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PaperlinX

**PEOPLE
PAPER
PROGRESS**
Annual Report 2008

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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.

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**P
IS FOR...**

PEOPLE 9,365 dedicated people
27 countries
49 businesses
366 locations
18 languages

PAPER 3.7 million tonnes distributed
780,000 tonnes manufactured

PROGRESS

20 per cent compound annual growth in non-paper activities
\$81 million delivered through strategic initiatives

**P
IS FOR
PAPERLINX**

OUR LOCATIONS

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Merchanting Europe

- 1 Denmark
- 2 Ireland
- 3 United Kingdom
- 4 Netherlands
- 5 Belgium
- 6 Germany
- 7 Poland
- 8 Czech Republic
- 9 Austria
- 10 Slovakia
- 11 Hungary
- 12 Croatia
- 13 Slovenia
- 14 Italy
- 15 Spain
- 16 Serbia
- 17 South Africa

Merchanting Australia, NZ and Asia

- 1 Darwin
- 2 Townsville
- 3 Brisbane
- 4 Sydney
- 5 Canberra
- 6 Melbourne
- 7 Hobart
- 8 Adelaide
- 9 Perth
- 10 Auckland
- 11 Wellington
- 12 Christchurch
- 13 Dunedin
- 14 Singapore
- 15 Malaysia
- 16 Vietnam
- 17 Hong Kong
- 18 Japan
- 19 Taiwan

Paper Manufacturing

- 1 Melbourne
- 2 Maryvale Mill
- 3 Shoalhaven Mill
- 4 Burnie Mill
- 5 Wesley Vale Mill



**Merchanting
North America**

- 1 Edmonton
- 2 Calgary
- 3 Saskatoon
- 4 Vancouver
- 5 Regina
- 6 Winnipeg
- 7 Sudbury
- 8 Toronto
- 9 Kitchener
- 10 Belleville
- 11 Ottawa
- 12 Montreal
- 13 Quebec City
- 14 Dartmouth
- 15 St John's
- 16 Seattle
- 17 Portland
- 18 Minneapolis
- 19 Sacramento
- 20 Denver
- 21 Kansas City
- 22 St Louis
- 23 San Francisco
- 24 Las Vegas
- 25 Los Angeles
- 26 San Diego
- 27 Phoenix
- 28 Tucson
- 29 Hawaii

PAPERLINX IS

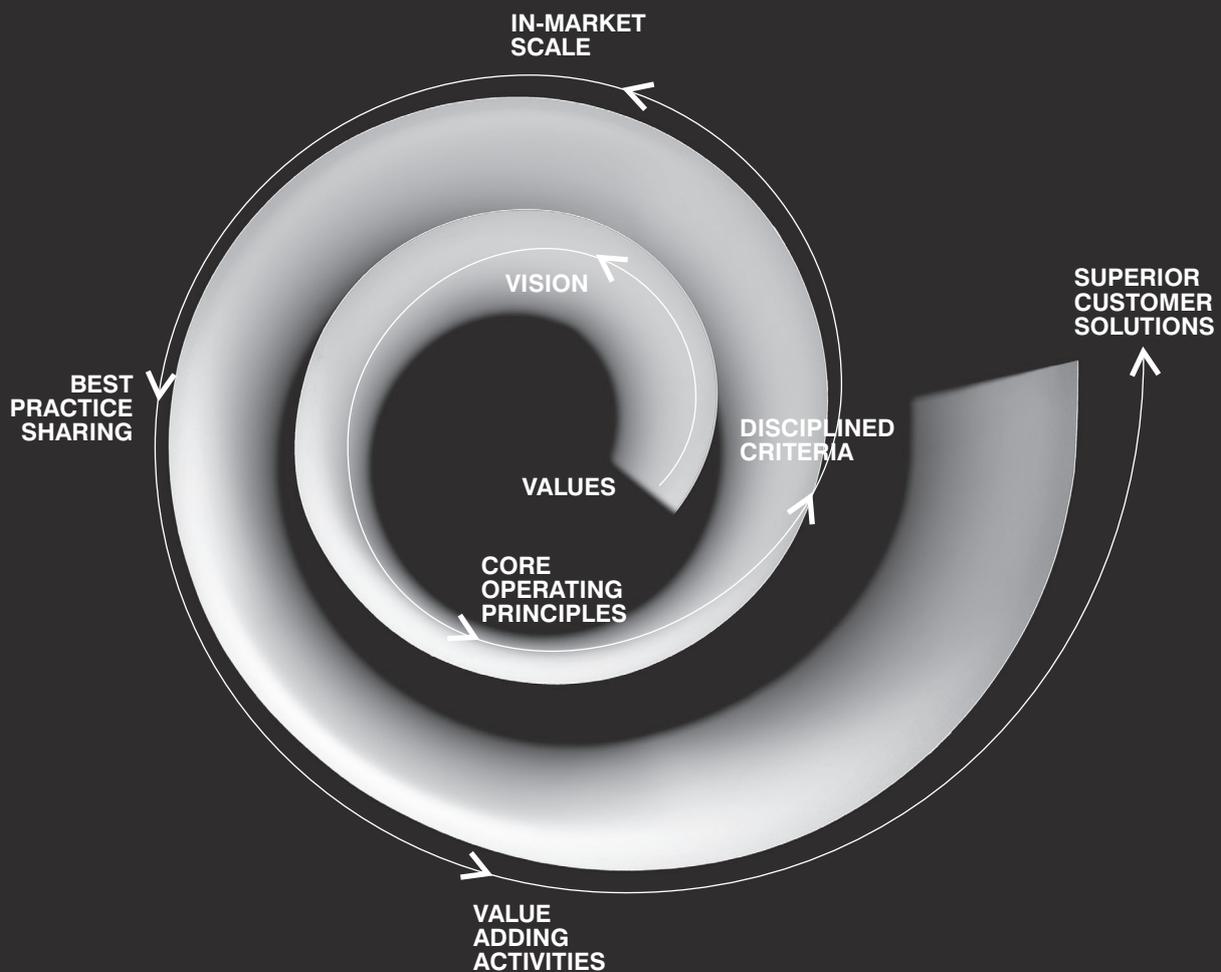
One of the world's largest fine paper merchants. Distributing nearly four million tonnes of high-quality fine paper, sign and display and graphics products, and industrial packaging to printers, stationers, office suppliers and other customers in five continents. Australia's only manufacturer of printing, writing and office papers.

