Directors			
T P Park	600,000	90,215	690,215
D G Abotomey	105,000	90,360	195,360
P R Waterworth (1)	105,000	(105,000)	–
Specified Executives			
R J Breen	60,000 (2)	71,060	131,060
C B Creighton	60,000 (2)	102,560	162,560
M J Fothergill	60,000 (2)	98,420	158,420
D M Goldthorp	105,000	64,980	169,980
T Heine-Geldern	–	44,270	44,270
R F O'Brien	105,000	47,560	152,560
E de Voogd	93,333 (2)	75,540	168,873

(1) *Resigned effective 29 October 2004*

(2) *No entitlement earned to 30 June 2005 based on performance for that period. The entitlement on these shares has now lapsed.*

In the year ended 30 June 2005, none of those shares were vested to any executive Director or specified executive.

(d) Loans to Specified Directors and Specified Executives

PaperlinX Limited has not made any loan to any specified Director or specified executive other than those in accordance with the terms of the Employee Share Purchase Plan – Refer Note 10. No individual loan is greater than $100,000.

The reconciliation of the aggregate movement in the Employee Share Purchase Plan loans to the specified Directors of PaperlinX Limited and specified executives is as follows:

	At 1 July 2004	Repayments	At 30 June 2005
Specified Directors (number included 2)	73,438	72,908	530
Specified Executives (number included 3)	37,887	4,639	33,248

Note 32. Remuneration of Directors and Executives (continued)

(e) Shareholdings of Specified Directors and Specified Executives

The reconciliation of the movement in the relevant interest in the share capital of PaperlinX Limited, held by each specified director of PaperlinX Limited and specified executive, excluding the potential entitlement amounts listed above, is as follows:

	At 1 July 2004	Purchased	Sold	Earned as Remuneration	Exercise of Options	At 30 June 2005	Shares Held Nominally at 30 June 2005
Specified Directors							
D E Meiklejohn	47,612	–	–	–	–	47,612	–
T P Park	20,000	20,000	–	–	–	40,000	–
D G Abotomey	63,456	–	–	–	–	63,456	–
A F Guy	50,855	1,993	–	–	–	52,848	–
B J Jackson	26,315	–	–	–	–	26,315	–
N L Scheinkestel	34,310	2,050	–	–	–	36,360	–
D A Walsh	20,898	–	–	–	–	20,898	–
P R Waterworth (1)	147,757	–	–	–	–	147,757	–
L J Yelland	13,630	5,674	–	–	–	19,304	–
Specified Executives							
R J Breen	844	–	–	–	–	844	–
C B Creighton	72,700	4,000	–	–	–	76,700	–
M J Fothergill	–	–	–	–	–	–	–
T Heine-Geldern	–	–	–	–	–	–	–
D M Goldthorp	64,726	–	–	–	–	64,726	–
R F O'Brien	–	–	–	–	–	–	–
E de Voogd	–	–	–	–	–	–	–
Total:	563,103	33,717	–	–	–	596,820	–

(1) Resigned effective 29 October 2004.

(f) Options Holdings of Specified Directors and Specified Executives

The options are exercisable subject to the satisfaction of the terms of the option agreement – Refer Note 23.

The reconciliation of the movement in the equity compensation in the form of options for Specified Directors of PaperlinX Limited and specified executives for the year is as follows:

	Maximum Potential Entitlement			
	At 1 July 2005	Granted Remuneration (1) (2)	At 30 June 2005	Vested and Exercisable at 30 June 2005
Specified Directors				
T P Park	–	90,280	90,280	–
D G Abotomey (3)	235,000	41,790	276,790	235,000
P R Waterworth (3) (4)	200,000	–	200,000	200,000
Specified Executives				
R J Breen	66,300	23,690	89,990	58,300
C B Creighton	66,300	34,190	100,490	58,300
M J Fothergill	50,000	32,810	82,810	–
D M Goldthorp	175,000	33,330	208,330	175,000
T Heine-Geldern	50,000	29,510	79,510	–
R F O'Brien	150,000	27,520	177,520	–
E de Voogd	150,000	36,850	186,850	–

(1) The details of options granted during the year are detailed in Note 23.
(2) The value at grant date using the Monte Carlo simulation model was $0.46 per option.
(3) Options issued prior to being appointed Directors.
(4) Resigned effective 29 October 2004.

Note 33. Employee share and option plans

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

All shares issued under ESPP are detailed in Note 23.

All shares issued under the ESOP on exercise of options, or termination of employment and all options granted under the ESOP are detailed in Note 23.

Performance Share Plan

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

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

- 2003/2004 – on 27 August 2003, 4 September 2003 and 11 March 2004, 454,262 shares, 1,689 shares and 534,333 shares respectively at a cost of $4.9 million
- 2002/2003 – on 20 November 2002 and 27 November 2002, 290,000 shares and 810,000 shares respectively at a cost of $5.3 million

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

The aggregate amounts of the above items are being expensed over the applicable measurement period based on an assessment of the probability of achieving the specified criteria. The shares are held in trust until determination of the specified performance criteria. The voting rights attached to the shares are held by the trust, and the dividends attached to the shares are distributable to the individual executives on advice from the Board. During the year, $1.0 million was credited to profit (2004: $3.8 million expensed to profit), with the remainder of $6.1 million (2004: $5.1 million) recorded in the balance sheet. The shares purchased have an aggregate fair value of $6.0 million at 30 June 2005 (2004: $9.6 million).

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

	At 1 July 2004	Distributed on	Purchased	At 30 June 2005
Balance	1,983,333	–	3,400	1,986,733

None of the shares held by the trust at 30 June 2005 have vested.

Performance Rights Plan

A maximum of 1,879,705 shares which have been offered under the ESOP, will be purchased 'on market' as required to satisfy the terms and conditions of the ESOP.

The cost of the shares are expensed over the applicable measurement period based on an assessment of the probability of achieving the specified criteria.

Performance Option Plan

PaperlinX Limited has offered to certain senior management the ability to receive options at a fixed exercise price at a date in the future subject to specific performance criteria being achieved. If exercised, the exercise price is recognised in equity. The options are independently valued at the grant date using either the Monte Carlo simulation model or the Black-Scholes model.

During the year, the following issues were made:

- to receive a maximum of 613,090 options over 613,090 shares of an exercise price of $4.85 (grant date 30 November 2004). The fair value at the date of the grant was $0.46 per option.

At 30 June 2005, the following issues/ invitations have been made:

- Issues to receive a maximum of 613,090 options over 613,090 shares of an exercise price of $4.85 (grant date 30 November 2004). The fair value at the date of the grant was $0.46 per option.
- Invitations to receive a maximum of 1,110,000 options over 1,110,000 shares at an exercise price of $5.13 (offer date 8 October 2002). The fair value at the date of the offer was $0.61 per option.
- Invitations to receive a maximum of 400,000 options over 400,000 shares at an exercise price of $4.55 (offer date 23 January 2004). The fair value at the date of the offer was $0.54 per option.

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

In line with the company's accounting policy and current Australian Accounting Standards, options are not expensed.

The details of the above offers which have been made to Specified Directors of PaperlinX Limited and Specified Executives are set out in Note 32.

Note 34. Segment reporting

Business segments

The consolidated entity comprises the following main business segments, based on the consolidated entity's management reporting system.

Segment	Description of Operations
Merchanting and Paper Trading	International paper merchant and paper trader supplying the printing and publishing industry and office supplies.
Communication Papers	Manufacture of office papers, graphic papers, converting papers and other speciality and coated papers.
Packaging Papers	Manufacture of packaging papers and industrial papers. Products include kraftliners, sack kraft and light weight bag and industrial papers, sold predominantly to converting customers.
Corporate and Other	Includes stationery and envelopes business and corporate costs.

