2013 PaperlinX Annual Report

Forward Looking Statements

Certain statements in this Annual Report relate to the future, including forward looking statements relating to PaperlinX's financial position and strategy. These forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or achievements of PaperlinX to be materially different from future results, performance or achievements expressed or implied by such statements. Neither PaperlinX nor any other person gives any representation, assurance or guarantee that the occurrence expressed or implied in any forward looking statements in this document will actually occur and you are cautioned not to place undue reliance on such forward looking statements. Subject to any continuing obligations under applicable law or any relevant listing rules of the Australian Securities Exchange, PaperlinX disclaims any obligation or undertaking to disseminate any updates or revisions to any forward looking statements in this document to reflect any change in expectations in relation thereto or any change in events, conditions or circumstances on which any such statement is based.

PaperlinX is a leading merchant of paper and diversified materials, including industrial packaging, sign and display and graphic supplies.

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Chairman's message

Your new Board has taken a 'hands-on' approach and acted with urgency to drive a business transformation programme at PaperlinX that is beginning to yield results. The transformation programme is focused on fundamental culture change, recalibrating the paper business and driving the growth of diversified products to offset the decline in paper. The immediate priorities in achieving this include accelerating restructuring to resize the Group's cost base and addressing underperforming businesses in UK and Continental Europe.

Challenges continued this year as the Group faced ongoing tough economic conditions and a paper market that continues to experience unprecedented declines in demand, due to the inevitable impact of new technologies.

Results and performance

Our results in 2013 are moving in the right direction from those of 2012, although they are still reflective of a business undergoing transformation.

We have had to make hard decisions and undertake aggressive restructuring in UK, Netherlands and Germany in a bid to improve unprofitable businesses. Across the Group, FTEs were reduced by 11.8 per cent. Pleasingly, however, our efforts are forecast to result in permanent cost savings of $35–40 million per year from FY2014.

We have completed the extension of key lending arrangements both in Europe and New Zealand and have implemented significant new facilities across five geographies in Continental Europe, which will provide us with increased liquidity and flexibility.

We moved to rebrand over 20 businesses in Europe and UK to one name, 'PaperlinX', to reduce complexity for customers and costs from duplication, while also stimulating a cultural shift in this region.

We are continuing to develop our diversified businesses in both Packaging and Sign and Display as our commercial print business continues to decline, and we are realigning business structures to facilitate further growth in this area. Total gross margin in the diversified business improved in all regions except Canada. During the year, we made two small acquisitions: Canterbury Packaging in New Zealand and a sign and display business, Cadorit, in Sweden.

Capital structure update

At the 2012 Annual General Meeting, we announced the formation of a working committee to deal with all matters associated with the PaperlinX Step-Up Preference Securities (Hybrids). It is the Board's belief that a simplification of the capital structure is fundamental to unlocking value for both PaperlinX ordinary shareholders and Hybrid securityholders. Consequently, after considering a number of alternatives, we are now exploring a potential scrip based merger between the Company and the PaperlinX SPS Trust, the vehicle that issued the Hybrids. The Company has appointed Moelis & Company as financial adviser and has been in preliminary discussions with The Trust Company, the responsible entity of the PaperlinX SPS Trust. These discussions are preliminary and non-binding.

The rationale for exploring a possible transaction stems from the complex, sub-optimal equity ownership and capital structure relationship that exists between PaperlinX ordinary shares and the Hybrids and its impact on the value proposition for all stakeholders. Notably, addressing the Hybrids would:

- deliver a transparent capital structure;
- accelerate the Company's ability to successfully implement an operation turnaround and introduce company transforming initiatives;
- facilitate participation in potential corporate activity; and
- improve confidence among key stakeholders, including customers, suppliers, employees and financiers.

We will keep you apprised of our progress.

New Board and executive

The composition of the Board and senior management team has changed significantly to reflect the different scale and needs of the business, which now operates in 20 countries, with a less centralised focus and lower cost structure.

Consequently, our approach to remunerating senior management has shifted. Since taking the somewhat unusual step of voting against the FY2012 Remuneration Report produced by the former Board of Directors, culminating in a first strike, the new Board has sought to recalibrate senior executive remuneration to more appropriately reflect the Company's scale, complexity and profitability. We have introduced a deferred equity component to the Short Term Incentive Plan to generate ownership amongst our most senior team members and to create alignment with shareholder interests.

I would like to thank Mike Barker for his contribution and leadership as Chairman during the transition of our new Board. His insight and financial acumen has been invaluable and paves the way for his new responsibilities as Chairman of the Audit Committee and Remuneration and HR Committee.

Andrew Price was appointed an Executive Director in November 2012 and will continue to be based in Europe to drive restructuring efforts there. Andrew brings 30 years' experience in the paper, print and supply chain fulfilment industries. He is passionate about transforming the PaperlinX business, and I acknowledge his efforts to resolve the issues facing the Group.

In concluding, I would also like to thank our employees for their contribution and continued commitment as we transform the Group's merchanting platform back to a sustainable business. The Board is listening to shareholders' and other stakeholders' views and believes it has the support for its business transformation programme. We are confident that this programme will be completed more quickly if we can simplify the Company's capital structure. There are enormous opportunities for this business if that objective can be achieved. In the meantime, we will continue to strive to deliver on our plans to return to profit.

Robert Kaye SC
Chairman

Chief Executive Officer's message

I am pleased to report that we are beginning to see progress in the Company's performance, as we have driven costs out of our paper merchant businesses around the world, whilst investing in our Sign and Display and Packaging businesses to drive growth. We have continued to reduce corporate costs and further streamlined our management team over the year as part of this transformation.

The ongoing decline in our established paper markets is anticipated to continue, despite some background economic improvement, as paper is partially substituted by digital communication and advertising. Whilst we have seen rationalisation amongst merchants in both North America and Australia recently, we have only seen very limited consolidation in Europe, and this market remains highly competitive, and therefore the prime focus of our restructuring activity and diversified organic growth.

Our statutory loss after tax for 2013 of $(90.2) million includes non-cash charges and is a significant reduction on the $(266.7) million loss in 2012. Our underlying loss after tax of $(39) million compares with a prior period loss of $(54.4) million, and we believe the plans we have in place for continued restructuring and growing our diversified businesses will deliver marginal underlying EBIT profitability in 2014.

Our response has been to develop a number of initiatives to transform PaperlinX, which include presenting a single brand to the market, taking advantage of economies of scale through better utilisation of our existing infrastructure, including logistics capability, and providing a broader value-added range of products focused on growth areas, including packaging and visual technology/sign and display solutions.

The Sign and Display and Packaging markets remain more attractive businesses in terms of margins relative to paper and growth potential. While we completed two small diversified acquisitions, namely Canterbury Packaging in New Zealand and Cadorit in Sweden, in the last year, our current plan is to grow this business stream organically, as we have had proven success in the UK, Poland and Spain in 2013.

Our worldwide restructuring activities have been extensive, as we seek to improve unprofitable businesses, particularly in Europe. These restructuring activities in 2013 are forecast to deliver permanent cost savings of $35–40 million from 2014. In addition, we have rebranded our UK and European businesses to the 'PaperlinX' name as part of these transformation efforts.

We have fundamentally altered the paper procurement strategy in our businesses in Europe and the UK by removing proprietary paper brands and streamlining our relationships with paper mills. Additionally, a new team has been established in Shanghai, China, that will act as both a merchanting group and as an Asian procurement hub.

Additional restructuring projects we are spearheading to reduce costs and improve efficiencies include the redesign of our logistics and warehousing footprint in Europe and the review of all leases and property commitments across all countries.

We completed the extension of key lending arrangements in the UK, Netherlands and New Zealand in 2013 and have also implemented significant new facilities in Germany, Poland, Austria, Denmark and the Czech Republic. These initiatives provide further liquidity and lending flexibility and enable us to deliver our current business plans.

I would like to thank all of our employees who have worked with us through another year of turbulent change and continued to provide a high level of service to our customers, which is essential to success in this industry. They also deserve recognition for their contribution to a very positive safety performance across all our sites this year. I would also like to thank our suppliers for their support of our partnership.

This year's result clearly demonstrates we are delivering on our turnaround strategy. The paper market, however, continues to decline, and ongoing restructuring will be a feature of the year ahead alongside efforts to grow our diversified businesses. We will continue to drive our plans to further improve the business in 2014.

Dave Allen
Chief Executive Officer

Operating and Financial Review

Principal business activities

PaperlinX is a leading merchant of paper and diversified materials, including packaging, sign and display and graphic supplies.

During the year, we operated in 20 countries, with more than 4000 employees and sales revenue of $2.8 billion. We link customers and suppliers through an international network of locally focused operating companies. In Canada, Australia, New Zealand and Asia, we operate as Spicers. In Europe, our businesses are branded 'PaperlinX'.

We source, stock, market and distribute a broad range of quality products to customers, while adding value through excellent service, knowledge and efficient supply chains and logistic platforms. Around the world, we work hard to ensure that our product ranges continue to meet the changing needs of our customers. We have extended our product range beyond the traditional realm of the fine paper merchant, encompassing diversified products such as:

- Industrial Packaging ensures goods are housed safely during transit and arrive in perfect condition. This segment includes a wide range of products such as stock and made-to-measure cartons, bubble-roll, stretch-film, polythene, packing tapes and specialist papers.
- Sign and Display hardware and materials support a range of communication functions, including corporate signage, point-of-sale and retail, interior fit-outs and vehicle graphics. Our product ranges include hardware such as wide and grand format printers and finishers as well as a vast range of inks, roll media and rigid media.
- Graphic supplies and systems offer customers a comprehensive range of consumable products for traditional pressrooms and advanced digital technology. Products range from cleaning supplies and plates for pre-press, blankets inks and varnishes for press rooms through to post press bindery, cutting and drilling supplies.

We source our products with consideration of environmental and social criteria as specified in our Sustainable Supply Chain Policy. Many of our operations have FSC or PEFC chain-of-custody certifications, and we are committed to providing a wide range of products with good environmental credentials.

Strategy

Operational

The business transformation programme at PaperlinX is focused on fundamental culture change, recalibrating the paper business and driving the growth of diversified products to offset the decline in paper. In the immediate term, priorities include accelerating restructuring projects to resize the cost base of the Group and to address underperforming businesses in UK and Continental Europe. Driving growth of diversified products is through a primarily organic approach, leveraging existing customer relationships, logistics and infrastructure platforms, and resourcing the divisions with skilled team members. Selective bolt-on acquisitions will also be made where appropriate.

Capital restructure

The Company is committed to simplifying the capital structure of the Group and has entered preliminary discussions with The Trust Company, the responsible entity of the PaperlinX SPS Trust, to explore a potential scrip-based merger between the Company and the PaperlinX SPS Trust, the vehicle that issued the PaperlinX Step-Up Preference Securities (Hybrids). This strategy is fundamental to unlocking value for both PaperlinX ordinary shareholders and Hybrid securityholders.

The rationale for exploring a potential scrip-based merger stems from the complex, sub-optimal equity ownership and capital structure relationship that exists between PaperlinX and the Hybrids and its impact on the value proposition for all stakeholders. It is the Board's belief that a simplification of the capital structure is fundamental in unlocking value for both PaperlinX ordinary shareholders and Hybrid securityholders. Notably, addressing the Hybrids would:

- deliver a transparent capital structure;
- accelerate PaperlinX's ability to successfully implement an operational turnaround and introduce company transforming initiatives;
- facilitate participation in potential corporate activity; and
- improve confidence among key stakeholders, including customers, suppliers, employees and financiers.

Significant changes

Following are the changes in the state of affairs of the Group during FY2013 that have significantly or are expected to significantly affect the operations or the results of the operations.

Governance

- Since the previous Annual Report, the composition of the Board and the Senior Management team has changed significantly. These changes include the appointment of Mr Andrew Price to the role of Executive Director in November 2012. Mr Price was appointed to this role to expedite and oversee the restructuring activities in Europe and since his appointment has been based in Europe. He has also assumed accountability for procurement activities across the Group.
- PaperlinX's Remuneration Report was voted down at the AGM in November 2012. The new Board voted against the Remuneration Report produced by the former Board of Directors and 56 per cent of votes at the AGM did not support the Remuneration Report. There have been subsequent changes to the Company's approach to remunerating senior executives to better reflect the size and complexity of PaperlinX and to create alignment with shareholder interests.

Acquisition and disposal of assets

- The previously announced sale of the Italian and US businesses was completed in early July 2012.
- In July 2012, the Group announced the sale of operations in Eastern Europe (Slovakia, Hungary, Slovenia, Croatia and Serbia) to the Heinzel Group for €19.6 million. The sale of these smaller European businesses meant the remaining European businesses operate in sizable markets with significant market positions and the opportunity to grow in diversified products. At the same time the sale of the loss-making operations in South Africa to local management for a loss of approximately A$2.0 million against book value was also announced. The sale of the South African operations was completed in September 2012 and in November 2012 the sale of the Eastern Europe operations to the Heinzel Group was also completed.
- The total proceeds received in the year from these divestments were $82.0 million.
- In October 2012, the Company acquired Canterbury Packaging in New Zealand. The acquisition represented a small but significant step in the diversified products strategy for the profitable New Zealand business by creating a building block to leverage the existing Spicers footprint and infrastructure nationally.

- In June 2013, the Danish business announced the acquisition of Cadorit i Borås AB in South West Sweden. Cadorit specialises in digital solutions for the sign and print industry and its acquisition supports the strategy to expand revenue streams beyond traditional commercial print.

Restructuring and operational changes

- The business has continued to implement a significant restructuring programme to right size the cost base to meet current market demand. Across the Group, total headcount has been reduced by 11.8 per cent.
- Rebranded over 20 businesses in Europe and the UK to one brand 'PaperlinX', reducing complexity for customers and costs from duplication.
- To channel our focus and capital into growth areas, the European operating model has evolved to product-based business units rather than being limited by country-based structures. This approach realigns the cost base in areas facing structural decline. The new product approach has been implemented in Commercial Print, Packaging and Sign and Display/Visual Technology Solutions across Europe.
- In June 2013, an operation was established in Shanghai, China to act as a sales business and an Asian procurement hub.

Hybrid update

- A working committee was set up to deal with all matters associated with the PaperlinX Step Up Preference Securities (Hybrids), with representatives from the Board, management and advisers. In August 2013, the Group announced it was committed to simplifying the capital structure of the Company and was exploring a potential scrip-based merger between PaperlinX and the PaperlinX SPS Trust, the vehicle that issued the Hybrids.
- No SPS distributions were paid at 31 December 2012 or 30 June 2013.

Funding

- During the year, the Group's largest funding facility in Europe was extended to September 2014.
- Various existing funding facilities of the Group were extended during FY2013.
- New lending facilities were obtained during the second half of the year in Benelux, Poland, Austria and the Czech Republic.
- Subsequent to the year end:
  - the UK's existing trade receivables funding facility was extended to May 2015;
  - new facilities were established in Germany and Denmark;
  - our largest lending facility in Europe was amended to provide greater flexibility.

2013 full year financial results

PaperlinX financial results are reported under International Financial Reporting Standards (IFRS). The non-IFRS measures used throughout this Operating and Financial Review are defined on page 9.

PaperlinX reported a statutory loss after tax of $(90.2) million for the year ended 30 June 2013 compared to a loss of $(266.7) million for the prior corresponding period (pcp).

The key features of this result are:

- Continuing revenue of $2.8 billion, down from $3.2 billion pcp due to weaker trading conditions. On a like for like basis, after adjusting for differences in foreign currency translations, revenue was down 12 per cent.
- Underlying loss after tax (1) for the period was $(39.0) million compared to $(54.4) million pcp.
- Continuing underlying EBIT loss (1) of $(21.4) million compared to $(27.2) million for the pcp. Notably, the second half of this financial year delivered an underlying EBIT loss (1) of $(7.7) million, compared to a loss of $(17.6) million pcp.
- Strong performances in our Canadian, Australian and New Zealand businesses.
- Restructuring charges of $26.0 million after tax are in line with plan. Extensive restructuring initiatives reduced FTEs by 11.8 per cent across the Group.
- Negative operating cash flow of $(42.1) million was largely due to the trading loss and payments for restructuring that were only partially offset by an improved working capital position. The working capital position improved in the second half due to continued focus on inventory levels.
- Impairment charges of $25.1 million after tax were incurred in the first half of this year and relate to European assets.
- Lower net debt of $122.7 million versus prior year of $147.8 million primarily reflects the benefit of proceeds from the sale of businesses in the first half of this year that were partially offset by cash trading losses, additional restructuring and unfavourable movements on foreign currency translation of foreign domiciled cash and debt.
- Completed the extension of key lending arrangements both in Europe and New Zealand and amended facilities in the UK and the Netherlands to improve flexibility.
- Implemented significant new facilities during the year in Benelux, Poland, Austria and the Czech Republic to deliver further liquidity.

Financial position

Net assets reduced from $447 million in the pcp to $362 million. This reduction is largely due to the impact of the net loss in the period which included additional restructuring cost of $26.0 million and asset impairments in our European operations of $25.1 million. In addition, the Group's defined benefit pension plan deficit increased by $20.2 million to $126.1 million in the year.

The net assets were favourably impacted from the translation of foreign operations net assets into Australian dollars given the significant depreciation of the Australian dollar in the fourth quarter of this financial year. The movement since 31 December 2012 was less significant given a reduction in losses in the second half of the year, no additional asset impairments and the majority of the favourable currency translations occurring in this period.

Net tangible assets of $251.3 million were $60.9 million lower than the pcp due to the current trading losses and the unfavourable movements in pension deficits. These were partially offset by a favourable currency movement.

Working capital balances finished the year at $504.0 million. This represented a small increase of $25.0 million from the pcp but $24.3 million lower than December 2012 ($54.9 million in constant currency (1)). This second half improvement shows a continued focus on ensuring inventory levels reflect the current demand for our products.

Net operating cash outflow of $(42.1) million was largely influenced by trading losses and a positive movement in working capital of $22.9 million. Additional cash inflows of $82.0 million from the asset sales of the US, Italy, the Eastern European businesses and South Africa were received in the first half of this year.

(1) Non-IFRS measure.

Operating and Financial Review continued

Capital expenditure of $12.1 million in the year was down compared to pcp of $14.0 million. Depreciation and amortisation expense of $12.8 million was 36 per cent lower than pcp due to lower capital expenditure payments and impairments.

Net debt of $122.7 million decreased from $147.8 million at June 2012, due to asset sale proceeds of $82.0 million being largely offset by trading losses and payments relating to restructuring programs. The weakening Australian dollar also negatively impacted the translation of foreign domiciled cash and debt balances. Net debt improved in the second half of this financial year by $15.9 million due to a strong reduction in working capital that was partially offset by the negative currency translations.

Net continuing interest expense of $11.2 million was 18 per cent lower than pcp reflecting the benefits of the asset sales and lower working capital. This is expected to be slightly higher next year due to higher daily debt positions from additional restructuring payments in the first half of the year and unfavourable currency translations.

Dividend and distributions

There was no dividend paid on the Ordinary Shares for the year ended 30 June 2013.

No distributions relating to the PaperlinX Step-Up Preference securities were paid in the year ending 30 June 2013.

Summary financials

Results for the year ended 30 June 2013

The following table shows statutory earnings and sales revenue by segment in Australian dollars. Segment results exclude significant items, but include the benefits arising from restructuring activities. Included is a reconciliation of underlying earnings [(1)] and sales revenue. The difference between statutory results and underlying results [(1)] is the loss on sale of businesses, impairment of non-current assets, restructuring costs, the write-back of provisions relating to the closure of the Tasmanian operations and in the pcp, the valuation impact of the currency option.

	Earnings		Sales revenue	
For the year ended 30 June	**2013 $m**	**2012 $m**	**2013 $m**	**2012 $m**
Europe	(34.3)	(23.6)	1,953.7	2,333.8
Canada	13.2	8.3	401.5	442.1
Australia, New Zealand and Asia	13.0	10.9	426.6	472.2
Unallocated	(11.5)	(16.4)	(3.9)	(4.9)
Total continuing operations	(19.6)	(20.8)	2,777.9	3,243.2
Discontinued operations [(2)]	2.7	8.6	27.8	870.0
Loss before net finance costs, tax, interest and significant items	**(16.9)**	**(12.2)**		
Net other finance costs	(1.8)	(7.0)		
Loss before interest, tax and significant items	**(18.7)**	**(19.2)**		
Significant items (pre-tax)	(51.7)	(214.0)		
Loss before interest and tax	**(70.4)**	**(233.2)**		
Net interest	(12.3)	(18.3)		
Loss before tax	(82.7)	(251.5)		
Tax relating to pre-significant items	(8.0)	(16.9)		
Tax relating to significant items	0.5	1.7		
Tax expense	(7.5)	(15.2)		
Group eliminations			–	(0.1)
Statutory loss for the period/Total revenue	**(90.2)**	**(266.7)**	**2,805.7**	**4,113.1**
Adjust for following (gains)/losses included in statutory profit:				
Loss on the sale of controlled entities	3.4	62.4		
Impairment of assets held for sale	–	1.7		
Impairment of property, plant and equipment	–	4.9		
Impairment of intangible assets	25.1	119.3		
Restructuring costs	26.0	28.4		
Write-back related to closure of Tasmanian operations	(3.3)	(1.4)		
Currency option	–	(3.0)		
Underlying loss for the period [(1)]	**(39.0)**	**(54.4)**		
Net interest	12.3	18.3		
Tax relating to pre-significant items	8.0	16.9		
Underlying EBIT [(1)]	**(18.7)**	**(19.2)**		
Less:				
Discontinued underlying EBIT [(1)(2)]	2.7	8.0		
Continuing underlying EBIT [(1)]	**(21.4)**	**(27.2)**		

(1) Non-IFRS measure.

(2) Discontinued operations reflect the US and Italy operations sold in FY2012, the South Africa, Croatia, Hungary, Serbia, Slovakia and Slovenia operations sold in FY2013 and the closure costs associated with Tas Paper operations, including the remaining remediation costs and realisation on asset sales.

Balance Sheet		As at 30 June 2013	As at 31 December 2012	As at 30 June 2012
Current assets	$m	1,003.2	1,022.2	1,103.9
Non-current assets	$m	158.1	163.4	194.8
Total assets	$m	1,161.3	1,185.6	1,298.7
Current liabilities	$m	531.5	586.0	674.8
Non-current liabilities	$m	268.1	225.2	176.7
Total liabilities	$m	799.6	811.2	851.5
Shareholders equity	$m	361.7	374.4	447.2
Key ratios				
Funds employed (net debt + net assets)	$m	484.4	513.0	595.0
Gross debt	$m	210.5	241.0	228.0
Net debt	$m	122.7	138.6	147.8
Net debt/net debt and equity	%	25.3	26.9	24.7
Net tangible assets	$m	251.3	263.3	312.2
Net working capital – continuing	$m	504.0	528.3	479.0
Net operating cash flow	$m	(42.1)	(60.8)	(62.3)
Gross profit/sales – continuing	%	19.6	19.5	19.2
Expenses/sales – continuing	%	20.7	20.7	20.2
Headcount (FTE) – continuing		4,041	4,459	4,615
Underlying earnings (1) before interest and income tax to average funds employed	%	(3.5)	(2.3)	(2.1)
Basic earnings per share	cps	(14.8)	(9.4)	(43.8)
Dividend per ordinary share	cps	nil	nil	nil

Regional performance

Europe

PaperlinX in Europe operates across 11 countries that provide a range of communication materials and diversified products to thousands of customers in the commercial print, office, packaging and display markets. The focus is a 'customer-centric approach' backed by technical support services and efficient local logistics. Sales teams have an in-depth knowledge and strong expertise in the industry.

The underlying EBIT loss (1) increased to €(27.3) million from a loss of €(17.8) million in the prior year. Revenue from continuing operations in local currency is down 12 per cent. The key drivers for this decline are a combination of market decline for paper and an anticipated loss of market share due to significant sales force restructuring.

Trading conditions in the UK, Benelux and Germany remain very weak and we have continued to restructure our European business with a reduction of over 400 FTE's in FY2013, and an additional reduction of 95 FTEs in July.

Our Sign and Display business in Europe, renamed VTS for Visual Technology Solutions, fell slightly due to a combination of the decline on retail point-of-sale and also our focus on more profitable segments of the market. During the year we acquired a small VTS business in Sweden called Cadorit i Borås AB.

Our other diversified business, Packaging, only grew slightly after strong organic growth in the UK, Poland and Spain was offset by declines in our established markets of Benelux and Denmark.

Pan-European turnaround initiatives included:

- the consolidation of all our European operating company brands under the PaperlinX brand from 1st July;
- integration of our multiple operating companies in the Netherlands and the UK into a single face to market in each country;
- moving towards a new organisational model which has borderless thinking in respect of our development plans for our three key businesses – Commercial Print, Packaging and VTS;
- a new paper procurement strategy focused primarily on using mill brands to improve marketing effectiveness and reduce inventory, and the roll-out of a new online indent desk service.

Europe		June 13 Total (2)	June 12 Total (2)	% Change
Net sales revenue	€m	**1,553**	1,759	(12)
Underlying EBIT (1)	€m	**(27.3)**	(17.8)	(53)
Underlying EBIT/sales revenue (1)	%	**(1.8)**	(1.0)	(70) bpts
Expense/sales revenue	%	**21.1**	20.3	(80) bpts
Average working capital/sales revenue	%	**19.0**	16.5	(250) bpts
Diversified revenue (gross)	€m	**386**	389	(1)
Diversified margin	€m	**109**	107	2
Diversified margin/total margin	%	**44**	38	620 bpts

(1) Non-IFRS measure.

(2) Continuing business only, excludes divested businesses.

Operating and Financial Review continued

Canada

In North America, our Spicers operation in Canada is a leading provider of fine paper as well as graphic arts, sign and display, and industrial packaging equipment and consumables through 15 distribution centres strategically located across the country. With a continued commitment to 'simplicity and delivering value', the Canadian operation is focused on the reliable delivery of respected products and solutions by locally empowered teams dedicated to the success of their customers.

Following the sale of our US business in 2012, our Canadian business delivered a very strong profit performance as a stand-alone operation with underlying EBIT (1) up from C$8.4 million to C$13.6 million.

The business saw revenue down 8 per cent, but continued to increase market share in several territories against a background of overall market volume decline. Results improved due to increased margin management, pricing stability and reducing costs.

The Canadian business continued to manage cost with a restructuring programme in the second half of the year involving a reduction in headcount of 50 FTEs and it also achieved working capital improvements during the financial year.