Manufacturing and distributing around 500,000 tonnes of high-quality communications papers at four Australian mills, primarily for Australian customers, but also exported around the world.

A leading Australian manufacturer of packaging papers. Manufacturing around 300,000 tonnes of linerboard and sack bag papers for customers in Australia and throughout the Asian region.

THE PAPERLINX APPROACH

Our decision-making process uses a series of steps to ensure the best possible outcomes.



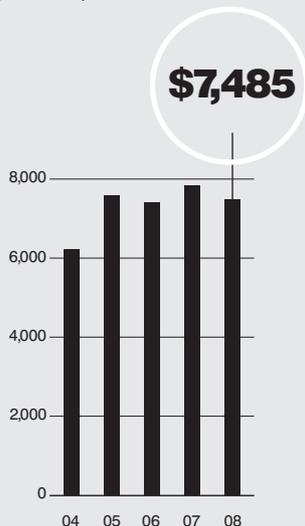
- > **OUR VALUES** – Who we are
- > **OUR VISION** – Where we are going
- > **OUR CORE OPERATING PRINCIPLES** – Our process for getting there
- > **DISCIPLINED CRITERIA** – Investment based on clear disciplines
- > **IN-MARKET SCALE** – Opportunity in core businesses
- > **BEST PRACTICE SHARING** – Team approach
- > **VALUE ADDING ACTIVITIES** – Accelerating growth
- > **SUPERIOR CUSTOMER SOLUTIONS** – The outcome

HIGHLIGHTS 2008

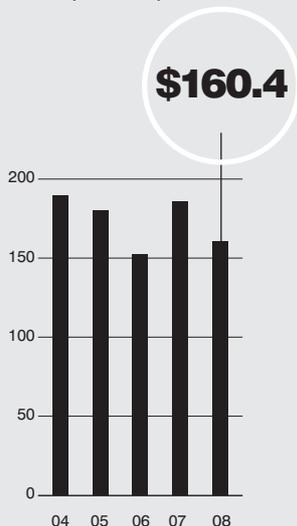
Reported profit after tax was \$72.2 million for the year ended 30 June 2008 compared with \$80.1 million for 2007. Earnings before interest and tax (EBIT) was \$160.4 million, down 14 per cent.

The 2008 result reflected the impacts of very challenging external market conditions, including rising costs, weak global demand and a weak US dollar. Against this, the Group made good progress on cost reduction programmes, growth in higher value product segments and continued to deliver its programme of strategic initiatives.