Geographic segments

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

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

	Consolidated				
	Segment Result (3) $m	Segment Sales $m	Segment Other Revenue (4) $m	Total Segment Revenue $m	Segment Assets $m
Note 34. Segment reporting (continued)					
For the year ended 30 June 2005					
Business segments					
Merchanting and Paper Trading	185.8	7,035.3	4.9	7,040.2	3,048.8
Communication Papers	12.3	699.8	3.0	702.8	873.2
Packaging Papers	10.0	242.9	–	242.9	292.2
Corporate and Other	(23.2)	100.6	2.2	102.8	121.7
Profit before net interest and income tax	184.9				
Net interest (1)	(68.5)				
Profit before income tax	116.4				
Operating Income tax expense (1)	(24.8)				
Income tax benefit – Australian Tax Consolidation (1)	77.0				
Profit after income tax expense	168.6				
Net profit attributable to outside equity interests	(0.1)				
Inter-segment sales (2)		(504.5)		(504.5)	
Unallocated revenue (4)			15.8	15.8	
Unallocated assets (deferred tax balances)					47.6
TOTAL	168.5	7,574.1	25.9	7,600.0	4,383.5
For the year ended 30 June 2004					
Business segments					
Merchanting and Paper Trading	147.5	5,620.4	10.3	5,630.7	3,410.6
Communication Papers	44.8	714.7	2.8	717.5	872.5
Packaging Papers	21.6	254.2	–	254.2	313.9
Corporate and Other	(24.2)	100.5	1.0	101.5	142.5
Profit before net interest and income tax	189.7				
Net interest (1)	(48.5)				
Profit before income tax	141.2				
Income tax expense (1)	(32.5)				
Profit after income tax expense	108.7				
Net profit attributable to outside equity interests	(0.2)				
Inter-segment sales (2)		(478.2)		(478.2)	
Unallocated revenue (4)			37.6	37.6	
Unallocated assets (deferred tax balances)					40.6
TOTAL	108.5	6,211.6	51.7	6,263.3	4,780.1

				Consolidated
	Segment Sales $m	Segment Other Revenue [4] $m	Total Segment Revenue $m	Segment Assets $m

Note 34. Segment reporting (continued)

	Segment Sales $m	Segment Other Revenue [4] $m	Total Segment Revenue $m	Segment Assets $m
For the year ended 30 June 2005				
Geographic segments				
Australia and New Zealand	1,444.4	7.9	1,452.3	1,719.3
North America	1,011.1	–	1,011.1	410.8
Europe	4,945.2	1.3	4,946.5	2,149.5
Asia	173.4	0.9	174.3	56.3
Unallocated revenue [4]		15.8	15.8	
Unallocated assets (deferred tax assets)				47.6
Total	7,574.1	25.9	7,600.0	4,383.5
For the year ended 30 June 2004				
Geographic segments				
Australia and New Zealand	1,520.4	11.9	1,532.3	1,774.9
North America	904.6	–	904.6	421.9
Europe	3,622.2	0.6	3,622.8	2,483.7
Asia	164.4	1.6	166.0	59.0
Unallocated revenue [4]		37.6	37.6	
Unallocated assets (deferred tax assets)				40.6
Total	6,211.6	51.7	6,263.3	4,780.1

	Depreciation & Amortisation $m	Non Cash Expenses $m	Acquisition of Non-Current Assets $m	Segment Liabilities $m
For the year ended 30 June 2005				
Business segments				
Merchanting and Paper Trading	61.2	21.7	52.9	959.9
Communication Papers	36.5	13.9	46.2	123.4
Packaging Papers	12.2	4.7	15.4	41.3
Corporate and Other	12.9	4.3	2.5	47.1
Unallocated liabilities [7]				1,399.4
Total	122.8	44.6	117.0	2,571.1
For the year ended 30 June 2004				
Business segments				
Merchanting and Paper Trading	51.3	23.9	424.7	1,102.4
Communication Papers	35.4	10.1	16.4	109.1
Packaging Papers	12.7	3.6	5.9	39.2
Corporate and Other	11.6	(0.7)	30.5	46.7
Unallocated liabilities [7]				1,669.4
Total	111.0	36.9	477.5	2,966.8

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

	2005 $m	2004 $m
Note 34. Segment reporting (continued)		
(4) Segment other revenue allocated comprises:		
• *Rendering of services – commission (refer Note 2)*	8.8	12.9
• *Other revenue from outside operating activities (refer Note 2)*	1.3	1.2
	10.1	14.1
Segment other revenue unallocated comprises:		
• *Other revenue from outside operating activities (refer Note 2)*	15.8	37.6
	25.9	51.7
(5) The non-cash expenses above comprise the following items:		
• *Provisions charge (refer Note 4 (b))*	50.8	45.7
• *Net (profit)/loss on disposal of property, plant and equipment (refer Note 4 (b))*	(3.0)	(9.5)
• *Other non cash items (refer Statements of Cash Flows – Note (1))*	(3.2)	0.7
	44.6	36.9
(6) The acquisition of non-current assets above comprises the following items:		
• *Addition of property, plant and equipment (refer Statements of Cash Flows)*	86.3	54.7
• *Movement in accruals for property, plant and equipment*	7.4	2.0
	93.7	56.7
• *Goodwill in relation to acquisitions of controlled entities (refer Note 36 (2))*	17.1	91.5
• *Brands acquired on acquisition of controlled entities (refer Note 36 (2))*	–	25.4
• *Property, plant and equipment acquired on acquisition of controlled entities (refer Note 12)*	6.2	303.9
	117.0	477.5
The segment reporting of the acquisition of non-current assets by geographic region is as follows:		
• *Australia and New Zealand*	66.4	54.8
• *North America*	5.5	9.8
• *Europe*	44.8	412.2
• *Asia*	0.3	0.7
	117.0	477.5
(7) The unallocated segment liabilities comprise the following items:		
• *Current interest bearing liabilities (refer Note 16)*	266.6	81.7
• *Current tax liabilities (refer Note 17)*	3.8	16.1
• *Non-current interest bearing liabilities (refer Note 20)*	1,036.0	1,400.0
• *Non-current deferred tax liabilities (refer Note 21)*	93.0	171.6
	1,399.4	1,669.4

Note 35. Superannuation commitments

The consolidated entity and certain controlled entities contribute to superannuation funds, which were established to provide benefits for employees and their dependants. The funds cover Company-sponsored plans, industry/union plans and other approved funds.

Company-sponsored Plans

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

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

There exists a legally enforceable obligation on the employer companies to make such contributions as are required under the rules.

Government Plans

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

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

Industry/Union Plans

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

These plans operate on an accumulation basis and provide lump sum benefits for members on resignation, retirement or death.

The employer company has a legally enforceable obligation to contribute at varying rates to these plans.

Defined Benefit Plans

The tables for the years ended 30 June 2005 and 2004 show only the PaperlinX share of the defined benefit plan of the Amcor Superannuation Fund, the Amcor New Zealand Superannuation Fund and the Stichting Pensioenfonds Buhrmann.

All plans are listed below showing the results of the last actuarial assessment, where applicable, made by independent actuaries on the dates indicated.

Fund assets net of liabilities other than accrued benefits (fund assets) at net market value as at the reporting date, accrued benefits as at the last actuarial review date and vested benefits of the funds/plans as at the reporting date are as follows:

Funds as at 30 June 2005	Reporting Date	Fund Assets at Net Market Value at Reporting Date(5) $m	Accrued Benefits at Last Actuarial Review Date(4) $m	Surplus/ (Deficit)(5) $m	Vested Benefits at Reporting Date(6) $m
• Amcor Superannuation Fund (Australia) – Sub-Fund No. 1 – Last actuarial review by W R Aitchison, BSc (Hons), FIA,FIAA, ASA at June 2003 (1)	30/6/04	27.7	37.6	(9.9)	32.7
• Amcor Superannuation Fund (Australia) – Sub-Fund No. 2 – Last actuarial review by A Sach FIAA at July 2002 (1)	30/6/04	27.1	35.4	(8.3)	26.6
• Amcor New Zealand Superannuation Fund (New Zealand) – Last actuarial review by J Spooner BSc, FIAA, at July 2003 (2)	30/6/05	0.8	0.9	(0.1)	0.5
• Coast Paper Pension Plan for Employees (Canada) – Last actuarial review by E Lee FCIA, FSA at December 2003 (8)	31/12/04	6.0	6.0	–	6.0
• Coast Paper Pension Plan for Executive Employees (Canada) – Last actuarial review by E Lee FCIA, FSA at December 2003 (8)	31/12/04	5.4	5.9	(0.5)	5.9
• Stichting Pensioenfonds Buhrmann (Netherlands) – Last actuarial report by H A J Lohmann at December 2003 (3)	31/12/04	92.4	84.0	8.4	84.0
• The Howard Smith Paper Group Pension Scheme (UK) – Last actuarial review by Mark Whitcombe, FIA at March 2004	31/3/05	40.8	39.0	1.8	47.8
• Robert Horne Group Pension Scheme (UK) – Last actuarial review by A Stephens, FIA at December 2001	31/12/04	143.5	204.6	(61.1)	188.7
• Robert Horne Paper (Ireland) Ltd Pension & Life Assurance Scheme (Ireland) – Last actuarial review by J McCarthy FSAI at December 2002	31/12/04	5.3	3.8	1.5	5.6
		349.0	417.2	(68.2)	397.8

Note 35. Superannuation commitments (continued)