New paper product lines have been launched to create new opportunities in the core business, and the Graphic Arts business is building through strategic supply partnerships. New growth strategies for the diversified businesses of Packaging and Sign and Display are forecast to deliver benefits in FY2014 and logistics services are being optimised.

Reseller and retail platforms continue to be developed to penetrate paper markets beyond Commercial Print, and product and supplier strategies to optimise product mix continue to evolve.

Canada		June 13 Total	June 12 Total	% Change
Net sales revenue	C$	**414**	448	(8)
Underlying EBIT (1)	C$	**13.6**	8.4	62
Underlying EBIT/sales revenue (1)	%	**3.3**	1.9	140 bpts
Expense/sales revenue	%	**17.1**	17.1	10 bpts
Average working capital/sales revenue	%	**12.6**	13.2	70 bpts
Diversified revenue (gross)	C$	**50.6**	60.3	(16)
Diversified margin	C$	**10.5**	11.8	(11)
Diversified margin/total margin	%	**12.3**	13.6	(130) bpts

(1) Non-IFRS measure.

Australia, New Zealand and Asia

In Australia, New Zealand and Asia, PaperlinX is structured across a variety of independent operating companies, united under a single brand – Spicers. Spicers is the leading merchant group in Australia and New Zealand, with sales offices and distribution capabilities in most major cities and a focused position in Asia. By leveraging the synergies between operating companies, it maximises the benefits to each local market by way of product range, quality and availability. The focus is on Commercial Print Products, Sign and Display, Label and Packaging Materials, Industrial Supplies and Packaging, Graphic Supplies and Systems, and Logistics segments.

The Australian, New Zealand and Asian business improved underlying EBIT (1) from A$10.9 million in the pcp to A$13.0 million.

Tough trading conditions affected demand, but strong expense and margin control in Australia and New Zealand more than offset the shortfall. This included restructuring resulting in a headcount reduction of 54 FTEs over the year. The Asian business saw a significant drop in demand.

The region continued to grow its diversified business with the acquisition of Canterbury Packaging in New Zealand and also organically grew its sign and display business. In addition, a Shanghai office has recently been established to focus on both sales in China and global procurement.

The business continues to reap the benefits of moving to a single brand 'Spicers' and additional initiatives include the Spicers Xpress van service and online solutions for our customers. Costs continue to be reduced through right-sizing logistics operations.

ANZA		June 13 Total	June 12 Total	% Change
Net sales revenue	A$m	427	472	(10)
Underlying EBIT (1)	A$m	13.0	10.9	19
Underlying EBIT/sales revenue (1)	%	3.0	2.3	70 bpts
Expense/sales revenue	%	19.0	18.3	(70) bpts
Average working capital/sales revenue	%	22.3	21.3	(100) bpts
Diversified revenue (gross)	A$m	36.5	32.6	12
Diversified margin	A$m	10.2	7.9	29
Diversified margin/total margin	%	11.3	8.7	260 bpts

(1) Non-IFRS measure.

Non-IFRS information

PaperlinX financial results are reported under International Financial Reporting Standards (IFRS). The tables and analysis provided in this Operating and Financial Review also include certain non-IFRS measures, including underlying statutory profit/(loss) after tax, underlying Earnings Before Interest and Tax (EBIT), continuing underlying EBIT, discontinued underlying EBIT and constant currency. These measures are presented to enable understanding of the underlying performance of the Company without non-trading items. Non-IFRS measures have not been subject to audit or review.

The non-IFRS measures used throughout the Operating and Financial Review are defined as:

- Underlying statutory profit/(loss) after tax: statutory profit/(loss) after tax before impairment of non-current assets, loss on sale of controlled entities, restructuring costs, write-back of provisions relating to the discontinued Tasmanian operations and, in the pcp, valuation gain/(loss) on currency option.
- Underlying Earnings Before Interest and Tax (EBIT): Underlying statutory profit/(loss) before interest and tax.
- Continuing Underlying EBIT: Underlying statutory profit/(loss) before interest and tax for the continuing operations.
- Discontinued Underlying EBIT: Underlying statutory profit/(loss) before interest and tax for the discontinued operations.
- Constant currency: constant currency assumes current and prior period earnings of foreign operations are translated at prior year exchange rates.

Material business risks (financial and non-financial)

As part of the PaperlinX risk management process, with the assistance of the Internal Audit and Risk Management team the risk profile of the Group is reviewed and updated regularly (on an annual basis at a minimum) by management and provided to the Audit Committee for their consideration and approval. The risk profile update process is based primarily on interviews with a range of members of the senior management team, as well as consideration of other external and internal information relevant to the Group's risk profile.

The most recent update of the Company's risk profile was completed in August 2013, against a backdrop of major changes in the business over the last year, including substantial changes at the Board and executive levels, continued challenging trading conditions, and a number of business restructuring, cost reduction and change programs. In addition to identifying more obvious significant risks, management's consideration of the PaperlinX risk profile seeks to recognise any less apparent risks that could potentially be significant were they to materialise.

Following is a summary of the most significant risks facing the business, as assessed by this recent update of PaperlinX's risk profile.

1. Structural decline in core markets

This relates to the declining consumption of paper due to factors including changing technologies and consumer preferences resulting in the core product sector being impacted by falling consumption and/or pricing.

Existing key business processes and responses to mitigate this risk include product diversification into non-paper segments to reduce exposure, appropriately managing inventory levels, rapid restructuring/cost reductions and strategic relationships with suppliers.

2. Execution of diversification strategy

There is a risk that the diversification of the Group's product base to reduce reliance on 'core' paper products is either not successful or the level of growth in diversified product offering is not sufficient to offset the loss of margin from ongoing reduction in paper volumes.

Existing key business processes and responses to mitigate this risk include the optimisation of diversified inventory, leveraging existing customer relationships via cross selling, global coordination between diversified segment management teams, recruitment of specialist managers and team members, and increasing team member specialisation.

3. Alignment to strategic direction and pace of change

If the Group does not understand, support, follow and implement strategic change and restructuring rapidly and effectively, there are risks that improvement in business performance may not materialise sufficiently and resources and capital may be used in a sub-optimal manner that does not deliver best return to the Group.

Existing key business processes and responses to mitigate this risk include embedding the PaperlinX Core Operating Principles and Code of Conduct, clear communications on strategic direction and change in the business to managers and team members, a recently commenced PaperlinX 'innovation' initiative, and implementing goal setting and performance management processes, including enforcement of management accountability on delivery of key initiatives. Tracking measures to monitor alignment to business strategy include building Key Performance Indicators into budgets and the Short Term Incentive Program.

4. Availability and use of cash

Pressures on the availability of cash, which may arise as a result of adverse effects from the other significant risks or from such matters as working capital pressures, continuation of existing funding lines and/or availability of new funding, could result in liquidity risks and reductions in the ability of the business to invest, innovate and respond to market conditions and opportunities. Effective use of any cash available is also critical to the financial success of the PaperlinX business.

Existing key business processes and controls to mitigate this risk include reporting on cash flow and liquidity at operating entity and group levels, robust budgeting and re-forecasting processes, processes to manage optimal inventory levels, and credit management processes. Additional activities include continuous review and monitoring of financing lines and associated covenants and refinancing options, such as the recent establishment of a number of new local financing facilities in a number of countries in Europe, continuous review of cash requirements and availability levels, and Board level review and approval of material capital expenditure requests.

Directors of PaperlinX

Robert Kaye SC
LLB (Syd), LLM (Cambridge) (Hons)
Independent Non-executive Director (Chairman)

Appointed a Director in September 2012 and Chairman effective 28 March 2013. Robert was admitted to legal practice in 1978 and employed as a solicitor at Allen Allen & Hemsley Solicitors. Thereafter, he pursued his legal career at the NSW Bar and was appointed Senior Counsel in 2003, practising in commercial law. He has been involved extensively in an array of commercial matters, both advisory and litigious in nature, and served on a number of NSW Bar Association committees, including the Professional Conduct Committee. He has also served as a director for various private companies. In the conduct of his practice as a barrister, he has acted for many financial institutions and commercial enterprises, both public and private, and given both legal and strategic advice. He has had significant mediation experience and been involved in the successful resolution of complex commercial disputes. He is Chairman of the Nomination & Governance Committee. He is a director of Magontec Limited (effective 16 July 2013).

Michael (Mike) Barker
MA (Oxon), FIAA, FIA
Independent Non-executive Director

Appointed a Director in September 2012, he held the position of Chairman from 1 October 2012 to 28 March 2013. Mike is an actuary, with a career background in institutional investment management. He has served as a non-executive director on a number of Boards in the financial and property sectors. Mike's last executive role was director of NatWest Investment Management in London from 1994 to 1996, responsible for Marketing and Sales in Europe and Asia. Prior to that he held senior positions in Sydney, Australia, with County NatWest Investment Management (1986 to 1994) and Aetna Life and Casualty (1968 to 1986). Mike has been extensively involved with the Actuaries Institute in the areas of education and governance and was elected a Life Member in 2007. Previously, a director of Metlife Insurance Ltd (1 May 2001 to 31 December 2012). He is Chairman of the Audit Committee and the Remuneration & HR Committee.

Mr Andrew Price
Executive Director

Initially appointed a Director in September 2012 and then appointed to Executive Director in November 2012. Andrew has 30 years of experience in the paper, print and supply chain fulfilment industries. In his early career in Australia, he held various senior management roles at Spicers Paper. In 1998, he established Stream Solutions, which provided the Australian print industry with an internet-based order fulfilment capability. Stream Solutions was sold to Toll Group in 2007, but Andrew continued to manage the company until 2011.

Senior management

Dave Allen

Chief Executive Officer

Dave was appointed as PaperlinX's Chief Executive Officer, effective 18 December 2012, after acting as the Interim Chief Executive Officer since August 2012. He joined PaperlinX in 2004, and previously served as Managing Director of Robert Horne Group in the UK and subsequently as Executive Vice President of PaperlinX with responsibility for the UK, Ireland, Spain and Canada. Dave's earlier background was in corporate and product strategy, sales and marketing and general management in a range of sectors, including abrasives, industrial diamonds and automotive with Saint-Gobain, Unicorn International and the Rover Group.

Joost Smallenbroek

Chief Financial Officer

Joost was appointed Chief Financial Officer for the PaperlinX Group, effective 18 December 2012. Joost, a resident of The Netherlands, joined PaperlinX in 2004 and was previously Corporate Finance Director for PaperlinX Europe, leading Treasury, Tax, and Merger & Acquisition functions in that area. He was previously an international tax adviser with Coopers and Lybrand (now PwC) and Ernst & Young.

Andy Preece

Executive General Manager, Australia, New Zealand & Asia

Andy was appointed Executive General Manager, Australia, New Zealand and Asia in July 2012. Previously, he was appointed Group General Manager Australia in 2011, and prior to that was General Manager, Spicers New Zealand from 2007. He originally joined the Company in 2001 as the New Zealand Manager for Australian Paper, before joining Spicers New Zealand as the National Operations Manager. His market experience spans some 20 years, originating in the UK carton industry.

Cory Turner

President, Canada

Cory was appointed to his current role of President, Spicers Canada, in May 2011. After joining Coast Paper in 1994, Cory held sales roles in Western Canada before relocation to the United States in 2003. Since that time, Cory has undertaken a number of leadership roles, including Regional Manager Northern California, and upon relocation back to Canada in 2009 as General Manager and then Vice President Sales.

Directors' report

The Directors of PaperlinX Limited present their report for the year ended 30 June 2013.

Directors

The names of the Directors of PaperlinX Limited ('the Company') in office at any time during or since the end of the financial year are:

Current Directors:

Mr Robert Kaye SC (Independent Non-executive Director) appointed on 27 September 2012 and then appointed as Chairman on 28 March 2013.

Mr Andrew Price appointed on 1 September 2012 as an Independent Non-executive Director and then appointed as an Executive Director on 14 November 2012.

Mr Michael Barker (Independent Non-executive Director) appointed on 27 September 2012 and was the Chairman between 1 October 2012 and 28 March 2013.

Past Directors:

Mr Toby Marchant (Managing Director) resigned on 31 July 2012.

Mr Harry Boon (Independent Non-executive Director) resigned on 27 September 2012.

Mrs Lyndsey Cattermole, AM (Independent Non-executive Director) resigned on 27 September 2012.

Mr Anthony Clarke (Independent Non-executive Director) resigned on 27 September 2012.

Mr Michael McConnell (Independent Non-executive Director) resigned on 14 November 2012.

Details of the qualifications, experience and special responsibilities of each of the Directors are set out on page 10 of this Annual Report.

Operating and Financial Review

The Operating and Financial Review is set out on pages 4 to 9 and forms part of the Directors' report.

Dividends

The Company did not pay any dividends on its ordinary shares during the financial year.

Environmental regulation

PaperlinX's environmental activity relating to the decommissioning of its previous manufacturing sites in Tasmania to a standard required by the Tasmanian Environmental Protection Authority (EPA) has completed.

The remaining works to remediate the Cell plant area of the Burnie site was completed to the satisfaction of the EPA in October 2012. Accordingly, all Environmental Protection Notices for the site were removed and the EPA's environmental regulation of the activities on the Burnie site has ceased.

As advised in the 2012 Annual Report, all Environmental Protection Notices for the Wesley Vale were lifted in 2011. Ongoing routine maintenance of asbestos material on that site continues.

Matters subsequent to the reporting date

Subsequent to 30 June 2013, except for matters disclosed in Note 41 of the consolidated financial statements, no matter or circumstance of a material and unusual nature has arisen (other than those occurring as a result of the normal volatility of business) that has significantly affected or may significantly affect:

(a) PaperlinX operations in future financial years; or

(b) the results of those operations in future financial years; or

(c) PaperlinX state of affairs in future financial years.

Indemnities and insurance

Under its Constitution, the Company indemnifies each Officer (including Directors) of the Company or subsidiary, to the relevant extent (as permitted by law) against any liability incurred by the Officer in or arising out of the conduct of the business of the Company or its subsidiary or arising out of the discharge of their duties as an Officer.

The Company has an agreement with each of the Directors of the Company at the date of this Report, and certain present and former Officers of the Company, indemnifying those Officers against liabilities to any person other than the Company or a related body corporate that may arise from their acting as Officers of the Company notwithstanding that they may have ceased to hold office, except where the liability arises out of conduct involving a lack of good faith or unlawful activity.

The Company has in place Directors' and Officers' liability insurance. The premium paid for this cover insurance is determined by the insurance market and is considered reasonable given the circumstances of the Company.

Details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' Insurance, are not disclosed because such disclosure is prohibited under the terms of the contracts.

Company Secretaries

Michelle Wong, Dip. Applied Corporate Governance, ICSA (UK), ACIS, ACS, joined PaperlinX Limited in 2006, and was appointed the Company Secretary on 1 July 2012. Michelle has more than 15 years' experience in company secretarial and governance functions.

Wayne Johnston, B. Bus (Acc), ASCPA, joined PaperlinX in 2009, and was appointed as an additional Company Secretary of PaperlinX Limited on 1 July 2012. He is the Deputy Chief Financial Officer and Executive General Manager Corporate Services.

Directors' meetings

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year are detailed in the table below.

	Board of Directors		Audit Committee		Nomination & Governance Committee		Remuneration & HR Committee	
Directors	A	B	A	B	A	B	A	B
Robert Kaye SC (1)	17	17	4	4	3	3	3	3
Andrew Price (2)	18	18	4	4	3	3	3	3
Michael Barker (1)	17	17	4	4	3	3	3	3
Toby Marchant (3)	2	2						
Harry Boon (4)	5	5	3	3	1	1	1	1
Lyndsey Cattermole (4)	5	5	3	3	1	1	1	1
Anthony Clarke (4)	5	5	3	3	1	1	1	1
Michael McConnell (5)	9	8	3	3	2	2	2	2

A – Number of meetings held during the time the Director held office or was a member of the relevant committee during the year.
B – Number of meetings attended.
(1) Appointed on 27 September 2012.
(2) Appointed on 1 September 2012.
(3) Resigned on 31 July 2012.
(4) Resigned on 27 September 2012.
(5) Resigned on 14 November 2012.

Directors' interests

The relevant interest of each Director in the share capital of PaperlinX as at 30 June 2013 is as follows:

	Fully paid ordinary shares
Robert Kaye SC	615,000
Andrew Price (1)	6,660,372
Michael Barker	600,000

(1) Mr Price's entitlement to 35 million options (announced in February 2013) is subject to shareholders' approval at the 2013 Annual General Meeting.

Non-audit services

In addition to the statutory audit work during the year, the Company's auditors, KPMG, have provided certain non-audit services, being taxation services totalling $19,000, assurance services totalling $61,000 and advisory fees totalling $114,000. Details are provided in Note 38 of the consolidated financial statements.

PaperlinX has strict criteria relating to the engagement of the auditor for non-audit services. The Directors have reviewed the nature of non-audit services being provided, as well as their cost, and believe the provision of these services does not impair the integrity and objectivity of the auditors and is compatible with the general standard of independence for auditors imposed by the Corporations Act. In the current year, PaperlinX has also engaged the services of other accounting firms to perform a variety of non-audit assignments.

Extension of the Auditor's Lead Partner role

Mr Paul McDonald played a significant role in the audit of PaperlinX for five successive financial years since 30 June 2009. The Audit Committee considered and recommended the extension of Mr McDonald's term to the sixth financial year. To comply with regulatory requirements, the Board passed a resolution to approve the extension of Mr Paul McDonald's role as the lead partner in the audit of PaperlinX for the sixth financial year (i.e. for the year ending 30 June 2014).

The approval:

(a) is consistent with maintaining the quality of the audit provided to PaperlinX; and

(b) does not give rise to a conflict of interest situation (as defined in section 324CD of the *Corporations Act 2001*).

The Board was satisfied in giving the approval because of the following reasons:

(a) Mr Paul McDonald's knowledge of the Company will:
- assist KPMG to maintain the quality of the audit and provide the Board with an appropriate level of independent assurance in the event of and not limited to a possible transaction involving the equity of the Company, continuation of significant restructuring of the business operations in Europe and extension and/or replacement of existing European lending facilities;
- provide continuity of knowledge and assist the Audit Committee Chairman and Chief Financial Officer who have only been in their roles since September 2012 and December 2012 in their transition;

(b) Mr Paul McDonald's involvement will not impair the independence of the upcoming 2014 audit due to the auditor independence policies operated by KPMG and PaperlinX.

Rounding

The Company is of the kind referred to in the ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the Financial report and Directors' report have been rounded off to the nearest hundred thousand dollars, unless otherwise stated.

Remuneration Report

The Remuneration report set out on pages 15 to 25 forms part of the Directors' report.

Auditor's Independence Declaration

The Auditor's Independence Declaration is set out below and forms part of the Directors' report.

This report is made in accordance with a resolution of the Directors.

Dated at Melbourne 21 August 2013

Robert Kaye SC	**Michael Barker**
Chairman	Director

KPMG

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001*

To: Directors of PaperlinX Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2013 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Paul J McDonald
Partner

Melbourne
21 August 2013

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

Liability limited by a scheme approved under Professional Standards Legislation.

Remuneration report

1. Introduction

The Directors of PaperlinX Limited present this Remuneration report for the year ended 30 June 2013 in accordance with Section 300A of the *Corporations Act 2001*.

This Remuneration report outlines the policies and processes that underpin the remuneration arrangements for the Key Management Personnel (KMP). For the purposes of this report, KMP are those who have the authority and responsibility for planning, directing and controlling the activities of PaperlinX; all Directors of the Board, both Executive and Non-executive are KMP. The term senior executive refers to the Chief Executive Officer (CEO) and those of his direct reports who are defined as KMP.

This Remuneration report has been adopted by the Board on 21 August 2013 and it forms part of the Directors' report for the year ended 30 June 2013.

The roles of the Nomination & Governance Committee and the Remuneration & HR Committee in relation to Board and senior executive remuneration are explained in the Corporate governance section on page 26.

2. Overview of PaperlinX's remuneration arrangements

2.1 Remuneration policy and principles

The policy of our Company is to devise remuneration practices that attract and retain team members who can deliver business results, as well as to align senior executive remuneration with shareholder interests. Rewards are linked to the achievement of the key financial targets and strategic goals, which the Board believes correlate to the creation of long-term shareholder value.

The key principles that underpin the remuneration policy include:

- All elements of remuneration will be set at levels that the Board considers appropriate to the relevant market practice for comparable roles.
- A significant portion of senior executive remuneration will be 'at-risk'.
- Payment of incentive-based rewards will be dependent upon achieving specific definable, controllable and measurable performance targets.
- Reward outcomes are directly related to the performance of the business for which the senior executive is accountable.

2.2 Changes to remuneration approach in FY2013

At the Annual General Meeting in November 2012, 56 per cent of votes did not support the FY2012 Remuneration Report; this included the unorthodox step of the Board voting against the Remuneration Report presented by the former Board of Directors. The concerns raised by the newly elected Board included the level of KMP remuneration and the quantum of termination payments made.

Since this time a number of changes have occurred in our Company's approach to remuneration and the manner in which the remuneration policy is implemented. These changes in approach have primarily sought to recalibrate the remuneration of the KMP of the Company to the current scale and profitability of PaperlinX. The newly appointed KMP have significantly reduced Total Fixed Remuneration (TFR – see section 2.3.1 for the components of TFR) compared with previous incumbents. The TFR of our current CEO is over 20 per cent less than that of the previous CEO; contractually, the CEO's employment agreement now includes additional circumstances where his employment may be terminated without notice.

Further, the profit focus has been retained in short-term incentive (STI) plan and a deferred equity component has been introduced to create ownership and alignment with shareholder interests.

2.3 Senior executive remuneration mix

Remuneration for the Company's senior executives consists of two main elements:

1. Total Fixed Remuneration (TFR), which includes fixed remuneration components such as base salary, motor vehicle, health insurance and mandatory superannuation/pension plan. The TFR component comprises 50 per cent of the senior executives' maximum potential reward.
2. Variable or 'at-risk' pay included in the short-term incentive plan, which is 50 per cent of the maximum potential reward.

No grants were made to senior executives under the Company's long-term incentive (LTI) plan during FY2013. Details of historical LTI plans can be found in section 4.4.

2.4 Setting senior executive remuneration

For FY2013, the Board aimed to position senior executive TFR at the median of the relevant market.

The TFR for the CEO is reviewed annually by the Nomination & Governance Committee. For the direct reports to the CEO, TFR is reviewed annually by the Remuneration & HR Committee on the basis of recommendations from the CEO and, as required, remuneration information provided by independent consultants.

2.5 Evaluating the performance of senior executives

The Company has formal processes for evaluating the performance of the senior executives. The annual performance review occurs after the end of the financial year and is a joint assessment with the CEO and senior executive of the:

1. senior executive's performance against the goals for the previous 12 months, and agreement on the goals to be achieved during the following 12 months;
2. extent to which the senior executive demonstrates the necessary leadership and behavioural competencies; and
3. personal and career development actions undertaken by the senior executive during the year and those planned for the following 12 months, which may enhance the executive's opportunity for progression to more senior roles within our Company.

Remuneration report

Additionally, the senior executive's STI plan is established including specific financial and individual strategic targets. The individual strategic targets are agreed between the CEO and each senior executive and are ratified by the Board prior to implementation.

3. Key Management Personnel during FY2013

The senior executives disclosed in this report are listed in the table below.

Table 1: Disclosed senior executives

Name	Position	Dates KMP in FY2013
Current senior executives		
D S Allen	Chief Executive Officer	1 July 2012 – 30 June 2013
J W P Smallenbroek	Chief Financial Officer	18 December 2012 – 30 June 2013
A J Preece	Executive General Manager Australia, New Zealand and Asia	1 July 2012 – 30 June 2013
C J Turner	President Spicers Canada Limited	1 July 2012 – 30 June 2013
Former senior executives		
M Gillioen	Vice President – Europe Region 1	1 July 2012 – 31 October 2012
R T Barfield	Chief Financial Officer	1 July 2012 – 5 December 2012

3.1 KMP changes during FY2013

During the year there were fundamental changes to the composition of the Board, as well as significant changes to the senior executives given departures and the restructuring of regional operations; consequently there were a number of changes to the KMP.

Mr Harry Boon (Chairman and Non-executive Director), Mrs Lyndsey Cattermole (Non-executive Director), and Mr Anthony Clarke (Non-executive Director) resigned from the Company's Board effective 27 September 2012. Mr Michael McConnell (Non-executive Director) resigned effective 14 November 2012.

Mr Andrew Price joined the Company as a Non-executive Director on 1 September 2012 and was appointed as Executive Director on 14 November 2012. Mr Michael Barker was appointed to the Board as a Non-executive Director on 27 September 2012 and was Chairman from 1 October 2012 until 28 March 2013. Mr Robert Kaye SC joined the Company as a Non-executive Director on 27 September 2012 and was appointed as Chairman on 28 March 2013.

As noted in last year's Report, Mr Toby Marchant ceased to be Managing Director and Chief Executive Officer effective 31 July 2012. Mr Marcus Gillioen concluded operational responsibilities and therefore ceased to be a KMP on 31 October 2012. Mr Richard Barfield's employment with PaperlinX ended on 5 December 2012.

Included as KMP for the first time are Mr Joost Smallenbroek who was appointed as the Chief Financial Officer on 18 December 2012 and Mr Andy Preece who was appointed Executive General Manager Australia, New Zealand and Asia on 1 July 2012. Also, given the structural changes to our business post the sale of US operations, Mr Cory Turner, President Spicers Canada Limited, is included as KMP from 1 July 2012.

4. FY2013 Company performance and remuneration outcomes

4.1. Company performance – a key driver of remuneration

As detailed in Table 2, the profitability of PaperlinX has been significantly impacted over recent years largely due to the structural decline of the paper industry and economic factors, particularly in key European markets.

Table 2: Company performance background

	2013	2012	2011	2010	2009
Profit/(loss) attributable to owners of the Company ($m)	(90.2)	(266.7)	(108.0)	(225.3)	(798.2)
Dividends per ordinary share (cents)	–	–	–	–	3.5
Change in share price (%)	(8.8)	(64.4)	(74.2)	45.9	(73.0)
Return on average funds employed (%)	(13.1)	(25.5)	(8.3)	(12.9)	(26.3)

Given the lack of profitability in recent years, greater weighting on profit has been integrated into FY2013 STI plans as outlined on the following page. The STI actual rewards made to KMP in FY2013 as detailed in Table 4 are clearly reflective of the level of profitability and performance of the Company and how this aligns to senior executive remuneration.

4.2 FY2013 short-term incentives

The STI plan comprised key financial targets of profit and working capital or return on funds employed (ROAFE), with the most significant weighting on profit. In addition, up to two individual strategic targets were included for each senior executive to further drive critical business outcomes. Taken as a whole, these financial and strategic targets were identified as the key drivers to achieving budgets, improving performance and ultimately enhancing shareholder returns.