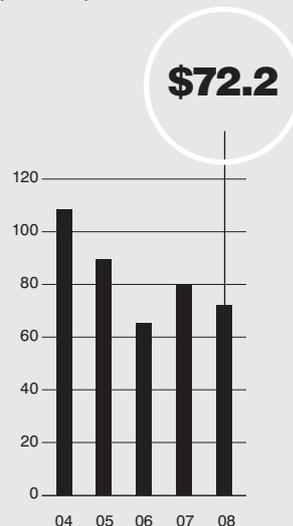
Sales revenue
(A\$ million)



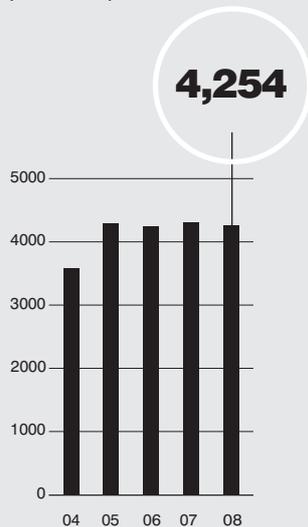
Earnings before interest
and tax (A\$ million)



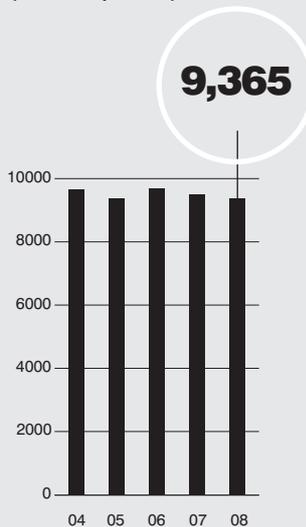
Profit after tax
(A\$ million)



Paper sales volume
('000 tonnes)



Number of employees
(full time equivalent)



SUMMARY FINANCIALS

Paperlinx Limited and Controlled Entities

		Year ended 30 June		
		2008	2007	2006
Sales revenue	\$m	7,485.1	7,839.3	7,371.6
Earnings from operating activities before interest, income tax, amortisation and depreciation	\$m	254.3	286.5	257.1
Earnings from operating activities before interest and income tax (EBIT)	\$m	160.4	185.5	152.4
Underlying earnings from operating activities before interest and income tax	\$m	154.4	197.7	156.6
Profit before tax	\$m	100.4	114.6	87.3
Profit after income tax	\$m	72.2	80.1	65.4
Step-up Preference Security (SPS) distribution	\$m	26.7	6.6	0.0
Key Ratios				
Earnings before interest and income tax to average funds employed	%	5.7	7.0	6.2
Average working capital to sales	%	18.0	18.3	18.7
Operating cash flow	\$m	113.0	142.9	259.8
Net interest cover ⁽¹⁾	x	2.0	2.5	2.3
Net debt/Net debt and equity	%	28.7	24.3	36.0
Basic earnings per share post SPS distribution	cps	10.1	16.4	14.7
Dividend per share (Total annual)	cps	6.5	11.0	10.0

(1) Including capitalised interest in 2008 of \$18.8 million, \$4.2 million in 2007 and \$0.3 million in 2006.

Note: In this statement, currency is in Australian dollars unless otherwise indicated.

	EBIT		Sales Revenue		Total Assets	
	June 2008 \$m	June 2007 \$m	June 2008 \$m	June 2007 \$m	June 2008 \$m	June 2007 \$m
Industry Segments						
Europe	139.0	139.9	4,573	4,780	2,020	2,148
North America	32.4	51.5	1,275	1,380	457	502
Australia, NZ and Asia ⁽¹⁾	21.0	13.8	1,005	1,033	444	462
Inter-merchant Sales	–	–	(37)	(34)	–	–
Total Paper Merchancing	192.4	205.2	6,816	7,159	2,921	3,112
Paper Manufacturing ⁽¹⁾	(1.9)	10.2	973	1,016	1,354	1,148
Corporate ⁽¹⁾⁽²⁾	(30.1)	(29.9)			35	129
Operating earnings before interest and income tax	160.4	185.5				
Net interest ⁽³⁾	(60.0)	(70.9)				
Income tax expense	(28.1)	(34.4)				
Outside equity interests	(0.1)	(0.1)				
Inter-segment sales			(304)	(336)		
Unallocated assets (deferred tax assets)					68	53
Total	72.2	80.1	7,485	7,839	4,378	4,442

(1) Reported historic results adjusted to reflect the formation of PaperlinX Office.