Funds as at 30 June 2004	Reporting Date	Fund Assets at Net Market Value at Reporting Date[5] $m	Accrued Benefits at Last Actuarial Review Date[4] $m	Surplus/ (Deficit)[5] $m	Vested Benefits at Reporting Date[6] $m
• Amcor Superannuation Fund (Australia) – Last actuarial review by W R Aitchison, BSc (Hons), FIA,FIAA, ASA at June 2003 [1]	30/6/03	29.8	37.6	(7.8)	36.3
• PaperlinX Superannuation Fund (Australia) – Last actuarial review by A Sach FIAA at July 2002 [7]	30/6/03	29.8	35.4	(5.6)	30.7
• Amcor New Zealand Superannuation Fund (New Zealand) – Last actuarial review by J Spooner BSc, FIAA, at July 2003 [2]	30/6/04	0.8	0.8	–	0.4
• Coast Paper Pension Plan for Employees (Canada) – Last actuarial review by J Leong FCIA, FSA, ASA at December 2003	31/12/03	12.5	12.7	(0.2)	12.7
• Coast Paper Pension Plan for Executive Employees (Canada) – Last actuarial review by J Leong FCIA, FSA, ASA at December 2003	31/12/03	6.0	6.8	(0.8)	6.8
• Stichting Pensioenfonds Bührmann (Netherlands) – Last actuarial report by H A J Lohmann at December 2003 [3]	31/12/03	70.9	67.5	3.4	67.5
• The Howard Smith Paper Group Pension Scheme (UK) – Last actuarial review by WGC Sharp FFA at March 2002	30/6/04	39.0	30.5	8.5	43.1
• Robert Horne Group Pension Scheme (UK) – Last actuarial review by A Stephens, FIA at December 2001	30/6/04	144.9	189.8	(44.9)	165.5
• Robert Horne Paper (Ireland) Ltd Pension & Life Assurance Scheme (Ireland) – Last actuarial review by J McCarthy FSAI at December 2002	31/12/03	4.5	5.5	(1.0)	4.5
		338.2	386.6	(48.4)	367.5

(1) Some employees of PaperlinX participate in the Amcor Superannuation Fund and PaperlinX contributes to the fund on behalf of these members.
(2) Some PaperlinX employees participate in the Amcor New Zealand Superannuation Fund and PaperlinX contributes to the fund on behalf of these members.
(3) Some PaperlinX employees participate in the Stichting Pensioenfonds Buhrmann and PaperlinX contributes to this fund on behalf of these members.
(4) Accrued benefits have been determined based on the amount calculated by the actuary at the date of the last actuarial review or as calculated by the Fund Actuary.
(5) The aggregate deficit of assets over vested benefits calculated as the difference between assets at net market value at the last reporting date of each fund and the vested benefits as at the last reporting date of each fund is $48.8 million.
(6) Vested benefits are benefits which are not conditional upon continued membership of the respective fund or any other factor as at the reporting date.
(7) Effective 31 March 2004, the members of the PaperlinX Superannuation Fund, the members' entitlements and the fund's assets were transferred on a successor fund basis to the Amcor Superannuation Fund.
(8) Effective 1 January 2004, certain members of the Coast Paper Pension Plan for Employees and Executives accepted the voluntary conversion offer from defined benefit to defined contribution.

Details of contributions to the defined benefit plans during the year and the contributions payable at year end are as follows:

	Consolidated		PaperlinX Limited	
	2005 $m	2004 $m	2005 $m	2004 $m
Employer contributions to the plans	17.5	17.0	–	–
Employer contributions payable to the plans at balance date	0.5	0.5	–	–

Note 36. PaperlinX's controlled entities

	Note	Country of Incorporation	Consolidated Entity Interest
Paper Australia Pty Ltd	(1)	Australia	100%
Australian Paper Pty Ltd	(1)	Australia	100%
PaperlinX Australia Pty Ltd	(1)	Australia	100%
Paperwealth Pty Ltd	(1)	Australia	100%
PP CPC Pty Ltd	(1)	Australia	100%
Empire Office Supplies Pty Ltd	(1)	Australia	100%
PP ED Pty Ltd	(1)	Australia	100%
B J Ball Pty Ltd	(1)	Australia	100%
Besmac Pty Ltd	(1)	Australia	100%
Paper Associates Pty Ltd	(1)	Australia	100%
PPX Australia LP		Australia	100%
PaperlinX (Europe) Ltd		United Kingdom	100%
PaperlinX Brands (Europe) Ltd		United Kingdom	100%
PaperlinX Services (Europe) Ltd		United Kingdom	100%
PaperlinX Investments (Europe) Ltd		United Kingdom	100%
PaperlinX Treasury (Europe) Ltd		United Kingdom	100%
The Paper Company Ltd		United Kingdom	100%
21st Century Paper Ltd		United Kingdom	100%
Powell & Heilbron (Paper) Ltd		United Kingdom	100%
Paramount Paper Sales Ltd		United Kingdom	100%
Rothera & Brereton (Sheffield) Ltd		United Kingdom	100%
Michael Jackson (Paper) Ltd		United Kingdom	100%
Grove Paper Company Ltd		United Kingdom	100%
Rothera & Brereton Ltd		United Kingdom	100%
Paramount Paper Sales (London) Ltd		United Kingdom	100%
Lagan Papers Ltd		United Kingdom	100%
Dixon & Roe (Birmingham) Ltd		United Kingdom	100%
Alba Paper Ltd		United Kingdom	100%
Mason's Paper Holdings Ltd		United Kingdom	100%
The Mason's Paper Co Ltd		United Kingdom	100%
Southern Paper Ltd		United Kingdom	100%
Southern Paper Co (Brighton)		United Kingdom	100%
Donald Murray (Paper) Ltd		United Kingdom	100%
Donald Murray Paper (Bristol) Ltd		United Kingdom	100%
Donald Murray Paper (Glasgow) Ltd		United Kingdom	100%
Donald Murray Paper (Newcastle) Ltd		United Kingdom	100%
Dixon & Roe Group Ltd		United Kingdom	100%
Dixon & Roe Ltd		United Kingdom	100%
Dixon & Roe (Herts) Ltd		United Kingdom	100%
The Paper Company No. 2 Ltd		United Kingdom	100%
Hopefair Ltd		United Kingdom	100%
Jarvis Paper Sales Ltd		United Kingdom	100%
Reel Papers Ltd		United Kingdom	100%
Somerset Paper Sales Ltd		United Kingdom	100%
PaperlinX Cooperatief WA		Netherlands	100%
PaperlinX Netherlands Holdings BV		Netherlands	100%
BührmannUbbens Holding BV		Netherlands	100%
BührmannUbbens BV		Netherlands	100%
PaperlinX Shared Services BV		Netherlands	100%
DRiem Papier BV		Netherlands	100%
Tricom Paper International BV		Netherlands	100%
VRG Insurances BV		Netherlands	100%
Brabantse Poort BV		Netherlands	100%
Rhosili Amsterdam CV		Netherlands	100%
PaperlinX Netherlands BV		Netherlands	100%
Printaco BV		Netherlands	100%
Proost en Brandt Holdings BV		Netherlands	100%
Proost en Brandt BV		Netherlands	100%
Enveloppendrukkerij Jet Print BV		Netherlands	100%
Bouwmaatschappij 'Het Wapen van Amsterdam' NV		Netherlands	100%
Velpa Holdings BV		Netherlands	100%
Velpa Enveloppen BV		Netherlands	100%

Note 36. PaperlinX's controlled entities (continued)

	Note	Country of Incorporation	Consolidated Entity Interest
Polyedra SpA		Italy	100%
Caledonia SrL		Italy	100%
MG di Agnetti SrL		Italy	100%
Josef Frohlen Papiergrosshandlung – WilliReddeman Import – Export GmbH		Germany	100%
Deutsche Papier Holding GmbH		Germany	100%
D & D Folienservice GmbH		Germany	100%
Deutsche adp Wilhelm GmbH		Germany	100%
Dirimex Handelsgesellschaft GmbH		Germany	100%
Klinger GmbH Handel fur Siebdruck und Werbetechnik		Germany	100%
Deutsche Papier Vertriebs GmbH		Germany	100%
Deutsche Papier Grundstucks GmbH & Co KG		Germany	100%
PaperlinX Austria GmbH		Austria	100%
PaperNet GmbH		Austria	100%
PaperNet GmbH & Co KG		Austria	100%
Adria Papir doo		Croatia	100%
Budapest Papir Kft		Hungary	100%
Tulipel – Comercio de Paperis Lda		Portugal	100%
Alpe Papir Trgovina na Veliko doo		Slovenia	100%
Bratislavska Papierenská Spolocnost		Slovakia	100%
Ospap Velkoobchod Papirem AS		Czech Republic	96%
Multiexpo Spol sro		Czech Republic	100%
PaperlinX Denmark ApS		Denmark	100%
PaperNet Scandinavia AS		Denmark	100%
Udesen A/S Grafisk Fagcenter		Denmark	100%
CC&Co Holdings ApS		Denmark	100%
Aktieselskabet Christian Christensen Og Co		Denmark	100%
Corporate Express Denmark AS		Denmark	100%
CC&Co Ejendomme AS		Denmark	100%
Plus Office AS		Denmark	100%
Axelium SAS		France	100%
Thomas Papier SARL		France	100%
Epacar NV		Belgium	100%
Mercator Papier Spzoo		Poland	100%
PaperNet Oy		Finland	100%
Union Papelera Merchanting SL		Spain	100%
Grafiskt Papper Norden AB		Sweden	100%
Interpapier AG		Switzerland	100%
The Howard Smith Paper Group Ltd		United Kingdom	100%
Contract Paper Ltd		United Kingdom	100%
Howard Smith Paper Ltd		United Kingdom	100%
Precision Publishing Papers Ltd		United Kingdom	100%
Savory Paper Ltd		United Kingdom	100%
Trade Paper Ltd		United Kingdom	100%
Howard Smith Paper (Scotland) Ltd		United Kingdom	100%
The M6 Paper Group Ltd		United Kingdom	100%
Badger Paper Ltd		United Kingdom	100%
Robert Horne UK Ltd		United Kingdom	100%
Cogladle Ltd		United Kingdom	100%
Robert Horne Pension Trustees Ltd		United Kingdom	100%
Robert Horne Group Ltd		United Kingdom	100%
Adhesive and Display Products Ltd		United Kingdom	100%
Robert Horne Paper Company Ltd		United Kingdom	100%
W Lunnon & Company Ltd		United Kingdom	100%
Glenmore Lomond Paper Group Ltd		United Kingdom	100%
Robert Horne Paper (Scotland) Ltd		United Kingdom	100%
Pinnacle Film & Board Sales Ltd		United Kingdom	100%
Sheet & Roll Converters Ltd		United Kingdom	100%
Transplastix Ltd		United Kingdom	100%
William Cox Plastics Ltd		United Kingdom	100%
PaperlinX North America Inc		USA	100%
Kelly Paper Company		USA	100%
Spicers Paper Inc		USA	100%