The STI plan for senior executives for FY2013 comprised both cash and deferred equity components. Full details are included in Table 3 below.

Table 3: Key features of the FY2013 STI plan

Purpose of the STI plan	Focus performance on achieving profitability and other key financial measures
Remuneration base for payment	Total fixed remuneration
Percentage that can be earned	30% at minimum (budget) up to 100% for achievement of stretch performance 0% for below budget/target performance
Performance and service period	12 months performance period (1 July 2012 until 30 June 2013) plus 24 months service period (1 July 2013 until 30 June 2015) for deferred equity component
Performance assessed	August 2013
Performance conditions	50%–75% EBIT
	15%–30% Average working capital as a percentage of sales or ROAFE
	10%–25% Up to two individual strategic targets ratified by the Board
Why these were chosen	To drive profitability, returns and to accelerate strategic initiatives
Assessment of performance conditions	Performance conditions are evaluated on a qualitative basis, which are then reviewed and approved by the Remuneration & HR Committee
Payment method of STI earned	50%–75% rewarded as equity subject to a 24 month service period (deferred equity)
	25%–50% paid as cash
Why this method was chosen	Deferring a significant component of the STI reward is intended to build ownership, align executive STIs with the creation of value for shareholders and support the retention of senior executives
Cash payment made	August 2013
Board discretion	The Board may vary these conditions to resolve anomalies or in other exceptional circumstances

Under the FY2013 STI plan, some financial and strategic targets were achieved with payment made through a combination of cash and deferred equity. Table 4 sets out details of the rewards earned for the CEO and other senior executives under the FY2013 STI plan.

Remuneration report

Table 4: FY2013 STI cash and deferred equity awards

	STI % maximum potential	STI % earned in year	STI % forfeited in year	STI cash payment ($)	Deferred equity awarded ($)	Deferred equity awarded (no. of rights)
Name						
D S Allen	100% of TFR	15.0	85.0	24,101	72,302	1,401,209
J W P Smallenbroek	100% of TFR	20.0	80.0	17,441	52,324	1,014,034
A J Preece	100% of TFR	4.8	95.2	4,427	13,280	257,363
C J Turner	100% of TFR	85.0	15.0	148,342	148,342	2,874,846

Former senior executives not included as minimum service periods for the STI were not met.
Deferred equity based on the Volume Weighted Average Price (VWAP) in the 30 days prior to the FY2013 full year results announcement on 21 August 2013.

4.3 Prior short-term incentives plans

In 2009 and 2010, short-term incentive plans with deferred equity components were in place. As illustrated in Table 5 all entitlements under these plans have now lapsed.

Table 5: Short-term incentive deferred equity plans

	Qualifying performance rights for plan period 1/7/09 – 30/6/10		Qualifying performance rights for plan period 1/7/10 – 30/6/11 deferred to 30/6/13	
Name	Lapsed on termination	Balance at 30/6/13	Lapsed on termination	Balance at 30/6/13
T R Marchant	48,560	0	134,738 (1)	0

(1) Granted to Mr Marchant when he was CEO, Europe.
The grant date fair value of lapsed rights is $76,585.

Share rights granted under the 2010 Senior Management Share Rights Plan were subject to a two-year service period. Table 6 details that these plans have now been vested and exercised.

Table 6: Share rights plans
Granted subject to completion of a two-year service period.

	Share rights plan 2010 vested and exercised 31/8/12
D S Allen	75,000
C J Turner (1)	75,000
M Gillioen	75,000

(1) Rights granted prior to C J Turner becoming a KMP.

4.4 Long-term incentive plans

The LTI plan has historically comprised performance rights and performance options. As in FY2012, no new grants were made under the existing LTI plan during FY2013. There will be no new grants made in FY2014. Table 7 provides a summary of the key features of the plan when grants were last made. It is the Board's intention to review the LTI plan before making grants in future years.

Table 7: Key features of LTI plan

Structure of LTI grant	Performance rights – provide the right to potentially acquire fully paid ordinary shares in PaperlinX Limited at nil cost to participants when performance conditions are met. Performance options – provide the opportunity to purchase PaperlinX shares at a predetermined exercise price when performance conditions are met. No amount is payable on the grant of the performance rights or options.		
LTI quantum	Performance rights 20% of salary Performance options 10% of salary		
Exercise price (performance options)	The volume weighted average price of PaperlinX ordinary shares on the ASX over the 30-day period prior to 30 June at the commencement of the relevant performance period.		
Performance conditions [1]	Relative total shareholder return (TSR) and earnings per share (EPS) growth. Each measure applies to 50% of the grant to each executive.		
Service condition	Executives must be employed for the whole of the three-year measurement period and continue to be employed at the measurement date.		
Vesting	**TSR vesting**	**TSR growth**	**One-half the number of rights/options**
	Target is the growth in PPX TSR measured relative to the TSR of all stocks included in the S&P/ASX 200 for the whole of the measurement period (Comparators [2]).	(Percentage growth in PPX TSR relative to growth in Comparator TSRs) 1. At 80th percentile or above 2. Between the 50th and 80th percentiles 3. At 50th percentile 4. Below 50th percentile	 100% Pro rata between 50% and 100% 50% Nil
	EPS vesting [3]	**EPS growth**	**One-half the number of rights/options**
	Target of 15% compound growth per year over 3 years.	1. Target (or above) 2. More than 10% but less than 15% 3. 10% compound per year 4. Below 10%	100% Pro rata between 50% and 100% 50% Nil
Measurement period	Three years		
	Further measurement periods (in relation to TSR performance condition only).	**Testing periods** 3.5 years	**Percentage of grant** 100% of proportion measured against TSR
	No further measurement occurs once a positive vesting is achieved.	4 years and 4.5 years	50% of proportion measured against TSR
Termination provisions	If an executive ceases to be employed by the PaperlinX Group before the measurement date then rights/options automatically lapse.		
Source of securities	PaperlinX reserves the right to determine the most appropriate source of securities at the time of vesting. This may be via purchase on-market or newly issued securities.		
Accounting expense	The fair value is expensed on a straight-line basis over the vesting period, being the period during which the securities are subject to performance and service conditions. The fair value is determined as at the grant date, using appropriate valuation models.		
Board discretion	The Board has discretion to allow some or all performance rights/options to vest in the event of a takeover bid or scheme of arrangement in relation to PaperlinX. The Board has a broad discretion to resolve anomalies and other aspects of the plan and its operation.		

(1) Performance conditions as approved by shareholders at the Company's Annual General Meeting in October 2004 for the Chief Executive Officer.

(2) Both PPX's and the Comparators' TSRs are based on ASX share price movements plus dividends paid on the shares (on a pre-tax basis) notionally reinvested to purchase additional shares at the market price prevailing on the date the shares begin trading 'ex' the relevant dividend.

(3) EPS hurdles strengthened in July 2009.

Remuneration report

4.4.1 Long-term incentive plan FY2013 outcomes

Existing LTI plans from 2008 and 2009 were re-tested in December 2012. As the TSR and EPS performance targets were again not achieved, these performance rights and performance options lapsed and the LTI plans have been terminated as detailed in Table 8.

Table 8: Long-term incentive plans – maximum potential entitlement

	Performance rights			
Senior executives	**For period 1/7/08 – 30/6/11** (1)	**For period 1/7/09 – 30/6/12** (3)	**For period 1/7/10 – 30/6/13** (5)	**For period 1/7/12 – 1/8/13** (7)
	Lapsed	**Lapsed**	**Lapsed**	**Lapsed**
D S Allen	3,857	0	0	0
T R Marchant	6,685	117,055	236,530	0
R T Barfield	0	0	0	400,000

	Performance options		
Senior executives	**For period 1/7/08 – 30/6/11** (2)	**For period 1/7/09 – 30/6/12** (4)	**For period 1/7/10 – 30/6/13** (6)
	Lapsed	**Lapsed**	**Lapsed**
D S Allen	6,428	0	0
T R Marchant	11,142	195,090	394,210

(1) Performance rights issued at an exercise price of $nil; allocation date 30/10/08. No entitlement has been earned under the plan and the rights have lapsed. The grant date fair value of lapsed rights is D S Allen $4,050; T R Marchant $7,019.

(2) Performance options issued at an exercise price of $2.05; allocation date 30/10/08; No entitlement has been earned under the plan and the options have lapsed. The grant date fair value of lapsed options is D S Allen $3,085; T R Marchant $5,348.

(3) Performance rights issued at an exercise price of $nil; allocation date 11/12/09. No entitlement has been earned under the plan and the rights have lapsed. The grant date fair value of lapsed rights is T R Marchant $49,514.

(4) Performance options issued at an exercise price of $0.491; allocation date 11/12/09. No entitlement has been earned under the plan and the options have lapsed. The grant date fair value of lapsed options is T R Marchant $55,015.

(5) Performance rights issued at an exercise price of $nil; allocation date 19/10/10; entitlement lapsed on termination. The grant date fair value of lapsed rights is T R Marchant $74,507.

(6) Performance options issued at an exercise price of $0.637; allocation date 19/10/10. Entitlement lapsed on termination. The grant date fair value of lapsed options is T R Marchant $63,074.

(7) Performance rights issued at an exercise price of $nil based on a 1:1 matching purchase; entitlement lapsed on cessation of employment. The grant date fair value of the lapsed rights is R T Barfield $26,800.

4.4.2 Prohibition on hedging of incentive remuneration

The Company's policy is that where any senior executive or their closely related parties hedge or attempt to hedge the senior executive's incentive remuneration, including performance rights or options, or the senior executive's initial grant of options (whether rights and options are vested or unvested), the senior executive will forfeit those rights or options.

This policy is included in the plan rules and in communication materials when making a new grant to senior executives.

Shares are not transferred into the senior executive's name until vested rights or options are exercised and therefore, until that time, the executive has no ownership of PaperlinX securities.

Additionally, any attempt by a senior executive or their closely related parties to dispose of the rights or options has no legal basis and the transaction would not be recognised by the Company. In such a case, the senior executive would forfeit their rights or options, and those entitlements would automatically lapse.

5. Senior executive service agreement provisions

The Company has entered into service agreements with its senior executives, none of which are for fixed terms. Details of the periods of notice required to terminate the contract and the termination payments provided under each contract are outlined in Table 9. Overall, the Company notice/payment periods have been reduced compared with previous senior executives. Actual payments may also depend on local legal requirements. Payment in lieu of notice is calculated using the senior executive's TFR. In addition to the specified termination payments, on termination all senior executives are entitled to receive their statutory entitlements of accrued leave, together with any superannuation or pension plan benefits.

Table 9: Service agreement provisions

Senior executive	Company notice/payment period	Executive notice
D S Allen	12 months	6 months
J W P Smallenbroek	12 months	6 months
C J Turner	3 months	3 months
A J Preece	6 months	6 months

6. Non-executive and Executive Director remuneration

6.1 Policy on Director remuneration

The remuneration of individual Non-executive and Executive Directors is approved by the Board as a whole on the recommendation of the Nomination & Governance Committee, and having regard to the principles that the remuneration should:

- be competitive with other listed Australian companies to attract and retain suitably qualified and experienced Non-executive and Executive Directors;
- reflect the complexity of the PaperlinX Group arising from its business and geographic diversity; and
- provide additional remuneration for the responsibilities of specific Non-executive Directors in chairing the Board and its committees.

Non-executive Directors do not receive any performance-based remuneration.

6.2 Directors' fees

The current aggregate fees are within the maximum sum of $1.26 million per annum previously approved by shareholders at the 2007 Annual General Meeting.

The schedule of annual fee rates, excluding the Superannuation Guarantee contribution, for the Board and Chairs of Board Committees is set out in Table 10. These amounts are unchanged from FY2012 and Committee Chair fees are not payable to the Board Chairman.

Table 10: Fees for Board and Chairs of Board Committees

Board position	Annual fee
Chairman	$240,000
Executive Director	$240,000
Non-executive Director (base fee)	$100,000
Chair of Board Committee	**Additional annual fee**
Audit Committee	$15,000
Remuneration & HR Committee	$15,000
Ad-Hoc Committee dealing with PaperlinX Step-Up Preference Securities matters	$15,000

As Committee Chair fees are not payable to the Chairman, R G Kaye was not paid a fee for the Ad-Hoc Committee dealing with PaperlinX Step-Up Preference Securities matters from 28 March 2013.

6.3 Executive Director options plan

Subject to shareholder approval to be sought at the next general meeting, Mr Andrew Price will be granted 35 million options, which were valued by Mercer Consulting (Australia) Pty Ltd to approximately $1 million on the nominal valuation date of 19 February 2013. These options have a range of exercise prices linked to significant improvements in the Company's ordinary share price.

The Board has proposed this method of reward as, since his appointment as Executive Director, Mr Price has accelerated the restructuring activities in the Company's European business and taken over the Group's procurement activities. In consideration of Mr Price's agreeing to a low salary base, the options are intended to incentivise Mr Price to continue to work to improve the Company's operations and also to reward Mr Price for his services rendered to date.

7. Engagement of remuneration consultants

The Board and management have engaged Ernst & Young as an adviser to assist with a range of matters during FY2013. During FY2013 no remuneration recommendations, as defined by the *Corporations Act 2001*, were requested of or provided by Ernst & Young.

Remuneration report

8. Directors' and senior executives' remuneration – FY2013

Details of the nature and amount of each element of the remuneration of each Director and each senior executive of our Company are set out in Table 11 and Table 12.

Table 11: Directors' remuneration

	Short-term benefits					Post-employment benefits
	Salary and fees	**Cash short-term incentives**	**Non-cash benefits**	**Discretionary share purchases**	**Other income**	**Superannuation contribution**
	$	**$**	**$**	**$**	**$**	**$**
Directors						
R G Kaye, Chairman [3][4]						
2013	124,964					11,247
2012						
M D Barker, Non-executive Director [5][6]						
2013	153,333					13,800
2012						
A J Price, Executive Director [7][8]						
2013	171,894		5,467			15,470
2012						
Total Directors						
2013	**450,191**	**0**	**5,467**	**0**	**0**	**40,517**
2012	**0**	**0**	**0**	**0**	**0**	**0**
Former Directors						
H Boon, Chairman [9]						
2013	60,000				1,283	4,118
2012	241,250				5,937	15,775
T R Marchant, Managing Director and Chief Executive Officer [10]						
2013	46,266		2,293			12,817
2012	639,368	40,778	24,162			163,099
M L Cattermole, Non-executive Director [11]						
2013	25,000					2,250
2012	111,250					10,012
A J Clarke, Non-executive Director [12]						
2013	28,750					2,588
2012	239,190					45,144
M McConnell, Non-executive Director [13]						
2013	40,871					3,678
2012	105,059					9,455

(1) The value of equity plans included as remuneration in the table represents the aggregate of amounts determined for both market based and non-market based performance hurdles:

- *Market based – represents the number of share rights and options granted to the Executive Director under the Company's equity incentive plans at the grant date valuation;*
- *Non-market based – represents the proportion of the value of the maximum potential number of share rights and options to which the executive Director may become entitled under the Company's equity incentive plans, which is calculated based on an estimate of the probability of the performance criteria being achieved.*

The value of options plans and rights plans is calculated using appropriate valuation models and allocated evenly over the vesting period of each plan. All amounts are calculated in accordance with AASB2 Share Based Payments.

(2) Negative balance due to reversal of prior year's allocation as a result of non-achievement of performance targets and service condition.

(3) Appointed as Non-executive Director on 27 September 2012.

(4) Appointed as Chairman on 28 March 2013.

(5) Appointed as Non-executive Director on 1 September 2012.

(6) Chairman from 1 October 2012 until 28 March 2013.

(7) Appointed as a Non-executive Director on 1 September 2012.

Termination benefits	Equity plans [1]			Total		
Termination payment including annual and long service leave	FY2013 Short term Incentive Rights	Prior Rights	Prior Options	Total	Proportion of remuneration performance related	Percentage of Remuneration consisting of rights and options
$	$	$	$	$	$	%
				136,211		
				0		
				167,133		
				0		
				192,831		
				0		
0	**0**	**0**	**0**	**496,175**		
0	**0**	**0**	**0**	**0**		
				65,401		
				262,962		
856,636		(74,641) [2]	(43,848) [2]	799,523	(118,489)	
		(22,135) [2]	(14,795) [2]	830,477	3,848	
				27,250		
				121,262		
				31,338		
				284,334		
				44,549		
				114,514		

(8) Appointed as executive Director on 14 November 2012.
(9) Resigned as a Non-executive Director and Chairman effective 27 September 2012.
(10) Terminated as Managing Director and Chief Executive Officer effective 31 July 2012.
(11) Resigned as a Non-executive Director effective 27 September 2012.
(12) Resigned as a Non-executive Director effective 27 September 2012.
(13) Resigned as a Non-executive Director effective 14 November 2012.

Directors' report continued
Remuneration report

Table 12: Senior executives' remuneration

	Short-term benefits				Post-employment benefits
	Salary and fees	Cash short-term incentives	Non-cash benefits	Other income	Superannuation contribution
	$	$	$	$	$
Senior executives					
D S Allen, Chief Executive Officer [3]					
2013	519,714	24,101	1,452	22,908	59,662
2012	374,864	0	1,492	23,526	62,943
J W P Smallenbroek, Chief Financial Officer [4]					
2013	144,903	17,441	148	9,454	29,190
2012					
C J Turner, President Spicers Canada Limited [5]					
2013	305,410	148,342	20,731	0	14,813
2012					
A J Preece, Executive General Manager Australia, New Zealand and Asia [6]					
2013	300,168	4,427	64,284	60,253	50,484
2012					
Total senior executives					
2013	**1,270,195**	**194,311**	**86,615**	**92,615**	**154,149**
2012	**374,864**	**0**	**1,492**	**23,526**	**62,943**
Former senior executives					
R T Barfield, Chief Financial Officer [7]					
2013	212,532	0	11,713	2,222	38,354
2012	42,476	0	3,022	0	6,562
M Gillioen, Executive Vice President Europe Region 1 [8]					
2013	124,060	0	92	7,898	24,060
2012	427,375	0	292	25,481	65,268

(1) The value of equity plans included as remuneration in the table represents the aggregate of amounts determined for both market based and non-market based performance hurdles:

- *Market based – represents the number of share rights and options granted to senior executives under the Company's equity incentive plans at the grant date valuation;*
- *Non-market based – represents the proportion of the value of the maximum potential number of share rights and options to which the executive Director may become entitled under the Company's equity incentive plans, which is calculated based on an estimate of the probability of the performance criteria being achieved.*

The value of options plans and rights plans is calculated using appropriate valuation models and allocated evenly over the vesting period of each plan. All amounts are calculated in accordance with AASB2 Share Based Payments.

(2) Negative balance due to reversal of prior year's allocation as a result of non-achievement of performance targets and service condition.

(3) Appointed as Chief Executive Officer on 18 December 2012.

(4) Appointed as Chief Financial Officer on 18 December 2012 and remuneration relates to the period 18 December 2012 to 30 June 2013 only.

(5) Classified as Key Management Personnel from 1 July 2012.

(6) Appointed as Executive General Manager on 1 July 2012 and classified as Key Management Personnel from this date.

(7) Ceased employment on 5 December 2012.

(8) Ceased operational accountabilities on 31 October 2012 and no longer Key Management Personnel from this date.

The senior executives included in this table are based in countries other than Australia and are not paid in Australian dollars.
As this table is shown in A$, yearly variations due to currency fluctuations will occur.

Termination benefits	Equity plans [1]			Total		
Termination payment including annual and long service leave	**FY2013 Short term Incentive Rights**	**Prior Rights**	**Prior Options**	**Total**	**Proportion of remuneration performance related**	**Percentage of Remuneration consisting of rights and options**
$	**$**	**$**	**$**	**$**	**$**	**%**
	24,101	2,351	0	654,289	50,553	4.0
		28,846	0	491,671	28,846	5.9
	17,441	0	0	218,577	34,882	8.0
	49,447	2,351	0	541,094	200,140	9.6
	4,427	0	0	484,043	8,854	0.9
0	**95,416**	**4,702**	**0**	**1,898,003**		
0	**0**	**28,846**	**0**	**491,671**		
4,772		(724) [2]	0	268,869	(724)	
		724	0	52,784	724	1.4
		2,351		158,461	2,351	1.5
		28,846		547,262	28,846	5.3

Corporate governance

The Board is pleased to present its Corporate Governance Statement for the year ended 30 June 2013.

PaperlinX supports and is committed to the principles of best practice in corporate governance, applied in a manner that is appropriate to the Company's circumstances.

The Company has an existing framework of processes and guidelines for the governance of the Company that includes policies and monitoring procedures, internal control systems, a business risk management programme and standards for ensuring lawful and ethical conduct with the aim of protecting and enhancing shareholder value.

PaperlinX considers that its corporate governance practices substantially follow the ASX Corporate Governance Council's Principles and Recommendations in all material respects during the financial year ended 30 June 2013.

Principle 1: Lay Solid Foundation for Management and Oversight

Role of the Board and management

Management and control of the business and affairs of the Company is vested in the Board under the Company's Constitution. In particular, the Board has the overall responsibility for the conduct and governance of the Company, including its strategic direction, the review of the strategic plans established by the management team and the monitoring of performance targets. Directors meet regularly without management present.

The Board does not itself manage the business of the Company as it is delegated to the Chief Executive Officer ('CEO') and the management team. It is the CEO's responsibility to manage the day-to-day operation of the business, subject to the oversight and supervision of the Board. The function of a Managing Director is currently undertaken by the CEO.

Responsibilities of the Board

The Board, amongst other things:

- reviews and approves management's plans for conducting and developing the Company's business;
- approves any material changes to plans that have previously been approved by the Board;
- places limits on the extent to which management can commit resources or dispose of assets or raise funds without specific approval;
- reviews monthly reports from the Chief Financial Officer covering financial performance against budget and reasons if there are any material variations and trends;
- regularly reviews reports from the CEO and other executives covering all material aspects of the Company's business and operations, including key areas of risk and importance; and
- monitors the performance of senior management.

Matters that are reserved to the Board and are not within the authority delegated to the CEO include:

(a) appointment and remuneration of the Managing Director and/or CEO and general approval of policies relating to any sub-delegation by him;

(b) all matters relating to the issue of securities of the Company;

(c) adoption of annual business plans and budgets and approval of longer-term strategic plans for the Company and all business units;

(d) acquisition and disposal of major capital items;

(e) major external borrowings and commitments as agreed with the Chief Financial Officer;

(f) major guarantees of third parties and subsidiaries;

(g) approval of Directors' Reports and financial statements for release to shareholders and the ASX;

(h) approval of the Annual Report and any other significant report or release to the ASX or shareholders. Any media releases that relate to price-sensitive information require approval by the Chairman who will liaise with the Board as necessary;

(i) declaration of dividends;

(j) approval of appointment of the Company Secretary and the most senior executives who report directly to the Managing Director and/or CEO and approval of the terms of appointment and remuneration of those executives;

(k) approval, oversight and review of:
- audit functions and their performance, including the appointment of internal and external auditors;
- control and corporate governance functions and their performance; and
- human resources and remuneration policies and performance;

(l) approval, oversight and review of the Company's risk management framework, including:
- environmental protection and sustainability policies and performance; and
- workplace and public safety policies and performance;

(m) approving any major donations proposed by the Managing Director and/or CEO.

PaperlinX's Guidelines for Board Operation ('Board Guidelines') which contain the Board and Committee Charters along with other information about the Company's corporate governance practices are posted on the Company's website at http://www.paperlinx.com/corporate-governance/corporate-policies.htm.

Performance evaluation for senior executives

Remuneration levels are set competitively to attract and retain suitably qualified and experienced senior executives. The Remuneration & Human Resources Committee also considers independent advice from time to time on appropriate remuneration packages and policies.

PaperlinX has remuneration policies that link remuneration paid to key executives to company performance. These policies are summarised in the Remuneration Report section of the Directors' Report. The process for evaluating the performance of executives is described in the Remuneration Report.

Principle 2: Structure the Board to Add Value

Board composition and independence

The Board includes Directors with a range of skills, experience and expertise to promote Board effectiveness. The skills, qualifications and experience of the Directors of the Company in office at the date of this statement are set out on page 10.

The Company's Constitution provides for a minimum of three Directors. During the first half of 2013, there was a total revamp of the Board composition. Your current Board of three members have been in office since September 2012. All current Directors are Non-executive Directors except for Mr Andrew Price who took up an executive position in November 2012 to work with management to add weight to the restructuring efforts in Europe. More recently, Mr Price has been made responsible for overseeing procurement for the Group.

The Board considers its size and mix of skills is appropriate given the scaled-down operations of PaperlinX. Due to the Company's continual challenging trading position and to minimise Board related expenses, the Board felt that it was not the appropriate time to bring on new members to the Board. Whilst the Board would benefit from having additional members, it needs to balance this against the counter-benefit of a small Board in terms of its ability to respond quickly to events as they occur due to a tighter delegation of authorities compared with previously. Your Directors are committed to putting in the time necessary to fulfil their duties. New appointments may be made in the future to facilitate Board succession or for purpose of bringing more diversity to the Board.

Your two Non-executive Directors, including the Chairman, are independent (in accordance with the definition in the ASX Corporate Governance Principles and Recommendations) and have no business or other relationships that could compromise their independence. The test of whether a relationship is material enough to compromise the Director's independence is based on the nature of the relationship and the circumstances of the Directors. Directors are required to inform the Chairman and Board of any interests that could potentially conflict with those of the Company. If a material conflict of interest should arise and the Board is unable to properly deal with the matter because of insufficient quorum or for other legal reasons, it will bring the matter to shareholders for approval.

The Board assesses the independence of Directors on a regular basis and as changes in Directors' interests occur.

The Board is of the view that Mr Price's involvement in the business as an Executive Director has no material impact on his ability to exercise independent judgment.

Upon their appointment, each Director enters into a Deed with the Company covering matters such as Directors' rights to access Board Papers and independent advice as well as indemnity and insurance arrangements. A Letter of Appointment is also provided, which assists Directors in understanding the Company's expectations of them.

To enable Directors to properly perform their duties, Directors have the right to seek independent professional advice at the Company's expense after consultation with the Chairman.

Board operation

Pursuant to Rule 65 of the Constitution, up to one-third of the Directors must retire from office at each Annual General Meeting but are eligible for re-election. Non-executive Directors may only hold office up to a maximum term of 11 years. Directors' appointment and election/re-election dates are as follows:

Director	Date appointed to Board	Last AGM at which elected/ re-elected
Andrew Price, Executive Director	01/09/2012	2012
Robert Kaye SC, Independent Non-executive Director (Chairman)	27/09/2012	2012
Michael Barker, Independent Non-executive Director	27/09/2012	2012

The Board intends to review the internal guidelines relating to corporate governance, Board memberships and operation; and committee structures as and when it is necessary to do so.