(2) Corporate includes Group overheads, governance and compliance costs, financing costs, public company costs, Group-wide long-term incentive costs and applicable one-off items.

(3) Excludes capitalised interest in 2008 of \$18.8 million and \$4.2 million in 2007.

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David Meiklejohn }
Chairman }

PAPER

CHAIRMAN'S REPORT

2008 was another year where the external environment again proved to be extremely difficult and increasingly challenging. The profit results for the Group were down but the benefits of the strategic initiatives undertaken in recent years ameliorated to some extent the negative impacts of the adverse market conditions. We have been operating in difficult economic conditions now for some years and this has had a negative impact on our profits, our share price and on returns. Although we do not see any short-term changes in market conditions we will continue to focus on the key strategic areas which are under our control which involve reducing costs, improving productivity and improving production efficiencies.

A major focus of the management and the Board over the past year has been on the completion of the new bleach plant and pulp upgrade at our Maryvale Mill. This project has not proceeded in line within our original cost and timing expectations and is now scheduled for completion later in the 2008 calendar year. However, the strategic rationale for the upgrade involving increased capacity, reduced production costs, improved environmental performances and improved product quality remains unchanged. Although the completion of the project has been protracted, we are obtaining benefits from the work completed to date and are confident of delivering targeted returns on completion.

The industry structural issues I have commented on in previous reports have shown some signs of resolution, with recent closure announcements of paper production facilities by European paper manufacturing companies. This has the potential to improve the supply imbalance in Europe while the increase in Asian demand for paper is seeing a tightening in the regional Asian supply/demand balance. Nonetheless, we must continue to focus on the areas under our own control, and ensure that our Company maintains the flexibility, both financially and operationally, to continue to pursue its chosen path.

Operationally we continue to progress our list of strategic initiatives, including the pulp mill upgrade. These initiatives have helped buffer the Company results against the negative pressures of recent years and new initiatives have been added as opportunities arise. In some cases investment in these initiatives has had a negative impact on short-term returns, but have been undertaken because they will yield improved results in the longer term.

A consequence of taking some restructuring actions now, combined with the difficult external environment, has been the need to manage our financial resources prudently. In an operational sense this has led to a significant focus on reducing working capital on ongoing cost reduction programmes and on the sale of non-strategic property assets. It has also resulted in tight management of the Group balance sheet and of our sources of funding. We issued step-up preference shares in 2007, and continued the roll-over of the Group's short-term debt in February 2008. We will consider other funding options as appropriate to ensure the Company continues to retain the funding flexibility it needs, especially in these more uncertain times.

The announcement that PaperlinX is considering the partial or total sale of Australian Paper to external investors is consistent with this approach, though to date no firm offers have been received, nor any decision made at the time of writing.

Another key focus of the Board during the past year has been to overview risk management throughout the Group to ensure that the Company adequately addresses changes in our external environment. Operational and external risks are monitored by the Board through formal reporting systems and also through regular discussions with management. Our Board Committees ensure that proper governance of Company activities is maintained at the highest standards and that we focus on key identified risk areas.