Note 36. PaperlinX's controlled entities (continued)

	Note	Country of Incorporation	Consolidated Entity Interest
Spicers Paper (U.S.A.) Inc		USA	100%
PPX Investment Corp		Canada	100%
PaperlinX Canada (2001) Corp		Canada	100%
Coast Paper Ltd		Canada	100%
PPX Canada Corp		Canada	100%
615145 BC Ltd		Canada	100%
PaperlinX Holdings (Asia) Pte Ltd		Singapore	100%
Spicers Paper (Asia) Trading Pte Ltd		Singapore	100%
Norscan Forest Products Pte Ltd		Singapore	100%
Spicers Paper (Singapore) Pte Ltd		Singapore	100%
Paper Products Marketing (Singapore) Pte Ltd		Singapore	100%
VRG Paper (Malaysia) Sdn Bhd		Malaysia	100%
Winpac Paper Pte Ltd		Singapore	100%
Spicers Paper (Hong Kong) Ltd		Hong Kong	100%
Paper Products Marketing (Hong Kong) Ltd	(3)	Hong Kong	100%
Spicers Paper (Malaysia) Sdn Bhd		Malaysia	100%
Finwood Papers (Pty) Ltd		South Africa	100%
Finwood Properties Pty Ltd		South Africa	100%
PaperlinX Ireland Holdings		Ireland	100%
Robert Horne Paper (Ireland) Ltd		Ireland	100%
Broadworth Ltd		Ireland	100%
Paper Sales Ltd		Ireland	100%
Contact Papers Ltd		Ireland	100%
Supreme Paper Company Ltd		Ireland	100%
DM Paper Ltd		Ireland	100%
PPX Insurance Ltd		New Zealand	100%
Spicers Paper (NZ) Ltd		New Zealand	100%
PaperlinX Investments Pty Ltd	(1)	Australia	100%
Paper Products Marketing Pty Ltd	(1)	Australia	100%
Paper Products Marketing (Taiwan) Ltd		Taiwan	80%
Pacific Paper Marketing Australia Pty Ltd	(1)	Australia	100%
Paper Products Marketing (USA) Inc		USA	100%
PaperlinX (N.Z.) Ltd		New Zealand	100%
Entities No Longer Controlled Since 30 June 2004			
PPM Zimmerlund a.s.	(4)		
Zimmerlund (Malaysia) Sdn Bhd	(4)		

(1) *PaperlinX Limited and the aforementioned subsidiary companies have entered into an approved deed for the cross guarantee of liabilities.*

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

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

A consolidated Statement of Financial Performance and consolidated Statement of Financial Position comprising PaperlinX Limited and these wholly-owned subsidiaries, after eliminating all transactions between parties to the deed of cross guarantee, is set out below:

	Consolidated	
	2005 $m	**2004 $m**
Statement of Financial Performance		
Profit from ordinary activities before income tax	153.0	17.4
Income tax benefit/(expense)	81.1	(17.2)
Net profit	234.1	0.2
Retained profits at the beginning of the year	7.4	120.9
Transfer from asset revaluation reserve	–	8.8
Dividends paid	(122.7)	(122.5)
Retained profits at the end of the year	118.8	7.4

	Consolidated	
	2005 $m	2004 $m
Note 36. PaperlinX's controlled entities (continued)		
STATEMENT OF FINANCIAL POSITION		
Current assets		
Cash assets	55.0	79.6
Receivables	1,055.6	1,089.9
Inventories	308.9	306.6
Total current assets	1,419.5	1,476.1
Non-current assets		
Receivables	4.6	7.0
Other financial assets	785.0	787.7
Property, plant and equipment	991.5	990.4
Intangible assets	36.6	39.4
Deferred tax assets	30.9	30.4
Total non-current assets	1,848.6	1,854.9
TOTAL ASSETS	3,268.1	3,331.0
Current liabilities		
Payables	221.9	217.1
Interest bearing liabilities	186.8	0.6
Current tax liabilities	–	0.3
Provisions	50.4	46.9
Total current liabilities	459.1	264.9
Non-current liabilities		
Interest bearing liabilities	878.6	1,167.0
Deferred tax liabilities	81.3	162.9
Provisions	36.1	35.0
Total non-current liabilities	996.0	1,364.9
TOTAL LIABILITIES	1,455.1	1,629.8
NET ASSETS	1,813.0	1,701.2
Equity		
Contributed equity	1,694.2	1,693.8
Retained profits	118.8	7.4
TOTAL EQUITY	1,813.0	1,701.2

(2) *During the current year, the consolidated entity purchased the Hestbech business in Denmark.*

The operating results of this business have been included in the consolidated profit from 1 November 2004. The main activity is distribution of industrial packaging and office supplies.

During the prior year, the consolidated entity purchased 100% of the Paper Merchanting Division of Buhrmann NV. The operating results of the companies so purchased have been included in the consolidated profit from 1 November 2003. The main activity is paper merchanting. The final purchase price was based on the accounts as at completion date plus any deferred consideration. The deferred consideration was contingent upon the business acquired achieving an agreed level of earnings for the calendar year ended 2003. No deferred consideration was paid or is payable.

There remains one item of dispute between the parties in relation to the completion accounts which is the valuation of one property in Germany and the disputed amount is Euro 7.5 million. A defined process is being followed to achieve resolution of this item.

The consideration paid and the net assets at the date of acquisition are set out in the table following:

	Consolidated 2005 $m	2004 $m
Note 36. PaperlinX's controlled entities (continued)		
Hestbech business		
• Consideration paid in cash	13.0	–
	13.0	–
Paper Merchanting Division of Buhrmann NV and minorities		
• Consideration paid in cash	–	1,092.2
• Costs accrued	–	11.9
	–	1,104.1
Total	13.0	1,104.1
Controlled Entities Acquired		
Total consideration paid	13.0	1,104.1
Net assets acquired:		
Cash	–	36.2
Current receivables	5.2	1,048.3
Inventories	4.3	360.3
Other financial assets – investments	–	20.1
Property, plant and equipment	6.2	303.9
Intangibles – brand names	–	25.4
Deferred tax assets	–	1.3
Current payables	(4.8)	(624.1)
Current interest bearing liabilities – bank overdraft	–	(29.3)
Current interest bearing liabilities – borrowings	–	(39.8)
Current tax liabilities and provisions	–	(54.7)
Non-current interest bearing liabilities – borrowings	–	(14.5)
Deferred tax liabilities	–	(3.2)
Non-current provisions	–	(17.3)
	10.9	1,012.6
Goodwill on acquisition	2.1	91.5
Total net assets acquired	13.0	1,104.1
Goodwill impact in the current year:		
Acquisition in the current year – per above	2.1	91.5
Fair value adjustments in relation to an acquisition in the prior year	15.0	–
	17.1	91.5
Cash flow impact:		
Cash paid	13.0	1,092.2
Cash paid, recorded as a receivable awaiting resolution of dispute	–	12.8
	13.0	1,105.0
Cash settlement of amounts accrued in prior period	31.6	24.6
	44.6	1,129.6
Less cash acquired	–	(36.2)
Add bank overdraft acquired	–	29.3
Cash flow impact – per Statement of Cash Flows	44.6	1,122.7
Net debt impact:		
Cash flow impact – per Statement of Cash Flows	44.6	1,122.7
Add current borrowings acquired	–	39.8
Add non-current borrowings acquired	–	14.5
	44.6	1,177.0

(3) *Companies renamed during the year: Paper Products Marketing (Hong Kong) Pte Ltd (formerly VRG Paper (Hong Kong) Ltd*
(4) *Companies liquidated during the year*

Note 37. Related party disclosures

The ownership interest in controlled entities is disclosed in Note 36 to the financial statements.

There were no other material related party transactions during the year.