Board performance review

A review of the performance of the Board and individual Directors took place during the reporting period according to the process as disclosed in the Board Guidelines which can be found on the Company's website at http://www.paperlinx.com/corporate-governance/corporate-policies.htm.

The Board performance review resulted in a strategic rotation of Chairmanship from Mr Michael Barker to Mr Robert Kaye SC in March 2013. The change was an improvement in governance from an independence viewpoint because at that time, Mr Michael Barker was Chairman of both the Board and the Audit Committee.

Corporate governance
continued

Board committees

To assist in the execution of its governance responsibilities, the Board has established the following committees:

- Audit
- Nomination & Governance
- Remuneration & Human Resources

All committees have written Charters, which are set out in full in the Board Guidelines which is available on the Company's website at http://www.paperlinx.com/corporate-governance/corporate-policies.htm.

The Committees operate principally in a review or advisory capacity, except where powers are expressly conferred on or delegated to a Committee by the Board. Each Committee reports to the full Board following a Committee meeting. Given the small number of Directors during the reporting period, the Board sometimes take on responsibilities which would have otherwise been delegated to Committees. The Board had also established an ad-hoc committee chaired by Mr Robert Kaye SC to assist the Board in fulfilling its obligations in relation to the PaperlinX Step-Up Preference Securities.

Details of the number of Committee meetings and the attendance record of members in the year ended 30 June 2013 are set out on page 13 of the Annual Report.

Nomination & Governance Committee

A majority of the current members of the Nomination & Governance Committee consist of independent Non-executive Directors. The Committee was and is chaired by the Chairman of the Board who is an independent Non-executive Director. Current members are:

- Mr Robert Kaye SC (Chair)
- Mr Andrew Price
- Mr Michael Barker

The primary responsibilities of the Nomination & Governance Committee are to make recommendations to, and assist, the Board in connection with the appointment and performance evaluation of Directors, corporate governance, the appointment and remuneration arrangements of the Managing Director and/or CEO and related matters.

Where a vacancy exists or if the Board considers that it would benefit from the services of an additional director, the Nomination & Governance Committee will determine and make recommendations to the Board to identify the appropriate qualities, expertise, diversity, experience and competencies required. The Board's policy and procedures on nomination, selection and appointment of new directors is available in the Board Guidelines which is posted on the Company's website at http://www.paperlinx.com/corporate-governance/corporate-policies.htm.

Principle 3: Promote Ethical and Responsible Decision-Making

Code of Conduct

The Board recognises the need for the highest standards of ethical conduct by all Directors and employees. The Board has adopted a code of ethics that sets out the fundamental ethical values to guide, and be observed by, Directors in their participation as members of the Board and its committees.

PaperlinX's Code of Conduct encompasses its Values, Core Operating Principles and company policies. The Code was developed so that the expected ethical standards, appropriate behaviours and accountabilities are understood by everyone who works for PaperlinX businesses, including employees and contractors.

PaperlinX's Code of Conduct is posted on the Company's website at http://www.paperlinx.com/corporate-governance/corporate-policies.htm.

PaperlinX has a policy designed to prevent improper conduct and to encourage and protect persons who report suspected fraud or illegal activities. Information about the policy and the 'Speak Up' reporting service (for reporting improper conduct) can be found on the Company's website and has been communicated to employees throughout the Group.

Diversity

PaperlinX has established a single objective to increase the proportion of females in senior leadership roles to 25 per cent by 30 June 2016. To work towards this objective, focus areas will include identifying, developing and mentoring high potential females as well as reviewing recruitment, personal development and employment practices. In light of the ongoing changes in the Group through divestments and headcount reductions, progress towards the stated objective has been hindered this year but it still remain an objective of the Company to reach 25 per cent by 30 June 2016.

Prior to the Board change on 27 September 2012, there was one female Director representing 20 per cent of the Board at that time. Due to the ongoing changes affecting the Group and to minimise Board operation expenses, the Board elected to maintain a small but efficient Board in the medium term. The new Board does not have a female Director. Should the Board consider increasing its size, it will endeavour to use that opportunity to consider adding a female director to the Board, according the Board's policy and procedures on nomination, selection and appointment of new directors.

At 30 June 2013, the proportion of women employees in the Group were:

- no female director at Board level;
- 12 per cent at a senior leadership level; down from 18 per cent compared to last reporting period; and
- 28 per cent of all employees are female with no change from the last reporting period.

The Company's policy on Diversity is available on the Company's website at http://www.paperlinx.com/corporate-governance/corporate-policies.htm.

Separately but related to gender diversity, in accordance with the Australian Workplace Gender Equality Act ('WGEA'), PaperlinX Limited has submitted a 2013 WGEA report detailing gender equality in our Australia workplace. For a copy of the report, please contact the Company Secretary.

Principle 4: Safeguard Integrity in Financial Reporting

Audit Committee

Pursuant to Listing Rule 12.7, only an entity included in the S&P All Ordinaries Index in the beginning of the financial year needs to have an Audit Committee during the year. For good governance, the Board has retained the Audit Committee.

Up to 14 November 2012, all members of the Committee were independent Non-executive Directors. A majority of the current members of the Audit Committee are independent Non-executive Directors. The Committee does not consist solely of Non-executive Directors because it is considered appropriate to include all three Board members on the Committee and one of these holds an executive position.

The current Chairman is Mr Michael Barker (independent Non-executive Director) and its members are Mr Robert Kaye SC (independent Non-executive Director) and Mr Andrew Price (Executive Director). For the period 1 October 2012 to 28 March 2013, Mr Michael Barker was the Chairman of both the Board and the Audit Committee. To align with good governance practice in relation to Audit Committee structure, Mr Michael Barker retired as Chairman of the Board on 28 March 2013.

The Audit Committee comprises members of diverse backgrounds who have industry and requisite financial experience. Qualifications of the committee members are set out on page 10 of this Annual Report.

The Managing Director and/or the CEO, Chief Financial Officer, relevant senior staff and the internal and external auditors are invited to Audit Committee meetings at the discretion of the Committee. On a regular basis, the Audit Committee meets with the external auditor in the absence of management.

The Audit Committee's primary responsibilities are to make recommendations to, and assist, the Board in relation to:

- financial reporting, including adequacy of disclosures and application of accounting policies;
- the external audit and internal audit function;
- tax compliance;
- monitoring the Company's internal compliance and control framework. This includes an operational risk management programme and an internal audit function; and
- the insurance programme.

The Audit Committee is responsible for the procedures for appointing the external auditor and rotating external audit engagement partners. It is PaperlinX's policy that the senior audit partner be rotated every five years, unless the Audit Committee recommends to the Board that the term of the lead partner be extended in accordance to the provisions of the *Corporations Act 2001*. Details of the extension of the current lead partner's term to the sixth financial year are set out in the Director's Report in this Annual Report.

The Audit Committee annually reviews the fee and independence of the external auditor, and obtains confirmation from the auditor that, in their professional judgment, they are independent.

As a matter of general policy, the auditor is not engaged for non-statutory audit services. In special circumstances the auditor may, however, provide non-audit services that do not detract from the auditor's independence. Various authority levels for non-audit work undertaken by the Company's auditor have been established by the Company's Board depending upon the estimated cost of the non-audit work.

The performance of the Audit Committee was not evaluated during the year because it was not practical to do so given the change in committee composition in the year. The Audit Committee Chairman will coordinate the review process in the financial year 2014.

Safety & Environment Committee

Consistent with streamlining corporate activity, the responsibility of this Committee has been assumed directly by the Board. The Committee ceased on 1 July 2011. The Company remains committed to high standards in health, safety and environment matters. These matters are now dealt with at all Board meetings.

Principle 5: Make Timely and Balanced Disclosure

Disclosure Policy

The Company has established policies and procedures designed to guide compliance with ASX Listing Rules disclosure requirements, and to ensure accountability at a senior management level for that compliance.

The Continuous Disclosure Policy was updated during the year so that it is more aligned with the guidance provided in the revised ASX Guidance Notes 8 on Continuous Disclosure. The policy sets out vetting and authorisation processes designed to ensure any relevant information requiring disclosure to the market:

- is made in a timely manner;
- is factual;
- does not omit material information; and
- is expressed in a clear and objective manner.

The Board and senior managers of PaperlinX are aware of the need to advise the ASX of information that may have a material effect on the price or value of PaperlinX Limited's securities.

Corporate governance
continued

The Executive General Manager Corporate Services, together with the CEO, Chief Financial Officer and Company Secretary, are responsible for reviewing all information of which any of them becomes aware for the purposes of ASX Listing Rule 3.1. Releases which relate to price-sensitive information require the approval of the Chairman and, where appropriate, review by the Nomination & Governance Committee prior to being provided to the Board for final approval. Disclosure issues are a standing item at meetings of the Board of Directors. The Continuous Disclosure and Investor Relations Policy is available on the Company's website at http://www.paperlinx.com/corporate-governance/corporate-policies.htm.

Principle 6: Respect the Rights of Shareholders

Rights of shareholders and communications

PaperlinX is committed to promoting constructive and effective communication with its shareholders.

The Board aims to ensure that shareholders and the investment market generally are informed in a timely manner of all major developments affecting the Company's business and affairs.

At the Annual General Meeting, the Chairman and CEO address the meeting on the results for the financial year under report and other relevant issues, including developments during the period since the end of that financial year.

Shareholders are encouraged to attend General Meetings where ample opportunity is given for questions and answers. Questions can be lodged with the Company via email to contact@paperlinx.com.au or by facsimile to +61 3 9730 9741, in advance of the meeting.

The external auditor attends the Annual General Meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report. Shareholders may also lodge their questions to the auditor in advance of the meeting.

The Company's website is used to provide information generally on the Group and complement the official release of material information to the ASX.

The Company's annual and half-year result announcements together with all other relevant announcements made to the market are posted on the website as soon as practically possible. The website also contains other relevant material, including:

- the Chairman's and Managing Director's and/or CEO's addresses at the Annual General Meeting;
- materials as recommended in the ASX Corporate Governance Principles and Recommendations;
- a dedicated Investor Relations section; and
- profiles of the Board and senior management.

PaperlinX's communication policy is incorporated in its Continuous Disclosure and Investor Relations Policy which is available on its website at http://www.paperlinx.com/corporate-governance/corporate-policies.htm.

Other stakeholders

The Board and management recognise the legitimate interests of all stakeholders in the Company, including shareholders, unit holders, employees, suppliers, customers and the wider community. PaperlinX is committed to policies and practices that are aimed at improving these relationships through mutually beneficial outcomes.

Principle 7: Recognise and Manage Risk

Risk oversight and management

PaperlinX has a risk oversight and management programme that involves an analysis of the material risks to the business of PaperlinX worldwide and operates at various levels underpinned by specific systems and procedures. As part of this programme, material risks are identified and assessed by key executives and management of PaperlinX, as are procedures and other actions for managing and mitigating them.

In addition to ongoing monitoring, the Board has formally reviewed the PaperlinX Group Business Risk Assessment Programme together with reports from management on the activities and results of the programme.

The Risk Oversight and Management Policy and procedures together with categories of risk are reviewed and monitored by the Board, and are updated as appropriate. A copy of the policy is available on the Company's website. In addition, every business has operational manuals, procedures and training, designed to ensure safe operations at all levels.

Monitoring of implementation and compliance with risk oversight and management policies is conducted through:

- regular internal management reporting;
- reporting at Board and committee meetings by relevant managers;
- site visits by the Board and senior management; and
- internal and external audits.

The Chief Executive Officer and the Chief Financial Officer have provided assurance to the Board that the declaration given in accordance with section 295A of the Corporations Act is founded on a sound system of risk management, internal compliance and internal control, which are operating effectively in all material respects in relation to financial reporting risks.

Group Internal Audit

The Group Internal Audit function provides further assurance in relation to PaperlinX's internal controls, governance processes, risk management and integrity of financial reporting.

Group Internal Audit has unrestricted access to review all aspects of the Company's worldwide operations. Group Internal Audit uses a risk-based methodology, including the use of the organisation risk assessment programme, in planning the annual internal audit plan.

Oversight of the Group Internal Audit function is performed by the Audit Committee, which receives regular reports from Group Internal Audit on its work and reviews in detail reports that have been rated as deficient.

Principle 8: Remunerate Fairly and Responsibly

Remuneration & Human Resources Committee

Pursuant to Listing Rule 12.8, only an entity included in the S&P/ASX 300 Index at the beginning of the financial year needs to have a Remuneration Committee during that year. For good governance, the Board has retained the Remuneration & Human Resources Committee.

Up to 14 November 2012, all members of the Committee consist of independent Non-executive Directors. A majority of the current members of the Remuneration & Human Resources Committee are independent Non-executive Directors. The Chair of the Committee is Mr Michael Barker who is an independent Non-executive Director. Prior to 28 March 2013, Mr Robert Kaye SC, an independent Non-executive Director was the Chair of the Committee.

The Remuneration & Human Resources Committee's primary responsibilities are to make recommendations to, and assist, the Board in relation to human resources, diversity and remuneration policies and practices for PaperlinX.

The Committee's role also includes responsibility for share option plans, incentive performance packages and succession planning, including reviewing recruitment, retention and termination policies. It is also responsible for establishing and reviewing the Diversity Policy and the measurable objectives set by the Board for achieving gender diversity and it will assist the Board to assess PaperlinX's progress towards achieving those objectives on an annual basis.

Fees for Non-executive Directors

Non-executive Directors are paid fees which are not dependent on the Company's performance. They are also entitled to statutory superannuation contributions from the Company. Directors are not entitled to receive Retirement Benefits upon leaving office. Whilst Chairmen of Board Committees receive a fee, committee members do not receive any fees. Details of the Non-executive Directors' remuneration are in the Remuneration report.

Structure of the remuneration of the Executive Director and senior executives is detailed in the Remuneration report as set out on pages 15 to 25.

Hedging of incentive remuneration policy

A summary of the Company's policy on prohibiting hedging of incentive remuneration is disclosed in the Remuneration report.

Sustainability

1. Our people

With approximately 4000 employees across 20 countries, our businesses are united by a common set of Values, Core Operating Principles and our Code of Conduct. Due to continued deterioration in trading and general economic conditions, particularly in our key European markets, major restructuring has continued in all of our operations. The new Board and Management team is overseeing the shift away from a centrally led corporation to a simpler structure, with a locally led approach. In addition, the Company is simplifying its business structure in Europe by moving to single entities in each country under one brand, 'PaperlinX'. These moves have prompted significant cultural and operational changes that are part of defining a new business model, with a focus on diversified products and economies of scale. There has been a significant reduction in headcount of 11.8 per cent as we align resource levels and skills to this changing orientation. Consequently, the Company now organises a range of activities at a local level that support team member safety, health, wellbeing and development, and these are outlined here.

Safety, health and wellbeing

The Group continues to focus on providing and maintaining high standards of health and safety for team members in every operational site worldwide.

During the last 12 months, we have completed the first phase of integrating our core health and safety systems onto a single internet-based platform. The new, improved incident reporting system and database is operational and provides greater analysis of incidents and trends so the businesses can take targeted and specific action to prevent recurrence and track progress.

The second phase of the integration is under way and includes simplifying the current Health & Safety Management System, improving the audit protocol and strengthening legal compliance. The project is on track and is expected to complete in December 2013.

A central part of our approach continues to be ongoing team member training to ensure everyone understands their health and safety responsibilities, alongside the application of a structured internal audit process to monitor progress. Focusing on training and monitoring helps to embed ownership and drive continuous improvement throughout the Group.

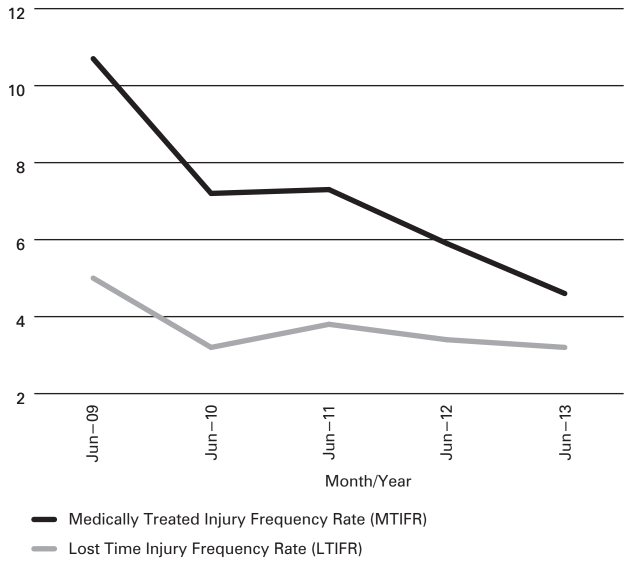
While significant change continues across the Group during this period, safety performance has remained positive. Lost Time Injuries (LTIs) reduced by 23 per cent and the Lost Time Injury Frequency Rate (LTIFR) reduced by 6 per cent against the prior year and now stands at 3.2, equalling an all-time low for the Group. Additionally, 81 per cent of sites worked the full fiscal year without suffering a Lost Time Injury, which is a 2 per cent improvement on the prior year. Significantly, over a five-year period, the Group LTIFR has reduced by 38 per cent.

With regards to risk management, we work closely with our property insurance provider to close out recommendations to address identified risks. Each region achieved their annual risk target, which improved our overall risk profile.

While there are no longer any group wellness initiatives offered, each business has driven and managed relevant health and wellness activities for their teams at individual sites, including health awareness sessions and education materials.

Safety performance

Rolling 12-month average (injuries per million hours worked)



Engaging and supporting our people

In a constantly changing environment, we must provide timely and useful information for our international team member base, and we do this using a number of communication channels, such as newsletters, websites, email updates and meetings. To promote gender diversity throughout our business, we adopted a Diversity Policy in 2013, with the single objective to increase the proportion of females in senior leadership roles to 25 per cent by 30 June 2016. Currently, 12 per cent of senior leadership roles are held by females, which is down by 6 per cent on prior year mainly due to the focus of restructuring activities in back office roles, which are predominantly held by females. A quarterly data gathering process monitors performance towards this objective.

To further strengthen our expectations of professional business behaviour, our Code of Conduct, which overarches company policies and values was rolled out in Australia, New Zealand, Asia and Canada during the year, and Europe is next in line. We continue to conduct our competition law and fair practices compliance training programme. Our Speak Up reporting service, which helps team members to raise concerns about improper conduct, continued as an online service.

We provide a variety of internally and externally led development programmes at a local level to meet local needs, and continue to offer an interactive web-based leadership and management learning programme.

Advancing through this restructuring phase, we need the right blend of leadership talent to develop a successful business and meet the challenges ahead. Succession planning activity was put on hold in 2013 due to restructuring activities; however, the current talent review will culminate in October 2013.

2. Environmental sustainability

Sustainable development creates value for PaperlinX's stakeholders, including customers, suppliers, employees, communities and investors, as well as the environment. As a leading distributor of printing and communication products, the Company's main sustainability focus is on improving our supply chain. We also continue to take practical measures to manage environmental initiatives at our sites that impact our operational footprint.

Supply chain focus

PaperlinX has a Sustainable Supply Chain Policy operating in each region, which makes clear the expectations the Company has of its suppliers and manufacturers. It also makes commitments to assess and consider their sustainability performance as part of the procurement process. Performance improvements are encouraged in a partnership approach, which is intended to address any risks identified, and aid the development of more sustainable products and supply chains. We partner with suppliers and manufacturers that take measures to improve their environmental impact by using certified forest fibres, finding alternative renewable energy sources, reducing chemical, energy and water usage and effluent, and manufacturing products that contain recycled content.

The development of sustainable products and services helps our customers and their clients achieve their sustainability goals. A large majority of paper products we sell originate from certified forests (against third party standards such as Forest Stewardship Council, Programme for the Endorsement of Forest Certification and Sustainable Forestry Initiative). We support these certification programmes through our Chain-of-Custody certifications. In our various markets, product developments continue, such as expanded recycled paper ranges and low-energy lighting systems, as do service innovations such as carbon offsetting and recycling collection services.

The European Union's (EU) Timber Regulation came into force on 3 March 2013 and sets out procedures that those trading timber within the EU must put in place to minimise the risk of illegally harvested timber being sold. The Company has taken the appropriate steps to ensure that all relevant European operating companies and products fulfil the requirements.

The Company no longer participates in the UK's Forest Footprint Disclosure Project or any other external environmental surveys.

Operational footprint

The Group's operations include office sites, warehouses and transport. Operating companies within PaperlinX take responsibility for legal compliance and the management of environmental impacts related to business activities. A particular emphasis is placed on initiatives that also reduce operating costs, such as energy efficiency and waste management. For instance, Spicers in Australia and New Zealand undertake an annual Carbon Audit with the Carbon Reduction Institute to monitor and reduce their operational carbon footprint.

Decommissioning of Tasmanian operations

PaperlinX's environmental activity relating to the decommissioning of its previous manufacturing sites in Tasmania to a standard required by the Tasmanian Environmental Protection Authority is now complete. The final works to remediate the cell plant area of the Burnie site were completed to the satisfaction of the EPA in October 2012. Accordingly, all Environmental Protection Notices for the site have now been removed and the EPA's environmental regulation of the activities on the Burnie site has ceased. As previously advised, all Environmental Protection Notices for the Wesley Vale were lifted in 2011. Ongoing routine maintenance of asbestos material on that site continues.

3. Community connections

Our community support is led by management at each operating company to support local issues and organisations. This includes charitable contributions of cash and paper donations, employee giving, employee involvement activities, cause-related marketing initiatives and commercial sponsorships for industry support. Due to the difficult economic times and ongoing organisational change, our businesses have scaled back community activities.

Many of our businesses are actively involved in supporting professional education and development of printing and design communities around the world to foster customer relationships. We also work with a number of industry groups in Canada, Australia, New Zealand and Asia to tackle issues specific to the print and paper industry. In July, the Company announced it would resign from all European paper merchant trade associations, including the UK's National Association of Paper Merchants (NAPM), at the end of 2013 and refocus its support for bodies and events that support customers more directly.

Full financial report of PaperlinX Limited

As at 30 June 2013

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CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 $m	2012 Restated *(1)* $m
Continuing operations			
Revenue from sale of goods		2,777.9	3,243.2
Cost of inventory sold		(2,232.3)	(2,619.8)
Gross profit		545.6	623.4
Other income	8	8.2	8.9
Personnel costs		(299.6)	(339.9)
Logistics and distribution		(171.4)	(179.5)
Sales and marketing		(3.2)	(7.9)
Impairment of assets held for sale	20	-	(0.5)
Impairment of property, plant and equipment	19,20	(0.8)	(3.8)
Impairment of intangible assets	20	(25.1)	(105.1)
Other expenses		(124.9)	(155.2)
Result from operating activities		(71.2)	(159.6)
Net movement in fair value of currency option and loan	6	-	4.0
Net finance costs	9	(13.0)	(20.0)
Loss before tax		(84.2)	(175.6)
Tax expense	10	(7.4)	(11.8)
Loss from continuing operations		(91.6)	(187.4)
Discontinued operations			
Profit/(loss) from discontinued operations, net of tax	11	1.4	(79.3)
Loss for the period		(90.2)	(266.7)
Loss for the period attributable to:			
Equity holders of PaperlinX Limited		(90.2)	(266.7)
Basic earnings per share (cents)	7	(14.8)	(43.8)
Basic earnings per share from continuing operations (cents)	7	(15.0)	(30.8)
Diluted earnings per share (cents)	7	(14.8)	(43.8)
Diluted earnings per share from continuing operations (cents)	7	(15.0)	(30.8)

(1) Refer Note 8.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 $m	2012 $m
Loss for the period		(90.2)	(266.7)
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Actuarial adjustments on defined benefit plans	32	(21.1)	(39.2)
Income tax (expense)/benefit relating to items that will not be reclassified to profit or loss	10,32	(1.9)	8.0
Total items that will not be reclassified to profit or loss		(23.0)	(31.2)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of overseas subsidiaries		24.1	(20.0)
Net change in fair value of cash flow hedges		-	1.1
Total items that may be reclassified subsequently to profit or loss		24.1	(18.9)
Items reclassified to profit or loss			
Exchange differences on disposal of controlled entities		3.3	29.3
Exchange differences on liquidation of controlled entities		-	0.4
Net change in fair value of cash flow hedges reclassified to Income Statement		-	(2.4)
Total items reclassified to profit or loss		3.3	27.3
Other comprehensive income/(loss) for the period, net of tax		4.4	(22.8)
Total comprehensive loss for the period, net of tax		(85.8)	(289.5)
Total comprehensive loss for the period attributable to:			
Equity holders of PaperlinX Limited		(85.8)	(289.5)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

	Note	2013 $m	2012 Restated *(1)* $m
Current assets			
Cash and cash equivalents	13	87.8	80.0
Trade and other receivables	14	601.9	671.6
Income tax receivable		11.1	3.4
Inventories	15	302.4	305.5
Assets held for sale	16	-	43.4
Total current assets		1,003.2	1,103.9
Non-current assets			
Receivables	17	3.6	13.3
Investments	18	1.1	1.0
Property, plant and equipment	19	41.4	43.3
Intangible assets	20	78.8	96.6
Deferred tax assets	21	33.2	40.6
Total non-current assets		158.1	194.8
Total assets		1,161.3	1,298.7
Current liabilities			
Bank overdrafts		0.1	-
Trade and other payables	22	396.8	435.3
Loans and borrowings	23	81.3	175.8
Income tax payable		8.8	2.7
Employee benefits	24	15.9	16.2
Provisions	25	28.6	30.0
Liabilities held for sale	16	-	14.8
Total current liabilities		531.5	674.8
Non-current liabilities			
Payables	26	1.3	1.3
Loans and borrowings	23	129.1	52.0
Deferred tax liabilities	21	1.5	2.2
Employee benefits	24	129.7	109.1
Provisions	25	6.5	12.1
Total non-current liabilities		268.1	176.7
Total liabilities		799.6	851.5
Net assets		361.7	447.2
Equity			
Issued capital	27	1,895.6	1,893.5
Reserves	28	(123.9)	(149.4)
Accumulated losses		(1,686.5)	(1,573.4)
Total equity attributable to holders of ordinary shares of PaperlinX Limited		85.2	170.7
PaperlinX step-up preference securities	29	276.5	276.5
Total equity		361.7	447.2

(1) Refer Notes 22 and 24.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2013

		Attributable to equity holders of PaperlinX Limited							
$m	Note	Issued capital	Exchange fluctuation reserve	Hedging reserve	Reserve for own shares	Employee share plans reserve	Accumulated losses	PaperlinX step-up preference securities	Total equity
Balance at 1 July 2012		1,893.5	(152.6)	(0.1)	(0.1)	3.4	(1,573.4)	276.5	**447.2**
Total comprehensive loss for the period									
Loss for the period		-	-	-	-	-	(90.2)	-	**(90.2)**
Other comprehensive income									
• Actuarial adjustments on defined benefit plans		-	-	-	-	-	(21.1)	-	**(21.1)**
• Exchange differences on translation of overseas subsidiaries		-	24.1	-	-	-	-	-	**24.1**
• Reclassification of exchange differences on disposal of controlled entities to Income Statement		-	3.2	-	-	-	0.1	-	**3.3**
• Income tax expense on other comprehensive income		-	-	-	-	-	(1.9)	-	**(1.9)**
Total other comprehensive income/(loss)		-	27.3	-	-	-	(22.9)	-	**4.4**
Total comprehensive (loss)/income for the period		-	27.3	-	-	-	(113.1)	-	**(85.8)**
Transactions with owners recorded directly in equity									
• Employee share-based payment transactions		-	-	-	(0.1)	(1.9)	-	-	**(2.0)**
• Issue of shares to employees		1.6	-	-	0.2	-	-	-	**1.8**
• Employee loans forgiven - forfeited entitlements	27	0.5	-	-	-	-	-	-	**0.5**
Total transactions with owners		2.1	-	-	0.1	(1.9)	-	-	**0.3**
Balance at 30 June 2013		1,895.6	(125.3)	(0.1)	-	1.5	(1,686.5)	276.5	**361.7**

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 $m	2012 $m
Cash flows from operating activities			
Receipts from customers		2,864.2	4,207.5
Payments to suppliers and employees		(2,892.6)	(4,250.0)
Interest received		1.8	2.6
Interest paid		(12.7)	(19.6)
Income taxes paid		(2.8)	(2.8)
Net cash used in operating activities	33	(42.1)	(62.3)
Cash flows from investing activities			
Acquisition of:			
• Controlled entities and businesses (net of cash and bank overdraft acquired)		(3.1)	-
• Property, plant and equipment and intangibles		(9.0)	(14.0)
Net (payments)/proceeds from the sale of:			
• Controlled entities and businesses (proceeds less transaction costs) - net of cash and bank overdraft disposed		82.0	(6.3)
• Property, plant and equipment		15.9	1.5
Tasmanian manufacturing operations closure payments		(3.1)	(5.5)
Net cash from/(used in) investing activities		82.7	(24.3)
Cash flows from financing activities			
Proceeds from borrowings		27.5	44.5
Repayment of borrowings		(59.9)	(30.1)
Purchase of own shares for employees		(0.1)	-
Principal finance lease repayments		-	(0.1)
Currency option close out		-	39.2
Capitalised borrowing costs paid		(0.3)	(2.6)
Other borrowing costs paid		(1.2)	(0.4)
Net cash (used in)/from financing activities		(34.0)	50.5
Net increase/(decrease) in cash and cash equivalents		6.6	(36.1)
Cash and cash equivalents at the beginning of the period	33	80.0	115.5
Net bank overdraft transferred to liabilities held for sale		-	0.6
Effect of exchange rate changes on cash held		1.1	-
Cash and cash equivalents at the end of the period	33	87.7	80.0

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

Note 1. Reporting entity

PaperlinX Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is 7 Dalmore Drive, Scoresby VIC 3179, Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2013 comprise the Company and its subsidiaries (together referred to as "the Consolidated Entity"). The Consolidated Entity is a for-profit entity and is primarily involved in the merchanting of paper, communication materials and diversified products and services.

