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***PaperlinX***

**FULL FINANCIAL REPORT 2006**

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# INCOME STATEMENTS

## FOR THE YEAR ENDED 30 JUNE

	Note	Consolidated		PaperlinX Limited	
		2006 \$m	2005 \$m	2006 \$m	2005 \$m
Revenue	2	7,392.3	7,582.9	13.1	8.5
Other income	3	27.3	4.6	25.5	177.0
Expenses	4	(7,267.6)	(7,405.1)	(6.9)	(6.3)
<b>Result from operating expenses</b>		<b>152.0</b>	<b>182.4</b>	<b>31.7</b>	<b>179.2</b>
Financial income	5(c)	7.3	4.3	–	–
Financial expenses	5(c)	(73.1)	(75.1)	–	–
Net financing costs		(65.8)	(70.8)	–	–
<b>Profit before tax</b>	5(b)	<b>86.2</b>	<b>111.6</b>	<b>31.7</b>	<b>179.2</b>
Tax benefit/(expense)	6	(21.5)	55.1	(2.9)	(0.7)
<b>Profit after income tax expense but before profit and loss of discontinuing operations</b>		<b>64.7</b>	<b>166.7</b>	<b>28.8</b>	<b>178.5</b>
Profit and loss of discontinuing operations, net of tax	11	0.7	–	–	–
<b>Profit for the year</b>	5(a)	<b>65.4</b>	<b>166.7</b>	<b>28.8</b>	<b>178.5</b>
<b>Profit for the year attributable to:</b>					
Equity holders of the parent	29	65.4	166.6	28.8	178.5
Minority interest		–	0.1	–	–
		65.4	166.7	28.8	178.5
Basic earnings per share from continuing operations	42	14.5	37.3		
Diluted earnings per share from continuing operations	42	14.3	37.1		

Notes 1 to 45 form part of these financial statements and are to be read in conjunction therewith.

# STATEMENTS OF RECOGNISED INCOME AND EXPENSE

## FOR THE YEAR ENDED 30 JUNE

	Note	Consolidated		PaperlinX Limited	
		2006 \$m	2005 \$m	2006 \$m	2005 \$m
Net foreign exchange differences on translation of overseas subsidiaries	28	26.7	(44.2)	–	–
Actuarial gains/(losses) on defined benefit plans	29	30.0	(33.9)	–	–
Net income recognised in equity		56.7	(78.1)	–	–
Profit for the period		65.4	166.7	28.8	178.5
<b>Total recognised income and expense for the period</b>		<b>122.1</b>	<b>88.6</b>	<b>28.8</b>	<b>178.5</b>
<b>Total recognised income and expense for the period attributable to:</b>					
Equity holders of the parent		122.1	88.5	28.8	178.5
Minority Interest		–	0.1	–	–
		122.1	88.6	28.8	178.5
Effects of change in accounting policy – Adjustment to comply with AASB139 Financial Instruments: Recognition and Measurement					
Equity holders of the parent		0.3	–	–	–
Minority interest		–	–	–	–
		0.3	–	–	–

Notes 1 to 45 form part of the financial statements and are to be read in conjunction therewith.

# BALANCE SHEETS

## AS AT 30 JUNE

	Note	Consolidated		PaperlinX Limited	
		2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Current assets</b>					
Cash and cash equivalents	8	455.1	429.1	–	–
Trade and other receivables	9	1,541.8	1,433.2	3.1	201.4
Inventories	10	864.1	811.7	–	–
Assets classified as held for sale	11	19.6	–	–	–
<b>Total current assets</b>		<b>2,880.6</b>	<b>2,674.0</b>	<b>3.1</b>	<b>201.4</b>
<b>Non-current assets</b>					
Receivables	12	8.9	5.4	–	–
Investments	13	14.1	13.3	1,912.1	1,549.8
Property, plant and equipment	14	990.8	985.2	–	–
Intangible assets	15	421.6	403.7	–	–
Deferred tax assets	16	74.4	85.2	–	–
<b>Total non-current assets</b>		<b>1,509.8</b>	<b>1,492.8</b>	<b>1,912.1</b>	<b>1,549.8</b>
<b>Total assets</b>		<b>4,390.4</b>	<b>4,166.8</b>	<b>1,915.2</b>	<b>1,751.2</b>
<b>Current liabilities</b>					
Trade and other payables	17	1,172.9	1,041.9	211.6	–
Interest bearing loans and borrowings	18	221.7	266.6	–	–
Income tax payable	19	9.6	3.8	1.3	0.5
Employee benefits	20	41.4	40.9	–	–
Provisions	21	13.8	19.8	–	–
Liabilities classified as held for sale	11	0.9	–	–	–
<b>Total current liabilities</b>		<b>1,460.3</b>	<b>1,373.0</b>	<b>212.9</b>	<b>0.5</b>
<b>Non-current liabilities</b>					
Payables	22	93.1	119.6	–	–
Interest bearing loans and borrowings	23	1,136.7	1,036.0	–	–
Deferred tax liabilities	24	43.4	33.4	0.5	–
Employee benefits	25	37.3	38.9	–	–
Provisions	26	10.9	3.2	–	–
<b>Total non-current liabilities</b>		<b>1,321.4</b>	<b>1,231.1</b>	<b>0.5</b>	<b>–</b>
<b>Total liabilities</b>		<b>2,781.7</b>	<b>2,604.1</b>	<b>213.4</b>	<b>0.5</b>
<b>Net assets</b>		<b>1,608.7</b>	<b>1,562.7</b>	<b>1,701.8</b>	<b>1,750.7</b>
<b>Equity</b>					
Issued capital	27	1,691.9	1,691.5	1,691.9	1,691.5
Reserves	28	(45.0)	(71.7)	–	–
Retained profits	29	(38.2)	(58.1)	9.9	59.2
<b>Total equity attributable to:</b>					
Equity holders of the parent		1,608.7	1,561.7	1,701.8	1,750.7
Minority interest	30	–	1.0	–	–
<b>Total Equity</b>		<b>1,608.7</b>	<b>1,562.7</b>	<b>1,701.8</b>	<b>1,750.7</b>

Notes 1 to 45 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		PaperlinX Limited	
		2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Cash flows from operating activities</b>					
Receipts from customers		7,431.7	7,641.6	10.0	8.8
Payments to suppliers and employees		(7,113.9)	(7,271.8)	(6.9)	(6.3)
Dividends received		0.8	0.3	25.5	177.0
Interest received		5.7	4.4	–	–
Interest paid		(69.6)	(74.3)	–	–
Income taxes paid		(6.1)	(36.9)	(1.5)	(0.3)
Other income received		11.2	10.1	–	–
<b>Net cash from operating activities</b> <sup>(1)</sup>		<b>259.8</b>	<b>273.4</b>	<b>27.1</b>	<b>179.2</b>
<b>Cash flows from investing activities</b>					
Loans (advanced to)/repaid by other persons		(0.9)	0.9	–	–
Acquisition of:					
Subsidiaries and businesses (net of cash and bank overdraft acquired)	40	(100.9)	(44.6)	–	–
Property, plant and equipment and intangibles		(101.4)	(86.3)	–	–
Proceeds on disposal of:					
Property, plant and equipment		51.1	29.5	–	–
<b>Net cash used in investing activities</b>		<b>(152.1)</b>	<b>(100.5)</b>	<b>–</b>	<b>–</b>
<b>Cash flows from financing activities</b>					
Dividends paid		(77.8)	(122.3)	(77.8)	(122.3)
Proceeds from issue of shares		0.4	–	–	0.4
Loans (repaid to)/received from subsidiaries		–	50.7	–	(57.3)
Loans (repaid to)/received from other persons		0.2	(3.1)	–	–
Proceeds from borrowings		1,156.0	669.2	–	–
Repayment of borrowings		(1,171.3)	(711.3)	–	–
Principal lease repayments		–	(0.1)	–	–
<b>Net cash used in financing activities</b>		<b>(92.9)</b>	<b>(167.2)</b>	<b>(27.1)</b>	<b>(179.2)</b>
<b>Net increase in cash and cash equivalents</b>					
Cash and cash equivalents at the beginning of the year		14.8	5.7	–	–
Effect of exchange rate changes on translation of foreign currency cash flows and cash balances		427.8	445.0	–	–
		11.3	(22.9)	–	–
<b>Cash and cash equivalents at the end of the year</b> <sup>(2)</sup>		<b>453.9</b>	<b>427.8</b>	<b>–</b>	<b>–</b>

Notes 1 to 45 form part of these financial statements and are to be read in conjunction therewith.

	Note	Consolidated		PaperlinX Limited	
		2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>(1) Reconciliation of profit after income tax to net cash from operating activities</b>					
Profit for the period		65.4	166.7	28.8	178.5
Depreciation and amortisation of property, plant, equipment and intangibles		104.7	112.9	–	–
Amortisation of capitalised borrowing costs		1.2	–	–	–
(Profit)/loss on disposal of non-current assets		(24.4)	(3.0)	–	–
Interest capitalised		(0.3)	–	–	–
Increase/(decrease) in current and deferred taxes		15.8	(92.0)	1.4	0.4
Increase/(decrease) in provisions		4.6	9.7	–	–
Movement in accrued and prepaid interest		1.5	(1.4)	–	–
Employee share options		2.9	2.3	–	–
Other items arising on transition to AIFRS		–	12.4	–	–
Impact of unrealised (profit)/loss in inventories		0.5	(3.2)	–	–
Operating profit before changes in working capital		171.9	204.4	30.2	178.9
(Increase)/decrease in trade and other receivables		13.9	75.8	(3.1)	0.3
(Increase)/decrease in inventories		23.8	18.9	–	–
Increase/(decrease) in trade and other payables		50.2	(25.7)	–	–
<b>Net cash from operating activities</b>		<b>259.8</b>	<b>273.4</b>	<b>27.1</b>	<b>179.2</b>
<b>(2) Reconciliation of cash</b>					
For the purposes of the Statements of Cash Flows, cash includes cash on hand and at bank and short-term money market investments, net of outstanding bank overdrafts. Cash as at 30 June as shown in the Statements of Cash Flows is reconciled to the related items in the Balance Sheets as follows:					
Cash and cash equivalents	8	455.1	429.1	–	–
Bank overdrafts	18	(1.2)	(1.3)	–	–
		453.9	427.8	–	–

Notes 1 to 45 form part of these financial statements and are to be read in conjunction therewith.

## NOTES TO THE FINANCIAL STATEMENTS AS AT 30 JUNE 2006

### Note 1. Accounting policies

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

#### (1) Accounting Standards

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

#### (2) Basis of preparation

The Financial Report is a general purpose financial report prepared in accordance with Australian Accounting Standards ('AAS'), other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

This Financial Report is the first PaperlinX Limited Financial Report to be prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS). AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of the consolidated entity until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing this Financial Report for the year ended 30 June 2006, management has amended certain accounting, valuation and consolidation methods applied to the previous AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures were restated to reflect these adjustments. The Company and the consolidated entity has taken the exemption available under AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the reported financial position, financial performance and cash flows of the consolidated entity and the Company are given in Note 44.

The Financial Report has been prepared on the basis of AIFRS that are effective or available for early adoption at the first AIFRS annual reporting date, 30 June 2006. The Company and the consolidated entity has elected to early adopt AASB 119 *Employee Benefits (issued in December 2004)*, AASB 2004-3 *Amendments to Australian Accounting Standards (issued in December 2004)* and AASB 2005-3 *Amendments to Australian Accounting Standards (issued in June 2005)* to the reporting periods beginning 1 July 2005. This includes applying AASB 119 to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

#### Issued standards not early adopted

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

- AASB 7 *Financial Instruments: Disclosure* (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2005-9 *Amendments to Australian Accounting Standards* (September 2005) requires that liabilities arising from the issue of financial guarantee contracts are recognised in the balance sheet. AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006.

- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 101 *Presentation of Financial Statements* AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

The consolidated entity plans to adopt AASB 7, AASB 2005-9 and AASB 2005-10 in the 2007 financial year.

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Company and the consolidated entity as the standard and the amendment are concerned only with disclosures.

The initial application of AASB 2005-9 could have an impact on the financial results of the Company and the consolidated entity as the amendment could result in liabilities being recognised for financial guarantees that have been provided by the Company and the consolidated entity. However, the quantification of the impact is not known or reasonably estimable in the current financial year as an exercise to quantify the financial impact has not been undertaken by the Company and the consolidated entity to date.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgments made by management in the application of Australian Accounting Standards that have a significant effect on the Financial Report and estimates with a significant risk of material adjustment in the next year are discussed in Note 1(24).

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS.

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

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

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



## **Note 1. Accounting policies** (continued)

### **(3) Basis of consolidation**

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

#### **Subsidiaries**

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

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

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

Minority interests in the equity and results of the entities that are controlled by the consolidated entity are shown as a separate item in the Financial Report.

#### **Other entities**

Dividends from other investments are recognised when dividends are received.

### **(4) Revenue recognition**

#### **Sales revenue**

Sales revenue comprises revenue earned (net of returns, discounts, allowances and the amount of goods and services tax) from the provision of products to entities outside the consolidated entity. Sales revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer.

#### **Services**

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

### **(5) Taxation**

#### **Income tax**

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

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

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

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

#### **Tax consolidation**

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

The Company has elected to form a tax-consolidated group effective from 1 July 2003. Under the consolidation rules, the PaperlinX Group has chosen to reset the tax cost base of certain depreciable assets which will result in additional tax depreciation over the lives of the assets. This has required a restatement of deferred tax balances with a consequential tax benefit of \$77.0 million being recorded in the income statement for the 12 months ended 30 June 2005.

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.

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

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

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

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

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

#### **Nature of tax funding arrangements and tax sharing agreements**

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

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED AS AT 30 JUNE 2006

### Note 1. Accounting policies (continued)

#### **Nature of tax funding arrangements and tax sharing agreements** (continued)

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

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

#### **Goods and services tax**

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

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

The net amount of GST payable to the ATO is included as a current liability in the Balance Sheet.

Cash flows are included in the Statements of Cash Flow 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. Freehold land is not depreciated.

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

Land improvements:	between 1% – 3% (2005 1% – 3%)
Buildings:	between 1% – 4% (2005 1% – 4%)
Plant and equipment:	between 4% – 20% (2005 4% – 20%)
Finance leases for equipment:	between 4% – 20% (2005 4% – 20%)

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

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

#### **(7) Employee Benefits**

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

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

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

#### **Employee Share Plans**

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

#### **Employee Share Purchase Plan**

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 relate to the growth in the profit after tax of the consolidated entity.

When issues relating to the ESPP are made, non-recourse loans to assist in the purchase of the shares will be classified against share capital. The loans can be repaid at any time and must be fully paid when an individual ceases to be employed by the consolidated entity. The issues are accounted for as an option.

#### **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, options or rights as part of their total remuneration, at the discretion of the Directors. There are two performance criteria that relate to earnings per share and the total shareholder return of the consolidated entity. In accordance with the rules of the ESOP, shares, options and rights may be issued upon such terms and conditions as determined by the Directors.

#### **Repurchase of shares**

The cost of shares purchased 'on market', in order to satisfy obligations under the ESOP, is recognised as a deduction from total equity and charged directly to retained earnings when they are allocated to employees.