Directors of PaperlinX Limited

Directors of PaperlinX Limited, who held office during the year ended 30 June 2005 are:
D E Meiklejohn
T P Park
D G Abotomey
A F Guy
B J Jackson
N L Scheinkestel
D A Walsh
P R Waterworth (resigned effective 29 October 2004)
L J Yelland

The remuneration of Directors is disclosed in Note 32 to the financial statements.

A full analysis of the components of the remuneration of individual Directors is contained in Note 32 and in the Directors' Report.

Loans to Directors of PaperlinX Limited in Note 10 total $530 (2004: $73,000). This amount comprises employee share plan loans only.

Directors of Controlled Entities

Loans to Directors of controlled entities in Notes 8 and 10 total $38,000 (2004: $43,000). This amount comprises employee share plan loans only.

During the year, employee share plan loan repayments totalling $78,000 were received from:

- P R Waterworth, D G Abotomey, G C Butcher, P N Jones, W C Horman, B A Smart, C B Creighton, A J Kennedy, R L McPherson, J R Peters, A O Knight, P G Holloway, D W K Woodley and A J Bull.

During the prior year, employee share plan loan repayments totalling $21,000 were received from:

- I M Wightwick, P R Waterworth, D G Abotomey, G C Butcher, P W Essex, P N Jones, W C Horman, C B Creighton, A J Kennedy, R L McPherson, J R Peters, A O Knight, M J Kearney, P G Holloway, D W K Woodley and A J Bull.

During the year, employee share plan loans totalling $1,000 were advanced.

During the prior year, employee share plan loans totalling $1,000 were advanced.

Note 38. Earnings per share

	June 2005	June 2004
Basic earnings per share (cents)	37.8	24.7
• Net profit ($ millions)	168.5	108.5
• Weighted average number of shares (millions)	446.1	439.9
Diluted earnings per share (cents)	37.6	24.5
• Net profit ($ millions)	168.5	108.5
• Weighted average number of shares (millions)	448.6	442.2

The earnings per share have been calculated in accordance with Accounting Standard AASB 1027 (Earnings per Share). This standard defines the basic earnings per share to be the operating profit after income tax for the consolidated entity attributable to members of the parent entity for the financial year, divided by the weighted average number of ordinary shares of the parent entity on issue during the financial year.

The options to purchase shares on issue during the year ended 30 June 2005 and 30 June 2004 have not been included in determining the basic earnings per share.

The diluted earnings per share is calculated in accordance with the requirements of Accounting Standard AASB 1027 (Earnings per Share), whereby the options are considered to be potential shares and hence are dilutive in their nature.

The options to purchase shares on issue during the year ended 30 June 2005 and 30 June 2004 have been included in determining the diluted earnings per share. The impact of this inclusion is the weighted average number of shares on issue increases by 2.5 million shares for the year ended 30 June 2005 (2004: 2.3 million shares).

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

Nil options have been issued since 30 June 2005 up to the date of this report.

Nil options have been exercised, resulting in the issuing of nil shares since 30 June 2005 up to the date of this report. In addition, nil options have lapsed since 30 June 2005.

Shares issued since 30 June 2005 up to the date of this report have not been included in the calculation of the basic earnings per share calculation at 30 June 2005.

Note 39. Additional financial instruments disclosure

Interest Rate Risk

The consolidated entity is exposed to adverse movements in interest rates under various debt facilities.

The consolidated entity from time to time enters into interest rate swaps that swap floating rate interest bearing liabilities into fixed rate interest bearing liabilities.

Interest Rate Risk Exposures

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

	Floating Interest Rate $m	Fixed interest maturing in: 1 Year or Less $m	Fixed interest maturing in: 1 to 5 Years $m	Fixed interest maturing in: than 5 Years $m	Non-Interest Bearing $m	Total $m	Weighted Average Interest Rate[1] %
2005							
Financial Assets							
Cash assets	429.1	–	–	–	–	429.1	2.67
Receivables	–	–	–	–	1,447.1	1,447.1	–
Other financial assets	–	–	–	–	13.3	13.3	–
Financial Liabilities							
Payables	–	–	–	–	1,041.0	1,041.0	–
Bank and other loans	822.6	–	–	–	–	822.6	3.92
USD Notes	–	–	–	159.9	–	159.9	6.75
CAD Notes	–	3.3	13.2	59.6	–	76.1	7.88
GBP Notes	–	–	–	242.9	–	242.9	6.59
Leases	–	0.4	0.7	–	–	1.1	8.00
Employee entitlements	–	–	48.3	–	40.9	89.2	6.00
2004							
Financial Assets							
Cash assets	448.6	–	–	–	–	448.6	2.72
Receivables	–	–	–	–	1,682.1	1,682.1	–
Other financial assets	–	–	–	–	20.2	20.2	–
Financial Liabilities							
Payables	–	–	–	–	1,154.3	1,154.3	–
Bank and other loans	958.3	–	–	–	–	958.3	3.78
USD Notes	–	–	–	177.0	–	177.0	6.75
CAD Notes	–	–	–	76.7	–	76.7	7.88
GBP Notes	–	–	–	269.1	–	269.1	6.59
Leases	–	0.6	–	–	–	0.6	8.00
Employee entitlements	–	–	50.2	–	38.6	88.8	6.00

[1] *Includes the effect of applicable credit margins.*

Foreign Exchange Risk

Purchases

In relation to purchases denominated in a foreign currency, the consolidated entity's policy is to hedge all material foreign currency exposures. This is done via a natural hedge, such as a similarly denominated receivable or cash balance, or through forward cover contracts as soon as a firm and irrevocable commitment is entered into or known. It is the consolidated entity's policy to recognise both the cost of entering into a forward foreign exchange contract and the net exchange gain/loss arising thereon, between the date of inception and year end, as a net foreign currency receivable or net foreign currency payable in the financial statements. This is calculated by reference to the movement in the applicable exchange rate from the date of inception of the contract to that at year end. Gains or losses are deferred until maturity at which time they are included in the measurement of the underlying transaction.

Note 39. Additional financial instruments disclosure (continued)

The following table sets out the gross value to be received under foreign currency contracts, the weighted average contracted exchange rates and the settlement periods of contracts outstanding:

	2005 Weighted Average Rate	2004 Weighted Average Rate	2005 $m	2004 $m
Buy Contracts				
0–12 months				
EUR	0.5727	0.5167	1.9	0.7
GBP	0.4060	0.3763	0.1	0.3
NZD	1.0856	–	4.1	–
JPY	80.2081	71.9919	0.1	0.7
USD	0.7580	0.6772	56.6	40.1
			62.8	41.8

As these contracts are hedging anticipated purchases, any unrealised exchange gains and losses on the contracts, together with the costs of the contracts, will be recognised in the Statement of Financial Performance at the time the underlying transaction occurs.

The gross unrecognised gains and losses on hedges of anticipated foreign currency purchases are gains of $0.4 million (2004: gains of $1.2 million) and losses of $0.3 million (2004: losses of $0.1 million).

Liabilities

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

Credit Risk

Financial Instruments Included in the Statements of Financial Position

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 doubtful debts.

The consolidated entity minimises its concentrations of credit risk by undertaking transactions with a large number of customers and counterparties in various countries. There is no material exposure to any individual overseas country or individual customer.

Financial Instruments Not Included in the Statements of Financial Position

Foreign exchange contracts are not included in the Statements of Financial Position.

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

The maximum credit risk exposure on foreign currency contracts is the full amount of the foreign currency the consolidated entity pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay the consolidated entity. The full amount of the exposure is detailed in the previous table.

Net Fair Values

Financial Instruments Included in the Statements of Financial Position

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

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

The carrying amounts and net fair values of financial assets and liabilities approximate each other as at reporting date.

Financial Instruments Not Included in the Statements of Financial Position

The net fair value of foreign exchange contracts, none of which are included in the Statements of Financial Position, are assessed as the estimated amount that the consolidated entity expects to pay or receive to terminate the contracts or replace the contracts at their current market rates as at reporting date. This is based on independent market quotations and determined using standard valuation techniques.

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

The net fair value of foreign exchange contracts held as at reporting date is a gain of $0.1 million (2004: a gain of $1.1 million).

Note 40. Impact of adopting Australian equivalents to International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (AGAAP) applicable for reporting periods ended 30 June 2005.

The PaperlinX Group has established a formal project, monitored by a steering committee, to achieve transition to AIFRS reporting. The first reporting period is the half-year ended 31 December 2005.

The Company's implementation project consists of three phases as described below:

1. Assessment and planning phase

The assessment and planning phase aimed to produce a high level overview of the impacts of conversion to AIFRS reporting on existing accounting and reporting policies and procedures, systems and processes, business structures and staff.

This phase included:

- high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting AIFRS
- assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes
- review of expected changes to accounting policies, reporting structures, systems, accounting and business processes and staff training

The assessment and planning phase was complete as at 30 June 2005.