Note 2. Basis of preparation

(a) Statement of compliance

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

The Financial Report was authorised for issue by the Directors of the Company on 21 August 2013.

(b) Basis of measurement

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

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

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

(c) Functional and presentation currency

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

The Company is of the kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the Financial Report and Directors' Report have been rounded off to the nearest hundred thousand dollars, unless otherwise stated.

(d) Use of estimates and judgements

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

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

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

(e) Going concern basis of accounting

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

The Consolidated Entity is primarily funded by receivables-backed and inventory-backed facilities. As disclosed in Note 23, the major line of finance is due to expire in September 2014, however in August 2013 covenants were re-negotiated. In addition, the Consolidated Entity has entered into additional committed lines of credit with financiers in a number of European jurisdictions (refer Note 23 for details).

The ability of the Consolidated Entity to meet its operational cash requirements and remain within the limits of the existing debt facilities in the foreseeable future is dependent in part on meeting forecast trading results and cash flows. These forecasts are necessarily based on best-estimate assumptions that may or may not occur as expected and are subject to influences and events outside of the control of the Consolidated Entity. The forecasts, taking into account reasonably possible changes in trading performance, show that the Consolidated Entity should be able to operate within the level and terms of its current facilities for the next 12 months. This notwithstanding, the current economic environment in some of the major operating jurisdictions and structural changes in the traditional paper markets present challenges in terms of sales volume, pricing and input costs. The trading environment creates uncertainties about future trading results and cash flows and the economic entity is forecast to continue to incur net operating cash outflows for the next 12 months as a result of a challenging trading environment and the implementation of restructure plans. In addition, the existing facilities include regional specific covenants and restrictions on the ability to draw down debt facilities and move cash within the Consolidated Entity.

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

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

(f) New and amended standards adopted

The Consolidated Entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the "AASB") that are relevant to its operations and effective for the current reporting period.

The only revised Standard effective for the current reporting period that is relevant to the Consolidated Entity is:

- AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income.*

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

Note 3. Accounting policies

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

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

(a) Basis of consolidation

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

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Investments in subsidiaries are carried at cost less accumulated impairment losses.

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

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

Other entities

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

PaperlinX Step-up Preference Securities

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

(b) Revenue recognition

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

(c) Government grants

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

(d) Taxation

Income tax

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

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

Deferred tax is recognised for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not recognised:

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

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

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

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

Tax consolidation - Australia

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

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

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

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

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

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

Note 3. Accounting policies – (continued)

Nature of tax funding arrangements and tax sharing agreements - Australia

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

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

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

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

(e) Goods and Services Tax – Australia

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

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

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

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

(f) Depreciation

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

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

Land improvements:	between 1% - 3% (2012: 1% - 3%)
Buildings:	between 1% - 4% (2012: 1% - 4%)
Plant and equipment:	between 4% - 20% (2012: 4% - 20%)

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

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

(g) Employee benefits

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

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

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

Workers' compensation

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

Share-based payments

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

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

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

Note 3. Accounting policies – (continued)

Employee retirement benefit obligations

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

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

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

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

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

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

(h) Net financing costs

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

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

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

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

(i) Property, plant and equipment

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

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

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

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

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

(j) Inventories

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

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

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

(k) Cash and cash equivalents

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

(l) Foreign currency

Functional currency

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

Transactions

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

Note 3. Accounting policies – (continued)

Translation of foreign subsidiaries

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

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

(m) Financial instruments

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

Derivative instruments

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

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

Cash flow hedges

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

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

Financial instruments included in liabilities

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

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

Financial instruments included in assets

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

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

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

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

Cash and cash equivalents comprise cash balances and call deposits.

(n) Leased assets

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

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

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

(o) Intangible assets

Goodwill

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

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

Brand names

Brand names acquired are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated over the cost of the asset less its residual value. Amortisation is recognised in profit or loss on a straight line basis over a period of 5 years, commencing 1 July 2012. In the prior reporting period, brand names were carried at cost less any impairment losses and were not amortised on the basis that they had indefinite useful lives – refer Note 20.

Note 3. Accounting policies – (continued)

Other intangible assets

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

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

Amortisation rates used for other intangible assets are as follows:

Computer software:	10.0% - 40.0% (2012: 10% - 40.0%)
Customer lists:	6.7% - 14.3% (2012: 6.7% - 14.3%)

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

(p) Business combinations

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

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

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

Acquisitions on or after 1 July 2009

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

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

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

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

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

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

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

Acquisitions between 1 July 2004 and 1 July 2009

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

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

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

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

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

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

(q) Impairment of assets

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

Recoverable amount

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

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

Note 3. Accounting policies – (continued)

Reversals of impairment

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

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

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

(r) Provisions

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

Dividends on ordinary shares

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

Distribution on PaperlinX Step-up Preference Securities

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

Surplus leased premises

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

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

Restructuring

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

Environmental remediation

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

(s) Earnings per share

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

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

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

(t) Discontinued operation

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

(u) Accounting estimates and judgements

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

Revisions of accounting estimates

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

Impairment of non-current assets

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

Defined benefit plan obligations

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

Tasmania closure costs

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

Note 3. Accounting policies – (continued)

(v) Segment reporting

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

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

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

(w) Non-current assets held for sale

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

(x) New standards and interpretations not yet adopted

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

- AASB 9 *Financial Instruments* (Dec 2009) includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become applicable to annual reporting periods beginning on or after 1 January 2013.
- AASB 9 *Financial Instruments* (Dec 2010) includes requirements for the classification and measurement of financial liabilities resulting from Phase 2 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become applicable to annual reporting periods beginning on or after 1 January 2013.
- AASB 10 *Consolidated Financial Statements* includes requirements for parent entities to present consolidated financial statements as those of a single economic entity, which replaces the requirements of AASB 127 *Consolidated and Separate Financial Statements.* AASB 10 will become applicable to annual reporting periods beginning on or after 1 January 2013.
- AASB 11 *Joint Arrangements* includes requirements for a party to a joint arrangement to determine the type of joint arrangement in which it is involved, and account for it accordingly. AASB 11 will become applicable to annual reporting periods beginning on or after 1 January 2013.
- AASB 12 *Disclosure of Interests in Other Entities* includes requirements for the disclosure of information that allows users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. AASB 12 will become applicable to annual reporting periods beginning on or after 1 January 2013.
- AASB 13 *Fair Value Measurement* includes definitions for fair value, provides guidance on how to determine fair value and required disclosures about fair value measurement in a single standard. AASB 13 will become applicable to annual reporting periods beginning on or after 1 January 2013.
- AASB 119 *Employee Benefits (2011)* amendments include enhanced disclosure requirements for defined benefit plans and clarification of various miscellaneous issues. AASB 119 will become applicable to annual reporting periods beginning on or after 1 January 2013.
- AASB 127 *Separate Financial Statements (2011)* amends the prior version of the standard to remove requirements relating to consolidated financial statements which are now contained in AASB 10. AASB 127 will become applicable to annual reporting periods beginning on or after 1 January 2013.
- AASB 128 *Investments in Associates and Joint Ventures (2011)* amends the prior version of the standard and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. AASB 128 will become applicable to annual reporting periods beginning on or after 1 January 2013.
- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* amends AASB 124 to remove the individual key management personnel (KMP) disclosures required by Australian specific paragraphs. The amendments will become applicable to annual reporting periods beginning on or after 1 July 2013.
- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities* amends AASB 7 to require an entity to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. The amendments will become applicable to annual reporting periods beginning on or after 1 January 2013.
- AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities* addresses inconsistencies in current practice when applying the offsetting criteria in AASB 132. The amendments will become applicable to annual reporting periods beginning on or after 1 January 2014.
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle* amends a number of pronouncements as a result of the 2009-2011 annual improvements cycle. The amendments will become applicable to annual reporting periods beginning on or after 1 January 2013.
- AASB 2012-6 *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures* amends the mandatory effective date of AASB 9 from 1 January 2013 to 1 January 2015. The amendments will become applicable to annual reporting periods beginning on or after 1 January 2013.
- AASB 2012-9 *Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039* removes Interpretation 1039 ‘Substantive Enactment of Major Tax Bills in Australia’ from the list of ‘other Australian interpretations’ contained in AASB 1048. The amendments will become applicable to annual reporting periods beginning on or after 1 January 2013.
- AASB 2012-10 *Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments* amends AASB 10 to clarify the circumstances in which adjustments to an entity’s previous accounting for its involvement with other entities are required and the timing of such adjustments. The amendments will become applicable to annual reporting periods beginning on or after 1 January 2013.

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

Note 4. Determination of fair values

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

(a) Property, plant and equipment

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

(b) Intangible assets

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

(c) Inventories

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

(d) Trade and other receivables

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

(e) Derivatives

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

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

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

(f) Non-derivative financial liabilities

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

(g) Share-based payment transactions

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

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

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

(h) Financial guarantees

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

Note 5. Operating segments

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

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

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

	Note	Merchanting Europe $m	Merchanting Canada $m	Merchanting Australia, New Zealand, Asia $m	Unallocated $m	Total Continuing Operations $m	Discontinued Operations $m	Group Eliminations $m	Group $m
For the year ended 30 June 2013									
External sales revenue		1,953.7	401.5	422.7	-	2,777.9	27.8	-	2,805.7
Inter-segment sales revenue		-	-	3.9	(3.9)	-	-	-	-
Total revenue		1,953.7	401.5	426.6	(3.9)	2,777.9	27.8	-	2,805.7
(Loss)/profit before net finance costs, tax and significant items		(34.3)	13.2	13.0	(11.5)	(19.6)	2.7	-	(16.9)
Significant items (pre-tax)	6	(46.5)	(1.6)	(3.0)	(0.5)	(51.6)	(0.1)	-	(51.7)
Net other finance costs	9,11	-	-	-	(1.8)	(1.8)	-	-	(1.8)
(Loss)/profit before interest and tax		(80.8)	11.6	10.0	(13.8)	(73.0)	2.6	-	(70.4)
Net interest	9,11				(11.2)	(11.2)	(1.1)	-	(12.3)
(Loss)/profit before tax					(25.0)	(84.2)	1.5	-	(82.7)
Tax expense - pre-significant items					(7.9)	(7.9)	(0.1)	-	(8.0)
Tax benefit - significant items	6,11				0.5	0.5	-	-	0.5
(Loss)/profit for the period					(32.4)	(91.6)	1.4	-	(90.2)
The (loss)/profit before tax includes:									
Depreciation and amortisation	19,20	(8.6)	(1.7)	(1.9)	(0.5)	(12.7)	(0.1)	-	(12.8)
Impairment of non-current assets	19,20	(25.1)	-	(0.8)	-	(25.9)	-	-	(25.9)
Depreciation, amortisation and impairment		(33.7)	(1.7)	(2.7)	(0.5)	(38.6)	(0.1)	-	(38.7)
Capital expenditure		6.8	1.5	3.0	-	11.3	0.1	-	11.4
As at 30 June 2013									
Total assets		738.2	142.5	222.4	51.1	1,154.2	7.1	-	1,161.3
Total liabilities		415.3	61.8	85.3	229.4	791.8	7.8	-	799.6
Net assets/(liabilities)		322.9	80.7	137.1	(178.3)	362.4	(0.7)	-	361.7

Note 5. Operating segments – (continued)

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

Note 6. Individually significant items

		Continuing			Discontinued			Total		
For the year ended 30 June	**Note**	**Pre -tax $m**	**Tax impact $m**	**Post -tax $m**	**Pre -tax $m**	**Tax impact $m**	**Post -tax $m**	**Pre -tax $m**	**Tax impact $m**	**Post -tax $m**
2013										
Loss on sale of controlled entities	11	-	-	-	(3.4)	-	(3.4)	(3.4)	-	(3.4)
Impairment of intangible assets	20	(25.1)	-	(25.1)	-	-	-	(25.1)	-	(25.1)
Restructuring costs *(1)*		(26.5)	0.5	(26.0)	-	-	-	(26.5)	0.5	(26.0)
Write-back of provisions re closure of discontinued Tasmanian operations		-	-	-	3.3	-	3.3	3.3	-	3.3
Total individually significant items		(51.6)	0.5	(51.1)	(0.1)	-	(0.1)	(51.7)	0.5	(51.2)
2012										
Loss on sale of controlled entities		-	-	-	(62.4)	-	(62.4)	(62.4)	-	(62.4)
Impairment of assets held for sale		(0.5)	-	(0.5)	(1.2)	-	(1.2)	(1.7)	-	(1.7)
Impairment of property, plant and equipment		(3.8)	-	(3.8)	(1.1)	-	(1.1)	(4.9)	-	(4.9)
Impairment of intangible assets		(105.1)	-	(105.1)	(14.2)	-	(14.2)	(119.3)	-	(119.3)
Restructuring costs		(29.4)	2.7	(26.7)	(1.7)	-	(1.7)	(31.1)	2.7	(28.4)
Net movement in fair value of currency option and loan		4.0	(1.0)	3.0	-	-	-	4.0	(1.0)	3.0
Net benefits related to closure of discontinued Tasmanian operations		-	-	-	1.4	-	1.4	1.4	-	1.4
Total individually significant items		(134.8)	1.7	(133.1)	(79.2)	-	(79.2)	(214.0)	1.7	(212.3)

(1) Includes $0.8m impairment of property, plant and equipment which arose as part of restructuring activities in the Australia, New Zealand and Asia segment – refer Notes 19 and 20.

Note 7. Earnings per share

	Continuing		Discontinued		Total	
	2013 $m	**2012 $m**	**2013 $m**	**2012 $m**	**2013 $m**	**2012 $m**
(Loss)/profit for the period attributable to holders of ordinary shares in PaperlinX Limited	(91.6)	(187.4)	1.4	(79.3)	(90.2)	(266.7)
Weighted average number of shares - basic (millions)	609.3	608.3	609.3	608.3	609.3	608.3
Basic EPS (cents)	(15.0)	(30.8)	0.2	(13.0)	(14.8)	(43.8)
Weighted average number of shares - diluted (millions)	609.3	608.3	609.3	608.3	609.3	608.3
Diluted EPS (cents)	(15.0)	(30.8)	0.2	(13.0)	(14.8)	(43.8)

The options to purchase shares and rights on issue during the years ended 30 June 2013 and 30 June 2012 have not been included in determining the basic earnings per share.

The options to purchase shares and rights on issue during the year ended 30 June 2013 (weighted average 5.0 million shares) have not been included in determining the diluted earnings per share because they are anti-dilutive. The options to purchase shares and rights on issue during the year ended 30 June 2012 (weighted average 9.5 million shares) have not been included in determining the diluted earnings per share for the prior period because they are anti-dilutive.

Nil options or rights have been issued since 30 June 2013 up to the date of this report.

No options or rights have been exercised, resulting in the issuing of nil shares since 30 June 2013 up to the date of this report. Nil rights have vested since 30 June 2013 and are exercisable as at the date of this report. In addition, nil options and nil rights have lapsed since 30 June 2013 in respect of the plan period ended 30 June 2013.

Note 8. Other income from continuing operations

	2013 $m	2012 Restated *(1)* $m
Rent	2.1	4.6
Net profit on disposal of non-current assets	0.6	0.2
Other	5.5	4.1
Total other income	8.2	8.9

(1) During the current reporting period, the Consolidated Entity reclassified the revenue associated with some third party logistics activities from "logistics and distribution" to "other income", and the costs associated with these activities from "other expenses" to "logistics and distribution" in the consolidated income statement in order to more accurately reflect the nature of these activities. Comparative amounts in the consolidated income statement were reclassified for consistency, resulting in $3.9 million of income being reclassified from "logistics and distribution" to "other income" and $3.4 million of expenses being reclassified from "other expenses" to "logistics and distribution". Since the amounts are reclassifications within operating activities in the consolidated income statement, this reclassification did not have any effect on the consolidated statement of financial position.

Note 9. Net finance costs from continuing operations

	2013 $m	2012 $m
Net interest		
Interest expense	(13.1)	(16.2)
Interest income	1.9	2.6
Total net interest	(11.2)	(13.6)
Other finance costs		
Net other foreign exchange losses	-	(2.4)
Other borrowing costs	(1.8)	(4.0)
Total other finance costs	(1.8)	(6.4)
Total net finance costs	(13.0)	(20.0)

Note 10. Income tax expense

	2013 $m	2012 $m
Prima facie income tax benefit attributable to loss from continuing and discontinued operations at the Australian tax rate of 30% (2012: 30%)	24.8	75.4
(Add)/deduct the tax effect of:		
• Tax losses not brought to account	(16.4)	(19.3)
• Prior year booked tax losses written off in the current year	(3.3)	(6.9)
• Overseas tax rate differential	(4.9)	(8.6)
• Other non-deductible/non-assessable items	(1.5)	(3.4)
• Amortisation of goodwill allowable	0.4	0.7
• Tax benefit of deductions in foreign operations	-	2.7
• Over/(under) provision in prior years	0.6	(1.6)
• Non-deductible impairment expenses - significant item	(6.2)	(35.5)
• Non-deductible loss on sale of merchanting businesses - discontinued significant item	(1.0)	(18.7)
Total tax expense in income statement	(7.5)	(15.2)
comprising:		
Tax expense from continuing operations	(7.4)	(11.8)
Tax expense from discontinued operations	(0.1)	(3.4)
	(7.5)	(15.2)
Recognised in the income statement		
Current tax expense		
• Current year	(3.3)	(8.7)
• Over/(under) provision in prior years	0.6	(1.6)
Deferred tax expense	(4.8)	(4.9)
Total tax expense in income statement	(7.5)	(15.2)
Recognised in other comprehensive income		
Tax effect of actuarial adjustments on defined benefit plans	(1.9)	8.0
Total tax (expense)/benefit recognised in other comprehensive income	(1.9)	8.0

The balance of the consolidated franking account as at the reporting date was $Nil (2012: $Nil).

Note 11. Discontinued operations

Discontinued operations comprises merchanting and manufacturing operations sold or closed down.

Merchanting

Discontinued merchanting operations comprises:

- Italy (Polyedra), part of the Europe segment. Sale announced March 2012 and completed July 2012.
- USA (Spicers USA and Kelly Paper), part of the North America (now Canada) segment. Sale announced June 2012 and completed July 2012.
- Slovakia, Hungary, Slovenia, Croatia and Serbia, part of the Europe segment. Sale announced July 2012 and completed November 2012.
- South Africa, part of the Europe segment. Sale announced July 2012 and completed September 2012.

The businesses were sold in order to improve liquidity and provide funds for major restructuring in key European markets.

Manufacturing

Discontinued manufacturing operations comprises the Consolidated Entity's paper manufacturing businesses:

- Tas Paper – Wesley Vale Mill and part of the Burnie Mill closed March 2010. Remaining Burnie Mill operations were closed in June 2010.
- Australian Paper – sold effective 31 May 2009.

Result from discontinued operations

	Europe		North America		Manufacturing & Group Elims		Total Discontinued Operations	
	2013 $m	2012 $m	2013 $m	2012 $m	2013 $m	2012 $m	2013 $m	2012 $m
Revenue	27.8	409.5	-	460.5	-	-	27.8	870.0
Other income	-	-	-	0.9	3.3	1.2	3.3	2.1
Trading expenses	(27.5)	(404.8)	-	(456.9)	(0.9)	(1.8)	(28.4)	(863.5)
Result from operating activities before significant items, net finance costs, and tax	0.3	4.7	-	4.5	2.4	(0.6)	2.7	8.6
Significant items - operating activities	-	(19.0)	-	-	3.3	2.2	3.3	(16.8)
Significant items - loss on sale of discontinued operations *(1)*	(0.5)	(9.2)	(2.9)	(53.2)	-	-	(3.4)	(62.4)
Net other finance costs	-	(0.3)	-	(0.3)	-	-	-	(0.6)
Result before interest and tax	(0.2)	(23.8)	(2.9)	(49.0)	5.7	1.6	2.6	(71.2)
Net interest	(0.1)	(1.4)	-	(0.9)	(1.0)	(2.4)	(1.1)	(4.7)
Result before tax	(0.3)	(25.2)	(2.9)	(49.9)	4.7	(0.8)	1.5	(75.9)
Tax expense pre-significant items	(0.1)	(1.8)	-	(1.6)	-	-	(0.1)	(3.4)
Tax expense significant items - operating activities	-	-	-	-	-	-	-	-
Profit/(loss) for the period	(0.4)	(27.0)	(2.9)	(51.5)	4.7	(0.8)	1.4	(79.3)

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

Cash flows from discontinued operations

	2013 $m	2012 $m
Net cash used in operating activities	(1.0)	(13.4)
Net cash from/(used in) investing activities	83.3	(13.2)
Net cash from financing activities (excluding internal transactions)	-	7.7
Net cash from/(used in) discontinued operations	82.3	(18.9)

Note 11. Discontinued operations – (continued)

Effect of disposal on the financial position of the Consolidated Entity

The effect of the disposal of the Slovakia, Hungary, Slovenia, Croatia, Serbia and South Africa (Europe segment) merchanting operations during the current reporting period on the financial position of the Consolidated Entity is set out below.

	Total 2013 $m
Current assets	
Cash and cash equivalents	1.4
Trade and other receivables	27.3
Inventories	11.5
Total current assets	40.2
Non-current assets	
Property, plant and equipment	0.7
Intangible assets	0.1
Deferred tax assets	0.1
Total non-current assets	0.9
Total assets	41.1
Current liabilities	
Trade and other payables	13.2
Loans and borrowings	2.2
Income tax payable	0.3
Total current liabilities	15.7
Non-current liabilities	
Payables	0.1
Employee benefits	(0.0)
Provisions	(0.0)
Total non-current liabilities	0.1
Total liabilities	15.8
Total net assets disposed	25.3
Gross consideration	32.6
Cash and cash equivalents disposed	1.4
Debt disposed	(2.2)
Working capital and other adjustments	(1.6)
Net proceeds	30.2
Transaction costs paid	(0.1)
Net cash inflow for the period	30.1

Note 12. Dividends and distributions

(a) Dividends on PaperlinX Limited ordinary shares

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

(b) Distributions on PaperlinX step-up preference securities

The interim distribution rate for the period 1 July 2013 to 31 December 2013 is 7.4550%. The distribution is payable at the discretion of the directors of the Company. In addition, the main lending facility in Europe contains a requirement to obtain lender approval for future hybrid distributions.

Note 13. Cash and cash equivalents

	2013 $m	2012 $m
Cash on hand and at bank	52.3	60.0
Deposits at call	35.5	20.0
Total cash and cash equivalents	87.8	80.0

Under certain regional asset backed loan facilities, lender approval is required to transfer cash between entities within the Consolidated Entity. Balances subject to these approvals at reporting date were $73.9 million (2012: $71.4 million).