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

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

**Performance options and performance rights**

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

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

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

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

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

The fair value of shares issued to employees for no cash consideration under the employee share purchase plan is recognised as an employee benefits expense with a corresponding increase in equity in the period during which the employee becomes unconditionally entitled to the shares.

**Retirement benefit obligations**

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

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

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

Actuarial gains and losses arising from experience adjustments and related changes in actuarial assumptions are charged or credited to retained earnings.

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

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

**(8) Net financing costs**

Net financing costs comprise interest and other financing charges including foreign exchange gains and losses, net of interest on funds invested. These costs are brought to account in determining profit for the year, except to the extent the interest incurred relates to major capital items in which case interest is capitalised as a cost of the asset up to the time it is ready for its intended use or sale.

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

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

**(9) Property, plant and equipment**

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

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

**(10) Inventories**

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

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

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

**(11) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances, short-term bills and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

**(12) Foreign currency**

**Functional currency**

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

**Transactions**

The consolidated entity is exposed to changes in foreign currency exchange rates as a consequence of the need to purchase items denominated in foreign currency as part of its activities. Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of transaction. Monetary assets and liabilities at balance date are translated to Australian dollars at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities measured at historical cost are translated using the exchange rate at the date of the transaction. All material foreign currency transactions, which are not offset by a natural hedge, are subject to forward exchange contracts and any exchange gains/losses arising from the effect of currency fluctuations on the underlying transactions are offset by the exchange gains/losses on the forward exchange contract. As a result, exchange rate movements on such foreign currency transactions are largely offset within the income statement.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED AS AT 30 JUNE 2006

### Note 1. Accounting policies (continued)

#### **Translation of foreign subsidiaries**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, generally are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

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

#### **(13) Financial instruments**

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

#### **Derivative instruments**

##### **Current period policy**

Derivative instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured to their fair value.

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

##### **Comparative period policy**

Derivative instruments were only recognised when actual settlement occurred. Changes in the fair value of derivative instruments were not recognised in the income statement.

#### **Financial instruments included in liabilities**

##### **Current period policy**

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

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

##### **Comparative period policy**

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

Interest bearing loans and borrowings are carried at their principal amounts. Interest is charged as an expense as it accrues other than for amounts capitalised.

#### **Financial instruments included in assets**

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

Investments are initially recorded at cost and are subject to impairment testing at each reporting date.

They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

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

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

#### **Cash and cash equivalents**

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

#### **(14) Leased assets**

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

#### **Operating leases**

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

#### **(15) Research and development expenditure**

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

#### **(16) Goodwill**

Goodwill is no longer amortised but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less impairment charges where applicable.

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

#### **(17) Other intangible assets**

Other intangible assets that are acquired by the consolidated entity are stated at cost less accumulated amortisation and impairment losses (see Note 1(20)). The period of amortisation equates to the period over which benefits are expected to be derived.

#### **(18) Brand names**

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

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

#### **(19) Business combinations**

##### **Business combinations prior to 1 July 2004.**

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

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

##### **Business combinations since 1 July 2004**

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

## **Note 1. Accounting policies** (continued)

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

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

### **(20) Impairment of assets**

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

Goodwill and indefinite lived intangible assets were tested for impairment at 1 July 2004, the date of transition to AIFRS even though no indication of impairment existed.

### **Recoverable amount**

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

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate.

### **Reversals of impairment**

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

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

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

### **(21) Provisions**

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

### **Dividends**

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 the expected future benefits to be obtained are less than the amount payable.

### **Workers' Compensation**

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

### **Restructuring**

A provision for restructuring is recognised when the consolidated entity has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been publicly announced.

### **(22) Earnings per share**

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

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

### **(23) Revisions of accounting estimates**

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

### **(24) Accounting estimates and judgments**

The consolidated entity makes estimates and assumptions concerning the future. The resulting estimates will, by definition, seldom equal the actual result. The estimates and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### **Impairment of goodwill and intangibles with indefinite useful lives**

The consolidated entity assesses whether goodwill and intangibles with indefinite useful lives are impaired at least annually in accordance with the accounting policy in Notes 1(16) and 1(18). These calculations involve an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated.

### **Defined benefit superannuation fund obligations**

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

### **(25) Change in accounting policy**

The consolidated entity has taken 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 adjustments for 1 July 2004 or the financial year ended 30 June 2005 as previous AGAAP continues to apply.

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

- under previous AGAAP, not all derivatives were recognised in the balance sheet. On adoption of AASB 139, all derivatives are recognised at fair value on the balance sheet. The effect on the consolidated entity is to record the fair value of the derivatives on the balance sheet with a corresponding decrease in retained earnings of \$0.3 million, net of tax of \$0.1 million.
- debt establishment costs which were capitalised and amortised over the term of the borrowing under previous AGAAP, are recalculated based on the effective interest rate method and recognised as part of the liability rather than as a separate asset. This results in a decrease in assets of \$4.0 million, and a decrease in financial liabilities of \$4.0 million.

The impact of the above is \$Nil on the Company.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**  
**AS AT 30 JUNE 2006**

	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 2. Revenue</b>				
Sales of goods	7,383.2	7,574.1	–	–
Rendering of services:				
• Subsidiaries	–	–	13.1	8.5
• Commissions	9.1	8.8	–	–
<b>Total revenue</b>	<b>7,392.3</b>	<b>7,582.9</b>	<b>13.1</b>	<b>8.5</b>
<b>Note 3. Other income</b>				
Insurance proceeds	0.1	–	–	–
Rent	2.0	1.2	–	–
Other	0.1	–	–	–
Dividends received/receivable:				
• Subsidiaries	–	–	25.5	177.0
• Other	0.8	0.3	–	–
Net profit on disposal of:				
• Non-current assets <sup>(1)</sup>	24.4	3.0	–	–
<b>Total other income</b>	<b>27.3</b>	<b>4.6</b>	<b>25.5</b>	<b>177.0</b>

<sup>(1)</sup> Included in the amount in the current year is \$16.3 million (2005: \$Nil million) in relation to profits arising on the disposal of 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	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 4. Expenses</b>				
<b>(a) Expenses (excluding financing costs)</b>				
Cost of sales	6,027.7	6,101.5	–	–
Distribution and warehousing	424.4	423.2	–	–
Sales and marketing	348.4	380.5	–	–
General and administration <sup>(1)</sup>	464.9	496.4	6.9	6.3
Research and development	2.2	3.5	–	–
<b>Total expenses (excluding financing costs)</b>	<b>7,267.6</b>	<b>7,405.1</b>	<b>6.9</b>	<b>6.3</b>
<b>(b) Personnel costs included above:</b>				
Wages and salaries	601.5	612.8	–	–
Increase in liability for employee benefits and directors retiring allowances	22.6	21.9	–	–
Contributions to defined contribution plans	30.4	30.9	–	–
Employee share options and rights	2.9	2.3	–	–
Increase in liability for defined benefit obligation	17.9	20.5	–	–
	<b>675.3</b>	<b>688.4</b>	<b>–</b>	<b>–</b>

<sup>(1)</sup> Current year costs include \$15.2 million for redundancy, closure and other related costs relating to the manufacturing business at Shoalhaven mill.

	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 5. Profit for the year</b>				
<b>(a) Profit for the year comprises the following:</b>				
Revenue sale of goods				
• Continuing operations	7,383.2	7,574.1	–	–
• Discontinuing operations	29.5	–	–	–
	7,412.7	7,574.1	–	–
Profit before depreciation, impairment, amortisation, net interest and tax				
• Continuing operations	255.8	293.0	31.7	179.2
• Discontinuing operations	1.3	–	–	–
	257.1	293.0	31.7	179.2
Depreciation, impairment and amortisation				
• Continuing operations	(104.7)	(112.9)	–	–
• Discontinuing operations	–	–	–	–
	(104.7)	(112.9)	–	–
Profit before net interest and tax				
• Continuing operations	151.1	180.1	31.7	179.2
• Discontinuing operations	1.3	–	–	–
	152.4	180.1	31.7	179.2
Net interest				
• Continuing operations	(64.9)	(68.5)	–	–
• Discontinuing operations	(0.2)	–	–	–
	(65.1)	(68.5)	–	–
Profit before tax				
• Continuing operations	86.2	111.6	31.7	179.2
• Discontinuing operations	1.1	–	–	–
	87.3	111.6	31.7	179.2
Tax				
• Continuing operations	(21.5)	55.1	(2.9)	(0.7)
• Discontinuing operations	(0.4)	–	–	–
	(21.9)	55.1	(2.9)	(0.7)
<b>Profit for the year</b>				
• Continuing operations	64.7	166.7	28.8	178.5
• Discontinuing operations	0.7	–	–	–
	65.4	166.7	28.8	178.5

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED  
AS AT 30 JUNE 2006**

	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 5. Profit for the year</b> (continued)				
<b>(b) Profit before tax has been arrived at after (charging)/crediting:</b>				
Depreciation:				
• of land improvements	(0.3)	(0.2)	–	–
• of buildings	(11.3)	(9.4)	–	–
• of plant and equipment	(73.2)	(72.2)	–	–
	(84.8)	(81.8)	–	–
Impairment:				
• of land	–	(0.1)	–	–
• of land improvements	–	(0.3)	–	–
• of buildings	–	(1.1)	–	–
• of plant and equipment	–	(10.9)	–	–
	–	(12.4)	–	–
Amortisation:				
• of computer software intangibles	(19.7)	(18.7)	–	–
• of leased assets	(0.2)	–	–	–
	(19.9)	(18.7)	–	–
<b>Total depreciation, impairment and amortisation</b>	<b>(104.7)</b>	<b>(112.9)</b>	<b>–</b>	<b>–</b>
Provisions:				
• employee benefits and Directors' retiring allowances	(22.6)	(21.9)	–	–
• doubtful debts	(3.0)	(16.6)	–	–
• diminution in value of inventories	(1.1)	(3.2)	–	–
• other	(7.7)	(7.2)	–	–
<b>Total provisions</b>	<b>(34.4)</b>	<b>(48.9)</b>	<b>–</b>	<b>–</b>
Lease rentals:				
• Operating leases	(55.4)	(60.4)	–	–
<b>(c) Net financing costs comprise the following</b>				
Financial income:				
• Interest income	5.8	4.1	–	–
• Net foreign exchange gain	1.5	0.2	–	–
<b>Total financial income</b>	<b>7.3</b>	<b>4.3</b>	<b>–</b>	<b>–</b>
Financial expenses:				
• Interest expense	(71.0)	(72.6)	–	–
• Less capitalised interest expense	0.3	–	–	–
	(70.7)	(72.6)	–	–
• Other borrowing costs	(2.4)	(2.5)	–	–
<b>Total financial expenses</b>	<b>(73.1)</b>	<b>(75.1)</b>	<b>–</b>	<b>–</b>
<b>Total net financing costs</b>	<b>(65.8)</b>	<b>70.8</b>	<b>–</b>	<b>–</b>
Net interest:				
• Interest income	5.8	4.1	–	–
• Interest expense	(70.7)	(72.6)	–	–
<b>Total net interest</b>	<b>(64.9)</b>	<b>(68.5)</b>	<b>–</b>	<b>–</b>



	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 6. Income tax expense</b>				
Prima facie income tax expense calculated at standard rates of tax on profit from continuing operations and discontinuing operations	(26.2)	(33.5)	(9.5)	(53.8)
(Add)/deduct the tax effect of:				
• Tax rebate on dividends from investments	–	0.1	–	–
• Non assessable dividends from Australian subsidiaries	–	–	7.7	53.1
• Amortisation of goodwill allowable	8.4	8.7	–	–
• Overseas tax rate differential	(1.5)	(1.2)	–	–
• Research and development incentives	1.2	1.5	–	–
• Tax losses not brought to account	–	5.6	–	–
• Reversal of tax losses previously brought to account	(5.5)	–	–	–
• Income tax related to wholly-owned subsidiaries in the tax-consolidated group	–	–	3.9	8.1
• Recovery of income tax under a tax funding agreement	–	–	(3.9)	(8.1)
• Non-deductible expense for employee share options and rights	(0.9)	(0.7)	–	–
• Other	0.2	(6.4)	(1.1)	–
• Over provision in prior years	2.4	4.0	–	–
• Impact of resetting the tax values initially determined on implementation of tax consolidation	–	77.0	–	77.0
• Recovery of income tax under a tax funding agreement at transition	–	–	–	(77.0)
<b>Total tax (expense)/benefit</b>	<b>(21.9)</b>	<b>55.1</b>	<b>(2.9)</b>	<b>(0.7)</b>
<b>Recognised in the income statement</b>				
<b>Current tax expense</b>				
Current year	(18.8)	51.1	(2.9)	(0.7)
Adjustments for prior years	2.4	4.0	–	–
	(16.4)	55.1	(2.9)	(0.7)
<b>Deferred tax expense</b>				
Expense on derecognition of tax loss	(5.5)	–	–	–
	(5.5)	–	–	–
<b>Total tax expense in income statement</b>	<b>(21.9)</b>	<b>55.1</b>	<b>(2.9)</b>	<b>(0.7)</b>
<b>Attributable to:</b>				
Continuing operations	(21.5)	55.1	(2.9)	(0.7)
Discontinuing operations	(0.4)	–	–	–
	(21.9)	55.1	(2.9)	(0.7)

The balance of the consolidated franking account as at 30 June 2006 was \$Nil million (2005: \$3.6 million).

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

The balance of the dividend franking account at prior year-end is adjusted for:

(a) franking credits that will arise from the payment of the current tax liabilities;

(b) franking debits that will arise from the payment of dividends recognised as a liability at the year-end;

(c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year-end; and

(d) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED  
AS AT 30 JUNE 2006**

	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 7. Dividends</b>				
Interim dividend paid:				
• 5.5 cents per share paid on 5 April 2006, Nil% franked at a rate of 30% tax rate on fully paid shares <sup>(2)</sup>	24.6	–	24.6	–
• 13.5 cents per share paid on 4 April 2005, Nil% franked at a 30% tax rate on fully paid shares <sup>(1)</sup>	–	60.2	–	60.2
Final dividend paid:				
• 12 cents per share paid on 28 September 2005, Nil% franked at a 30% tax rate on fully paid shares <sup>(1)</sup>	53.5	–	53.5	–
• 14 cents per share paid on 30 September 2004, Nil% franked at a 30% tax rate on fully paid shares <sup>(1)</sup>	–	62.5	–	62.5
	78.1	122.7	78.1	122.7

<sup>(1)</sup> Paid out of profits measured in accordance with Australian Accounting Standards and other financial reporting requirements applicable for the year ended 30 June 2005.

<sup>(2)</sup> Paid out of profits measured in accordance with Australian equivalents to International Financial Reporting Standards and issued by the Australian Accounting Standards Board and the financial reporting requirements applicable for the year ended 30 June 2006.

PaperlinX Limited has declared a dividend, at the date of this report, on ordinary shares payable 13 October 2006 – 4.5 cents per share, unfranked on fully paid shares. This dividend has not been provided for in the accounts as at 30 June 2006.

It is expected that the interim dividend in respect of the year ending 30 June 2007 will be unfranked.