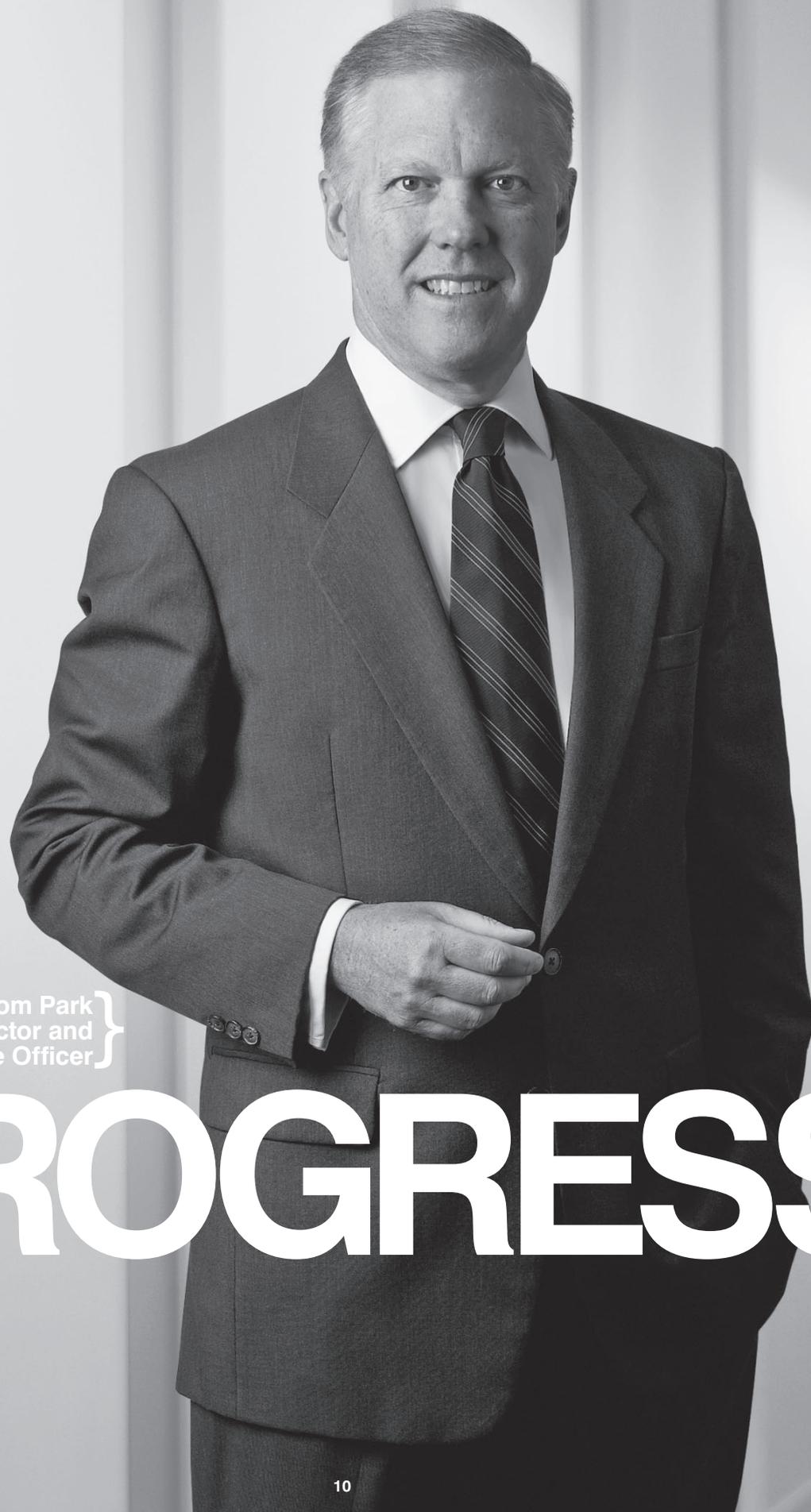
As part of our ongoing process of Director transitions, Mr David Walsh retired from the Board at the end of 2007. I thank David for the contribution he made both to the Board and to the development of the Company during his tenure. I am pleased to welcome Mr Harry Boon to the Board. Harry, an experienced Director with a strong management background, joined the Board in May 2008.

It has been a challenging year for the Company, placing pressure on management and all our employees. I thank our Chief Executive, Tom Park and his team for the efforts of the past year, and the ongoing commitment they have shown towards the future of our Company. Again I would also like to thank our shareholders and other stakeholders for their ongoing support.



David Meiklejohn
Chairman

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Tom Park
Managing Director and
Chief Executive Officer

PROGRESS

MANAGING DIRECTOR'S REPORT

2008 proved to be the challenging year we thought it might be. The external environment continued to deteriorate, and overall industry returns around the world remain poor. The manufacturing sector in North America and Europe particularly came under pressure from rising costs and declining volumes.

Against this environment we continued to pursue the path we have been following for the past four years. While it is sometimes not easy to see those benefits in a falling market and in such volatile times, we are moving the Company closer to a more sustainable future. 2008 was a pivotal year in this context. We have, or are close to completing a number of significant investments to improve the competitiveness of your Company. Progressing these activities has not been easy, and the speed of progress of the pulp mill upgrade at Maryvale has been a particular disappointment; though the strategic rationale for the project remains sound, and expected benefits have improved over time.

Going into 2009, as we complete this key project, we will realise the production cost savings, product improvements and a superior environmental footprint the project has been designed to achieve.

Group Results

The PaperlinX profit after tax for the 2008 financial year was \$72 million, down 10 per cent on last year's \$80 million. Group operating earnings before interest and tax (EBIT) were \$160 million. This is 14 per cent down on last year's \$186 million. This operating result reflects the difficult business environment mentioned above along with costs associated with the Pulp Mill upgrade through the year.