Note 14. Trade and other receivables

	2013 $m	2012 $m
Trade debtors	576.5	583.3
Provision for impairment losses	(27.3)	(26.4)
Net trade debtors	549.2	556.9
Accrued rebates	20.0	27.8
Amounts receivable on sale of property, plant and equipment, controlled entities and investments	3.9	60.9
Other debtors	7.3	4.6
Prepayments	21.5	21.4
Total trade and other receivables	601.9	671.6

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

The amount of receivables pledged as part of the regional loan facilities at balance date was $187.5 million (2012: $211.1 million).

The amount of receivables transferred but not derecognised as part of the loan facilities in the Europe segment at balance date was $18.2 million (2012: $nil).

Note 15. Inventories

	2013 $m	2012 $m
Finished goods	309.2	311.1
Provision for impairment losses	(6.9)	(5.6)
Net finished goods	302.3	305.5
Net raw materials and stores	0.1	-
Total inventories	302.4	305.5

The amount of provision charged to the Income Statement for diminution in value of inventories was $0.8 million for continuing operations (2012: $0.5 million) and $(0.1) million for discontinued operations (2012: $0.7 million).

The amount of inventories pledged as part of the regional loan facilities in Canada and New Zealand at balance date was $0.3 million (2012: $6.8 million).

Note 16. Assets and liabilities held for sale

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

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

In accordance with AASB 5 – *Non-current Assets Held for Sale and Discontinued Operations,* the assets and liabilities of these operations were reclassified as held for sale as at 30 June 2012. The sale of the South African merchanting operations and the Slovakia, Hungary, Slovenia, Croatia and Serbia merchanting operations were completed in September 2012 and November 2012 respectively.

A warehouse, part of the Europe continuing segment, which was classified as held for sale during the comparative reporting period was sold during the current reporting period.

Assets and liabilities held for sale comprised:

	2013 $m	2012 $m
Cash	-	1.7
Trade and other receivables	-	26.3
Inventories	-	9.5
Property, plant and equipment and intangibles	-	5.8
Other	-	0.1
Total assets held for sale	-	43.4
Trade and other payables	-	12.3
Loans and borrowings	-	2.3
Income tax payable	-	0.2
Total liabilities held for sale	-	14.8

Note 17. Receivables - non-current

	2013 $m	2012 $m
Amounts receivable on sale of property, plant and equipment, controlled entities and investments	3.1	12.7
Other debtors	0.5	0.6
Total receivables non-current	3.6	13.3

Note 18. Investments

	2013 $m	2012 $m
Shares in other companies - not listed on stock exchanges:		
• At cost	2.1	2.0
• Impairment	(1.0)	(1.0)
Total investment in shares in unlisted companies	1.1	1.0
Total investments	1.1	1.0

Note 19. Property, plant and equipment

$ million	Land	Land improve-ments	Buildings	Plant and equipment	Leased assets	Total
Cost or deemed cost:						
Balance at 1 July 2012	7.0	1.6	78.0	232.9	-	319.5
Additions	-	-	0.4	4.8	-	5.2
Disposals	(0.8)	(0.9)	(33.9)	(18.0)	-	(53.6)
Transfers	-	-	(0.6)	0.7	-	0.1
Foreign currency movements	0.4	-	2.6	15.5	-	18.5
Balance at 30 June 2013	6.6	0.7	46.5	235.9	-	289.7
Depreciation and impairment losses:						
Balance at 1 July 2012	(3.5)	(1.6)	(65.4)	(205.7)	-	(276.2)
Depreciation	-	-	(1.0)	(7.3)	-	(8.3)
Impairment	-	-	-	(0.8)	-	(0.8)
Disposals	0.8	0.9	33.9	17.3	-	52.9
Transfers	-	-	0.2	(0.4)	-	(0.2)
Foreign currency movements	(0.2)	-	(1.9)	(13.6)	-	(15.7)
Balance at 30 June 2013	(2.9)	(0.7)	(34.2)	(210.5)	-	(248.3)
Carrying amount as at 30 June 2013	3.7	-	12.3	25.4	-	41.4
Cost or deemed cost:						
Balance at 1 July 2011	7.4	1.6	100.0	442.0	0.8	551.8
Additions	-	-	0.6	8.2	-	8.8
Disposals *(1)*	-	-	(2.4)	(142.5)	-	(144.9)
Disposal of businesses	-	-	(7.9)	(54.2)	-	(62.1)
Transfers from/(to) assets held for sale	-	-	(9.7)	(3.9)	(0.6)	(14.2)
Foreign currency movements	(0.4)	-	(2.6)	(16.7)	(0.2)	(19.9)
Balance at 30 June 2012	7.0	1.6	78.0	232.9	-	319.5
Depreciation and impairment losses:						
Balance at 1 July 2011	(2.1)	(1.6)	(77.1)	(398.8)	(0.7)	(480.3)
Depreciation	-	-	(2.0)	(10.9)	-	(12.9)
Impairment	(1.7)	-	(2.3)	(0.8)	(0.1)	(4.9)
Disposals *(1)*	-	-	2.4	142.2	-	144.6
Disposal of businesses	-	-	7.4	44.5	-	51.9
Transfers (from)/to assets held for sale	-	-	4.6	3.2	0.6	8.4
Foreign currency movements	0.3	-	1.6	14.9	0.2	17.0
Balance at 30 June 2012	(3.5)	(1.6)	(65.4)	(205.7)	-	(276.2)
Carrying amount as at 30 June 2012	3.5	-	12.6	27.2	-	43.3

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

Refer Note 20 for details of the impairment review.

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

$ million	Goodwill	Computer software	Brand names (1)	Other	Total
Cost or deemed cost:					
Balance at 1 July 2012	224.6	77.3	16.3	8.2	326.4
Additions	-	3.8	-	-	3.8
Acquisition of businesses	2.4	-	-	-	2.4
Foreign currency movements	16.4	8.8	1.2	0.5	26.9
Balance at 30 June 2013	243.4	89.9	17.5	8.7	359.5
Amortisation and impairment losses:					
Balance at 1 July 2012	(165.2)	(51.7)	(8.0)	(4.9)	(229.8)
Amortisation	-	(3.0)	(0.8)	(0.7)	(4.5)
Impairment	-	(17.8)	(7.3)	-	(25.1)
Foreign currency movements	(12.1)	(7.6)	(1.4)	(0.2)	(21.3)
Balance at 30 June 2013	(177.3)	(80.1)	(17.5)	(5.8)	(280.7)
Carrying amount as at 30 June 2013	66.1	9.8	-	2.9	78.8
Cost or deemed cost:					
Balance at 1 July 2011	277.3	95.0	16.8	8.4	397.5
Additions	-	5.1	-	-	5.1
Disposal of businesses	(39.7)	(16.3)	-	-	(56.0)
Transfers	-	2.4	-	-	2.4
Foreign currency movements	(13.0)	(8.9)	(0.5)	(0.2)	(22.6)
Balance at 30 June 2012	224.6	77.3	16.3	8.2	326.4
Amortisation and impairment losses:					
Balance at 1 July 2011	(68.4)	(62.8)	(5.2)	(3.8)	(140.2)
Amortisation	-	(5.9)	-	(1.2)	(7.1)
Impairment	(116.3)	0.1	(3.1)	-	(119.3)
Disposal of businesses	14.2	13.7	-	-	27.9
Transfers	-	(2.4)	-	-	(2.4)
Foreign currency movements	5.3	5.6	0.3	0.1	11.3
Balance at 30 June 2012	(165.2)	(51.7)	(8.0)	(4.9)	(229.8)
Carrying amount as at 30 June 2012	59.4	25.6	8.3	3.3	96.6

(1) *Treated as assets with indefinite useful lives in comparative reporting period. From 1 July 2012, amortised on a straight line basis over 5 years – refer Note 3(o).*

Impairment loss and reversals

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

2013		Property, plant and equipment					Intangibles			
$ million	Assets held for sale	Land	Buildings	Plant and equip't	Leased assets	Total	Goodwill	Brands	Computer software	Total
Impairment charges:										
• Continental Europe	-	-	-	-	-	-	-	(1.0)	(7.8)	(8.8)
• United Kingdom and Ireland	-	-	-	-	-	-	-	(6.3)	(10.0)	(16.3)
• Australia, New Zealand and Asia	-	-	-	(0.8)	-	(0.8)	-	-	-	-
Total continuing operations	-	-	-	(0.8)	-	(0.8)	-	(7.3)	(17.8)	(25.1)
Total	-	-	-	(0.8)	-	(0.8)	-	(7.3)	(17.8)	(25.1)

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

2012		Property, plant and equipment					Intangibles			
$ million	Assets held for sale	Land	Build-ings	Plant and equip't	Leased assets	Total	Good-will	Brands	Computer software	Total
Impairment charges:										
• Continental Europe	(0.5)	(1.7)	(1.4)	-	-	(3.1)	(57.8)	(0.5)	0.1	(58.2)
• United Kingdom, Ireland and South Africa	-	-	(0.3)	(0.2)	-	(0.5)	(44.3)	(2.6)	-	(46.9)
• Australia, New Zealand and Asia	-	-	-	(0.2)	-	(0.2)	-	-	-	-
Total continuing operations	(0.5)	(1.7)	(1.7)	(0.4)	-	(3.8)	(102.1)	(3.1)	0.1	(105.1)
• Continental Europe	-	-	-	(0.1)	-	(0.1)	(14.2)	-	-	(14.2)
• United Kingdom, Ireland and South Africa	(2.0)	-	(0.6)	(0.3)	(0.1)	(1.0)	-	-	-	-
• Australia, New Zealand and Asia	0.8	-	-	-	-	-	-	-	-	-
Total discontinued operations	(1.2)	-	(0.6)	(0.4)	(0.1)	(1.1)	(14.2)	-	-	(14.2)
Total	(1.7)	(1.7)	(2.3)	(0.8)	(0.1)	(4.9)	(116.3)	(3.1)	0.1	(119.3)

Impairment review

As required under AASB 136 *Impairment of Assets*, the Consolidated Entity performs an impairment assessment when there is an indication or 'trigger' of a possible impairment of its non-current assets and in addition, at least annually performs an impairment review of goodwill and indefinite life intangible assets, regardless of whether an impairment trigger has been identified. An impairment review was performed at 30 June 2013.

Cash generating units

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

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

	Goodwill		Intangible assets with indefinite useful lives	
	2013 $m	2012 $m	2013 $m	2012 $m
Merchanting CGU's				
• Continental Europe	0.8	-	-	1.1
• United Kingdom and Ireland	-	-	-	7.2
• Canada	37.0	34.7	-	-
• Australia, New Zealand and Asia	28.3	24.7	-	-
	66.1	59.4	-	8.3

Impairment testing – goodwill and property, plant and equipment

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

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

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

The following assumptions have been used in determining the recoverable amount of CGUs to which goodwill and property, plant and equipment have been allocated:

Discount rates:	Continental Europe – 12.2% (2012: 11.4%), United Kingdom and Ireland – 13.0% (2012: 12.5%), Canada – 12.3% (2012: 12.3%) and Australia, New Zealand and Asia – 14.1% (2012: 14.1%). The discount rates represent the pre-tax discount rate applied to the cash flow projections. The discount rates reflect the market determined, risk adjusted discount rates.
Terminal growth rate:	Terminal growth rate: 1.6% - 2.0% (2012: 1.6% - 2.0%). The terminal growth rate represents the growth rate applied to extrapolate cash flows beyond the five year forecast period. The growth rate is based upon expectations of the CGUs' long-term performance.
Gross margin:	An overall improvement in gross profit percentage as a result of a change in the sales mix from lower margin core paper to higher margin diversified products over the forecast period and operational efficiencies in the core paper business.
Trading expenses:	An overall improvement in the ratio of trading expenses to sales as a result of certain Board approved restructuring programs and operating efficiencies over the forecast period.
Sales volumes:	For the core paper business, sales volumes are forecast to remain flat or decline based on industry forecasts for each CGU. For the diversified business, volume growth is based on management's estimates of market growth and market share.
Sales prices:	Forecast to increase or decrease based on assumptions about local industry conditions and, where relevant, exchange rates.

Results and sensitivity analysis – goodwill and property, plant and equipment

Continental Europe:	The only goodwill in the Continental Europe CGU relates to the acquisition of Cadorit i Borås AB in June 2013 (refer Note 40). The recoverable amount for the CGU comfortably exceeds the carrying value. There would need to be a significantly adverse movement in trading expenses to sales, paper gross margins or diversified gross margins in order for an impairment of property, plant and equipment to arise in future reporting periods. In the prior comparative period, an impairment charge of $72.0 million was booked against the carrying value of goodwill in the Continental Europe CGU.
United Kingdom and Ireland	There is no goodwill in the United Kingdom and Ireland CGU. The recoverable amount for the CGU comfortably exceeds the carrying value. There would need to be a moderately adverse movement in trading expenses to sales or paper gross margins or a significantly adverse movement in diversified gross margins in order for an impairment of property, plant and equipment to arise in future reporting periods. In the prior comparative period, goodwill impairment of $44.3 million was booked in the United Kingdom, Ireland and South Africa CGU.
Canada:	The recoverable amount for this CGU comfortably exceeds the carrying value. There would need to be a significantly adverse movement in one or more key assumptions, being core paper volumes, gross margin, trading expenses to sales or selling prices, in order for an impairment of goodwill to arise in future reporting periods.
Australia, New Zealand and Asia:	The recoverable amount of the CGU comfortably exceeds the carrying value. There would need to be a significantly adverse movement in one or more key assumptions, particularly paper gross margin or trading expenses to sales, in order for an impairment of goodwill to arise.

Brand names

The review of brand names in the interim reporting period identified significant uncertainty around the ongoing commitment to the promotion and sale of capitalised own brands, particularly in the United Kingdom, resulting in an impairment charge of $7.3 million being booked against the carrying value of brand names in the Merchanting Europe segment.

In the prior comparative period, an impairment charge of $3.1 million was booked against the carrying value of brand names in the Merchanting Europe segment.

Computer software

A decision to suspend further rollouts of the preferred European enterprise software package coupled with the selection of an alternative enterprise software platform for the United Kingdom operations resulted in an impairment charge of $17.8 million being booked against the carrying value of computer software in the Merchanting Europe segment in the interim reporting period.

In the prior comparative period, an impairment charge of $(0.1) million was booked against the carrying value of computer software in the Merchanting Europe segment.

Note 21. Deferred tax balances

	2013 $m	2012 $m
Deferred taxes		
Deferred tax assets	33.2	40.6
Deferred tax liabilities	(1.5)	(2.2)
Net deferred tax balances	31.7	38.4
Movement in net deferred tax balances during the reporting period:		
Opening balance	38.4	40.0
Recognised in profit or loss	(4.8)	(4.9)
Recognised in other comprehensive income	(1.9)	8.0
Disposal of controlled entities and businesses *(1)*	-	(4.7)
Closing balance	31.7	38.4
Deferred tax balances are attributable to the following:		
Provisions and employee benefits	23.5	26.4
Tax losses	7.8	13.2
Property, plant and equipment	(0.7)	(0.8)
Intangible assets	(1.3)	(1.8)
Other items	2.4	1.4
Net deferred tax balances	31.7	38.4
Unrecognised deferred tax assets *(2)*		
Capital losses - no expiry date	150.1	149.8
Revenue losses - no expiry date	257.7	240.2
Total unrecognised deferred tax assets	407.8	390.0

(1) This amount relates to deferred tax balances for the USA and Italian merchanting operations on disposal during the comparative reporting period.
(2) Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Consolidated Entity can utilise the benefits thereon.

Note 22. Trade and other payables

	2013 $m	2012 Restated *(1)* $m
Trade creditors	301.0	332.7
Accrued expenses	9.5	9.3
Sales tax, GST and VAT	24.4	27.4
Rebates	15.2	16.7
Other creditors	46.7	49.2
Total trade and other payables	396.8	435.3

(1) During the current reporting period, the Consolidated Entity reclassified certain leave related balances from “other creditors” in “trade and other payables” to “leave entitlements” in “employee benefits” in order to more accurately reflect the nature of the amounts payable. Comparative amounts in the consolidated statement of financial position were reclassified for consistency, resulting in $6.4 million being reclassified from “other creditors” to “leave entitlements”. The reclassification had no effect on the consolidated income statement or consolidated statement of comprehensive income.

Note 23. Loans and borrowings

(a) Current

	Currency	Nominal interest rate *(1)*	Year of Maturity	2013 $m	2012 $m
• Bank loans - secured *(2)*	EUR	CP Rate *(3)*	2014 *(9)*	7.5	34.3
• Bank loans - secured *(2)*	GBP	CP Rate *(3)*	2014 *(9)*	7.7	112.4
• Bank loans - secured *(2)*	GBP	BBLR *(4)*	2014 *(8)*	46.2	-
• Bank loans - secured *(2)*	AUD	BBSR *(5)*	2016 *(9)*	4.4	16.0
• Bank loans - secured *(2)*	NZD	BKBM *(6)*	2017 *(9)*	0.9	2.7
• Bank loans - secured *(2)*	PLN	Wibor *(7)*	2014	8.8	-
• Bank loans - secured *(2)*	EUR	Euribor *(10)*	2017	0.8	-
• Other bank loans - secured	EUR	various	various	1.7	5.8
• Capitalised borrowing costs				(0.2)	(0.6)
Bank loans - secured				77.8	170.6
Bank loans - unsecured	various	various	various	3.5	5.2
Total loans and borrowings - current				81.3	175.8

(b) Non-current

	Currency	Nominal interest rate	Year of Maturity	2013 $m	2012 $m
• Bank loans - secured *(2)*	EUR	CP Rate *(3)*	2014 *(9)*	26.7	-
• Bank loans - secured *(2)*	GBP	CP Rate *(3)*	2014 *(9)*	85.2	-
• Bank loans - secured *(2)*	GBP	BBLR *(4)*	2014 *(8)*	-	34.0
• Bank loans - secured *(2)*	AUD	BBSR *(5)*	2016 *(9)*	7.9	-
• Bank loans - secured *(2)*	EUR	Euribor *(10)*	2017	5.9	-
• Bank loans - secured *(2)*	EUR	Euribor *(10)*	2014	2.7	-
• Bank loans - secured *(2)*	CAD	C Prime *(11)*	2016	-	16.4
• Bank loans - secured *(2)*	NZD	BKBM *(6)*	2017 *(9)*	1.4	2.2
• Capitalised borrowing costs				(0.7)	(0.6)
Bank loans - secured				129.1	52.0
Total loans and borrowings - non-current				129.1	52.0

(1) Excludes company specific margins.
(2) These bank loans are facilities secured by certain assets.
(3) CP Rate: Commercial Paper Rate.
(4) BBLR: Bank Based Lending Rate.
(5) BBSR: Bank Bill Swap Rate.
(6) BKBM: Bank Bill Market Rate.
(7) Wibor: Warsaw Inter Bank Offer Rate.
(8) Subsequent to balance date the maturity date of this facility was extended to May 2015 – refer Note 41.
(9) The Consolidated Entity has the discretion and intention to extend a portion of these facilities for at least twelve months from balance date. The amount that has been determined as non-current is the lowest expected balance of these facilities in the twelve month period post balance date based upon Management approved budgets.
(10) Euribor: Euro Inter Bank Offer Rate.
(11) C Prime: Canadian Prime rate.

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

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

(c) Reconciliation of consolidated loans and borrowings

	Note	2013 $m	2012 $m
Current loans and borrowings		81.3	175.8
Non-current loans and borrowings		129.1	52.0
Total loans and borrowings		210.4	227.8
Cash and cash equivalents	13	(87.8)	(80.0)
Bank overdrafts		0.1	-
Net loans and borrowings		122.7	147.8

Note 24. Employee benefits

(a) Current

	2013 $m	2012 Restated *(1)* $m
Leave entitlements	9.0	12.8
Workers' compensation *(2)*	2.5	3.1
Other entitlements	4.4	0.3
Total current employee benefits	15.9	16.2

(1) During the current reporting period, the Consolidated Entity reclassified certain leave related balances from "other creditors" in "trade and other payables" to "leave entitlements" in "employee benefits" in order to more accurately reflect the nature of the amounts payable. Comparative amounts in the consolidated statement of financial position were reclassified for consistency, resulting in $6.4 million being reclassified from "other creditors" to "leave entitlements". The reclassification had no effect on the consolidated income statement or consolidated statement of comprehensive income.

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

(b) Non-current

	Note	2013 $m	2012 $m
Defined benefit obligations	32	126.1	105.9
Leave entitlements		0.7	0.6
Other entitlements		2.9	2.6
Total non-current employee benefits		129.7	109.1

(c) Total employee benefits

	2013 $m	2012 $m
Current	15.9	16.2
Non-current	129.7	109.1
Total employee benefits	145.6	125.3

Note 25. Provisions

(a) Current

$ million	Tas Paper closure	Restructuring	Other	Total
Balance at 1 July 2012	8.6	18.6	2.8	30.0
Provided/(released) during the year	(3.3)	26.4	0.2	23.3
Paid during the year	(3.1)	(28.6)	(2.0)	(33.7)
Transfers	0.4	5.0	1.3	6.7
Foreign currency movements	-	2.3	-	2.3
Balance at 30 June 2013	2.6	23.7	2.3	28.6
Balance at 1 July 2011	8.4	12.6	2.5	23.5
Provided/(released) during the year	-	19.0	1.4	20.4
Paid during the year	(5.5)	(10.5)	(1.1)	(17.1)
Transfers	5.7	1.8	0.7	8.2
Disposal of businesses	-	(3.0)	(0.6)	(3.6)
Foreign currency movements	-	(1.3)	(0.1)	(1.4)
Balance at 30 June 2012	8.6	18.6	2.8	30.0

(b) Non-current

Balance at 1 July 2012	-	7.4	4.7	12.1
Provided/(released) during the year	-	(1.2)	0.1	(1.1)
Transfers	(0.4)	(3.9)	(1.9)	(6.2)
Unwind of discount	0.4	0.4	0.5	1.3
Foreign currency movements	-	0.3	0.1	0.4
Balance at 30 June 2013	-	3.0	3.5	6.5
Balance at 1 July 2011	4.6	2.8	7.5	14.9
Provided/(released) during the year	(0.1)	6.9	0.1	6.9
Paid during the year	-	-	(0.3)	(0.3)
Transfers	(5.7)	(1.8)	(0.7)	(8.2)
Unwind of discount	1.2	-	0.6	1.8
Disposal of businesses	-	-	(2.3)	(2.3)
Foreign currency movements	-	(0.5)	(0.2)	(0.7)
Balance at 30 June 2012	-	7.4	4.7	12.1

(c) Total provisions

Balance at 30 June 2013				
Current	2.6	23.7	2.3	28.6
Non-current	-	3.0	3.5	6.5
Total provisions	2.6	26.7	5.8	35.1
Balance at 30 June 2012				
Current	8.6	18.6	2.8	30.0
Non-current	-	7.4	4.7	12.1
Total provisions	8.6	26.0	7.5	42.1

Dividends

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

Step-up preference securities distributions

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

Note 25. Provisions – (continued)

Tas Paper closure

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

- Environmental works at the Burnie and Wesley Vale mills. These works are now substantially complete. Remaining works are minor in nature and are expected to be completed within the next 6-12 months.
- Redundancy payments to be made in accordance with employee's rights under their contract of employment or industrial awards (excluding entitlements to annual and long service leave and accrued wages). Remaining costs will be incurred within the next 6 months.
- Other costs associated with the Tas Paper closure, including transaction costs (e.g. legal and consulting fees), additional labour and termination of long-term supply agreements. The remaining costs are expected to be incurred within the next 6-12 months.

Restructuring

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

Other

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

Note 26. Payables - non-current

	2013 $m	2012 $m
Other creditors	1.3	1.3
Total payables non-current	1.3	1.3

Note 27. Share capital

	2013 $m	2012 $m
Issued capital		
Issued and paid-up share capital - 609,280,761 ordinary shares (2012: 609,280,761)	1,895.6	1,894.0
Employee share plan loans	-	(0.5)
Total issued capital	1,895.6	1,893.5
Movement in employee share plan loans:		
Balance at beginning of reporting period	(0.5)	(0.7)
Loans forgiven - forfeited entitlements	0.5	0.2
Balance at end of reporting period	-	(0.5)

	2013 thousands of shares	2012 thousands of shares
Movement in issued shares		
Ordinary shares on issue at beginning of reporting period	609,280.8	603,580.8
Shares issued under employee short and long-term incentive plans	-	5,700.0
Ordinary shares on issue at end of reporting period	609,280.8	609,280.8

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

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

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

Note 28. Reserves

Reserve for own shares

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

Exchange fluctuation reserve

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

Hedging reserve

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

Employee share plans reserve

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

Note 29. PaperlinX Step-up Preference Securities

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

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

The distribution rate was the 180 day bank bill swap rate plus a margin of 2.40%. On the first periodic remarketing date, 30 June 2012, the PSPS were stepped-up so that the distribution rate for future discretionary distributions is the 180 day bank bill swap rate plus a margin of 4.65%. The next remarketing date is 31 December 2013.

During the reporting period no distribution (2012: no distribution) was paid on the PSPS - refer Note 12(b).

Note 30. Share-based payments arrangements

At 30 June 2013, the Consolidated Entity had the following share-based payment arrangements:

Employee share plan loans

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

Loans to executives to acquire shares in an entity subsequently acquired by the Company were made under an Executive Share Purchase Plan in 1989. The loans were interest free. 50% of dividends were used to pay down the loans, and employees had two years after termination of employment to repay outstanding loan balances. All remaining entitlements were forfeited and the outstanding loans were forgiven during the current reporting period.

Refer Note 27 for a reconciliation of movements in employee share plan loan balances.

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

Employee shares

From time to time, the Company purchases shares "on market" in order to satisfy issues under share-based payment plans. These shares are recorded in the statement of financial position in the reserve for own shares (refer Note 28), and are held in trust. The voting rights attached to the shares are held in trust, and the dividends attached to the shares are retained by the trust. During the reporting period 3,035,000 shares were distributed from the reserve to satisfy issues under share-based payment plans.

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

	Opening balance	Shares allocated to plan	Distributed	Closing balance
2013				
Number of shares	1,004,448	2,030,552	(3,035,000)	-
2012				
Number of shares	191,280	5,700,000	(4,886,832)	1,004,448

In the comparative reporting period, the shares on hand at the reporting date had an aggregate fair value of $0.06 million. None of the shares retained by the trust at the comparative reporting date vested.

Options

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

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

At balance date there are 75,200 (2012: 744,153) unissued shares of the Company which are under option. Each option entitles the holder to purchase one fully paid ordinary share in the Company at the exercise price, subject to the satisfaction of the terms of the option agreements.