	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 8. Cash and cash equivalents</b>				
Cash on hand and at bank	387.0	362.3	–	–
Deposits at call	68.1	66.8	–	–
Total cash and cash equivalents	455.1	429.1	–	–
<b>Note 9. Trade and other receivables</b>				
Trade debtors <sup>(1)</sup>	1,460.6	1,366.6	–	–
Provision for impairment losses	(57.2)	(57.4)	–	–
Net trade debtors	1,403.4	1,309.2	–	–
Other debtors	82.6	70.4	3.1	–
Prepayments	55.8	53.6	–	–
Amounts owing from subsidiaries	–	–	–	201.4
Total trade and other receivables	1,541.8	1,433.2	3.1	201.4

<sup>(1)</sup> Credit terms for trade debtors vary across the consolidated entity.

	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 10. Inventories</b>				
<b>At cost:</b>				
Raw materials and stores	101.3	101.6	–	–
Provision for impairment losses	(8.8)	(6.9)	–	–
Net raw materials and stores	92.5	94.7	–	–
Work in progress	15.8	17.1	–	–
Finished goods	756.4	704.9	–	–
Provision for impairment losses	(20.7)	(21.0)	–	–
Net finished goods	735.7	683.9	–	–
<b>At net realisable value:</b>				
Finished goods	20.1	16.0	–	–
<b>Total inventories</b>	<b>864.1</b>	<b>811.7</b>	<b>–</b>	<b>–</b>

**Note 11. Assets and liabilities held for sale**

The assets and liabilities held for sale relate to part of the Merchenting and Paper Trading business purchased in Canada during the year, which are required to be sold as a condition of the regulatory approval of the total acquisition.

	Consolidated
	2006 \$m
<b>Assets classified as held for sale:</b>	
Disposal group (Paper Merchenting)	
• Trade and other receivables	11.3
• Inventories	7.9
• Property, plant and equipment	0.4
	19.6
<b>Liabilities classified as held for sale:</b>	
Disposal group (Paper Merchenting)	
• Trade and other payables	0.9
	0.9
Revenue	29.5
Profit before depreciation, impairment, amortisation, net interest and tax	1.3
Depreciation, impairment and amortisation	–
Profit before net interest and tax	1.3
Interest	(0.2)
Profit before income tax	1.1
Tax	(0.4)
Profit for the year	0.7

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

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED  
AS AT 30 JUNE 2006**

	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 12. Receivables</b>				
Other debtors	8.9	5.4	–	–
Total receivables	8.9	5.4	–	–
<b>Note 13. Investments</b>				
<b>Shares in subsidiaries (refer Note 40):</b>				
• At cost	–	–	1,912.1	1,549.8
Total investment in shares in subsidiaries	–	–	1,912.1	1,549.8
<b>Shares in other companies</b>				
Not listed on stock exchanges:				
• At cost	14.1	13.3	–	–
Total investment in other companies	14.1	13.3	–	–
Total investments	14.1	13.3	1,912.1	1,549.8
<b>Note 14. Property, plant and equipment</b>				
<b>Land:</b>				
• At cost	77.1	77.6	–	–
• Accumulated impairment losses	(2.4)	(2.3)	–	–
Total land	74.7	75.3	–	–
<b>Land improvements:</b>				
• At cost	11.4	9.3	–	–
• Accumulated depreciation and impairment losses	(3.1)	(2.9)	–	–
Total net land improvements	8.3	6.4	–	–
<b>Buildings:</b>				
• At cost	382.5	389.3	–	–
• Accumulated depreciation and impairment losses	(169.4)	(158.4)	–	–
Total net buildings	213.1	230.9	–	–
<b>Plant and equipment:</b>				
• At cost	1,926.4	1,779.4	–	–
• Accumulated depreciation and impairment losses	(1,232.1)	(1,107.0)	–	–
Total net plant and equipment	694.3	672.4	–	–
<b>Leased assets:</b>				
• Finance leases	1.4	0.4	–	–
• Accumulated amortisation and impairment losses	(1.0)	(0.2)	–	–
Total net leased assets	0.4	0.2	–	–
Total property, plant and equipment	990.8	985.2	–	–

	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 14. Property, plant and equipment</b> (continued)				
The reconciliation of the movement in each class of property, plant and equipment is as follows:				
<b>Land:</b>				
Balance at beginning of year:				
Cost	77.6	80.8	–	–
Accumulated impairment losses	(2.3)	(2.3)	–	–
Net balance at beginning of year	75.3	78.5	–	–
Disposals <sup>(2)</sup>	(6.3)	(0.1)	–	–
Acquisition of subsidiaries <sup>(3)</sup>	0.2	0.5	–	–
Foreign currency movements	5.0	(3.5)	–	–
Impairment <sup>(4)</sup>	–	(0.1)	–	–
Transfers	0.5	–	–	–
Net balance at end of year	74.7	75.3	–	–
<b>Land improvements:</b>				
Balance at beginning of year:				
Cost	9.3	7.8	–	–
Accumulated depreciation and impairment losses	(2.9)	(2.4)	–	–
Net balance at beginning of year	6.4	5.4	–	–
Additions <sup>(1)</sup>	2.2	1.3	–	–
Depreciation	(0.3)	(0.2)	–	–
Transfers	–	0.2	–	–
Impairment <sup>(4)</sup>	–	(0.3)	–	–
Net balance at end of year	8.3	6.4	–	–
<b>Buildings:</b>				
Balance at beginning of year:				
Cost	389.3	415.9	–	–
Accumulated depreciation and impairment losses	(158.4)	(161.8)	–	–
Net balance at beginning of year	230.9	254.1	–	–
Additions <sup>(1)</sup>	3.9	6.1	–	–
Disposals <sup>(2)</sup>	(24.1)	(3.5)	–	–
Depreciation	(11.3)	(9.4)	–	–
Acquisition of subsidiaries <sup>(3)</sup>	5.1	4.1	–	–
Transfers	(1.2)	(0.2)	–	–
Foreign currency movements	9.8	(19.2)	–	–
Impairment <sup>(4)</sup>	–	(1.1)	–	–
Net balance at end of year	213.1	230.9	–	–

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**  
**AS AT 30 JUNE 2006**

	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 14. Property, plant and equipment</b> (continued)				
<b>Plant and equipment:</b>				
Balance at beginning of year:				
Cost	1,779.4	1,813.3	–	–
Accumulated depreciation and impairment losses	(1,107.0)	(1,130.7)	–	–
Net balance at beginning of year	672.4	682.6	–	–
Additions <sup>(1)</sup>	91.0	86.3	–	–
Disposals <sup>(2)</sup>	(2.6)	(4.6)	–	–
Depreciation	(73.2)	(72.2)	–	–
Acquisition of subsidiaries <sup>(3)</sup>	4.4	1.6	–	–
Transfers	0.2	–	–	–
Transfers to computer software	(0.7)	–	–	–
Foreign currency movements	2.8	(10.4)	–	–
Impairment <sup>(4)</sup>	–	(10.9)	–	–
Net balance at end of year	694.3	672.4	–	–
<b>Leased assets:</b>				
Balance at beginning of year				
Cost	0.4	0.2	–	–
Accumulated depreciation and impairment losses	(0.2)	(0.2)	–	–
Net balance at beginning of year	0.2	–	–	–
Transfers	0.5	0.2	–	–
Depreciation	(0.2)	–	–	–
Disposals <sup>(2)</sup>	(0.1)	–	–	–
Net balance at end of year	0.4	0.2	–	–

<sup>(1)</sup> The total additions included above are \$97.1 million (2005: \$93.7 million).

<sup>(2)</sup> The total disposals included above are \$33.1 million (2005: \$8.2 million).

<sup>(3)</sup> The total acquisitions of property, plant and equipment of subsidiaries included above are \$9.7 million (2005: \$6.2 million).

<sup>(4)</sup> The total impairment charges included above are \$12.4 million arising wholly from certain mills in the Communication Papers industry segment of the Australian Paper Manufacturing business. The recoverable amount was based on value in use calculations. These calculations use a cash flow projection based on expected operating results over the estimated remaining life of the assets within each cash generating unit. A pre-tax discount rate of 9.5% has been used for discounting the projected cash flow and a nil growth rate has been applied in calculating the projected cash flow.

	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 15. Intangible assets</b>				
Goodwill at cost	344.9	316.7	–	–
Computer software at cost	154.9	147.2	–	–
Accumulated amortisation and impairment losses	(105.5)	(85.0)	–	–
	49.4	62.2	–	–
Brand names at cost	25.8	24.7	–	–
Other at cost	2.0	0.6	–	–
Accumulated amortisation and impairment losses	(0.5)	(0.5)	–	–
	1.5	0.1	–	–
<b>Total intangible assets</b>	<b>421.6</b>	<b>403.7</b>	<b>–</b>	<b>–</b>
The reconciliation of the movement in each class of intangible assets is as follows:				
<b>Goodwill at cost:</b> <sup>(1) (2)</sup>				
Balance at beginning of year:	316.7	337.1	–	–
Acquisition of subsidiaries	9.1	17.1	–	–
Foreign currency movements	15.2	(25.1)	–	–
Other	3.9	(3.5)	–	–
Business combinations	–	(8.9)	–	–
Balance at end of year	344.9	316.7	–	–
<b>Computer software:</b> <sup>(1) (3)</sup>				
Balance at beginning of year:				
Cost	147.2	154.9	–	–
Accumulated amortisation and impairment losses	(85.0)	(73.8)	–	–
Net balance at beginning of year	62.2	81.1	–	–
Amortisation	(19.7)	(18.7)	–	–
Transfers from plant and equipment	0.7	–	–	–
Foreign currency movements	1.3	(0.2)	–	–
Additions	4.9	–	–	–
Net balance at end of year	49.4	62.2	–	–
<b>Brand names at cost:</b> <sup>(1) (2)</sup>				
Balance at beginning of year	24.7	27.3	–	–
Foreign currency movements	1.1	(2.6)	–	–
Balance at end of year	25.8	24.7	–	–
<b>Other:</b> <sup>(1) (2)</sup>				
Balance at beginning of year				
Cost	0.6	0.6	–	–
Accumulated amortisation and impairment losses	(0.5)	(0.5)	–	–
Net balance at beginning of year	0.1	0.1	–	–
Business acquisitions	1.2	–	–	–
Foreign currency movements	0.2	–	–	–
Net balance at end of year	1.5	0.1	–	–

<sup>(1)</sup> All intangibles are analysed on a cash generating unit basis. The impairment test is based on value in use calculations. These calculations use a cash flow projection based on expected operating results over the estimated remaining life of the assets within each cash generating unit. A pre-tax discount rate of 9.5% has been used in discounting the projected cash flow and a nil growth rate has been applied in calculating the projected cash flow.

<sup>(2)</sup> Goodwill, brand names and other intangibles all relate to the Paper Merchants business.

<sup>(3)</sup> Computer software relates to all businesses.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED  
AS AT 30 JUNE 2006**

	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 16. Deferred tax assets</b>				
Deferred tax assets <sup>(1)</sup>	74.4	85.2	–	–
<b>Total deferred tax assets</b>	<b>74.4</b>	<b>85.2</b>	<b>–</b>	<b>–</b>
<b>Deferred tax assets comprises the following:</b>				
Provisions and employee benefits	52.4	62.9	–	–
Accrued expenses not claimed	0.6	0.4	–	–
Expenses capitalised	0.7	0.7	–	–
Other items	13.6	15.0	–	–
Tax losses <sup>(2)</sup>	7.1	6.2	–	–
	<b>74.4</b>	<b>85.2</b>	<b>–</b>	<b>–</b>

<sup>(1)</sup> All movements in temporary differences in the current year have been recorded in the income statement.

<sup>(2)</sup> Potential further future income tax benefits of the consolidated entity relating to accumulated tax losses at balance date of \$87.3 million (2005: \$64.9 million) have not been recognised on the basis that it is not probable that future taxable profit will be available against which the consolidated entity can use the benefit from.

	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 17. Trade and other payables</b>				
Trade creditors <sup>(1)</sup>	930.1	801.6	–	–
Other creditors	242.8	240.3	–	–
Amounts owing to subsidiaries	–	–	211.6	–
<b>Total trade and other payables</b>	<b>1,172.9</b>	<b>1,041.9</b>	<b>211.6</b>	<b>–</b>
<b>Note 18. Interest bearing loans and borrowings</b>				
Unsecured interest bearing loans and borrowings: <sup>(1)</sup>				
• Bank overdrafts <sup>(2)</sup>	1.2	1.3	–	–
• Bank borrowings <sup>(3)</sup>	214.9	260.1	–	–
• CAD notes <sup>(4)</sup>	3.7	3.3	–	–
• Other loans	1.4	1.0	–	–
Finance lease liabilities	0.5	0.9	–	–
<b>Total interest bearing loans and borrowings</b>	<b>221.7</b>	<b>266.6</b>	<b>–</b>	<b>–</b>

<sup>(1)</sup> Unsecured interest bearing loans and borrowings are shown net of capitalised borrowing costs of \$2.1 million, where applicable.

<sup>(2)</sup> The consolidated entity has committed bank overdraft facilities to a maximum of \$27.1 million (2005: \$50.8 million). As at 30 June 2007, the unused portions of the facilities were \$25.9 million (2005: \$49.5 million). The bank overdrafts are payable on demand and are subject to annual review.

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

- \$148.3 million (2005: \$185.3 million) drawn under a USD 115 million (2005: USD 150 million) facility maturing in February 2007. Drawings under this facility incur interest at BBSY plus an applicable credit margin.
- \$4.8 million (2005: \$4.4 million) drawn under a SGD 20 million facility maturing in March 2007.
- \$24.7 million (2005: \$23.3 million) drawn under a NZD 45 million facility maturing in November 2006.
- \$2.8 million (2005: \$4.1 million) drawn under a MYR 12 million facility maturing in April 2007.
- \$Nil million (2005: \$1.4 million) drawn under a MYR 9.5 million facility maturing in December 2006.
- \$36.4 million (2005: \$41.6 million) drawn under various other facilities.

<sup>(4)</sup> Relates to \$3.7 million (2005: \$3.3 million) being CAD 3.0 million of the CAD 18 million Senior Unsecured Notes detailed in Note 23.