2. Design phase

The design phase aimed to formulate the changes required to existing accounting policies and procedures and systems and processes in order to transition to AIFRS. The design phase incorporated:

- formulating revised accounting policies and procedures for compliance with AIFRS requirements
- identifying potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of AIFRS
- designing accounting and business processes to support AIFRS reporting obligations
- identifying and planning required changes to financial reporting and business source systems

The design phase was complete as at 30 June 2005.

3. Implementation phase

The implementation phase includes implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff. It enables the company to generate the required disclosures of AASB 1 (First Time Adoption of Australian Equivalents to International Financial Reporting Standards) as it progresses through the transition to AIFRS.

The implementation phase was substantially complete as at 30 June 2005.

Impact of transition

The impact of transition to AIFRS, including the transitional adjustments disclosed in the reconciliations from current AGAAP to AIFRS, and the selection and application of AIFRS accounting policies, are based on AIFRS standards that management expect to be in place, or where applicable, early adopted, when preparing the first complete AIFRS financial report (being the half-year ending 31 December 2005). Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of the Company's and consolidated entity's financial position, results of operations and cash flows in accordance with AIFRS. This note provides only a summary. Further disclosure and explanations will be required in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

Revisions to the selection and application of the AIFRS accounting policies may be required as a result of:

- changes in financial reporting requirements that are relevant to the Company's and consolidated entity's first complete AIFRS financial report arising from new or revised accounting standards or interpretations issued by the Australian Accounting Standards Board subsequent to the preparation of the 30 June 2005 financial report
- additional guidance on the application of AIFRS in a particular industry or to a particular transaction
- changes to the Company's and consolidated entity's operations

Consequently, the final reconciliations presented in the first financial report prepared in accordance with AIFRS may vary materially from the reconciliations provided in this Note.

Where the application or interpretation of an accounting standard is currently being debated, the accounting policy adopted reflects management's current assessment of the likely outcome of those deliberations which have been reviewed by the auditors.

The rules for first time adoption of AIFRS are set out in Accounting Standard AASB 1 (First Time Adoption of Australian Equivalents to International Financial Reporting Standards). In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 July 2004. The Standard allows a number of exemptions to this general principle to assist in the transition to reporting under AIFRS. The accounting policies note will include details of the AASB 1 elections adopted.

The significant changes in accounting policies expected to be adopted in preparing the AIFRS reconciliations and the elections expected to be made under AASB 1 are set out following:

Note 40. Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

Notes

(i) Defined benefit plans

Under AGAAP, defined benefit plans are accounted for on a cash basis, with no defined benefit obligation or plan assets recognised in the statement of financial position. The AASB 1 election to recognise in full actuarial gains and losses at transition date through retained earnings is expected to be adopted.

Under AIFRS, the consolidated entity's net obligation in respect of defined benefit superannuation plans will be calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit will be discounted to determine its present value, and the fair value of any plan assets will be deducted. The discount rate will be the rate attached to AAA credit rated bonds or the rate attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities.

The calculated surplus or deficit for each plan will be required to be recognised in the statement of financial position with a corresponding adjustment to retained earnings.

Subsequent to the transition date, the calculated surplus or deficit for each plan will be required to be recognised in the statement of financial performance, except to the extent that it arises in relation to actuarial gains and losses. Actuarial gains and losses that arise subsequent to the transition date will be recognised in the statement of financial position as an adjustment to retained earnings.

At 1 July 2004, the impact on transition is an increase in liabilities of $53.5 million less the applicable tax effect of $16.7 million resulting in a decrease in retained earnings of $36.8 million.

For the year ended 30 June 2005, the impact is an increase in employee benefits expense of $0.7 million less the applicable tax effect of $0.4 million resulting in a decrease in reported earnings of $0.3 million. The impact in relation to actuarial gains and losses is an increase in liabilities of $35.5 million less the applicable tax effect of $10.4 million resulting in a decrease of retained earnings of $25.1 million.

The cumulative impact as at 30 June 2005 is an increase in liabilities of $89.7 million less the applicable tax effect of $27.5 million resulting in a decrease in retained earnings of $62.2 million. The impact of exchange rates is a decrease in liabilities of $9.6 million and an increase in reserves of $9.6 million.

(ii) Share based payments

Under current AGAAP, no expense is recognised for options issued to employees.

Under AIFRS, the fair value of options granted must be recognised as an employee benefit expense with a corresponding increase in equity. The fair value will be calculated at grant date taking into account market performance conditions only, and spread over the vesting period during which the employees become unconditionally entitled to the options. The fair value of options granted will be independently calculated using a suitable valuation model (currently either the Monte Carlo simulation or Black-Scholes model), taking into account the terms and conditions attached to the options. The amount recognised as an expense will be adjusted to reflect the actual number of options that vest except where forfeiture is due to market related conditions.

No adjustment will be made for options granted before 7 November 2002. Options granted after 7 November 2002 remaining unvested at 1 January 2004, will be recognised in the opening balance sheet through retained earnings resulting in a $nil impact on transition.

At 1 July 2004, there is a $nil impact in retained earnings.

For the year ended 30 June 2005, the impact is an increase in employee benefits expense of $2.3 million resulting in a decrease in reported earnings of $2.3 million.

The cumulative impact as at 30 June 2005 is a $nil impact in retained earnings.

(iii) Employee Share Plan loans

Under current AGAAP the interest free loans to employees in accordance with the terms of the employee share plan are recorded as an asset and repaid over time via the associated dividend stream.

Under AIFRS, the value of such loans are required to be reclassified against share capital.

At 1 July 2004, the impact on transition is a decrease in non-current assets of $3.4 million and a decrease in contributed equity of $3.4 million.

During the year ended 30 June 2005, the Employee Share Plan loans are reduced either by dividends paid on the shares, so issued, or in certain circumstances in accordance with an agreed schedule of repayments, which does not exceed three years.

The cumulative impact as at 30 June 2005 is a decrease in non-current assets of $2.7 million and a decrease in contributed equity of $2.7 million.

(iv) Shares held in trust

Under current AGAAP, the cost of shares purchased on market, and held in a trust to satisfy the terms and conditions of the Performance Share Plan, is recorded as an asset and amortised over the applicable vesting period.

Under AIFRS, the cost of the shares are recorded as a negative reserve and not amortised to profit.

At 1 July 2004, the impact on transition is an increase in assets of $5.1 million (being the accumulated amortisation as at 30 June 2004) to a total of $10.2 million. The reinstated asset amount is then reclassified in the balance sheet resulting in a decrease in assets of $10.2 million and a decrease in reserves of $10.2 million.

The increase in assets of $5.1 million less the applicable tax effect of $1.5 million results in an increase in retained earnings of $3.6 million. The impact of shares allocated to employees is an increase in reserves of $0.5 million and a decrease in retained earnings of $0.5 million.

For the year ended 30 June 2005, the impact is an increase in employee benefit expense of $1.0 million less the applicable tax effect of $0.3 million resulting in a decrease in reported earnings of $0.7 million.

The cumulative impact as at 30 June 2005 is an increase in assets of $4.1 million (being the accumulated amortisation as at 30 June 2005) to a total of $10.2 million. The reinstated asset is then reclassified in the balance sheet resulting in a decrease in assets of $10.2 million, offset by a decrease in reserves of $9.7 million and a decrease in retained earnings of $0.5 million.

The cumulative increase in assets of $4.1 million less the applicable tax effect of $1.2 million results in an increase in retained earnings of $2.9 million.

Note 40. Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

(v) Impairment of non-current assets

Under current AGAAP, the carrying amounts of non-current assets valued on a cost basis, are reviewed at reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds its recoverable amount the asset is written down to the lower amount, with the write-down recognised in the income statement in the period in which it occurs. Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

Under AIFRS, the carrying amount of the consolidated entity's non-current assets, excluding investment property, defined benefit assets, deferred tax assets, goodwill and indefinite life intangible assets (brand names) will be reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset will be tested for impairment by comparing its recoverable amount to its carrying amount.

The major differences between AGAAP and AIFRS are as follows:
- the impairment test is performed at a cash generating unit level, and
- the cash flows must be discounted

Goodwill, which is not amortised under AIFRS and intangible assets (brand names) that have an indefinite useful life are tested for impairment annually.

If there is any indication that an asset is impaired, the recoverable amount will be estimated for the individual asset. If it is not practical to estimate the recoverable amount for the individual asset, the recoverable amount of the cash generating unit to which the asset belongs will be determined.

A cash generating unit will be the smallest identifiable group of assets that generate independent cash inflows. Each cash-generating unit must be no larger than a segment.

An impairment loss will be recognised in the profit and loss whenever the carrying amount of an asset, or its cash generating unit exceeds its recoverable amount.

Impairment losses recognised in respect of a cash generating unit will be allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to reduce the carrying amount of the other assets in the unit pro rata based on their carrying amounts. The discount rate used equates to the consolidated entity's pre tax weighted average cost of capital, applicable to the assets being funded, being 9.5%.

At 1 July 2004, the impact on transition is a decrease in property, plant and equipment of $242.3 million less the applicable tax effect of $72.7 million resulting in a decrease in retained earnings of $169.6 million.