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

2013					**Number of options**					
Grant date	Initial measurement/ service date	Expiry date	Exer-cise price	Fair value at date of grant	Balance 1 July 2012	Granted	Lapsed	Exercised	Balance 30 June 2013	Exercisable at balance date
14/4/2000	14/4/2003	*(1)*	$3.13	$0.36	25,000	-	(15,000)	-	10,000	10,000
20/11/2000	20/11/2003	*(1)*	$3.32	$0.33	20,000	-	(7,500)	-	12,500	12,500
19/4/2001	19/4/2004	*(1)*	$3.50	$0.92	20,000	-	-	-	20,000	20,000
13/9/2001	13/9/2004	*(1)*	$4.12	$0.47	29,200	-	(7,500)	-	21,700	21,700
20/9/2002	20/9/2005	*(1)*	$5.13	$0.64	16,000	-	(5,000)	-	11,000	11,000
30/10/2008	30/10/2011	30/10/2018	$2.05	$0.51	44,653	-	(44,653)	-	-	-
11/12/2009	30/12/2012	11/12/2016	$0.49	$0.30	195,090	-	(195,090)	-	-	-
19/10/2010	31/8/2013	7/8/2017	$0.64	$0.16	394,210	-	(394,210)	-	-	-
					744,153	-	(668,953)	-	75,200	75,200
Weighted average exercise price					$1.15	-	$0.85	-	$3.84	$3.84

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

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

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

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

Since balance date up to the date of this report, nil options have lapsed in respect of the plan period ended 30 June 2013. In addition, no options on issue at balance date have been exercised up to the date of this report.

Rights

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

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

At reporting date there are 7,854,993 (2012: 4,000,553) unissued shares of the Company which are subject to performance rights. Each performance right entitles the holder to receive one fully paid ordinary share in the Company when the relevant performance conditions are met. The details of the performance rights on issue at balance date and movements during the reporting period are as follows:

2013					Number of rights				
Grant date	Initial measurement/ service date	Expiry date	Exercise price	Fair value at date of grant	Balance 1 July 2012	Granted	Lapsed	Exercised	Balance 30 June 2013
30/10/2008	31/8/2011	27/8/2018	$nil	$1.18	18,670	-	(18,670)	-	-
11/12/2009	31/8/2012	11/12/2016	$nil	$0.47	117,055	-	(117,055)	-	-
11/12/2009	29/8/2012	*(1)*	$nil	$0.50	48,560	-	(48,560)	-	-
7/8/2010	7/8/2012	*(1)*	$nil	$0.60	3,045,000	-	(10,000)	(3,035,000)	-
19/10/2010	30/6/2013	*(1)*	$nil	$0.39	134,738	-	(134,738)	-	-
19/10/2010	31/8/2013	*(1)*	$nil	$0.32	236,530	-	(236,530)	-	-
20/6/2012	1/8/2013	*(1)*	$nil	$0.06	400,000	-	(400,000)	-	-
18/12/2012	30/6/2015	*(1)*	$nil	$0.05	-	7,854,993	-	-	7,854,993
					4,000,553	7,854,993	(965,553)	(3,035,000)	7,854,993

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

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

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

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

Since balance date up to the date of this report, nil rights have lapsed in respect of the plan period ended 30 June 2013. In addition, no rights have been issued since balance date up to the date of this report.

No rights were exercisable as at balance date.

Share-based payments expense

	2013 $m	2012 $m
Equity settled share-based payments expense	0.1	(0.4)
Total share-based payments expense	**0.1**	**(0.4)**

Note 31. Financial risk management and financial instrument disclosures

Overview

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

- Credit risk
- Liquidity risk
- Market risk.

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

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

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

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

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

Credit risk

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

Trade and other receivables

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

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

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

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

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

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

Foreign exchange contracts

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

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

Guarantees

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

Liquidity risk

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

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

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

Market risk

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

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

The Consolidated Entity does not enter into commodity contracts.

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

Currency risk - transactional

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

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

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

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

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

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

Currency risk - translational

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

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

Interest rate risk

The Consolidated Entity adopts a practice of targeting approximately 40 to 60 percent of its exposure to changes in interest rates on borrowings to be on a fixed rate basis. This can be achieved by entering into interest rate swaps and interest rate options. The Consolidated Entity is exposed to adverse movements in interest rates under various debt facilities. The Consolidated Entity from time to time enters into interest rate swaps that swap floating rate interest bearing liabilities into a fixed rate of interest. The Consolidated Entity, from time to time, enters into interest rate cap options to protect a known worst case rate whilst having the ability to participate in more favourable lower variable interest rates. The Board exempted the Consolidated Entity from undertaking interest rate hedging for a period of 12 months. However interest rate exposures are to be continually monitored and if conditions change significantly interest rate hedging may recommence.

Capital management

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

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Consolidated Entity's target is to achieve a return on average funds employed (net debt plus total equity) of between 12 and 15 percent. During the year ended 30 June 2013 the return was (13.1) percent (2012: (25.5) percent). This underperformance is largely due to weaker trading performance in Continental Europe and the UK, restructuring costs and impairments. In comparison the weighted average interest rate on interest-bearing borrowings was 4.4 percent (2012: 4.5 percent).

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

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

Exposure to credit risk

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

	Note	2013 $m	2012 $m
Current net trade receivables		549.2	556.9
Forward exchange contracts		2.0	0.5
Current other receivables		50.7	114.2
Total current trade and other receivables	14	601.9	671.6
Non-current other receivables		3.6	13.3
Total non-current trade and other receivables	17	3.6	13.3
Total trade and other receivables		605.5	684.9
Cash and cash equivalents	13	87.8	80.0
		693.3	764.9

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

	2013 $m	2012 $m
Australia, Asia, New Zealand	99.8	138.7
Europe	461.9	496.1
Canada	43.8	50.1
Total trade and other receivables	605.5	684.9

Receivables relate to wholesale and end-user customers.

The ageing of trade debtors at the reporting date was:

	Note	Gross 2013 $m	Gross 2012 $m
Not past due		470.7	483.6
Past due 0-30 days		62.2	58.9
Past due 31-120 days		19.2	18.4
Past due 121 days to one year		7.5	4.9
Past due more than one year		16.9	17.5
Total gross trade debtors	14	576.5	583.3

Impairment losses

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

	Note	2013 $m	2012 $m
Balance at 1 July		(26.4)	(53.9)
Impairment loss recognised		(10.1)	(15.4)
Net write-off		12.1	16.4
Acquistion of businesses		(0.1)	-
Disposal of businesses		-	22.0
Foreign currency movements		(2.8)	4.5
Balance at 30 June	14	(27.3)	(26.4)

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

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

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

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

Exposure to liquidity risk

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

	Carrying amount $m	Contractual Cash Flows Total $m	1 year or less $m	1 to 5 years $m	More than 5 years $m
2013					
Non-derivative financial liabilities					
Trade and other payables	398.1	398.1	396.8	1.3	-
Bank overdrafts	0.1	0.1	0.1	-	-
Interest bearing loans and borrowings	210.4	211.3	81.5	129.8	-
2012 - Restated *(1)*					
Non-derivative financial liabilities					
Trade and other payables	436.6	436.6	435.3	1.3	-
Interest bearing loans and borrowings	227.8	229.0	176.4	52.6	-
Derivative financial liabilities					
Other foreign exchange contracts	0.1	0.1	0.1	-	-

(1) Refer Note 22.

Exposure to currency risks

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

Currency Exposure (in AUD)	2013 AUD $m	2013 EUR $m	2013 USD $m	2013 GBP $m	2013 CAD $m	2012 AUD $m	2012 EUR $m	2012 USD $m	2012 GBP $m	2012 CAD $m
Trade and other receivables	0.5	5.7	10.2	3.4	-	0.6	10.3	47.0	0.1	-
Trade and other payables	(1.1)	(23.2)	(35.0)	(2.2)	-	(1.0)	(32.2)	(39.3)	(8.6)	-
Loans and borrowings	-	(12.7)	(1.5)	70.4	42.5	-	(11.8)	(1.8)	-	40.4
Gross balance sheet exposure	(0.6)	(30.2)	(26.3)	71.6	42.5	(0.4)	(33.7)	5.9	(8.5)	40.4
Foreign exchange contracts	1.0	12.7	27.9	(0.4)	-	0.2	25.7	15.5	(2.2)	-
Net balance sheet exposure	0.4	(17.5)	1.6	71.2	42.5	(0.2)	(8.0)	21.4	(10.7)	40.4

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

	Reporting date spot rate 2013	Reporting date spot rate 2012
EUR	0.7119	0.8065
USD	0.9161	0.9881
GBP	0.6082	0.6468
CAD	0.9724	1.0370

Sensitivity analysis

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

	2013 $m	2012 $m
EUR	2.2	0.7
USD	(0.2)	(1.9)
GBP	(10.6)	1.0
CAD	(4.0)	(3.7)

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

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

Exposure to interest rate risks

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

	Floating interest $m	Fixed interest $m	Total $m	Effective interest rate % *(1)*
2013				
Financial assets				
Cash and cash equivalents	85.1	2.7	87.8	0.8
Financial liabilities				
Bank overdrafts	0.1	-	0.1	7.8
Interest bearing loans and borrowings	211.3	-	211.3	4.4
2012				
Financial assets				
Cash and cash equivalents	80.0	-	80.0	0.4
Financial liabilities				
Interest bearing loans and borrowings	229.0	-	229.0	4.5

(1) Excludes company specific margins.

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

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

	2013 $m	2012 $m
Floating interest	(2.1)	(2.2)

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

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

Fair values

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

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

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

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

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

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

	Note	Fair value hedging instruments $m	Loans and receivables $m	Other financial assets $m	Other financial liabilities $m	Total carrying amount $m	Fair value $m
2013							
Cash and cash equivalents	13	-	87.8	-	-	87.8	87.8
Trade and other receivables		-	603.5	-	-	603.5	603.5
Foreign exchange contracts		2.0	-	-	-	2.0	2.0
Income tax receivable		-	11.1	-	-	11.1	11.1
Investments	18	-	-	1.1	-	1.1	1.1
		2.0	702.4	1.1	-	705.5	705.5
Bank overdrafts	23	-	-	-	(0.1)	(0.1)	(0.1)
Trade and other payables		-	-	-	(398.0)	(398.0)	(398.0)
Foreign exchange contracts		(0.1)	-	-	-	(0.1)	(0.1)
Bank loans - secured		-	-	-	(206.9)	(206.9)	(207.8)
Bank loans - unsecured	23	-	-	-	(3.5)	(3.5)	(3.5)
		(0.1)	-	-	(608.5)	(608.6)	(609.5)
2012 - Restated *(1)*							
Cash and cash equivalents	13	-	80.0	-	-	80.0	80.0
Trade and other receivables		-	684.4	-	-	684.4	684.4
Foreign exchange contracts		0.5	-	-	-	0.5	0.5
Income tax receivable		-	3.4	-	-	3.4	3.4
Investments	18	-	-	1.0	-	1.0	1.0
		0.5	767.8	1.0	-	769.3	769.3
Bank overdrafts	23	-	-	-	-	-	-
Trade and other payables		-	-	-	(436.6)	(436.6)	(436.6)
Foreign exchange contracts		(0.1)	-	-	-	(0.1)	(0.1)
Bank loans - secured		-	-	-	(222.6)	(222.6)	(223.8)
Bank loans - unsecured		-	-	-	(5.2)	(5.2)	(5.2)
		(0.1)	-	-	(664.4)	(664.5)	(665.7)

(1) Refer Note 22.

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

Fair value hierarchy

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

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

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
2013				
Foreign exchange contracts - receivables	-	2.0	-	2.0
	-	2.0	-	2.0
Foreign exchange contracts - payables	-	(0.1)	-	(0.1)
	-	(0.1)	-	(0.1)
2012				
Foreign exchange contracts - receivables	-	0.5	-	0.5
	-	0.5	-	0.5
Foreign exchange contracts - payables	-	(0.1)	-	(0.1)
	-	(0.1)	-	(0.1)

Note 32. Employee retirement benefit obligations

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

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

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

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

Basis of estimation

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

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

Note 32. Employee retirement benefit obligations – (continued)

	2013 $m	2012 $m
The amounts recognised in the Statement of Financial Position are determined as follows:		
Present value of the defined benefit obligation	508.1	435.7
Less fair value of plan assets	(382.0)	(333.6)
Add limitation on recoupment of net surplus position	-	3.8
Net liability in the Statement of Financial Position	126.1	105.9
Changes in the present value of the defined benefit obligations are as follows:		
Balance at the beginning of year	435.7	428.9
Current service costs	3.5	4.0
Interest on obligation	20.6	22.5
Past service costs	(0.4)	-
Actuarial losses on defined benefit obligations	47.4	22.5
Contributions by members	0.3	0.4
Disposal of business *(1)*	-	(3.9)
Curtailment/settlement	(16.1)	-
Exchange differences on foreign plans	36.4	(21.9)
Benefits paid	(18.9)	(17.3)
Other	(0.4)	0.5
Balance at end of year	508.1	435.7
Changes in the fair value of plan assets are as follows:		
Balance at the beginning of year	333.6	342.3
Expected return on plan assets	18.7	21.8
Actuarial gains/(losses) on fair value of plan assets	22.4	(14.4)
Contributions by employer	13.4	15.7
Contributions by members	0.3	0.4
Curtailment/settlement	(15.0)	-
Exchange differences on foreign plans	27.0	(17.3)
Benefits paid	(18.0)	(15.2)
Other	(0.4)	0.3
Closing fair value of plan assets	382.0	333.6
Less limitation on recoupment of net surplus position	-	(3.8)
Balance at end of year	382.0	329.8

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

	2013 $m	2012 $m
Expense recognised in the Income Statement:		
Current service costs	3.5	4.0
Interest on obligation	20.6	22.5
Expected return on plan assets	(18.7)	(21.8)
Past service costs	(0.4)	-
Curtailment/settlement gain	(1.1)	-
Other	0.2	0.3
Total recognised expense	4.1	5.0
Amount recognised in the Statement of Comprehensive Income:		
Actuarial losses on defined benefit obligations	(47.4)	(22.5)
Actuarial gains/(losses) on fair value of plan assets	22.4	(14.4)
Movement in limitation on recoupment of net surplus position	3.9	(2.3)
	(21.1)	(39.2)
Less tax effect, where applicable	(1.9)	8.0
Total recognised comprehensive loss	(23.0)	(31.2)
Cumulative actuarial gains and losses recognised in the Statement of Comprehensive Income:		
Cumulative losses at beginning of year	108.7	76.4
Actuarial losses recognised during the year	25.0	36.9
Exchange differences on foreign plans	3.6	(4.6)
Cumulative losses at end of year	137.3	108.7

Note 32. Employee retirement benefit obligations – (continued)

Principal actuarial assumptions

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

	2013	2012
Discount rate	2.5% to 4.8%	3.1% to 4.9%
Salary increase rate	1.7% to 4.0%	1.7% to 4.0%
Inflation	2.0% to 3.4%	2.0% to 3.0%
Expected asset return	3.9% to 7.0%	4.7% to 7.6%

Plan assets

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

	2013	2012
Equity securities	49%	46%
Bonds	48%	43%
Property	2%	3%
Other	1%	8%
Total plan assets	100%	100%

Defined benefit plans

	Plans as at 30 June 2013			Plans as at 30 June 2012		
	Plan assets $m	Defined benefit obligation $m	Surplus/ (deficit) $m	Plan assets $m	Defined benefit obligation $m	Surplus/ (deficit) $m
Plans with funded obligations:						
PaperlinX Superannuation Fund (Australia)	10.0	11.0	(1.0)	11.7	12.2	(0.5)
Pension Plan for Employees of PaperlinX Canada	62.9	71.5	(8.6)	39.2	55.1	(15.9)
PaperlinX Pensioenfonds (Netherlands)	34.5	47.1	(12.6)	42.8	42.8	-
Pension Plan for Bührmann Ubbens employees with Nationale Nederlanden (Netherlands)	35.3	44.3	(9.0)	23.9	29.2	(5.3)
The Howard Smith Paper Group Pension Scheme (UK)	56.8	62.5	(5.7)	48.9	56.7	(7.8)
Robert Horne Group Pension Scheme (UK)	177.8	251.7	(73.9)	148.4	211.0	(62.6)
Other	4.7	20.0	(15.3)	14.9	20.2	(5.3)
	382.0	508.1	(126.1)	329.8	427.2	(97.4)
Other plans funded directly by employer subsidiaries	-	-	-	-	8.5	(8.5)
	382.0	508.1	(126.1)	329.8	435.7	(105.9)

Historical information

	2013 $m	2012 $m	2011 $m	2010 $m	2009 $m
Present value of defined benefit obligation	508.1	435.7	428.9	476.9	464.8
Fair value of plan assets	(382.0)	(333.6)	(342.3)	(358.8)	(354.0)
Deficit in the plans *(1)*	126.1	102.1	86.6	118.1	110.8
Plan asset (gain)/loss due to experience	(22.5)	14.4			
Plan liability (gain)/loss due to experience	(10.8)	(4.7)			

(1) Before limitation on recoupment of net surplus positions $nil (2012: $3.8 million; 2011: $1.9 million; 2010: $nil; 2009: $9.7 million).

Future contributions

Based on the periodic funding valuations and local funding requirements, the Consolidated Entity estimates $18.0 million in contributions to be paid to its defined benefit plans during the year ending 30 June 2014 (actual contributions for year ended 30 June 2013: $13.4 million).

Note 33. Reconciliation of cash flows from operating activities

	Note	2013 $m	2012 Restated *(1)* $m
Reconciliation of loss after tax to net cash from operating activities			
Loss for the period		(90.2)	(266.7)
Add back non-cash items:			
• Depreciation and amortisation of property, plant, equipment and intangibles	19,20	12.8	20.0
• Impairment of property, plant, equipment and intangibles	19,20	25.9	125.9
• Loss on disposal of controlled entities	6	3.4	62.4
• Profit on disposal of property, plant and equipment		(3.9)	(0.9)
• Employee share based payments expense		(0.1)	0.4
• Movement in fair value of currency option and loan	6	-	(4.0)
• Amortisation of capitalised borrowing costs		0.7	4.0
Add back other items classified as investing/financing:			
• Provision for costs related to closure of discontinued Tasmanian operations		-	0.2
• Borrowing costs expensed		1.2	0.4
Decrease in trade and other receivables		60.4	71.6
Decrease in inventories		24.3	12.0
Decrease in trade and other payables		(60.3)	(95.2)
Decrease in provisions		(21.0)	(4.8)
Decrease in current and deferred taxes		4.7	12.4
Net cash used in operating activities		(42.1)	(62.3)
Reconciliation of cash			
For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank and short-term money market investments, net of outstanding bank overdrafts. Cash as at 30 June as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:			
Cash and cash equivalents		87.8	80.0
Bank overdrafts		(0.1)	-
		87.7	80.0

(1) During the current reporting period, the Consolidated Entity reclassified certain leave related balances from "trade and other payables" to "employee benefits" in order to more accurately reflect the nature of the amounts payable – refer Notes 22 and 24. Comparative amounts were reclassified for consistency, resulting in $14.6 million being reclassified from "decrease in provisions" to "decrease in trade and other payables". The reclassification had no effect on the consolidated statement of cash flows.

Note 34. Parent entity disclosures

As at and throughout the financial year ended 30 June 2013, the parent company of the Consolidated Entity was PaperlinX Limited.

For the year ended 30 June	Parent Entity 2013 $m	Parent Entity 2012 $m
Comprehensive Income		
Other income	4.2	25.8
Other expenses	(4.4)	(5.3)
Individually significant items	-	(556.7)
Result from operating activities	(0.2)	(536.2)
Net finance costs	(43.3)	(0.9)
Loss before tax	(43.5)	(537.1)
Total comprehensive loss for the period, net of tax	(43.5)	(537.1)

As at 30 June	Parent Entity 2013 $m	Parent Entity 2012 $m
Statement of Financial Position		
Current assets	694.1	692.7
Total assets	735.5	734.0
Current liabilities	22.8	-
Total liabilities	233.8	191.0
Net assets	501.7	543.0
Equity		
Issued capital	1,895.6	1,893.5
Reserve for own shares	-	(0.1)
Accumulated losses	(1,393.9)	(1,350.4)
Total equity	501.7	543.0

	Parent Entity 2013 $m	Parent Entity 2012 $m
Contingent liabilities		
Contingent liabilities arising in respect of related bodies corporate:		
• Bank guarantees (government)	2.0	2.2
• Bank guarantees (trade)	-	3.2
• Loan guarantees (subsidiaries)	281.3	253.7
Total contingent liabilities	283.3	259.1

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

Note 35. Capital expenditure commitments

	2013 $m	2012 $m
Capital expenditure contracted but not provided for:		
• Property, plant and equipment	1.1	0.6
• Intangibles	1.9	-
Total capital expenditure commitments	3.0	0.6

Note 36. Lease commitments

	2013 $m	2012 $m
Operating lease commitments		
Lease expenditure contracted but not provided for:		
• Not later than one year	60.8	58.4
• Later than one year but not later than five years	140.1	146.9
• Later than five years	135.6	141.1
Total operating lease commitments	336.5	346.4

The Consolidated Entity enters into operating leases from time to time in relation to property, plant and equipment. The major component relates to building leases. 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.

The Consolidated Entity did not have any finance leases in the current or comparative reporting period.

Note 37. Contingent liabilities

	2013 $m	2012 $m
Contingent liabilities arising in respect of related bodies corporate:		
• Bank guarantees (trade)	4.2	6.8
• Other guarantees	2.7	2.9
• Other	0.5	0.4
Total contingent liabilities	7.4	10.1

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

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

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

The Consolidated Entity has given certain warranties and indemnities to the purchasers of the USA, Italy, Slovakia, Hungary, Slovenia, Croatia and Serbia operations. Warranties have been given in relation to matters including the sale assets, taxes, people, legal, environmental and intellectual property. Indemnities have also been given in relation to matters including legal and employee claims and pre-completion taxes.

At the time of signing this report, two claims for $0.2 million have been made by the buyers under these warranties and indemnities. It is not possible to quantify the potential financial obligation (if any) of the Consolidated Entity for any future claims under these indemnities.

There are a number of legal claims and exposures which arise from the ordinary course of business. There is significant uncertainty as to whether a future liability will arise in respect of these items. The amount of the liability, if any, which may arise cannot be reliably measured at this time.

Note 38. Auditors' remuneration

	2013 $m	2012 $m
Audit and review services		
Auditors of the Consolidated Entity - KPMG Australia		
• Audit and review of financial statements	0.740	0.960
Overseas KPMG firms		
• Audit and review of financial statements	1.496	1.985
	2.236	2.945
Other auditors *(1)*		
• Audit and review of local statutory financial statements	0.218	0.164
	2.454	3.109
Other services		
Auditors of the Consolidated Entity - KPMG Australia		
Other assurance services	0.033	0.044
Overseas KPMG firms		
Other assurance services	0.028	0.058
Taxation services	0.019	0.014
Advisory services	0.114	-
Other auditors		
Other services	0.017	-
	0.211	0.116
Total auditors' remuneration	2.665	3.225

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

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

Note 39. Related parties

Key management personnel (KMP) compensation

	2013 $	2012 $
Short-term benefits	2,662,374	3,675,273
Post-employment benefits	282,531	664,397
Equity plans	(16,744)	(325,529)
Termination benefits	861,408	-
	3,789,569	4,014,141

Directors and Senior Executives compensation contracts

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

Loans to KMP and their related parties

In prior reporting periods, the Company provided loans to KMP in accordance with the terms of the Employee Share Purchase Plan (up to 2004) – refer Note 30. In the comparative reporting period, the three remaining loans, totalling $24,968 were repaid in full.

The Company has not made any loan to any KMP and their related parties during the current reporting period.

Note 39. Related parties – (continued)

Shareholdings of KMP

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

	Opening balance	Purch-ased	Earned as remuner-ation	Ceased employ-ment	Exercise of options	Sold	Closing balance	Shares held nominally at reporting date
2013								
Directors								
R G Kaye *(1)*	-	615,000	-	-	-	-	615,000	-
M D Barker *(2)*	-	600,000	-	-	-	-	600,000	-
A J Price *(3)*	6,660,372	-	-	-	-	-	6,660,372	-
T R Marchant *(4)*	1,024,902	-	-	(1,024,902)	-	-	-	-
H Boon *(5)*	250,000	-	-	(250,000)	-	-	-	-
M L Cattermole *(6)*	2,248,790	-	-	(2,248,790)	-	-	-	-
A J Clarke *(6)*	250,000	-	-	(250,000)	-	-	-	-
M J McConnell *(7)*	1,000	250,000	-	(251,000)	-	-	-	-
Senior Executives								
D S Allen *(8)*	120,542	1,020,689	75,000	-	-	-	1,216,231	-
J W P Smallenbroek *(9)*	44,620	-	-	-	-	-	44,620	-
A J Preece *(10)*	200	500,000	-	-	-	-	500,200	-
C J Turner *(10)*	80,908	-	75,000	-	-	-	155,908	-
M Gillioen *(11)*	75,000	-	75,000	(150,000)	-	-	-	-
R Barfield *(12)*	400,000	-	-	(400,000)	-	-	-	-
Total	11,156,334	2,985,689	225,000	(4,574,692)	-	-	9,792,331	-
2012								
Directors								
T R Marchant	12,300	900,000	112,602	-	-	-	1,024,902	-
H Boon	21,000	229,000	-	-	-	-	250,000	-
M L Cattermole	226,510	2,022,280	-	-	-	-	2,248,790	-
A J Clarke	-	250,000	-	-	-	-	250,000	-
M J McConnell	-	1,000	-	-	-	-	1,000	-
D E Meiklejohn	194,657	-	-	(194,657)	-	-	-	-
J W Hall	19,800	-	-	(19,800)	-	-	-	-
L J Yelland	95,468	-	-	(95,468)	-	-	-	-
Senior Executives								
D S Allen	8,520	-	112,022	-	-	-	120,542	-
C B Creighton	208,744	-	105,866	(314,610)	-	-	-	-
M Gillioen	-	-	75,000	-	-	-	75,000	-
P L Jackson	8,825	-	-	(8,825)	-	-	-	-
A J Kennedy	16,600	-	103,073	(119,673)	-	-	-	-
R Barfield	-	400,000	-	-	-	-	400,000	-
Total	812,424	3,802,280	508,563	(753,033)	-	-	4,370,234	-

(1) Appointed as a Director on 27 September 2012 and Chairman on 28 March 2013.
(2) Appointed as a Director on 27 September 2012 and Chairman from 1 October 2012 to 28 March 2013.
(3) Appointed as a non-Executive Director on 1 September 2012 and as an Executive Director effective 14 November 2012. Opening balance comprises shareholding as at date of becoming KMP.
(4) Ceased employment and resigned as Managing Director and CEO on 31 July 2012.
(5) Resigned as a Director and Chairman effective 27 September 2012.
(6) Resigned as a Director effective 27 September 2012.
(7) Resigned as a Director effective 14 November 2012.
(8) KMP in the comparative and current reporting periods. Appointed Interim CEO effective 1 August 2012, then CEO effective 18 December 2012.
(9) Appointed Chief Financial Officer on 18 December 2012. Opening balance comprises shareholding as at date of becoming KMP.
(10) Classification as KMP commenced on 1 July 2012. Opening balance comprises shareholding as at date of becoming KMP.
(11) Ceased to be KMP effective 31 October 2012.
(12) Terminated effective 5 December 2012.