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



	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 19. Income tax payable</b>				
Income tax	9.6	3.8	1.3	0.5
<b>Total income tax payable</b>	<b>9.6</b>	<b>3.8</b>	<b>1.3</b>	<b>0.5</b>
<b>Note 20. Employee benefits</b>				
Employee benefits	41.4	40.9	–	–
<b>Total employee benefits</b>	<b>41.4</b>	<b>40.9</b>	<b>–</b>	<b>–</b>
<b>Note 21. Provisions</b>				
Dividend payable <sup>(1)</sup>	–	–	–	–
Restructuring provision <sup>(2)</sup>	–	0.4	–	–
Other <sup>(3)</sup>	13.8	19.4	–	–
<b>Total provisions</b>	<b>13.8</b>	<b>19.8</b>	<b>–</b>	<b>–</b>
<i><sup>(1)</sup> The reconciliation of the movement in the provision for dividend payable is as follows:</i>				
<i>Balance at the beginning of the year</i>	–	–	–	–
<i>Provided during the year</i>	78.1	122.7	78.1	122.7
<i>Paid during the year – cash</i>	(77.8)	(122.3)	(77.8)	(122.3)
<i>Paid during the year – non-cash</i>	(0.3)	(0.4)	(0.3)	(0.4)
	–	–	–	–
<i><sup>(2)</sup> The reconciliation of the movement in the restructuring provision in relation to acquisitions is as follows:</i>				
<i>Balance at the beginning of the year</i>	0.4	12.0	–	–
<i>Provided for at acquisition date</i>	–	1.3	–	–
<i>Paid during the year</i>	(0.4)	(10.6)	–	–
<i>Utilised amount written back to assets on acquisition</i>	–	(1.0)	–	–
<i>Unutilised amount written back to goodwill on acquisition</i>	–	(0.8)	–	–
<i>Foreign currency movements</i>	–	(0.5)	–	–
	–	0.4	–	–
<i><sup>(3)</sup> The reconciliation of the movement in other provisions is as follows:</i>				
<i>Balance at the beginning of the year</i>	19.4	37.1	–	–
<i>Provided during the year</i>	4.5	4.8	–	–
<i>Paid during the year</i>	(4.4)	(8.0)	–	–
<i>Transfers to/(from) non-current provision</i>	(5.3)	(14.4)	–	–
<i>Business acquisitions</i>	–	1.8	–	–
<i>Foreign currency movements</i>	(0.4)	(1.9)	–	–
	13.8	19.4	–	–
<b>Note 22. Payables</b>				
Other creditors	93.1	119.6	–	–
<b>Total payables</b>	<b>93.1</b>	<b>119.6</b>	<b>–</b>	<b>–</b>

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**  
**AS AT 30 JUNE 2006**

	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 23. Interest bearing loans and borrowings</b>				
Unsecured interest bearing loans and borrowings: <sup>(1)</sup>				
• Bank borrowings <sup>(2)</sup>	639.2	559.7	–	–
• USD notes <sup>(3)</sup>	165.0	159.9	–	–
• CAD notes <sup>(4)</sup>	79.3	72.8	–	–
• GBP notes <sup>(5)</sup>	253.1	242.9	–	–
Finance lease liabilities	0.1	0.7	–	–
<b>Total interest bearing loans and borrowings</b>	<b>1,136.7</b>	<b>1,036.0</b>	<b>–</b>	<b>–</b>
<b>Reconciliation of consolidated net interest bearing loans and borrowings</b>				
Current interest bearing loans and borrowings – refer Note 18	221.7	266.6	–	–
Non-current interest bearing loans and borrowings – refer above in Note 23	1,136.7	1,036.0	–	–
<b>Total interest bearing loans and borrowings <sup>(6)</sup></b>	<b>1,358.4</b>	<b>1,302.6</b>	<b>–</b>	<b>–</b>
Cash and cash equivalents – refer Note 8	(455.1)	(429.1)	–	–
<b>Net interest bearing loans and borrowings</b>	<b>903.3</b>	<b>873.5</b>	<b>–</b>	<b>–</b>

<sup>(1)</sup> Unsecured interest bearing loans and borrowings are shown net of capitalised borrowing costs of \$1.8 million, where applicable.

<sup>(2)</sup> Relates to the following bank borrowings:

- \$639.5 million (2005: \$549.8 million) drawn under a USD 815 million (2005: USD 850 million) facility maturing USD 115 million in February 2007, 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 18.
- \$0.8 million (2005: \$9.9 million) drawn under various other facilities.

<sup>(3)</sup> Relates to the following notes:

- \$76.5 million (2005: \$74.0 million), being USD 56 million of Senior Unsecured Notes, maturing 2017 at 7.88%, repayments are in equal instalments from 2011 to 2017.
- \$88.7 million (2005: \$85.9 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%.

<sup>(4)</sup> \$79.3 million (2005: \$72.8 million), being CAD 18 million (2005: 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 18.

<sup>(5)</sup> \$253.6 million (2005: \$242.9 million), being GBP 57.4 million Senior Unsecured Notes, maturing in 2014 at 6.67%, and GBP 43.8 million Senior Unsecured Notes, maturing in 2019 at 6.48%.

<sup>(6)</sup> As at 30 June 2006, the unused portions of both current and non-current facilities totalled \$396.6 million (2005: \$439.9 million).

	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 24. Deferred tax liabilities</b>				
Deferred income tax	43.4	33.4	0.5	–
<b>Total deferred tax liabilities</b>	<b>43.4</b>	<b>33.4</b>	<b>0.5</b>	<b>–</b>
<b>Deferred tax liabilities comprises the following:</b>				
Prepayments claimed	1.1	1.1	–	–
Receivables deferred for tax	0.5	–	0.5	–
Difference between fixed asset book and tax written down value	37.6	27.7	–	–
Other	4.2	4.6	–	–
	<b>43.4</b>	<b>33.4</b>	<b>0.5</b>	<b>–</b>

	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 25. Employee benefits</b>				
Employee benefits <sup>(1)</sup>	37.3	38.9	–	–
<b>Total employee benefits</b>	<b>37.3</b>	<b>38.9</b>	<b>–</b>	<b>–</b>
The aggregate employee benefits at balance date is:				
Current – refer Note 20	41.4	40.9	–	–
Non-current – refer Note 25	37.3	38.9	–	–
<b>Total employee benefits</b>	<b>78.7</b>	<b>79.8</b>	<b>–</b>	<b>–</b>

<sup>(1)</sup> Included in the above employee benefits of the consolidated entity are Directors' retiring allowances of \$2.2 million (2005: \$1.9 million), which are disclosed in detail in the Directors' Report. These benefits only relate to Non-executive Directors of PaperlinX Limited and are in accordance with the Company's Constitution and with agreements between the company and individual Directors. No liability exists for Directors' retiring allowances in respect of Directors in the full-time employment of PaperlinX Limited or its subsidiaries.

	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 26. Provisions</b>				
Other <sup>(1)</sup>	10.9	3.2	–	–
<b>Total provisions</b>	<b>10.9</b>	<b>3.2</b>	<b>–</b>	<b>–</b>
The aggregate other provisions at balance date are: <sup>(2)</sup>				
Current – refer Note 21	13.8	19.8	–	–
Non-current – refer Note 26	10.9	3.2	–	–
<b>Total other provisions</b>	<b>24.7</b>	<b>23.0</b>	<b>–</b>	<b>–</b>
<sup>(1)</sup> The reconciliation of the movement in other provisions is as follows:				
Balance at beginning of year	3.2	3.1	–	–
Provided during the year	3.2	2.3	–	–
Paid during the year	(2.5)	(0.2)	–	–
Transfers to current provisions	5.3	(1.6)	–	–
Foreign currency movements	1.3	(0.4)	–	–
Business acquisitions	0.4	–	–	–
	<b>10.9</b>	<b>3.2</b>	<b>–</b>	<b>–</b>

<sup>(2)</sup> Included in the above aggregate other provisions of the consolidated entity are provisions relating to surplus leased premises of \$5.1 million, self-insurance for workers compensation in Tasmania and Victoria of \$6.3 million.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED  
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	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 27. Issued capital</b>				
Issued and paid-up share capital				
446,182,209 ordinary shares (2005: 446,172,209 ordinary shares)	1,694.2	1,694.2	1,694.2	1,694.2
Employee share plan loans	(2.3)	(2.7)	(2.3)	(2.7)
<b>Total issued capital</b>	<b>1,691.9</b>	<b>1,691.5</b>	<b>1,691.9</b>	<b>1,691.5</b>
Movement in ordinary share capital:				
Balance at beginning of year	1,694.2	1,693.8	1,694.2	1,693.8
10,000 (2005: 27,500) shares issued at \$3.32 each pursuant to options exercised	–	0.1	–	0.1
Nil (2005: 55,000) shares issued at \$3.50 each pursuant to options exercised	–	0.2	–	0.2
Nil (2005: 23,100) shares issued at \$4.12 each pursuant to options exercised	–	0.1	–	0.1
Balance at end of year	1,694.2	1,694.2	1,694.2	1,694.2
Movement in employee share plan loans:				
Balance at beginning of year	(2.7)	(3.1)	(2.7)	(3.1)
Repayments	0.4	0.4	0.4	0.4
Balance at end of year	(2.3)	(2.7)	(2.3)	(2.7)

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

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

**Options**

- During the year, the following options over shares were exercised:  
10,000 options, which had been granted on 20 November 2000 at an exercise price of \$3.32, were exercised on 13 December 2005.  
The market price of the shares was \$3.55.  
This resulted in the aggregate issue of 10,000 shares.
- During the prior 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 year, the following options lapsed:  
10,000 options, which had been granted on 14 April 2000 at an exercise price of \$3.13.  
12,500 options, which had been granted on 20 November 2000 at an exercise price of \$3.32.  
210,000 options, which had been granted on 19 April 2001 at an exercise price of \$3.50.  
30,400 options, which had been granted on 13 September 2001 at an exercise price of \$4.12.  
15,000 options, which had been granted on 13 September 2001 at an exercise price of \$4.18.  
26,000 options, which had been granted on 20 September 2002 at an exercise price of \$5.13.  
17,610 performance options, which had been granted on 30 November 2004 at an exercise price of \$4.85.  
33,880 performance options, which had been granted on 2 September 2005 at an exercise price of \$2.77.
- During the prior 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.

**Note 27. Issued capital** (continued)**Options**

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

- Employee Share and Option Plan

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

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

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

During the prior 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 thirty days prior to 30 June 2004.

At reporting date, there are 3,552,160 (2005: 2,735,690) 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:

465,000 (2005: 475,000)	at	\$3.13 at the grant date of 14 April 2000
195,000 (2005: 217,500)	at	\$3.32 at the grant date of 20 November 2000
400,000 (2005: 610,000)	at	\$3.50 at the grant date of 19 April 2001
228,700 (2005: 259,100)	at	\$4.12 at the grant date of 13 September 2001
50,000 (2005: 65,000)	at	\$4.18 at the grant date of 13 September 2001
170,000 (2005: 196,000)	at	\$5.13 at the grant date of 20 September 2002
150,000 (2005: 150,000)	at	\$4.76 at the grant date of 18 June 2003
150,000 (2005: 150,000)	at	\$4.64 at the grant date of 26 November 2003
605,200 (2005: 613,090)	at	\$4.85 at the grant date of 22 December 2004
988,260 (2005: nil)	at	\$2.77 at the grant date of 2 September 2005
150,000 (2005: nil)	at	\$2.77 at the grant date of 28 February 2006

	<b>Consolidated</b>	
	<b>2006</b>	<b>2005</b>
	<b>\$m</b>	<b>\$m</b>
Outstanding at the beginning of the period	2,735,690	2,241,400
Lapsed during the period	(355,390)	(13,200)
Granted during the period	1,181,860	613,090
Exercised	(10,000)	(105,600)
Outstanding at the end of the period	3,552,160	2,735,690

The weighted average share price for options at the end of the financial year was \$3.67 (2005: \$4.05).

**Employee Share Plan loans**

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

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**  
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	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 28. Reserves</b>				
<b>Reserve for own shares</b>				
Balance at beginning of year	(9.7)	(9.7)	–	–
Balance at end of year	(9.7)	(9.7)	–	–
<b>Translation reserve</b>				
Balance at beginning of year	(62.0)	(17.8)	–	–
Exchange fluctuation on translation of overseas subsidiaries	26.7	(44.2)	–	–
Balance at end of year	(35.3)	(62.0)	–	–
<b>Total reserves</b>	<b>(45.0)</b>	<b>(71.7)</b>	<b>–</b>	<b>–</b>

**Nature and purpose of reserves**

**Reserve for own shares**

The reserve for own shares represents the value of shares held by an equity compensation plan that the consolidated entity is required to include in the consolidated financial statements. This reserve will be reversed against share capital when the underlying shares vest in the employee. No gain or loss is recognised in profit or loss on the purchase, sale issue or cancellation of the consolidated entity's own equity instruments. The number of shares purchased is disclosed in Note 37.

**Translation Reserve**

The translation reserve records the foreign currency differences arising from the translation of the financial statements of foreign subsidiaries and the impact of transactions that hedge the company's net investment in a foreign operation, net of tax. Refer to Note 1(12).

	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 29. Retained profits</b>				
Balance at beginning of year	(58.1)	(70.4)	59.2	3.4
Adjustment to comply with AASB139 Financial Instruments: Recognition and Measurement	(0.3)	–	–	–
Balance restated	(58.4)	(70.4)	59.2	3.4
Net profit attributable to members of PaperlinX Limited	65.4	166.6	28.8	178.5
Employee share options and rights	2.9	2.3	–	–
Actuarial gains/(losses) on defined benefit plans	30.0	(33.9)	–	–
Dividends paid	(78.1)	(122.7)	(78.1)	(122.7)
<b>Total retained profits</b>	<b>(38.2)</b>	<b>(58.1)</b>	<b>9.9</b>	<b>59.2</b>
<b>Note 30. Minority interest</b>				
Issued capital	–	1.0	–	–
<b>Total minority interest</b>	<b>–</b>	<b>1.0</b>	<b>–</b>	<b>–</b>
<b>Note 31. Capital expenditure commitments</b>				
Capital expenditure contracted but not provided for:				
• Not later than one year	52.5	3.8	–	–
• Later than one year but not later than five years	–	0.1	–	–
<b>Total capital expenditure commitments</b>	<b>52.5</b>	<b>3.9</b>	<b>–</b>	<b>–</b>

	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 32. Lease commitments</b>				
<b>Finance lease liability</b>				
Lease expenditure contracted and provided for:				
• Not later than one year	0.3	0.9	–	–
• Later than one year but not later than five years	0.3	0.7	–	–
Minimum lease payments	0.6	1.6	–	–
Less: Future finance charges	–	–	–	–
Total finance lease liability	0.6	1.6	–	–
Current lease liabilities – refer Note 18	0.5	0.9	–	–
Non-current lease liabilities – refer Note 23	0.1	0.7	–	–
Total finance lease liability	0.6	1.6	–	–

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

	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Operating lease commitments</b>				
Lease expenditure contracted but not provided for:				
• Not later than one year	93.5	83.3	–	–
• Later than one year but not later than five years	187.3	172.8	–	–
• Later than five years	124.2	117.1	–	–
Total operating lease commitments	405.0	373.2	–	–

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	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 33. Other expenditure commitments</b>				
Expenditure contracted but not provided for covering supplies and services to be provided:				
• Not later than one year	47.6	58.8	–	–
• Later than one year but not later than five years	109.6	119.4	–	–
• Later than five years	160.2	230.2	–	–
Total other expenditure commitments	317.4	408.4	–	–

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**  
**AS AT 30 JUNE 2006**

	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 34. Contingent liabilities</b>				
Contingent liabilities arising in respect of:				
Related bodies corporate:				
• Bank guarantees (government)	–	–	9.6	8.4
• Bank guarantees (trade)	7.3	5.2	–	–
• Loan guarantees	–	–	501.9	530.8
<b>Total contingent liabilities</b>	<b>7.3</b>	<b>5.2</b>	<b>511.5</b>	<b>539.2</b>

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

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

The loan guarantees of \$501.9 million (2005: \$530.8 million) relate to the following items:

- \$76.5 million (2005: \$74.0 million), being USD 56.0 million Senior Unsecured Notes issued by subsidiary companies.
- \$83.0 million (2005: \$76.0 million), being CAD 67.0 million (2005: CAD 70.0 million) Senior Unsecured Notes issued by subsidiary companies.
- \$88.7 million (2005: \$85.9 million), being USD 65.0 million Senior Unsecured Notes issued by subsidiary companies.
- \$253.6 million (2005: \$242.9 million), being GBP 101.2 million Senior Unsecured Notes issued by subsidiary companies.
- \$Nil million (2005: \$52.0 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 40.