For the year ended 30 June 2005, the impact is a decrease in property, plant and equipment of $16.7 million less the applicable tax effect of $5.0 million resulting in a decrease in reported earnings of $11.7 million.

The cumulative impact as at 30 June 2005 is a decrease in property, plant and equipment of $259.0 million less the applicable tax effect of $77.7 million resulting in a decrease in retained earnings of $181.3 million.

The impairment losses relate wholly to the Australian Paper manufacturing business.

(vi) Income tax

On transition to AIFRS, the statement of financial position method of tax effect accounting will be adopted, rather than the liability method applied currently under AGAAP.

Under the statement of financial position approach, income tax on the profit and loss for the year comprises current and deferred taxes.

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

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided will be based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at reporting date.

A deferred tax asset will be 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 will be reduced to the extent it is no longer probable that the related tax benefit will be realised.

At 1 July 2004, the impact on transition is an increase in deferred tax liabilities of $0.2 million and a decrease in retained earnings of $0.2 million.

For the year ended 30 June 2005, the impact is an increase in deferred tax liabilities of $0.3 million and a decrease in reported earnings of $0.3 million.

The cumulative impact as at 30 June 2005 is an increase in deferred tax liabilities of $0.5 million and a decrease in retained earnings of $0.5 million.

(vii) Non-amortisation of goodwill

Under current AGAAP, as adopted, goodwill is amortised on a straight-line basis over the period which the benefits are expected to arise and not exceed 20 years.

Under AIFRS, amortisation of goodwill is prohibited and will be replaced by annual impairment testing focusing on the cash inflows of the applicable cash generating unit.

For the year ended 30 June 2005, amortisation expense decreases by $20.1 million less the applicable tax effect of $nil million resulting in an increase in reported earnings of $20.1 million.

The cumulative impact as at 30 June 2005 is an increase in intangibles of $20.1 million and an increase in retained earnings of $20.1 million.

(viii) Non-depreciation of non-current assets

Under current Australian GAAP, the non-current assets impaired as at 1 July 2004 on transition to AIFRS were depreciated during the year ended 30 June 2005.

Under AIFRS, non-current assets impaired as at 1 July 2004 are not subject to depreciation during the year ended 30 June 2005.

For the year ended 30 June 2005, depreciation expense decreases by $10.2 million less the applicable tax effect of $3.1 million resulting in an increase in reported earnings of $7.1 million.

The cumulative impact as at 30 June 2005 is an increase in property, plant and equipment of $10.2 million less the applicable tax effect of $3.1 million resulting an increase in retained earnings of $7.1 million.

Note 40. Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

(ix) Disposal of foreign denominated subsidiary

Under current AGAAP, the assets and liabilities of self-sustaining foreign operations are translated at the rates of exchange ruling at reporting date. Equity items and goodwill are translated at historical rates. The statements of financial performance are translated at an average rate for the year which approximates the exchange rates ruling at the date of the transactions. Foreign exchange differences arising on translation are recognised directly in the foreign currency translation reserve until disposal of the operation, when it is transferred directly to retained earnings.

Under AIFRS, each entity maintains its books and records in its functional currency. The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated from the entity's functional currency to the consolidated entity's presentation currency of Australian dollars at foreign exchange rates ruling at reporting date. The statements of financial performance are translated at an average rate for the year which approximates the exchange rates ruling at the date of the transactions. Foreign exchange differences arising on translation are recognised directly in the foreign currency translation reserve.

There are no expected changes in functional currency for the Company or its subsidiaries.

All foreign operations are translated into Australian dollars using the method described above.

On disposal of a foreign operation, under AIFRS the amount recognised in the foreign currency translation reserve attributable to the foreign operation is included in the calculation of the gain or loss on disposal and recycled through the current year income statement.

At 1 July 2004, there is no impact on transition.

For the year ended 30 June 2005, the impact is an increase in the loss on disposal of subsidiaries of $1.7 million and a decrease in the transfer amount from retained earnings to the exchange fluctuation reserve of $1.7 million.

There is no net impact on the statement of financial position as at 30 June 2005.

(x) Business combinations

Under current AGAAP, post acquisition adjustments to goodwill are permitted to be made in subsequent periods, where appropriate.

Under AIFRS, post acquisition adjustments are only permitted to be made within a 12 month period from the date of the acquisition. As a result, any such adjustments booked to goodwill under AGAAP after 31 October 2004 in relation to the acquisition of the Paper Merchanting Division of Buhrmann NV, will need to be adjusted against reported earnings other than in specific circumstances.

The consolidated entity has not elected to apply Accounting Standard AASB 3 (Business Combinations) retrospectively and hence the impact of the above only affects the AIFRS restated statement of financial position as at 1 July 2005 and the AIFRS restated profit for the year ended 30 June 2005.

At 1 July 2004, there is no impact on transition.

For the year ended 30 June 2005, the impact is an increase in expenses of $8.8 million less the applicable tax effect of $Nil million resulting in a decrease in reported earnings of $8.8 million.

The cumulative impact as at 30 June 2005 is a decrease in goodwill of $8.8 million and a decrease in retained earnings of $8.8 million.

(xi) Reclassification of computer software

Under current AGAAP, computer software is generally classified as part of property, plant and equipment in the balance sheet.

Under AIFRS, any computer software that is not integral to the operation of property, plant and equipment is classified as an intangible asset, where it is continued to be amortised on the same basis.

At 1 July 2004, the impact on transition is an increase in intangibles of $70.1 million and a decrease in property, plant and equipment of $70.1 million.

The cumulative impact as at 30 June 2005 is an increase in intangibles of $68.6 million and a decrease in property, plant and equipment of $68.6 million.

(xii) Revenue disclosures in relation to the sale of non-current assets

Under AIFRS, the revenue recognised in relation to the sale of non-current assets is the net gain on the sale. This is in contrast to the current AGAAP treatment under which the gross proceeds from the sale are recognised as revenue and the carrying amount of the assets sold is recognised as an expense. The net impact on the profit or loss of this difference is $nil.

If the policy required under AIFRS had been applied during the year ended 30 June 2005, the consolidated revenue from ordinary activities would have been $11.2 million lower, the consolidated carrying amount of non-current assets sold disclosed as an expense in the statement of financial performance would have been $8.2 million lower and the consolidated other income would have been $3.0 million higher.

(xiii) Reclassification of other income

Under AIFRS, foreign exchange gains are classified as other income. This is in contrast to the current AGAAP treatment under which such items are classified as revenue.

If the policy required under AIFRS had been applied during the year ended 30 June 2005, the consolidated revenue from ordinary activities would have been $0.2 million lower and consolidated other income would have been $0.2 million higher.

(xiv) Impact of changes from 1 July 2005

PaperlinX Limited expects to take advantage of the election under AASB 1 to not restate for AASB 132 (Financial Instruments: Disclosure and Presentation) and AASB 139 (Financial Instruments: Recognition and Measurement).

There are no expected adjustments for 1 July 2004 or the financial year ended 30 June 2005 as current AGAAP is expected to continue to apply.

As at 1 July 2005, the expected adjustments to the consolidated entity are as follows:

- Under current AGAAP, not all derivatives were recognised in the statement of financial position. On adoption of AASB 139, all derivatives will be recognised at fair value on the statement of financial position. The effect on the consolidated entity is to record the fair value of the derivatives on the statement of financial position with a corresponding increase in retained earnings of $0.1 million.
- Debt establishment costs which are capitalised and amortised over the term of the borrowing under current AGAAP, will be recalculated based on the effective interest rate method and recognised as part of the liability rather than as a separate asset. This is expected to result in a decrease in assets of $4.0 million, and a decrease in financial liabilities of $4.0 million.

Note 40. Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

The following tables set out the expected adjustments to the consolidated entity at transition to AIFRS as at 1 July 2004.

		Consolidated				
1 July 2004	**Notes**	**Contributed Equity $m**	**Reserves $m**	**Retained Profits $m**	**Outside Equity Interest $m**	**Total Equity $m**
Net assets as at 1 July 2004 under AGAAP		1,693.8	(18.7)	137.0	1.2	1,813.3
Defined benefit plans	(i)	–	–	(36.8)	–	(36.8)
Employee Share Plan loans	(iii)	(3.4)	–	–	–	(3.4)
Shares held in trust	(iv)	–	–	3.6	–	3.6
Shares held in trust, reclassification as a 'negative' reserve	(iv)	–	(9.7)	(0.5)	–	(10.2)
Impairment of non-current assets	(v)	–	–	(169.6)	–	(169.6)
Income tax	(vi)	–	–	(0.2)	–	(0.2)
Net assets as at 1 July 2004 under AIFRS		1,690.4	(28.4)	(66.5)	1.2	1,596.7

		Consolidated		
1 July 2004	**Notes**	**AGAAP $m**	**Adjust-ments $m**	**AIFRS $m**
Current Assets	(iv)	2,999.6	(3.0)	2,996.6
Non-current Assets				
– Property, plant & Equipment	(v)(xi)	1,343.4	(312.4)	1,031.0
– Intangible assets	(xi)	364.4	70.1	434.5
– Other	(i)(iv)(iii)	72.7	11.2	83.9
Total Non-current Assets		1,780.5	(231.1)	1,549.4
Total Assets		4,780.1	(234.1)	4,546.0
Current Liabilities		1,341.1	–	1,341.1
Non-current Liabilities	(i)(iv)(v)(vi)	1,625.7	(17.5)	1,608.2
Total Liabilities		2,966.8	(17.5)	2,949.3
Net Assets		1,813.3	(216.6)	1,596.7

Note 40. Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

The following table sets out the expected adjustments to the consolidated statement of financial performance for the year ended 30 June 2005. No adjustments are expected in relation to PaperlinX Limited.