Note 39. Related parties – (continued)

Option holdings of KMP

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

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

	Maximum potential entitlement - number of options						
	Opening balance	Other movements	Granted as compen-sation*(1)*	Exercised	Lapsed	Closing balance	Vested and exercis-able at 30 June
2013							
Executive Directors							
T R Marchant *(2)*	600,442	-	-	-	(600,442)	-	-
Senior Executives							
D S Allen *(3)*	6,428	-	-	-	(6,428)	-	-
2012							
Executive Directors							
T R Marchant	883,773	-	-	-	(283,331)	600,442	-
Senior Executives							
D S Allen	58,518	-	-	-	(52,090)	6,428	-
C B Creighton	894,668	-	-	-	(894,668)	-	-
P L Jackson	620,058	-	-	-	(620,058)	-	-
A J Kennedy	344,195	-	-	-	(344,195)	-	-

(1) Options granted during the year are outlined in Note 30.
(2) Ceased employment and resigned as Managing Director and CEO on 31 July 2012.
(3) KMP in the comparative and current reporting periods. Appointed Interim CEO effective 1 August 2012, then CEO effective 18 December 2012.

Rights holdings of KMP

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

	Maximum potential entitlement - number of rights					
	Opening balance	Other movements	Granted as compen-sation*(1)*	Exercised	Lapsed	Closing balance
2013						
Executive Directors						
T R Marchant *(2)*	543,568	-	-	-	(543,568)	-
Senior Executives						
D S Allen *(3)*	78,857	-	1,401,209	(75,000)	(3,857)	1,401,209
J Smallenbroek *(4)*	-	-	1,014,034	-	-	1,014,034
A Preece *(5)*	-	-	257,363	-	-	257,363
C J Turner *(5)*	75,000	-	2,874,846	(75,000)	-	2,874,846
M Gillioen *(6)*	75,000	-	-	(75,000)	-	-
R Barfield *(7)*	400,000	-	-	-	(400,000)	-
2012						
Executive Directors						
T R Marchant	1,157,400	-	-	(112,602)	(501,230)	543,568
Senior Executives						
D S Allen	223,195	-	-	(112,022)	(32,316)	78,857
C B Creighton	1,080,449	-	-	(105,866)	(974,583)	-
M Gillioen	150,000	-	-	(75,000)	-	75,000
P L Jackson	817,226	-	-	(197,258)	(619,968)	-
A J Kennedy	700,178	-	-	(103,073)	(597,105)	-
R Barfield	-	-	400,000	-	-	400,000

(1) Rights granted during the year are outlined in Note 30.
(2) Ceased employment and resigned as Managing Director and CEO on 31 July 2012.
(3) KMP in the comparative and current reporting periods. Appointed Interim CEO effective 1 August 2012, then CEO effective 18 December 2012.
(4) Appointed Chief Financial Officer on 18 December 2012.
(5) Classification as KMP commenced on 1 July 2012.
(6) Ceased to be KMP effective 31 October 2012.
(7) Terminated effective 5 December 2012.

Note 39. Related parties – (continued)

The closing balance represents the rights on hand at 30 June 2013 which have not vested. Rights automatically vest after the qualifying period, subject to performance and/or service conditions being achieved. Nil rights vested to KMP during the current reporting period.

Transactions with entities in the Consolidated Entity

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

Other related party disclosures

The ownership interest in subsidiaries is disclosed in Note 40.

Loans to Directors of subsidiaries total $nil (2012: $384). The comparative reporting period balance comprised employee share plan loans only.

Note 40. Group entities

Acquisitions

On 1 October 2012, the Consolidated Entity acquired 100% of the business and assets of Canterbury Packaging Limited, based in Christchurch, New Zealand. Canterbury Packaging is a small distributor of industrial packaging consumables, hygiene, safety and hospitality products to customers predominantly in the Christchurch area.

On 1 June 2013, the Consolidated Entity acquired 100% of the equity interests in Cadorit i Borås AB, a company specialising in digital solutions for the sign and print industry. Cadorit is based in south west Sweden.

The businesses were acquired to accelerate growth in the Consolidated Entity's diversified businesses.

In the nine months to 30 June 2013, Canterbury Packaging contributed revenue of $1.819 million and profit after tax of $0.112 million to the Consolidated Entity's results. In the one month to 30 June 2013, Cadorit contributed revenue of $0.049 million and loss after tax of $(0.013) million to the Consolidated Entity's results.

Consideration transferred

The following table summarises the acquisition-date fair value of each major class of consideration transferred.

	Canterbury Packaging $m	Cadorit $m	Total $m
Cash	1.9	1.1	3.0
Total consideration transferred	1.9	1.1	3.0

Identifiable assets acquired and liabilities assumed

The following summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

	$m	$m	$m
Cash and cash equivalents	-	0.0	0.0
Inventories	0.3	0.4	0.7
Trade and other receivables	-	0.5	0.5
Property, plant and equipment	0.0	-	0.0
Trade and other payables	-	(0.5)	(0.5)
Loans and borrowings	-	(0.1)	(0.1)
Deferred tax liabilities	-	0.0	0.0
Leave entitlements	(0.0)	-	(0.0)
Total net identifiable assets	0.3	0.3	0.6

Goodwill

Goodwill arising from the acquisitions has been recognised as follows:

	$m	$m	$m
Total consideration transferred	1.9	1.1	3.0
Fair value of identifiable assets	0.3	0.3	0.6
Goodwill	1.6	0.8	2.4

The goodwill is attributable mainly to anticipated future earnings streams and the skills and technical talent of the Canterbury Packaging and Cadorit work forces. None of the goodwill recognised is expected to be deductible for tax purposes.

Acquisition-related costs

The Group incurred acquisition-related costs of $0.08 million relating to external legal and tax fees and due diligence costs. These amounts have been included in other expenses in the consolidated income statement.

No businesses/entities were acquired during the comparative reporting period.

Note 40. Group entities – (continued)

Cross Guarantee

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

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

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

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

	Deed of Cross Guarantee Consolidated	
For the year ended 30 June	**2013 $m**	**2012 $m**
Income Statement		
Loss before tax	(211.3)	(182.1)
Tax expense	(0.2)	(1.3)
Loss for the period	(211.5)	(183.4)
Accumulated losses at beginning of period	(1,407.0)	(1,222.8)
Actuarial losses on defined benefit plans	(0.9)	(0.8)
Accumulated losses at end of period	(1,619.4)	(1,407.0)

Note 40. Group entities – (continued)

	Deed of Cross Guarantee Consolidated	
As at 30 June	**2013 $m**	**2012 $m**
Statement of Financial Position		
Current assets		
Cash and cash equivalents	12.6	6.0
Trade and other receivables	100.2	135.8
Inventories	46.5	54.6
Assets held for sale	-	0.9
Income tax receivable	2.5	2.3
Total current assets	161.8	199.6
Non-current assets		
Receivables	3.1	6.8
Investments in other Consolidated Entity subsidiaries	437.8	604.8
Property, plant and equipment	4.9	6.3
Intangible assets	0.1	0.3
Total non-current assets	445.9	618.2
Total assets	607.7	817.8
Current liabilities		
Trade and other payables	70.8	65.8
Loans and borrowings	33.6	56.1
Income tax payable	2.1	2.1
Employee benefits	8.2	9.5
Provisions	5.5	11.3
Total current liabilities	120.2	144.8
Non-current liabilities		
Payables	-	0.5
Loans and borrowings	218.9	191.0
Employee benefits	1.6	0.5
Provisions	1.7	3.5
Total non-current liabilities	222.2	195.5
Total liabilities	342.4	340.3
Net assets	265.3	477.5
Equity		
Issued capital	1,895.6	1,893.5
Reserves	(2.4)	(0.5)
Accumulated losses	(1,619.4)	(1,407.0)
	273.8	486.0
PaperlinX Step-up Preference Securities	(8.5)	(8.5)
Total equity	265.3	477.5

Note 40. Group entities – (continued)

Subsidiaries listing

	Note	Country of incorporation	Consolidated subsidiary interest 2013	2012
PaperlinX Services Pty Ltd	(1)	Australia	100%	100%
Tas Paper Pty Ltd	(1)	Australia	100%	100%
PaperlinX SPS Trust		Australia	100%	100%
PaperlinX SPS LLC		USA	100%	100%
PaperlinX Australia Pty Ltd	(1)	Australia	100%	100%
Pebmis Pty Ltd	(1)	Australia	100%	100%
Paper Associates Pty Ltd	(1)	Australia	100%	100%
PaperlinX (UK) Ltd		United Kingdom	100%	100%
PaperlinX (Europe) Ltd		United Kingdom	100%	100%
PaperlinX Brands (Europe) Ltd		United Kingdom	100%	100%
PaperlinX Services (Europe) Ltd		United Kingdom	100%	100%
PaperlinX Investments (Europe) Ltd		United Kingdom	100%	100%
PaperlinX Treasury (Europe) Ltd		United Kingdom	100%	100%
1st Class Packaging Ltd		United Kingdom	100%	100%
The Paper Company Ltd		United Kingdom	100%	100%
Parkside Packaging Ltd		United Kingdom	100%	100%
Donnington Packaging Supplies Ltd		United Kingdom	100%	100%
The M6 Paper Group Ltd		United Kingdom	100%	100%
Howard Smith Paper Group Ltd		United Kingdom	100%	100%
Contract Paper Ltd		United Kingdom	100%	100%
Howard Smith Paper Ltd		United Kingdom	100%	100%
Precision Publishing Papers Ltd		United Kingdom	100%	100%
Trade Paper Ltd		United Kingdom	100%	100%
Robert Horne UK Ltd		United Kingdom	100%	100%
PaperlinX UK Pensions Trustees Ltd		United Kingdom	100%	100%
Robert Horne Group Ltd		United Kingdom	100%	100%
W Lunnon & Company Ltd		United Kingdom	100%	100%
Pinnacle Film & Board Sales Ltd		United Kingdom	100%	100%
Sheet & Roll Converters Ltd		United Kingdom	100%	100%
Deutsche Papier Holding GmbH		Germany	100%	100%
Deutsche adp Wilhelm GmbH		Germany	100%	100%
Deutsche Papier Vertriebs GmbH		Germany	100%	100%
PaperlinX Holdings Cooperatieve UA		Netherlands	100%	100%
PaperlinX Netherlands Holdings BV		Netherlands	100%	100%
PaperlinX Netherlands BV		Netherlands	100%	100%
BührmannUbbens BV		Netherlands	100%	100%
PaperNet GmbH		Austria	100%	100%
Tulipel - Comercio de Paperis Lda		Portugal	100%	100%
Adria Papir D.o.o.	(3)	Croatia	-	100%
Budapest Papir Kft	(3)	Hungary	-	100%
Alpe Papir Trgovina na Veliko D.o.o.	(3)	Slovenia	-	100%
Dunav Papir D.o.o.	(3)	Serbia	-	100%
Bratislavska Papierenska Spolocnost	(3)	Slovakia	-	100%
Ospap AS		Czech Republic	100%	100%
PaperlinX Denmark Holdings ApS		Denmark	100%	100%
CC&Co AS		Denmark	100%	100%
Cadorit i Borås AB	(4)	Sweden	100%	-
Bührmann Ubens NV		Belgium	100%	100%
Zing Sp.z.o.o		Poland	100%	100%
PaperlinX SL	(2)	Spain	100%	100%

Note 40. Group entities – (continued)

	Note	Country of incorporation	Consolidated subsidiary interest 2013	2012
Spicers Canada Ltd		Canada	100%	100%
PaperlinX Holdings (Asia) Pte Ltd		Singapore	100%	100%
Spicers Paper (Singapore) Pte Ltd		Singapore	100%	100%
Winpac Paper Pte Ltd		Singapore	100%	100%
Spicers Paper (Hong Kong) Ltd		Hong Kong	100%	100%
Spicers Paper (Malaysia) Sdn Bhd		Malaysia	100%	100%
Finwood Papers (Pty) Ltd	*(3)*	South Africa	-	100%
Finwood Properties Pty Ltd	*(3)*	South Africa	-	100%
PaperlinX Ireland Holdings Ltd		Ireland	100%	100%
PaperlinX Ireland Ltd		Ireland	100%	100%
Paper Sales Ltd		Ireland	100%	100%
Contact Papers Ltd		Ireland	100%	100%
Supreme Paper Company Ltd		Ireland	100%	100%
DM Paper Ltd		Ireland	100%	100%
PaperlinX Investments Pty Ltd	*(1)*	Australia	100%	100%
PaperlinX (N.Z.) Ltd		New Zealand	100%	100%

(1) Subsidiaries entered into an approved deed for the cross guarantee of liabilities.
(2) Subsidiaries renamed since 30 June 2012:
PaperlinX SL (formerly Union Papelera Merchanting SL)
(3) Subsidiaries sold since 30 June 2012 – refer Note 11.
(4) Subsidiaries acquired since 30 June 2012.

Note 41. Events subsequent to balance date

Major European debt facility

On 19 August 2013, members of the Consolidated Entity executed an Amendment Agreement with their major European lender to amend certain terms and conditions which create financial flexibility.

Extension of UK trade receivables facility

On 5 August 2013 the maturity date for the existing UK trade receivables facility was extended from May 2014 to May 2015 – refer Note 23.

New lending facilities in Europe

An overdraft facility totalling $4.3m (AUD equivalent) was entered into in July 2013 with a maturity date of August 2015. During August 2013 two regional trade receivables facilities with limits totalling $39.3m (AUD equivalent) were entered into, with both facilities maturing in February 2015.

Dividends on the Company's ordinary shares

No final dividend has been declared for the reporting period ended 30 June 2013.

DIRECTORS' DECLARATION

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

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

(i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2013 and of its performance for the financial year ended on that date; and

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

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

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

3 The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2013.

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

Signed in accordance with a resolution of the Directors:

Robert Kaye SC
Chairman

Michael Barker
Director

Dated at Melbourne, in the State of Victoria this 21 August 2013.

KPMG

Independent auditor's report to the members of PaperlinX Limited
Report on the financial report

We have audited the accompanying financial report of PaperlinX Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2013, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 41 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

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

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

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

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

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

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

Auditor's opinion
In our opinion:
(a) the financial report of PaperlinX Limited is in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the Group's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
(b) the financial report of the Group also complies with International Financial Reporting Standards as disclosed in note 2(a).

Report on the Remuneration Report
We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2013. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion
In our opinion, the Remuneration Report of PaperlinX Limited for the year ended 30 June 2013 complies with Section 300A of the *Corporations Act 2001*.

KPMG
KPMG

Paul J McDonald
Paul J McDonald
Partner

Melbourne
21 August 2013

SHAREHOLDING INFORMATION AS AT 19 AUGUST 2013

1. Number of shareholders

There were 41,719 shareholders and all issued shares carry voting rights on a one-for-one basis.

2. Distribution of shareholding

Range of holdings	Number of shareholders	% of holders	Number of shares	% of shares
1 - 1,000	23,572	56.50	8,855,418	1.45
1,001 - 5,000	13,536	32.45	30,194,803	4.96
5,001 - 10,000	2,173	5.21	15,668,933	2.57
10,001 - 100,000	2,008	4.81	59,385,161	9.75
100,001 - over	430	1.03	495,176,446	81.27
Total	**41,719**	**100.00**	**609,280,761**	**100.00**

3. Unmarketable parcels

There were 38,590 shareholders holding less than a marketable parcel of shares in the Company (i.e. valued at less than $500), based on the Company's share price of $0.0630. The unmarketable parcel of shares is equivalent to 7,937 shares or below.

4. Listing

The Company's ordinary shares are quoted on the Australian Securities Exchange.

5. Twenty largest shareholders

	Number of shares	% of shares
Citicorp Nominees Pty Limited	57,307,125	9.41
National Nominees Limited	43,976,544	7.22
J P Morgan Nominees Australia Limited	43,411,959	7.13
RBC Investor Services Australia Nominees Pty Limited <MBA A/C>	41,032,751	6.73
UBS Wealth Management Australia Nominees Pty Ltd	39,106,242	6.42
HSBC Custody Nominees (Australia) Limited	27,092,962	4.45
Communications Power Incorporated (Aust) Pty Ltd	19,500,000	3.20
Hishenk Pty Ltd	12,500,000	2.05
Communications Power Incorporated (Aust) Pty Ltd	11,000,000	1.81
Bainpro Nominees Pty Limited	8,411,030	1.38
Loong Phoong Pty Ltd <T Tang Family A/C>	4,549,940	0.75
CK Super Pty Ltd <CK Super Fund A/C>	4,500,000	0.74
Hyecorp Property Fund No 1 Pty Ltd	4,425,000	0.73
Medi Info Pty Ltd <Tauber Family A/C>	4,243,146	0.70
Principal Funds Management Pty Ltd <Principal Growth A/C>	4,150,000	0.68
Ace Property Holdings Pty Ltd	3,600,000	0.59
J P Morgan Nominees Australia Limited <Cash Income A/C>	3,528,503	0.58
Model Sites Pty Ltd	3,000,000	0.49
AJP Investment Services Pty Ltd <Camnat Super Fund A/C>	2,872,872	0.47
HSBC Custody Nominees (Australia) Limited - GSCO ECA	2,755,600	0.45
Total top 20 shareholders	**340,963,674**	**55.96**
Total remaining holders balance	**268,317,087**	**44.04**
Total issued shares	**609,280,761**	**100.00**

6. Geographic location of shareholders by registered address:

	Number of shareholders	Number of shares
Australian Capital Territory	585	6,770,201
New South Wales	10,554	275,940,975
Northern Territory	83	744,001
Queensland	5,088	28,886,093
South Australia	2,200	19,027,796
Tasmania	939	3,629,554
Victoria	16,977	249,443,247
Western Australia	2,041	12,528,762
Other	3	121,488
Total Australia	**38,470**	**597,092,117**
Canada	150	899,256
Germany	70	32,842
Hong Kong	28	150,800
Ireland	22	2,745
New Zealand	658	3,020,403
Singapore	26	130,718
Spain	83	65,324
Switzerland	112	12,473
United Kingdom	630	1,356,336
United States of America	1,374	4,121,818
Other	96	2,395,929
Total Overseas	**3,249**	**12,188,644**

7. Register of substantial shareholders

The names of substantial shareholders of the Company as disclosed in the substantial shareholder notifications to the Company are as follows:

	Number of shares	Percentage of total share capital held
Communications Power Incorporated (Aust) Pty Ltd	30,500,000	5.01%
Maple - Brown Abbot Ltd	49,048,082	8.05%
Orbis Group	111,432,010	18.29%
Raymond Gonzalez	33,700,372	5.53%

8. Unquoted equity securities

Issued pursuant to the PaperlinX Employee Share/Option Plan.

Options

Options over ordinary shares issued at either no cost or a cost of one cent per option exercisable at prices ranging from $Nil to $5.13 per share.

The vesting of certain options depends on the achievement of PaperlinX's long-term incentive plan performance conditions.

- Number of employees participating 5
- Number of securities 75,200

Performance rights

The Company has issued performance rights to certain senior management. Each performance right gives a contingent interest to one PaperlinX ordinary share.

The vesting of performance rights depends upon the achievement of PaperlinX's long-term incentive plan performance conditions.

- Number of employees participating 13
- Number of securities 7,854,993

9. Company Secretaries

Mr Wayne Johnston and Ms Michelle Wong.

FIVE YEAR HISTORY

FOR YEARS ENDED 30 JUNE

($AUD million except where indicated)		Actual 2012/2013	Actual 2011/2012	Actual 2010/2011	Actual 2009/2010	Actual 2008/2009
Paperlinx consolidated financial performance						
Sales revenue		2,806	4,113	4,670	5,225	7,107
Sales growth (%)		(31.8)	(11.9)	(10.6)	(26.5)	(5.1)
Earnings from ordinary activities before interest and income tax		(70.4)	(233.2)	(91.9)	(174.9)	(718.2)
(Loss)/Profit from ordinary activities before income tax		(82.7)	(251.5)	(110.8)	(202.4)	(800.0)
(Loss)/Profit from ordinary activities after income tax		(90.2)	(266.7)	(108.0)	(225.3)	(798.2)
Financial statistics						
Depreciation, amortisation and impairment expense		(38.7)	(145.9)	(91.2)	(28.3)	682.2
Net interest expense		(12.3)	(18.3)	(18.9)	(27.5)	81.8
Cash flow from operating activities		(42.1)	(62.3)	54.6	23.1	(6.0)
Capital expenditure - acquisitions		3.1	-	0.4	0.4	3.4
Capital expenditure - plant & equipment		9.0	14.0	18.0	18.4	180.1
Earnings from ordinary activities before interest and income tax by segments						
Continuing operations *(1)*		(8.1)	(4.4)	21.4	24.5	82.3
Discontinued operations *(1)*		2.7	8.0	17.1	(27.1)	27.8
Unallocated		(13.3)	(22.8)	(21.1)	(33.0)	(93.7)
Total EBIT pre significant Items		**(18.7)**	**(19.2)**	**17.4**	**(35.6)**	**16.4**
Significant Items		(51.7)	(214.0)	(109.3)	(139.3)	(734.6)
Total EBIT post significant Items		**(70.4)**	**(233.2)**	**(91.9)**	**(174.9)**	**(718.2)**
Financial position summary						
Current assets		1,003	1,104	1,540	1,774	2,312
Non-current assets		158	195	390	531	636
Total assets		**1,161**	**1,299**	**1,930**	**2,305**	**2,948**
Current liabilities		531	675	846	996	1,503
Non-current liabilities		268	177	348	385	174
Total liabilities		**799**	**852**	**1,194**	**1,381**	**1,677**
Net assets / total shareholders' equity		**362**	**447**	**736**	**924**	**1,271**
Financial ratios						
Basic earning per share	(cents)	(14.8)	(43.8)	(21.4)	(38.9)	(145.6)
Earnings per share growth	(%)	66.2	(104.7)	45.0	73.3	(1,541.6)
Return on average funds employed	(%)	(13.1)	(25.5)	(8.3)	(12.9)	(26.3)
Return on average shareholders' equity	(%)	(22.9)	(40.5)	(12.7)	(20.7)	(46.3)
Dividend per ordinary share	(cents)	-	-	-	-	3.5
Net tangible assets	($ millions)	251	312	439	520	809
Net tangible assets per ordinary share	($)	(0.04)	0.06	0.27	0.40	0.85
Net interest cover *(2)*	(times)	(5.7)	(12.7)	(4.9)	(6.4)	(7.7)
Gearing (Net debt/net debt and shareholders' equity)	(%)	25.3	24.8	18.9	15.1	14.6
Gearing (Net debt/shareholders' equity)	(%)	33.9	33.0	23.3	17.7	17.1
Other information						
Fully paid ordinary shares as at 30 June	(millions)	609.3	609.3	603.6	603.6	603.6
Weighted average number of shares	(millions)	609.3	608.3	603.6	603.6	558.7
Number of shareholders as at 30 June		41,719	44,619	46,652	49,444	54,551
Employee numbers as at 30 June		4,042	4,850	6,212	6,508	7,199

(1) As defined in the respective reporting periods.
(2) Includes capitalised interest in 2013 of $nil, $nil in 2012, $nil in 2011, $nil in 2010 and $11.3m in 2009.

Investor information

Share Registry

Shareholders with queries about anything related to their shareholding, including updating their personal details, should contact the PaperlinX Share Registry in Melbourne, Australia:

- by telephone (within Australia) 1300 662 058 or (outside Australia) +61 3 9415 4021
- by facsimile +61 3 9473 2500
- by going online at www.investorcentre.com/contact

Alternatively, shareholders may wish to write to:
PaperlinX Share Registry
GPO Box 2975
Melbourne, Victoria 3001, Australia.

Details of individual shareholdings can be checked conveniently and simply by visiting our Share Registry's website at www.computershare.com/au/investors. For security reasons, you then need to key in your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) plus company name or ASX code, your postcode, choose a User ID and password, enter the Security code (shown in the box) and agree to the Terms and Conditions to enable access to personal information.

Tax file numbers

PaperlinX is required to withhold tax at the rate of 46.5 per cent on any unfranked component of dividends or interest paid to investors resident in Australia who have not supplied the Company with a tax file number (TFN) or exemption form. Investors are not required by law to provide their TFN if they do not wish to do so.

Transfer of shares off-market

Following the introduction of new legislation, a fee of A$50 (incl. GST) is required to cover a fraud prevention security check on the authenticity of the seller details. Details of fees and the process required can be obtained from the PaperlinX Share Registry. No stamp duty is payable on off-market transfers.

Annual General Meeting

The Annual General Meeting is normally held in October.

The 2013 Annual General Meeting will be held at 9:30am on Friday, 25th October at the Melbourne Convention Centre, Meeting Room 106, Level 1, 1 Convention Centre Place, South Wharf, Melbourne, Victoria 3006, Australia.

Financial calendar

Full Year Results 2013
21 August 2013

Interim Results 2014
February 2014

Full Year Results 2014
August 2014

Securities exchange listing

PaperlinX shares are listed on the ASX. All shares are recorded on the principal share register, which is located in Victoria, the state of incorporation of PaperlinX. The Company's ASX code is 'PPX'.

Sources of information

Annual Report 2013

PaperlinX will continue to prepare the Annual Report, which is available to all shareholders. The Annual Report can be accessed and downloaded from the PaperlinX website at www.paperlinx.com. A printed copy will be sent to those shareholders who have elected to receive it. If you wish to change your prior Annual Report election, please go to www.investorcentre.com/contact. Alternatively, call Computershare on 1300 662 058 (within Australia) or +61 3 9415 4021 (outside Australia).

PaperlinX website

A range of corporate information, including ASX Releases, Financial Reports, webcasts and the addresses to the Annual General Meeting, may be obtained from www.paperlinx.com. This investor information is available from the 'Investor Information' section of the website. Shareholders can also 'register for news' on the website and receive PaperlinX ASX announcements via email.

Annual Report 2013

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