	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 35. Auditors' remuneration</b>				
Amounts received or due and receivable for audit services by:				
• Auditors of the Company	4.675	4.406	–	–
• Other auditors	–	–	–	–
Amounts received or due and receivable for other services by:				
• Auditors of the Company				
Other assurance services	0.040	0.037	–	–
Taxation services	0.188	0.165	–	–
Other services	0.029	0.019	–	–
Divestment advisory services	0.545	–	–	–
<b>Total auditors' remuneration</b>	<b>5.477</b>	<b>4.627</b>	<b>–</b>	<b>–</b>

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 36. Key management personnel**

(a) The term 'key management personnel' is defined as comprising Non-executive Directors, executive Directors and executives in AASB 124 Related Party Disclosures (December 2004).

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated, were key management personnel for the entire period.

**1. Non-executive Directors**

D E Meiklejohn	Chairman
A F Guy	Director
B J Jackson	Director
N L Scheinkestel	Director
D A Walsh	Director
L J Yelland	Director

**2. Executive Directors**

T P Park	Managing Director & Chief Executive Officer
D G Abotomey	Former Director & Chief Financial Officer (resigned 31 December 2005)

**3. Executives**

C B Creighton	President Merchanting North America
M J Fothergill	Group General Manager Merchanting Australia
D M Goldthorp	Executive General Manager Corporate Development
R F O'Brien	Executive General Manager Human Resources
E de Voogd	Chief Executive Officer PaperlinX Europe
D M Lamont	Chief Financial Officer (effective February 2006)

Key management personnel compensation for the period is as follows:

	Consolidated		PaperlinX Limited	
	2006 \$	2005 \$	2006 \$	2005 \$
Short-term benefits	8,461,853	7,377,154	–	–
Post-employment benefits	1,142,460	987,931	–	–
Equity plans	494,180	253,906	–	–
Termination benefits	1,113,172	–	–	–
	11,211,665	8,618,991	–	–

**(b) Individual Directors' and executives' compensation contracts**

Disclosures of remuneration policies, service contracts and details of remuneration are included in the Remuneration Report as set out on pages 52 to 57 of the Directors' Report.

**(c) Maximum potential shares – Executive Directors and executives**

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

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

<sup>(1)</sup> Resigned as a Director effective 31 December 2005 and employment ceased 8 July 2006

<sup>(2)</sup> Includes performance shares/rights that have lapsed as at 30 June 2006.

In the year ended 30 June 2006, none of those shares were vested to any executive Director or executive.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED  
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	Maximum potential entitlement		At 30 June 2006
	At 1 July 2005	Movement	
<b>Note 36. Key management personnel (continued)</b>			
<b>Executive Directors</b>			
T P Park	600,000	90,215	690,215
D G Abotomey	105,000	90,360	195,360
P R Waterworth	105,000	(105,000)	–
<b>Executives</b>			
R J Breen	60,000	71,060	131,060
C B Creighton	60,000	102,560	162,560
M J Fothergill	60,000	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	75,540	168,873

**(d) Loans to key management personnel and their related parties**

PaperlinX Limited has not made any loan to any key management personnel and their related parties other than those in accordance with the terms of the Employee Share Purchase Plan – Refer Note 27. No individual loan is greater than \$100,000.

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

	At 1 July 2005 \$	Repayments \$	At 30 June 2006 \$
Executive Directors (number included 0)	530	(530)	–
Executives (number included 2)	33,248	(3,699)	29,549
	At 1 July 2004 \$	Repayments \$	At 30 June 2005 \$
Executive Directors (number included 2)	73,438	72,908	530
Executives (number included 3)	37,887	4,639	33,248

**(e) Shareholdings of key management personnel**

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

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

<sup>(1)</sup> Resigned as a Director effective 31 December 2005 and employment ceased 8 July 2006

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

**Note 36. Key management personnel** (continued)

	At 1 July 2004	Purchased	Sold	Earned as remuneration	Exercise of options	At 30 June 2005	Shares held nominally at 30 June 2005
<b>Directors</b>							
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	147,757	–	–	–	–	147,757	–
L J Yelland	13,630	5,674	–	–	–	19,304	–
<b>Executives</b>							
R J Breen	844	–	–	–	–	844	–
C B Creighton	72,700	4,000	–	–	–	76,700	–
M J Fothergill	–	–	–	–	–	–	–
D M Goldthorp	64,726	–	–	–	–	64,726	–
R F O'Brien	–	–	–	–	–	–	–
E De Voogd	–	–	–	–	–	–	–
Total:	563,103	33,717	–	–	–	596,820	–

**(f) Options holdings of key management personnel**

The options are exercisable subject to the satisfaction of the terms of the option agreement – Refer Note 27.

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

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

<sup>(1)</sup> The details of options granted during the year are detailed in Note 27

<sup>(2)</sup> Options issued prior to being appointed a director

<sup>(3)</sup> Resigned as a Director effective 31 December 2005 and employment ceased 8 July 2006

<sup>(4)</sup> Lapsed upon termination of employment

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED  
AS AT 30 JUNE 2006**

**Note 36. Key management personnel** (continued)

	Maximum Potential Entitlement			Vested and exercisable at 30 June 2006
	1 July 2005	Granted as compensation <sup>(1) (2)</sup>	At 30 June 2006	
<b>Executive Directors</b>				
T P Park	–	90,280	90,280	–
D G Abotomey	235,000	41,790	276,790	235,000
P R Waterworth	200,000	–	200,000	200,000
<b>Executives</b>				
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	–

<sup>(1)</sup> The details of options granted during the year are detailed in Note 27

<sup>(2)</sup> Options issued prior to being appointed a director

**Note 37. Employee share and option plans**

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

The ESOP includes the following performance plans:

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

All shares issued under the ESOP on exercise of options or termination of employment and all options granted under the ESOP are detailed in Note 27.

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

The shares purchased have an aggregate fair value of \$6.2 million at 30 June 2006 (2005: \$6.0 million).

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

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

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

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

**Note 37. Employee share and option plans** (continued)**Performance Rights Plan**

PaperlinX Limited has offered to certain senior management rights to receive options over an equivalent number of shares at an exercise price of \$nil at a date in the future subject to specific performance criteria being achieved. The rights are independently valued at the grant date using the Monte Carlo simulation model. The value of the right is expensed to profit over the applicable measurement period. During the year, the following issues of rights were made:

- to receive a maximum of 2,737,070 options over 2,737,070 shares of an exercise price of \$Nil (grant date 22 August 2005).  
The fair value at the date of the grant was \$2.24 per option.

At 30 June 2006, the aggregate issues of rights are:

- to receive a maximum of 2,607,450 options over 2,607,450 shares of an exercise price of \$Nil (grant date 22 August 2005).  
The fair value at the date of the grant was \$2.24 per option.
- to receive a maximum of 1,275,855 options over 1,275,855 shares at an exercise price of \$Nil (grant date 15 October 2004).  
The fair value at the date of the offer was \$3.27 per option.
- to receive a maximum of 480,290 options over 480,290 shares at an exercise price of \$Nil (grant date 15 October 2004).  
The fair value at the date of the offer was \$3.32 per option.

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

The details of the above offers which have been made to executive Directors of PaperlinX Limited and executives are set out in Note 36.

**Performance Option Plan**

PaperlinX Limited has issued to certain senior management options at a fixed exercise price at a date in the future subject to specific performance criteria being achieved. If exercised, the exercise price is recognised in equity. The options are independently valued at the grant date using the Monte Carlo simulation model. The value of the option is expensed to profit over the applicable measurement period.

During the year, the following issues were made:

- a maximum of 1,022,140 options over 1,022,140 shares of an exercise price of \$2.77 (grant date 2 September 2005).  
The fair value at the date of the grant was \$0.60 per option.
- a maximum of 9,720 options over 9,720 shares at an exercise price of \$4.85 (grant date 2 September 2005).  
The fair value at the date of the offer was \$0.46 per option.

At 30 June 2006, aggregate issues are:

- a maximum of 988,260 options over 988,260 shares at an exercise price of \$2.77 (grant date 2 September 2005).  
The fair value at the date of the offer was \$0.60 per option.
- a maximum of 605,200 options over 605,200 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.
- a maximum of 371,000 options over 371,000 shares at an exercise price of \$4.55 (grant date 23 January 2004).  
The fair value at the date of the offer was \$0.59 per option.

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

The details of the above offers which have been made to executive Directors of PaperlinX Limited and executives are set out in Note 36.

**Note 38. Segment reporting****Business segments**

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

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**  
**AS AT 30 JUNE 2006**

	<b>Consolidated</b>			
	<b>Segment result <sup>(3)</sup> \$m</b>	<b>Segment revenue \$m</b>	<b>Segment assets \$m</b>	<b>Segment liabilities \$m</b>
<b>Note 38. Segment reporting (continued)</b>				
<b>For the year ended 30 June 2006</b>				
<b>Business segments</b>				
Merchanting and Paper Trading				
• Continuing operations	189.1	6,900.5	3,241.4	1,163.0
• Discontinuing operations	1.3	29.5	19.6	0.9
	190.4	6,930.0	3,261.0	1,163.9
Communication Papers	(9.4)	674.4	635.0	118.7
Packaging Papers	5.3	241.8	298.4	41.6
Corporate and Other	(33.9)	94.4	121.6	46.1
Profit before net interest and income tax	152.4			
Net interest <sup>(1)</sup>	(65.1)			
Profit before income tax	87.3			
Income tax expense <sup>(1)</sup>	(21.9)			
Income tax benefit – Australian Tax Consolidation <sup>(1)</sup>	–			
Profit after income tax expense	65.4			
Net profit attributable to minority interests	–			
Inter-segment sales <sup>(2)</sup>		(527.9)		
Unallocated assets (deferred tax balances)			74.4	
Unallocated liabilities <sup>(6)</sup>				1,411.4
Total	65.4	7,412.7	4,390.4	2,781.7

	<b>Consolidated</b>			
	<b>Segment result <sup>(3)</sup> \$m</b>	<b>Segment revenue \$m</b>	<b>Segment assets \$m</b>	<b>Segment liabilities \$m</b>
<b>For the year ended 30 June 2005</b>				
<b>Business segments</b>				
Merchanting and Paper Trading	194.1	7,035.3	3,054.0	1,045.9
Communication Papers	2.1	699.8	622.9	124.3
Packaging Papers	10.0	242.9	292.2	41.3
Corporate and Other	(26.1)	100.6	112.5	52.8
Profit before net interest and income tax	180.1			
Net interest <sup>(1)</sup>	(68.5)			
Profit before income tax	111.6			
Income tax expense <sup>(1)</sup>	(21.9)			
Income tax benefit – Australian Tax Consolidation <sup>(1)</sup>	77.0			
Profit after income tax expense	166.7			
Net profit attributable to minority interests	(0.1)			
Inter-segment sales <sup>(2)</sup>		(504.5)		
Unallocated assets (deferred tax balances)			85.2	
Unallocated liabilities <sup>(6)</sup>				1,339.8
Total	166.6	7,574.1	4,166.8	2,604.1

	Consolidated		
	Segment revenue \$m	Segment assets \$m	Capital expenditure \$m
<b>Note 38. Segment reporting</b> (continued)			
<b>For the year ended 30 June 2006</b>			
<b>Geographic segments</b>			
Australia and New Zealand	1,351.0	1,471.2	76.3
North America	1,257.8	591.9	21.4
Europe	4,617.5	2,190.7	23.9
Asia	186.4	62.2	0.4
Unallocated assets (deferred tax assets)		74.4	
Total	7,412.7	4,390.4	122.0

	Consolidated		
	Segment revenue \$m	Segment assets \$m	Capital expenditure \$m
<b>For the year ended 30 June 2005</b>			
<b>Geographic segments</b>			
Australia and New Zealand	1,444.4	1,464.1	66.4
North America	1,011.1	413.1	5.5
Europe	4,945.2	2,147.7	44.8
Asia	173.4	56.7	0.3
Unallocated assets (deferred tax assets)		85.2	
Total	7,574.1	4,166.8	117.0

	Consolidated		
	Depreciation, Amortisation & Impairment Losses <sup>(7)</sup> \$m	Non Cash Expenses <sup>(4)</sup> \$m	Capital Expenditure <sup>(5)</sup> \$m
<b>For the year ended 30 June 2006</b>			
<b>Business segments</b>			
Merchanting and Paper Trading			
• Continuing operations	40.4	(4.3)	47.8
Communication Papers	37.0	6.6	57.7
Packaging Papers	12.9	3.1	13.1
Corporate and Other	14.4	5.1	3.4
Total	104.7	10.5	122.0

	Consolidated		
	Depreciation, Amortisation & Impairment Losses <sup>(7)</sup> \$m	Non Cash Expenses <sup>(4)</sup> \$m	Capital Expenditure <sup>(5)</sup> \$m
<b>For the year ended 30 June 2005</b>			
<b>Business segments</b>			
Merchanting and Paper Trading	41.1	19.7	52.8
Communication Papers	46.7	13.9	46.2
Packaging Papers	12.2	4.7	15.5
Corporate and Other	12.9	4.4	2.5
Total	112.9	42.7	117.0

<sup>(1)</sup> Interest and income tax expense are not allocated internally to the segments but held centrally.

<sup>(2)</sup> Inter-segment sales comprise sales of paper, which are priced on an arm's-length basis.

<sup>(3)</sup> The segment result for the individual business segments is the profit before net interest and income tax.

<sup>(4)</sup> The non-cash expenses above comprise the following items:

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**  
**AS AT 30 JUNE 2006**

**Note 38. Segment reporting** (continued)

	2006 \$m	2005 \$m
• Provisions charge – refer Note 5(b)	34.4	48.9
• Net (profit)/loss on disposal of property, plant and equipment – refer Note 3	(24.4)	(3.0)
• Impact of unrealised (profit)/loss in inventories – refer Statements of Cash Flows	0.5	(3.2)
	10.5	42.7
<sup>(5)</sup> <i>Capital Expenditure above comprises the following items:</i>		
• <i>Addition of property, plant, equipment and intangibles – refer Statements of Cash Flows</i>	101.4	86.3
• <i>Movement in accruals for property, plant and equipment</i>	0.6	7.4
	102.0	93.7
• <i>Goodwill in relation to acquisitions of subsidiaries – refer Note 40 <sup>(2)</sup></i>	9.1	17.1
• <i>Other intangibles acquired on acquisition of subsidiaries – refer Note 40 <sup>(2)</sup></i>	1.2	–
• <i>Property, plant and equipment acquired on acquisition of subsidiaries – refer Note 40 <sup>(2)</sup></i>	9.7	6.2
	122.0	117.0
<sup>(6)</sup> <i>The unallocated segment liabilities comprise the following items:</i>		
• <i>Current interest bearing liabilities – refer Note 18</i>	221.7	266.6
• <i>Current tax liabilities – refer Note 19</i>	9.6	3.8
• <i>Non-current interest bearing liabilities – refer Note 23</i>	1,136.7	1,036.0
• <i>Non-current deferred tax liabilities – refer Note 24</i>	43.4	33.4
	1,411.4	1,339.8
<sup>(7)</sup> <i>The impairment losses booked relate to the following segments:</i>		
• <i>Industry – Communication Papers</i>	–	12.4
• <i>Geographic – Australia and New Zealand</i>	–	12.4

**Note 39. Retirement benefit obligations**

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

**Company sponsored plans**

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

Employee contribution rates are either fixed by the rules of the plan or selected by members from a specified range of rates. In addition to legislative requirements, employer companies contribute to the balance of the cost required to plan the benefits as 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, but no legal right to benefit in the surplus in the plans.