								Consolidated
30 June 2005	Notes	Profit from ordinary activities before interest, tax, depreciation and amortisation $m	Depreciation and amortisation $m	Profit from ordinary activities before net interest and income tax $m	Net interest $m	Profit from ordinary activities before income tax expense $m	Income tax benefit/ (expense) $m	Profit from ordinary activities after income tax expense $m
30 June 2005 (before tax consolidation adjustment)		307.7	(122.8)	184.9	(68.5)	116.4	(24.8)	91.6
Tax consolidation adjustment		–	–	–	–	–	77.0	77.0
30 June 2005 under AGAAP		307.7	(122.8)	184.9	(68.5)	116.4	52.2	168.6
• Defined benefit plans	(i)	(0.7)	–	(0.7)	–	(0.7)	0.4	(0.3)
• Share based payments	(ii)	(2.3)	–	(2.3)	–	(2.3)	–	(2.3)
• Shares held in trust	(iv)	(1.0)	–	(1.0)	–	(1.0)	0.3	(0.7)
• Impairment of non-current assets	(v)	(16.7)	–	(16.7)	–	(16.7)	5.0	(11.7)
• Income tax	(vi)	–	–	–	–	–	(0.3)	(0.3)
• Non-amortisation of goodwill	(vii)	–	20.1	20.1	–	20.1	–	20.1
• Non-depreciation of non-current assets impaired as at 1 July 2004	(viii)	–	10.2	10.2	–	10.2	(3.1)	7.1
• Disposal of foreign denominated subsidiary	(ix)	(1.7)	–	(1.7)	–	(1.7)	–	(1.7)
• Business combinations	(x)	(8.8)	–	(8.8)	–	(8.8)	–	(8.8)
30 June 2005 under AIFRS		276.5	(92.5)	184.0	(68.5)	115.5	54.5	170.0

The following tables set out the expected adjustments to the consolidated entity upon adoption of AIFRS as at 30 June 2005.

		Consolidated				
30 June 2005	Notes	Contributed equity $m	Reserves $m	Retained profits $m	Outside equity interest $m	Total equity $m
Net assets as at 30 June 2005 under AGAAP		1,694.2	(63.8)	181.1	0.9	1,812.4
Defined benefit plans	(i)	–	9.6	(62.2)	–	(52.6)
Share based payments	(ii)	–	–	–	–	–
Employee Share Plan loans	(iii)	(2.7)	–	–	–	(2.7)
Shares held in trust	(iv)	–	–	2.4	–	2.4
Shares held in trust reclassification as a 'negative' reserve	(iv)	–	(9.7)	–	–	(9.7)
Impairment of non-current assets	(v)	–	–	(181.3)	–	(181.3)
Income tax	(vi)	–	–	(0.5)	–	(0.5)
Non-amortisation of goodwill	(vii)	–	–	20.1	–	20.1
Non-depreciation of non-current assets impaired as at 1 July 2005	(viii)	–	–	7.1	–	7.1
Disposal of foreign denominated subsidiary	(ix)	–	1.7	(1.7)	–	–
Business combinations	(x)	–	0.6	(8.8)	–	(8.2)
Net assets as at 30 June 2005 under AIFRS		1,691.5	(61.6)	(43.8)	0.9	1,587.0

Note 40. Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

		Consolidated		
1 July 2004	Notes	AGAAP $m	Adjust-ments $m	AIFRS $m
Current Assets	(iv)	2,683.8	(4.9)	2,678.9
Non-current Assets				
– Property, plant and equipment	(v)(vi)	1,298.2	(320.4)	977.8
– Intangible assets	(x)(xi)	332.2	83.5	415.7
– Other	(i)(iii)(iv)	69.3	23.6	92.9
Total Non-current Assets		1,699.7	(213.3)	1,486.4
Total Assets		4,383.5	(218.2)	4,165.3
Current Liabilities		1,390.5	–	1,390.5
Non-current Liabilities	(i)(iv)(v)(vi)(viii)	1,180.6	7.2	1,187.8
Total Liabilities		2,571.1	7.2	2,578.3
Net Assets		1,812.4	(225.4)	1,587.0

The following tables set out the expected adjustments to PaperlinX Limited at transition to AIFRS as at 1 July 2004 and for the year ending 30 June 2005 comparative period.

		PaperlinX Limited			
1 July 2004	Notes	Contributed Equity $m	Reserves $m	Retained Profits $m	Total Equity $m
Net assets as at 1 July 2004 under AGAAP		1,693.8	–	3.4	1,697.2
• Employee Share Plan loans	(iii)	(3.4)	–	–	(3.4)
Net assets as at 1 July 2004 under AIFRS		1,690.4	–	3.4	1,693.8

		PaperlinX Limited		
1 July 2004	Notes	AGAAP $m	Adjust-ments $m	AIFRS $m
Current Assets		276.8	–	276.8
Non-current Assets	(iii)	1,583.6	(3.4)	1,580.2
Total Assets		1,860.4	(3.4)	1,857.0
Current Liabilities		0.3	–	0.3
Non-current Liabilities		162.9	–	162.9
Total Liabilities		163.2	–	163.2
Net Assets		1,697.2	(3.4)	1,693.8

Note 40. Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

		PaperlinX Limited			
30 June 2005	Notes	Contributed Equity $m	Reserves $m	Retained Profits $m	Total Equity $m
Net assets as at 30 June 2005 under AGAAP		1,694.2	–	59.2	1,753.4
Employee Share Plan loans	(iii)	(2.7)	–	–	(2.7)
Net assets as at 30 June 2005 under AIFRS		1,691.5	–	59.2	1,750.7

		PaperlinX Limited		
30 June 2005	Notes	AGAAP $m	Adjust-ments $m	AIFRS $m
Current Assets		251.3	–	251.3
Non-current Assets	(iii)	1,583.4	(2.7)	1,580.7
Total Assets		1,834.7	(2.7)	1,832.0
Current Liabilities		–	–	–
Non-current Liabilities		81.3	–	81.3
Total Liabilities		81.3	–	81.3
Net Assets		1,753.4	(2.7)	1,750.7

Note 41. Events subsequent to balance date

Dividends

For dividends declared after 30 June 2005, see Note 6.

Directors' Declaration

1. In the opinion of the directors of PaperlinX Limited:
   (a) the financial statements and notes, set out on pages 1 to 50, are in accordance with the Corporations Act 2001, including:
      (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
      (ii) complying with Accounting Standards in Australia 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 subsidiaries identified in Note 36 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 subsidiaries pursuant to ASIC Class Order 98/1418.
3. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2005.

In accordance with a resolution of the directors, dated at Melbourne, in the State of Victoria, this 24th day of August 2005.

D E Meiklejohn
Chairman

T P Park
Managing Director

Independent Audit Report

To the members of PaperlinX Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes 1 to 41 to the financial statements, the disclosures made by the Company in accordance with the Corporations Regulations 2001 as required by AASB 1046 Director and Executive Disclosures by Disclosing Entities in sections 1 to 3 and 5 to 7 of the 'Remuneration Report' in the Directors' Report ('remuneration disclosures') and the directors' declaration for PaperlinX Limited (the 'Company') and PaperlinX Limited and its controlled entities (the 'consolidated entity'), for the year ended 30 June 2005. The consolidated entity comprises both the Company and the entities it controlled during that year.

The Remuneration Report also contains information in section 4 not required by Accounting Standard AASB 1046 Director and Executive Disclosures by Disclosing Entities, which is not subject to our audit.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report and the Remuneration Report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 1046 and the Corporations Regulations 2001. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 1046 and the Corporations Regulations 2001.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Audit opinion

In our opinion, the financial report including the audited remuneration disclosures that are contained in sections 1 to 3 and 5 to 7 of the Remuneration Report in the Directors' Report of PaperlinX Limited are in accordance with:

a) the Corporations Act 2001, including:
   (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the financial year ended on that date; and
   (ii) complying with Accounting Standards in Australia, including AASB 1046 Director and Executive Disclosures by Disclosing Entities, and the Corporations Regulations 2001; and

b) other mandatory financial reporting requirements in Australia

KPMG

R J Douglas
Partner

Melbourne
24 August 2005

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Financial Report

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