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

**Government plans**

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

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

**Industry/union plans**

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

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

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

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



	Consolidated		PaperlinX Limited	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>Note 39. Retirement benefit obligations</b> (continued)				
<b>The amounts recognised in the balance sheet are determined as follows:</b>				
Present value of the defined benefit obligation	604.0	517.7	–	–
Less: Fair value of defined benefit plan assets	(517.8)	(395.5)	–	–
Add: Limitation on recoupment of net surplus positions	1.6	–	–	–
Net liability in the balance sheet	87.8	122.2	–	–
<b>The net liability in the balance sheet is disclosed as follows:</b>				
Liabilities	92.8	122.2	–	–
Assets	5.0	–	–	–
Net liability in the balance sheet	87.8	122.2	–	–
<b>Changes in the present value of the defined benefit obligations are as follows:</b>				
Opening defined benefit obligations	517.7	453.6	–	–
Service cost	20.0	20.1	–	–
Interest cost	18.7	23.9	–	–
Actuarial losses/(gains)	(26.6)	68.1	–	–
Contributions by member	6.0	5.1	–	–
Liabilities assumed in a business combination	54.7	–	–	–
Exchange differences on foreign plans	28.8	(36.5)	–	–
Benefits paid	(15.3)	(16.6)	–	–
Closing defined benefit obligation	604.0	517.7	–	–
<b>Changes in the fair value of plan assets are as follows:</b>				
Opening fair value of plan assets	395.5	373.0	–	–
Expected return	20.8	23.5	–	–
Actuarial gains/(losses)	17.0	20.2	–	–
Contributions by employer	16.8	20.5	–	–
Contributions by member	6.0	5.1	–	–
Assets acquired in a business combination	53.3	–	–	–
Exchange differences on foreign plans	23.7	(30.2)	–	–
Benefits paid	(15.3)	(16.6)	–	–
Closing fair value of plan assets	517.8	395.5	–	–
Less: Limitation on recoupment of net surplus position	(1.6)	–	–	–
	516.2	395.5	–	–
<b>Expense recognised in the income statement:</b>				
Current service costs	20.0	20.1	–	–
Interest on obligation	18.7	23.9	–	–
Expected return on plan assets	(20.8)	(23.5)	–	–
Past service cost	–	–	–	–
	17.9	20.5	–	–
<b>Amount recognised in the statement of recognised income and expense:</b>				
Actuarial (losses)/gains on defined benefit obligations	26.6	(68.1)	–	–
Actuarial gains/(losses) on fair value of plan assets	17.0	20.2	–	–
	43.6	(47.9)	–	–
Less tax effect, where applicable	(13.6)	14.0	–	–
	30.0	(33.9)	–	–

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**  
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**Note 39. Retirement benefit obligations** (continued)

**Principal actuarial assumptions:**

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

	Consolidated		PaperlinX Limited	
	2006	2005	2006	2005
Discount rate	4.25% to 5.4%	4.25% to 5.4%	–	–
Salary increase rate	1% to 4%	1% to 4%	–	–
Inflation	2% to 3%	2% to 3%	–	–
Expected asset return	4% to 7.5%	4% to 7.5%	–	–

	Plan assets \$m	Defined benefit obligation \$m	Surplus/ (deficit) \$m
<b>Plans as at 30 June 2006</b>			
• PaperlinX Superannuation Fund (Australia) – Fund No. 1	37.4	38.7	(1.3)
• PaperlinX Superannuation Fund (Australia) – Fund No. 2	29.8	25.1	4.7
• PaperlinX New Zealand Superannuation Fund (New Zealand)	0.8	0.8	–
• Coast Paper Pension Plan for Employees (Canada)	7.8	8.2	(0.4)
• Coast Paper Pension Plan for Executive Employees (Canada)	7.1	9.2	(2.1)
• Pension Plan for Employees of PaperlinX Canada (Canada)	55.6	55.3	0.3
• PaperlinX Pensioenfond (Netherlands)	105.4	116.3	(10.9)
• Pension Plan for Buhrmann Ubbens employees with Nationale Nederlanden (Netherlands)	24.3	24.3	–
• The Howard Smith Paper Group Pension Scheme (UK)	54.6	66.6	(12.0)
• Robert Horne Group Pension Scheme (UK)	185.6	228.8	(43.2)
• Robert Horne Paper (Ireland) Ltd Pension & Life Assurance Scheme (Ireland)	7.8	8.2	(0.4)
• Other post-employment pension plans funded directly by employer companies	–	22.5	(22.5)
	<b>516.2</b>	<b>604.0</b>	<b>(87.8)</b>

	Plan assets \$m	Defined benefit obligation \$m	Surplus/ (deficit) \$m
<b>Plans as at 30 June 2005</b>			
• PaperlinX Superannuation Fund (Australia) – Fund No. 1	32.4	38.1	(5.7)
• PaperlinX Superannuation Fund (Australia) – Fund No. 2	25.7	25.6	0.1
• PaperlinX New Zealand Superannuation Fund (New Zealand)	0.8	0.8	–
• Coast Paper Pension Plan for Employees (Canada)	6.3	6.7	(0.4)
• Coast Paper Pension Plan for Executive Employees (Canada)	5.7	7.4	(1.7)
• Stichting Pensioenfond Buhrmann (Netherlands)	97.4	107.4	(10.0)
• Pension Plan for Buhrmann Ubbens employees with Nationale Nederlanden (Netherlands)	23.5	23.4	0.1
• Howard Smith Paper Group Pension Scheme (UK)	42.6	55.5	(12.9)
• Robert Horne Group Pension Scheme (UK)	155.6	223.7	(68.1)
• Robert Horne Paper (Ireland) Ltd Pension & Life Assurance Scheme (Ireland)	5.5	7.8	(2.3)
• Other post-employment pension plans funded directly by employer companies	–	21.3	(21.3)
	<b>395.5</b>	<b>517.7</b>	<b>(122.2)</b>

**Note 40. PaperlinX's subsidiaries**

PaperlinX Limited and the following specified subsidiary companies have entered into an approved deed for the cross guarantee of liabilities.

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

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

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

	<b>2006 \$m</b>	<b>2005 \$m</b>
<b>Income statement</b>		
Profit/(loss) before tax	(59.5)	142.6
Tax benefit/(expense)	1.0	84.4
<b>Profit/(loss) for the year</b>	<b>(58.5)</b>	<b>227.0</b>
Accumulated losses at the beginning of the year	(70.2)	(177.5)
Employee share options and rights	2.9	2.3
Adjustments to comply with accounting standards	(0.3)	–
Actuarial gains/(losses) on defined benefit plans	6.4	0.7
Dividends paid	(78.1)	(122.7)
<b>Accumulated losses at the end of the year</b>	<b>(197.8)</b>	<b>(70.2)</b>
<b>Balance sheet</b>		
<b>Current assets</b>		
Cash and cash equivalents	62.0	55.1
Trade and other receivables	936.8	1,050.5
Inventories	288.9	308.9
<b>Total current assets</b>	<b>1,287.7</b>	<b>1,414.5</b>
<b>Non-current assets</b>		
Receivables	4.7	1.4
Investments	688.0	689.1
Property, plant and equipment	714.1	695.4
Intangible assets	169.5	180.6
Deferred tax assets	30.8	32.7
<b>Total non-current assets</b>	<b>1,607.1</b>	<b>1,599.2</b>
<b>Total assets</b>	<b>2,894.8</b>	<b>3,013.7</b>
<b>Current liabilities</b>		
Trade and other payables	232.3	222.7
Interest bearing loans and borrowings	148.0	187.5
Current tax liabilities	6.6	–
Employee benefits	36.7	37.4
Provisions	10.5	13.0
<b>Total current liabilities</b>	<b>434.1</b>	<b>460.6</b>
<b>Non-current liabilities</b>		
Payables	1.3	5.7
Interest bearing loans and liabilities	920.5	878.6
Deferred tax liabilities	17.6	21.1
Employee benefits	33.8	33.3
Provisions	3.1	2.8
<b>Total non-current liabilities</b>	<b>976.3</b>	<b>941.5</b>
<b>Total liabilities</b>	<b>1,410.4</b>	<b>1,402.1</b>
<b>Net assets</b>	<b>1,484.4</b>	<b>1,611.6</b>
<b>Equity</b>		
Issued capital	1,691.9	1,691.5
Reserves	(9.7)	(9.7)
Accumulated losses	(197.8)	(70.2)
<b>Total Equity</b>	<b>1,484.4</b>	<b>1,611.6</b>

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**  
**AS AT 30 JUNE 2006**

**Note 40. PaperlinX's subsidiaries** (continued)

During the current year, the consolidated entity purchased the following three subsidiaries/businesses:

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

The operating results of these businesses have been included in the consolidated profit from their respective effective dates.

During the prior 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.

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

	<b>Consolidated</b>	
	<b>2006</b>	<b>2005</b>
	<b>\$m</b>	<b>\$m</b>
Hestbech business		
• Consideration paid in cash	–	13.0
	–	13.0
Cascades Merchanting business		
• Consideration paid in cash	93.4	–
• Consideration accrued	10.8	–
	104.2	–
1st Class Packaging Ltd		
• Consideration paid in cash	7.0	–
• Consideration accrued	0.9	–
	7.9	–
Euroadria business		
• Consideration paid in cash	1.2	–
<b>Total</b>	<b>113.3</b>	<b>13.0</b>
The consideration paid comprises the following:		
• Consideration paid in cash	101.6	13.0
• Consideration accrued	11.7	–
	113.3	13.0

	<b>Consolidated</b>	
	<b>2006</b>	<b>2005</b>
	<b>\$m</b>	<b>\$m</b>
<b>Note 40. PaperlinX's subsidiaries</b> (continued)		
<b>Net asset acquired:</b>		
<b>Current assets</b>		
Cash and cash equivalents	1.3	–
Trade and other receivables	69.1	5.2
Inventories	58.8	4.3
<b>Non-current assets</b>		
Receivables	0.2	–
Property, plant and equipment	9.7	6.2
Intangible assets – other	1.2	–
<b>Total assets</b>	<b>140.3</b>	<b>15.7</b>
<b>Current liabilities</b>		
Trade and other payables	(34.3)	(4.8)
Interest bearing loans and borrowings – capitalised borrowing costs	0.4	–
Income tax payable	(0.5)	–
<b>Non-current liabilities</b>		
Provisions	(1.3)	–
Employee benefits	(0.4)	–
<b>Total liabilities</b>	<b>(36.1)</b>	<b>(4.8)</b>
Goodwill on acquisition	9.1	2.1
<b>Total net assets acquired</b>	<b>113.3</b>	<b>13.0</b>
Goodwill impact in the current year: <sup>(1)</sup>		
Acquisition in the current year – per above	9.1	2.1
Fair value adjustments in relation to an acquisition in the prior year	–	15.8
Unutilised amount of restructuring provision in relation to an acquisition in the prior year written back to goodwill	–	(0.8)
	<b>9.1</b>	<b>17.1</b>

<sup>(1)</sup> Goodwill arises as it did not meet the criteria of recognition as a separately identifiable intangible asset at the date of the acquisition.

	<b>Consolidated</b>	
	<b>2006</b>	<b>2005</b>
	<b>\$m</b>	<b>\$m</b>
Cash flow impact:		
Cash paid	101.6	13.0
	101.6	13.0
Cash settlement of amounts accrued in prior period	0.6	31.6
	102.2	44.6
Less cash acquired	(1.3)	–
<b>Cash flow impact – per Statements of Cash Flows</b>	<b>100.9</b>	<b>44.6</b>

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

	<b>Consolidated</b>
	<b>2006</b>
	<b>\$m</b>
Cascades Merchanting	
• Revenue	524.5
• Profit after tax	3.5
1st Class Packaging Ltd	
• Revenue	10.2
• Profit after tax	0.8

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**  
**AS AT 30 JUNE 2006**

**Note 40. PaperlinX's subsidiaries** (continued)

	Note	Country of incorporation	Consolidated subsidiary interest	
			2006	2005
Paper Australia Pty Ltd	(1)	Australia	100%	100%
Australian Paper Pty Ltd	(1)	Australia	100%	100%
PaperlinX Australia Pty Ltd	(1)	Australia	100%	100%
Paperwealth Pty Ltd	(1)	Australia	100%	100%
PP CPC Pty Ltd	(1)	Australia	100%	100%
Empire Office Supplies Pty Ltd	(1)	Australia	100%	100%
PP ED Pty Ltd	(1)	Australia	100%	100%
B J Ball Pty Ltd	(1)	Australia	100%	100%
Besmac Pty Ltd	(1)	Australia	100%	100%
Paper Associates Pty Ltd	(1)	Australia	100%	100%
PPX Australia LP		Australia	100%	100%
PaperlinX (Europe) Ltd		United Kingdom	100%	100%
PaperlinX Brands (Europe) Ltd		United Kingdom	100%	100%
PaperlinX Services (Europe) Ltd		United Kingdom	100%	100%
PaperlinX Investments (Europe) Ltd		United Kingdom	100%	100%
PaperlinX Treasury (Europe) Ltd		United Kingdom	100%	100%
1st Class Packaging Ltd	(2)	United Kingdom	100%	–
The Paper Company Ltd		United Kingdom	100%	100%
21st Century Paper Ltd		United Kingdom	100%	100%
Powell & Heilbron (Paper) Ltd		United Kingdom	100%	100%
Paramount Paper Sales Ltd		United Kingdom	100%	100%
Rothera & Brereton (Sheffield) Ltd		United Kingdom	100%	100%
Michael Jackson (Paper) Ltd		United Kingdom	100%	100%
Grove Paper Company Ltd		United Kingdom	100%	100%
Rothera & Brereton Ltd		United Kingdom	100%	100%
Paramount Paper Sales (London) Ltd		United Kingdom	100%	100%
Lagan Papers Ltd		United Kingdom	100%	100%
Dixon & Roe (Birmingham) Ltd		United Kingdom	100%	100%
Alba Paper Ltd		United Kingdom	100%	100%
Mason's Paper Holdings Ltd		United Kingdom	100%	100%
The Mason's Paper Co Ltd		United Kingdom	100%	100%
Southern Paper Ltd		United Kingdom	100%	100%
Southern Paper Co (Brighton)		United Kingdom	100%	100%
Donald Murray (Paper) Ltd		United Kingdom	100%	100%
Donald Murray Paper (Bristol) Ltd		United Kingdom	100%	100%
Donald Murray Paper (Glasgow) Ltd		United Kingdom	100%	100%
Donald Murray Paper (Newcastle) Ltd		United Kingdom	100%	100%
Dixon & Roe Group Ltd		United Kingdom	100%	100%
Dixon & Roe Ltd		United Kingdom	100%	100%
Dixon & Roe (Herts) Ltd		United Kingdom	100%	100%
The Paper Company No. 2 Ltd		United Kingdom	100%	100%
Hopefair Ltd		United Kingdom	100%	100%
Jarvis Paper Sales Ltd		United Kingdom	100%	100%
Reel Papers Ltd		United Kingdom	100%	100%
Somerset Paper Sales Ltd		United Kingdom	100%	100%
PaperlinX Cooperatief WA		Netherlands	100%	100%
PaperlinX Netherlands Holdings BV		Netherlands	100%	100%
BuhrmannUbbens Holding BV		Netherlands	100%	100%
BuhrmannUbbens BV		Netherlands	100%	100%
PaperlinX Shared Services BV		Netherlands	100%	100%
DRiem Papier BV		Netherlands	100%	100%
Tricom Paper International BV		Netherlands	100%	100%
VRG Insurances BV		Netherlands	100%	100%
Brabantse Poort BV		Netherlands	100%	100%
Rhosili Amsterdam CV		Netherlands	100%	100%
PaperlinX Netherlands BV		Netherlands	100%	100%
Printaco BV		Netherlands	100%	100%
Proost en Brandt Holdings BV		Netherlands	100%	100%
Proost en Brandt BV		Netherlands	100%	100%
Bouwmaatschappij 'Het Wapen van Amsterdam' NV		Netherlands	100%	100%

**Note 40. PaperlinX's subsidiaries** (continued)

	Note	Country of incorporation	Consolidated subsidiary interest	
			2006	2005
Velpa Holdings BV		Netherlands	100%	100%
Velpa Enveloppen BV		Netherlands	100%	100%
Polyedra SpA		Italy	100%	100%
Josef Frohlen Papiergrosshandlung – WilliReddeman Import – Export GmbH		Germany	100%	100%
Deutsche Papier Holding GmbH		Germany	100%	100%
Deutsche adp Wilhelm GmbH		Germany	100%	100%
Deutsche Papier Vertriebs GmbH		Germany	100%	100%
Deutsche Papier Grundstücks GmbH & Co KG		Germany	100%	100%
PaperlinX Austria GmbH		Austria	100%	100%
PaperNet GmbH		Austria	100%	100%
PaperNet GmbH & Co KG		Austria	100%	100%
Adria Papir doo		Croatia	100%	100%
Budapest Papir Kft		Hungary	100%	100%
Tulipel – Comercio de Paperis Lda		Portugal	100%	100%
Alpe Papir Trgovina na Veliko doo		Slovenia	100%	100%
Dunav Papir D.o.o.	(2)	Serbia	100%	–
Bratislavská Papierenská Spoločnosť		Slovakia	100%	100%
Ospap Velkoobchod Papirem AS		Czech Republic	100%	96%
Multiexpo Spol sro		Czech Republic	100%	100%
PaperlinX Denmark ApS		Denmark	100%	100%
PaperNet Scandinavia AS		Denmark	100%	100%
Udesen A/S Grafisk Fagcenter		Denmark	100%	100%
CC&Co Holdings ApS		Denmark	100%	100%
Aktieselskabet Christian Christensen Og Co		Denmark	100%	100%
Corporate Express Denmark AS		Denmark	100%	100%
CC&Co Ejendomme AS		Denmark	100%	100%
Plus Office AS		Denmark	100%	100%
Axelium SAS		France	100%	100%
Thomas Papier SARL		France	100%	100%
Epacar NV		Belgium	100%	100%
Mercator Papier Spzoo		Poland	100%	100%
PaperNet Oy		Finland	100%	100%
Union Papelera Merchanting SL		Spain	100%	100%
Grafiskt Papper Norden AB		Sweden	100%	100%
Interpapier AG		Switzerland	100%	100%
The Howard Smith Paper Group Ltd		United Kingdom	100%	100%
Contract Paper Ltd		United Kingdom	100%	100%
Howard Smith Paper Ltd		United Kingdom	100%	100%
Precision Publishing Papers Ltd		United Kingdom	100%	100%
Savory Paper Ltd		United Kingdom	100%	100%
Trade Paper Ltd		United Kingdom	100%	100%
Howard Smith Paper (Scotland) Ltd		United Kingdom	100%	100%
The M6 Paper Group Ltd		United Kingdom	100%	100%
Badger Paper Ltd		United Kingdom	100%	100%
Robert Horne UK Ltd		United Kingdom	100%	100%
Cogladle Ltd		United Kingdom	100%	100%
Robert Horne Pension Trustees Ltd		United Kingdom	100%	100%
Robert Horne Group Ltd		United Kingdom	100%	100%
Adhesive and Display Products Ltd		United Kingdom	100%	100%
Robert Horne Paper Company Ltd		United Kingdom	100%	100%
W Lunnon & Company Ltd		United Kingdom	100%	100%
Glenmore Lomond Paper Group Ltd		United Kingdom	100%	100%
Robert Horne Paper (Scotland) Ltd		United Kingdom	100%	100%
Pinnacle Film & Board Sales Ltd		United Kingdom	100%	100%
Sheet & Roll Converters Ltd		United Kingdom	100%	100%
Transplastix Ltd		United Kingdom	100%	100%
Williaam Cox Plastics Ltd		United Kingdom	100%	100%
PaperlinX North America Inc		USA	100%	100%
Kelly Paper Company		USA	100%	100%
Spicers Paper Inc		USA	100%	100%

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED  
AS AT 30 JUNE 2006**

**Note 40. PaperlinX's subsidiaries** (continued)

	Note	Country of incorporation	Consolidated subsidiary interest	
			2006	2005
PPX Investment Corp		Canada	100%	100%
PaperlinX Canada (2001) Corp		Canada	100%	100%
PaperlinX Canada Ltd	(3)	Canada	100%	100%
PPX Canada Corp		Canada	100%	100%
PaperlinX Holdings (Asia) Pte Ltd		Singapore	100%	100%
Spicers Paper (Asia) Trading Pte Ltd		Singapore	100%	100%
Norscan Forest Products Pte Ltd		Singapore	100%	100%
Spicers Paper (Singapore) Pte Ltd		Singapore	100%	100%
Paper Products Marketing (Singapore) Pte Ltd		Singapore	100%	100%
VRG Paper (Malaysia) Sdn Bhd		Malaysia	100%	100%
Winpac Paper Pte Ltd		Singapore	100%	100%
Spicers Paper (Hong Kong) Ltd		Hong Kong	100%	100%
Paper Products Marketing (Hong Kong) Ltd		Hong Kong	100%	100%
Spicers Paper (Malaysia) Sdn Bhd		Malaysia	100%	100%
Finwood Papers (Pty) Ltd		South Africa	100%	100%
Finwood Properties Pty Ltd		South Africa	100%	100%
PaperlinX Ireland Holdings		Ireland	100%	100%
Robert Horne Paper (Ireland) Ltd		Ireland	100%	100%
Paper Sales Ltd		Ireland	100%	100%
Contact Papers Ltd		Ireland	100%	100%
Supreme Paper Company Ltd		Ireland	100%	100%
DM Paper Ltd		Ireland	100%	100%
PPX Insurance Ltd		New Zealand	100%	100%
Spicers Paper (NZ) Ltd		New Zealand	100%	100%
PaperlinX Investments Pty Ltd	(1)	Australia	100%	100%
Paper Products Marketing Pty Ltd	(1)	Australia	100%	100%
Paper Products Marketing (Taiwan) Ltd		Taiwan	80%	80%
Pacific Paper Marketing Australia Pty Ltd	(1)	Australia	100%	100%
Paper Products Marketing (USA) Inc		USA	100%	100%
PaperlinX (NZ) Ltd		New Zealand	100%	100%

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

**(2) Subsidiaries acquired since 30 June 2005**

1st Class Packaging Ltd  
Dunav Papir D.o.o.

**(3) Subsidiaries renamed since 30 June 2005**

PaperlinX Canada Ltd (formerly Coast Paper Ltd)

**(4) Subsidiaries no longer controlled since 30 June 2005**

Enveloppendrukkerij Jet Print BV  
Caledonia SrL  
MG di Agnetti SrL  
D & D Folienservice GmbH  
Dirimex Handelsgesellschaft GmbH  
Klinger GmbH Handel fur Siebdruck und Werbetechnik  
Spicers Paper (USA) Inc  
615145 BC Ltd  
Broadworth Ltd



**Note 41. Other related party disclosures**

The ownership interest in subsidiaries is disclosed in Note 40 to the Financial Statements.

There were no other material related party transactions during the year other than those disclosed in Note 36.

**Directors of PaperlinX Limited**

Directors of PaperlinX Limited who held office during the year ended 30 June 2006 are:

D E Meiklejohn  
 T P Park  
 D G Abotomey (resigned effective 31 December 2005)  
 A F Guy  
 B J Jackson  
 N L Scheinkestel  
 D A Walsh  
 L J Yelland

The remuneration of Directors is disclosed in Note 36 to the Financial Statements.

A full analysis of the components of the remuneration of individual Directors is contained in Note 36 and in the Directors' Report.

Loans to Directors of PaperlinX Limited in Note 36 total \$Nil (2005: \$530). This amount comprised Employee Share Plan loans only.

**Directors of Subsidiaries**

Loans to Directors of subsidiaries \$35,000 (2005: \$38,000). This amount comprises Employee Share Plan loans only.

During the year, Employee Share Plan loan repayments totalling \$4,000 were received from:

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

During the prior 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 year, Employee Share Plan loans totalling \$Nil were advanced.

During the prior year, Employee Share Plan loans totalling \$1,000 were advanced.

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

The amounts owing from subsidiaries and the amounts owing to subsidiaries for PaperlinX Limited are disclosed in Note 9 and Note 17 respectively. These amounts are non-interest bearing and were impacted during the year by the purchase of a 100% interest in PaperlinX Australia Pty Ltd from Paper Australia Pty Ltd for \$362.3 million – refer Note 13.

	June 2006	June 2005
<b>Note 42. Earnings per share</b>		
<b>Basic earnings per share (cents)</b>		
• Continuing operations	14.5	37.3
• Discontinuing operations	0.2	–
	14.7	37.3
Profit for the year		
• Continuing operations	64.7	166.6
• Discontinuing operations	0.7	–
	65.4	166.6
Weighted average number of shares (millions)	446.2	446.1
<b>Diluted earnings per share (cents)</b>		
• Continuing operations	14.3	37.1
• Discontinuing operations	0.2	–
	14.5	37.1
Profit for the year		
• Continuing operations	64.7	166.6
• Discontinuing operations	0.7	–
	65.4	166.6
Weighted average number of shares (millions)	449.6	448.6

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED AS AT 30 JUNE 2006

### Note 42. Earnings per share (continued)

The earnings per share have been calculated in accordance with Accounting Standard AASB 133 Earnings per Share. This standard defines the basic earnings per share to be the operating profit after income tax for the consolidated entity attributable to 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 years ended 30 June 2006 and 30 June 2005 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 133 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 years ended 30 June 2006 and 30 June 2005 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 3.4 million shares for the year ended 30 June 2006 (2005: 2.5 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 2006 up to the date of this report.

Nil options have been exercised, resulting in the issuing of Nil shares since 30 June 2006 up to the date of this report. In addition, Nil options have lapsed since 30 June 2006.

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

### Note 43. Additional financial instruments disclosure

#### Interest rate risk

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

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

#### Interest rate risk exposures

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

Consolidated 2006 \$m	Floating interest rate	Fixed interest maturing in:			Non-interest bearing	Total	Effective interest rate <sup>(1)</sup>
		1 year or less	1 to 5 years	More than 5 years			
<b>Financial assets</b>							
Cash and cash equivalents	455.1	–	–	–	–	455.1	4.17
Trade and other receivables	–	–	–	–	1,550.7	1,550.7	–
Investments	–	–	–	–	14.1	14.1	–
<b>Financial liabilities</b>							
Trade and other payables	–	–	–	–	1,265.9	1,265.9	–
Interest bearing loans and borrowings	856.7	–	–	–	–	856.7	4.26
USD Notes	–	–	–	165.0	–	165.0	6.75
CAD Notes	–	3.7	14.8	64.5	–	83.0	7.88
GBP Notes	–	–	–	253.1	–	253.1	6.59
Finance leases liabilities	–	0.5	0.1	–	–	0.6	8.00

#### Interest rate risk exposures

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

Consolidated 2005 \$m	Floating interest rate	Fixed interest maturing in:			Non-interest bearing	Total	Effective interest rate <sup>(1)</sup>
		1 year or less	1 to 5 years	More than 5 years			
<b>Financial assets</b>							
Cash and cash equivalents	429.1	–	–	–	–	429.1	2.67
Trade and other receivables	–	–	–	–	1,447.1	1,447.1	–
Investments	–	–	–	–	13.3	13.3	–
<b>Financial liabilities</b>							
Trade and other payables	–	–	–	–	1,041.0	1,041.0	–
Interest bearing loans and borrowings	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
Finance leases liabilities	–	0.4	0.7	–	–	1.1	8.00

<sup>(1)</sup> Includes the effect of applicable credit margins.

**Note 43. Additional financial instruments disclosure** (continued)

**Foreign exchange risk**

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

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the income statement. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognised as part of 'net financing costs' (see Note 5).

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

**Credit risk**

The credit risk on financial assets of the consolidated entity, other than investments in shares, is the carrying amount of receivables, net of provisions for impairment loss against doubtful debts.

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

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

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

**Net fair values**

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

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

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

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

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

The net fair value of foreign exchange contracts held as at reporting date is a gain of \$2.9 million (2005: a gain of \$0.1 million).

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED AS AT 30 JUNE 2006

### Note 44. Impact of adopting Australian equivalents to International Financial Reporting Standards

#### Explanation

As stated in Note 1(2), these are the consolidated entity's first annual consolidated financial statements prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

The accounting policies in Note 1 have been applied in preparing the condensed consolidated financial statements for the year ended 30 June 2006, the comparative information for the year ended 30 June 2005 and the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidation entity's date of transition).

In preparing its opening AIFRS balance sheet, comparative information for the year ended 30 June 2005, the consolidated entity has adjusted amounts reported previously in Financial Statements prepared in accordance with the previous basis of accounting (previous AGAAP).

An explanation of how the transition from previous AGAAP to AIFRS has affected the consolidated entity's balance sheets, income statements and cash flows is set out in the following tables and the notes that accompany the tables.

The following note details the impact of adoption of AIFRS on the following items:

- Net assets as at 1 July 2004
- Profit as reported for the year ended 30 June 2005
- Net assets as at 30 June 2005

There are no material differences in these amounts to those previously indicated in the Financial Report for the year ended 30 June 2005.

#### Notes

##### (i) Defined benefit plans

Under AGAAP, defined benefit plans were accounted for on a cash basis, with no defined benefit obligation or plan assets recognised in the balance sheets. The AASB 1 election to recognise in full actuarial gains and losses at transition date through retained earnings has been adopted by the consolidated entity.

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 is 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 is required to be recognised in the balance sheets with a corresponding adjustment to retained earnings.

Subsequent to the transition date, the calculated surplus or deficit for each plan is required to be recognised in the income statement, 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 are recognised in the balance sheets as an adjustment to retained earnings.

At 1 July 2004, the impact on transition is an increase in assets of \$2.8 million, and an increase in liabilities of \$51.5 million less the applicable tax effect of \$18.8 million resulting in a decrease in retained earnings of \$29.9 million.

For the year ended 30 June 2005, the impact is an increase in employee benefits expense of \$1.0 million plus the applicable tax effect of \$0.1 million resulting in a decrease in reported earnings of \$1.1 million. The impact in relation to actuarial gains and losses, net of tax is a decrease in retained earnings of \$33.8 million.

The cumulative impact as at 30 June 2005 is a decrease in retained earnings of \$64.8 million.

##### (ii) Share based payments

Under AGAAP, no expense was 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 is 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 is 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 is adjusted to reflect the actual number of options that vest except where forfeiture is due to market related conditions.

No adjustments were 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 AGAAP the interest free loans to employees in accordance with the terms of the employee share plan were recorded as an asset and repaid over time via the associated dividend stream.

Under AIFRS, the value of such loans is 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 issued capital 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 issued capital of \$2.7 million.

##### (iv) Reserve for own shares

Under 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 profits 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 profits 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 retained profits of \$2.4 million and a decrease in reserves of \$9.7 million.

#### **Note 44. Impact of adopting Australian equivalents to International Financial Reporting Standards**

##### **(v) Impairment of non-current assets**

Under AGAAP, the carrying amounts of non-current assets valued on a cost basis, were reviewed at reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeded its recoverable amount the asset was 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, defined benefit assets, deferred tax assets, goodwill and indefinite life intangible assets (brand names) is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset is 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 is 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 is determined.

A cash generating unit is 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 is recognised in the income statement 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 are 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 being 9.5%.

At 1 July 2004, the impact on transition is a decrease in property, plant and equipment of \$241.5 million less the applicable tax effect of \$58.6 million resulting in a decrease in retained earnings of \$182.9 million.

For the year ended 30 June 2005, the impact is a decrease in property, plant and equipment of \$12.4 million less the applicable tax effect of \$3.7 million resulting in a decrease in reported earnings of \$8.7 million.

The cumulative impact as at 30 June 2005 is a decrease in property, plant and equipment of \$253.9 million less the applicable tax effect of \$62.3 million resulting in a decrease in retained earnings of \$191.6 million.

The impairment losses relate wholly to certain mills in the Communication Papers industry segment of the Australian Paper Manufacturing business. The impairment losses arise as a consequence of lower cash generation due to the impact of depressed Australian paper selling prices as a combined result of a strong Australian dollar and an oversupply in global paper markets.

##### **(vi) Income Tax**

On transition to AIFRS, the balance sheet method of tax effect accounting was adopted, rather than the liability method applied currently under AGAAP.

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

##### *Difference in book value of assets and tax value of assets*

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 \$0.4 million and a decrease in reported earnings of \$0.4 million.

The cumulative impact as at 30 June 2005 is a decrease in retained earnings of \$0.6 million.

##### *Tax losses*

At 1 July 2004, the impact on transition is an increase in deferred tax assets of \$5.9 million and an increase in retained earnings of \$5.9 million.

For the year ended 30 June 2005, there is no impact.

The cumulative impact as at 30 June 2005 is an increase in retained earnings of \$5.9 million.

##### **(vii) Trade discounts and rebates**

Under AGAAP, trade discounts and rebates were brought to account in the profit when received or when able to be reasonably determined.

Under AIFRS, trade discounts and rebates are deducted in determining the purchase cost of inventories.

At 1 July 2004, the impact on transition is a decrease in inventories of \$4.7 million less the applicable tax effect of \$1.3 million resulting in a decrease in retained earnings of \$3.4 million.

For the year ended 30 June 2005, the impact is an increase in reported profits of \$0.2 million.

The cumulative impact as at 30 June 2005 is a decrease in retained earnings of \$3.2 million.

##### **(viii) Non-amortisation of goodwill**

Under AGAAP, goodwill was amortised on a straight-line basis over the period the benefits are expected to arise not exceeding 20 years.

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

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

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.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED AS AT 30 JUNE 2006

### Note 44. Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

#### **(ix) Non-depreciation of non-current assets**

Under 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 whereby the resultant net written-down value is nil at that date, are not subject to depreciation during the year ended 30 June 2005.

For the year ended 30 June 2005, depreciation expense decreases by \$2.2 million less the applicable tax effect of \$0.6 million resulting in an increase in reported earnings of \$1.6 million.

The cumulative impact as at 30 June 2005 is an increase in property, plant and equipment of \$2.2 million less the applicable tax effect of \$0.6 million resulting in an increase in retained earnings of \$1.6 million.

#### **(x) Disposal of foreign denominated subsidiary**

Under AGAAP, the assets and liabilities of self-sustaining foreign operations were translated at the rates of exchange ruling at reporting date. Equity items and goodwill are translated at historical rates. The income statements 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 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 income statements 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 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 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 balance sheet as at 30 June 2005.

#### **(xi) Business combinations**

Under AGAAP, post-acquisition adjustments to goodwill were 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, is 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 balance sheets 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 \$8.9 million less the applicable tax effect of \$Nil million resulting in a decrease in reported earnings of \$8.9 million.

The cumulative impact as at 30 June 2005 is a decrease in goodwill of \$8.9 million and a decrease in retained earnings of \$8.9 million.

#### **(xii) Reclassification of Computer Software**

Under AGAAP, computer software was 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 \$81.1 million and a decrease in property, plant and equipment of \$81.1 million.

At 30 June 2005, the impact is an increase in intangibles of \$62.2 million and a decrease in property, plant and equipment of \$62.2 million.

#### **(xiii) 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 AGAAP treatment under which the gross proceeds from the sale were 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.

Under AIFRS for the year ended 30 June 2005, the consolidated revenue from ordinary activities is \$11.2 million lower, the consolidated carrying amount of non-current assets sold disclosed as an expense is \$8.2 million lower and the consolidated other income is \$3.0 million higher.

#### **(xiv) Reclassification of other income**

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

Under AIFRS for the year ended 30 June 2005, the consolidated revenue is \$0.2 million lower and consolidated other income is \$0.2 million higher.

**Note 44. Impact of adopting Australian equivalents to International Financial Reporting Standards** (continued)

The following table sets out the adjustments to the consolidated entity upon adoption of AIFRS as at 1 July 2004.

1 July 2004	Notes	Consolidated				
		Issued capital \$m	Reserves \$m	Retained profits \$m	Minority 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)	–	–	(29.9)	–	(29.9)
• Employee Share Plan loans	(iii)	(3.4)	–	–	–	(3.4)
• Reserve for own shares	(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)	–	–	(182.9)	–	(182.9)
• Income tax	(vi)	–	–	5.7	–	5.7
• Trade discounts and rebates	(vii)	–	–	(3.4)	–	(3.4)
<b>Total movements</b>		<b>(3.4)</b>	<b>(9.7)</b>	<b>(207.4)</b>	<b>–</b>	<b>(220.5)</b>
Net assets as at 1 July 2004 under AIFRS		1,690.4	(28.4)	(70.4)	1.2	1,592.8

The following table sets out the adjustments to the consolidated income statement for the year ended 30 June 2005.

30 June 2005	Notes	Consolidated						
		Profit before interest, tax, depreciation and amortisation \$m	Depreciation and amortisation \$m	Profit before net interest and income tax \$m	Net Interest \$m	Profit before income tax expense \$m	Income tax benefit/(expense) \$m	Profit 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)	(1.0)	–	(1.0)	–	(1.0)	(0.1)	(1.1)
• Share based payments	(ii)	(2.3)	–	(2.3)	–	(2.3)	–	(2.3)
• Reserve for own shares	(iv)	(1.0)	–	(1.0)	–	(1.0)	0.3	(0.7)
• Impairment of non-current assets	(v)	–	(12.4)	(12.4)	–	(12.4)	3.7	(8.7)
• Income tax	(vi)	–	–	–	–	–	(0.4)	(0.4)
• Trade discounts and rebates	(vii)	0.2	–	0.2	–	0.2	–	0.2
• Non amortisation of goodwill	(viii)	–	20.1	20.1	–	20.1	–	20.1
• Non depreciation of non-current assets impaired as at 1 July 2004	(ix)	–	2.2	2.2	–	2.2	(0.6)	1.6
• Disposal of foreign denominated subsidiary	(x)	(1.7)	–	(1.7)	–	(1.7)	–	(1.7)
• Business combinations	(xi)	(8.9)	–	(8.9)	–	(8.9)	–	(8.9)
<b>Total movements</b>		<b>(14.7)</b>	<b>9.9</b>	<b>(4.8)</b>	<b>–</b>	<b>(4.8)</b>	<b>2.9</b>	<b>(1.9)</b>
30 June 2005 under AIFRS		293.0	(112.9)	180.1	(68.5)	111.6	55.1	166.7

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**  
**AS AT 30 JUNE 2006**

**Note 44. Impact of adopting Australian equivalents to International Financial Reporting Standards** (continued)

The following table sets out the adjustments to the consolidated entity upon adoption of AIFRS as at 30 June 2005.

		<b>Consolidated</b>				
<b>30 June 2005</b>	Notes	<b>Issued capital \$m</b>	<b>Reserves \$m</b>	<b>Retained profits \$m</b>	<b>Minority interest \$m</b>	<b>Total equity \$m</b>
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)	–	–	(29.9)	–	(29.9)
• Employee Share Plan loans	(iii)	(3.4)	–	–	–	(3.4)
• Reserve for own shares	(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)	–	–	(182.9)	–	(182.9)
• Income tax	(vi)	–	–	5.7	–	5.7
• Trade discounts and rebates	(vii)	–	–	(3.4)	–	(3.4)
<b>Total movement as at 1 July 2004</b>		<b>(3.4)</b>	<b>(9.7)</b>	<b>(207.4)</b>	<b>–</b>	<b>(220.5)</b>
• Defined benefit plans	(i)	–	–	(1.1)	–	(1.1)
• Share based payments	(ii)	–	–	(2.3)	–	(2.3)
• Shares held in trust	(iv)	–	–	(0.7)	–	(0.7)
• Impairment of non-current assets	(v)	–	–	(8.7)	–	(8.7)
• Income tax	(vi)	–	–	(0.4)	–	(0.4)
• Trade discounts and rebates	(vii)	–	–	0.2	–	0.2
• Non-amortisation of goodwill	(viii)	–	–	20.1	–	20.1
• Non-depreciation of non-current assets impaired as at 1 July 2004	(ix)	–	–	1.6	–	1.6
• Disposal of foreign denominated subsidiary	(x)	–	–	(1.7)	–	(1.7)
• Business combinations	(xi)	–	–	(8.9)	–	(8.9)
<b>Total movements to profit</b>		<b>–</b>	<b>–</b>	<b>(1.9)</b>	<b>–</b>	<b>(1.9)</b>
• Disposal of foreign denominated subsidiary (reclassification)	(x)	–	–	1.7	–	1.7
• Repayment of employee share plan loans	(iii)	0.7	–	–	–	0.7
• Actuarial gains/(losses) defined benefit plan	(i)	–	–	(33.8)	–	(33.8)
• Share based payments	(ii)	–	–	2.3	–	2.3
• Impact of exchange rate movements	–	–	1.8	(0.1)	0.1	1.8
<b>Net assets as at 30 June 2005 under AIFRS</b>		<b>1,691.5</b>	<b>(71.7)</b>	<b>(58.1)</b>	<b>1.0</b>	<b>1,562.7</b>

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

		<b>Consolidated</b>				
	Notes	<b>Issued capital \$m</b>	<b>reserves \$m</b>	<b>Retained profits \$m</b>	<b>Total equity \$m</b>	
<b>1 July 2004</b>						
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)	
<b>Net assets as at 1 July 2004 under AIFRS</b>		<b>1,690.4</b>	<b>–</b>	<b>3.4</b>	<b>1,693.8</b>	
<b>30 June 2005</b>						
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)	
<b>Net assets as at 30 June 2005 under AIFRS</b>		<b>1,691.5</b>	<b>–</b>	<b>59.2</b>	<b>1,750.7</b>	

There is no impact to PaperlinX Limited at transition to AIFRS on the income statement for the year ended 30 June 2005.

**Note 45. Events subsequent to balance date**

**Dividends**

For dividends declared after 30 June 2006, see Note 7.

**Maryvale Wood Yard Outsourcing**

The Company has announced conditional agreement to outsource a new wood yard at Maryvale, which will result in one-off costs on the 2007 year of approximately \$10 million.




# DIRECTORS' DECLARATION

1. In the opinion of the directors of PaperlinX Limited ('the Company'):
  - (a) the Financial Statements and notes including the remuneration disclosures that are contained in sections 1-3 and sections 5-7 of the Remuneration report in the Directors' Report, set out on pages 1 to 99, are in accordance with the Corporations Act 2001, including:
    - i. giving a true and fair view of the financial position of the Company and the consolidated entity as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and
    - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (b) the remuneration disclosures that are contained in sections 1-7 of the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 Related Party Disclosures and Corporations Regulations 2001.
  - (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the controlled entities identified in Note 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 controlled entities pursuant to ASIC Class Order 98/1418.
3. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2006.

In accordance with a resolution of the directors, dated at Melbourne, in the State of Victoria, this 21st day of August 2006.



David E Meiklejohn  
Chairman



Thomas P Park  
Managing Director

# INDEPENDENT AUDIT REPORT TO THE MEMBERS OF PAPERLINX LIMITED

## Scope

### **The financial report, remuneration disclosures and directors' responsibility**

The financial report comprises the income statements, statements of recognised income and expense, balance sheets, statement of cash flows, accompanying notes 1 to 45 to the financial statements and the directors' declaration for both PaperlinX Limited (the 'Company') and PaperlinX Limited and its Controlled Entities (the 'Consolidated Entity'), for the year ended 30 June 2006. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

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

The Remuneration report also contains information in section 4 not required by Australian Accounting Standard AASB 124 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 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. The directors are responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 First-time Adoption of Australian equivalents to International Financial Reporting Standards. The directors are also responsible for the remuneration disclosures contained in the directors' 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 that the remuneration disclosures comply with AASB 124. 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, Australian 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 Australian Accounting Standard AASB 124.

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

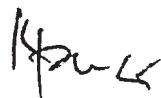
- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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:

- (1) the financial report of PaperlinX Limited is 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 2006 and of their performance for the financial year ended on that date; and
    - ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - b) other mandatory financial reporting requirements in Australia; and
- (2) the remuneration disclosures that are contained in sections 1 to 3 and sections 5 to 7 of the remuneration report in the directors' report comply with Australian Accounting Standard AASB 124 Related Party Disclosures.



KPMG



Peter Jovic  
Partner

Melbourne  
21 August 2006

# CORPORATE DIRECTORY

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# PaperlinX

## **FULL FINANCIAL REPORT 2006**

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