These results are clearly not acceptable. We understand that and do not shy away from the hard decisions needed to provide our stakeholders with the returns they expect. In fact we started on the changes we believe are needed some years ago and have been regularly reporting openly against these strategic initiatives. Certainly the externalities have been much more negative than anyone expected, but if we had not followed our current path of growth in merchanting, investing against competitive advantages and reducing our position in non-competitive or strategic activities, our position would be worse.

We have diversified into Paper Merchanting, with that sector of our business currently providing the majority of our earnings. We have consolidated businesses and facilities, structurally reducing the funds needed to run our businesses and the costs incurred. We are currently investing heavily into our manufacturing business to improve its competitive position and reduce costs further. These priorities take time to complete, but the benefits to date have enabled us to absorb the significant negative headwinds.

All of this has kept pressure on our financial resources. Our key metrics are tighter than we would prefer, and we have kept focussed on our priority areas to ensure that the dollars we have to invest are invested with the best payback. It is encouraging that we have more opportunities than we have the capacity to deal with. We will continue to ensure that the Company has adequate funding coverage, and will continue to look for ways to self-fund our ongoing investments through reduction of working capital or sale of non-core assets.

People

We have been working hard to make sure that we have the right people in the right places and that we provide them with the skills they need to make their best contribution. Training in the areas of safety, sales and leadership have all figured prominently in the last year. These activities are time consuming and expensive and we must prioritise carefully, but ultimately they are critical investments in the future of PaperlinX. If you want to see a compelling argument for investment in people have a look at our safety performance. Not yet perfect, but progress we can be proud of.

Sustainability

As in prior years we have a dedicated report on this subject (available in hard copy or on our website, www.paperlinx.com).

Launch of Values

2008 saw the launch of the PaperlinX Values. These Values have been arrived at after a great deal of consultation across the Group. Our Values are supported by behaviours that relate to how we expect all employees to act with each other, and with our customers, suppliers and others. For details of our seven Values I would encourage you to visit our website (www.paperlinx.com).

Conclusion

I would like to thank my fellow employees for the energy and dedication they have applied during very difficult economic times. It is one of the great challenges during such times to keep the focus on key areas when short-term issues are so acute. I am proud of the way our people have applied themselves, and the dedication shown at all levels of our organisation. We have made further progress down our chosen strategic path and while 2009 will be another year of challenge, I know we have built a team that is up to that challenge.



Thomas P Park
Managing Director and Chief Executive Officer

MAJOR BUSINESS INITIATIVES

Update of Existing Initiatives

Many of the strategic initiatives we committed to previously are now complete or well in progress and adding value to the business.

Our strategic initiatives delivered \$81 million incremental benefit in 2008 (over 2005). These initiatives are on target to return \$125 million incremental benefit in 2009 (versus 2005), an increment of over \$40 million from 2008.

Upgrade of the number 1 paper machine at Maryvale Mill	Complete, in market. Pricing favourable	COMPLETED
Closure of the number 1 and number 2 paper machine at Shoalhaven Mill	Complete	
Spicers Canada acquisition	Complete, returns exceeding expectations	
PaperlinX Office (Australia)	Complete, domestic copy paper share growth	
European portfolio changes	Exit France, Sweden, Portugal, Finland Acquisition in Italy (exceeds expectations)	
Warehouse integrations	Toronto, Barcelona, Australia	
Maryvale wood yard outsourcing	Completed and transferred to Operator	
The Delivery Company (UK Logistics)	On track, 12 sites operational	ONGOING
Netherlands restructure	Exceeding expectations. Living Office now operational	
European IT platform	On track, three units completed, two units in progress	
Maryvale pulp mill upgrade	On track for targeted returns. Output and EBIT upside potential, though capital cost higher and benefits delayed	
Growth of own brands	+3 per cent Europe, +7 per cent North America	
Strategic sourcing alignment	Ongoing	

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Additional Initiatives

To proactively address the impacts of weak markets and the delayed pulp mill upgrade benefits, these existing and additional initiatives are in place for 2009.

Continue to expand the contribution of non-paper activities at superior margins

- yoyo,TM a closed loop office paper recycling system, was recently launched in the UK and is rolling out in continental Europe
- Expand our Sign and Display platform
- Industrial Packaging acquisitions in the UK have exceeded plan
- Non-paper activities delivered 17 per cent of gross profit in 2008

Complete the remaining European property sales to fund restructuring charges

- We expect over \$20 million profit with a bias to the first half of the year

A Profit Protection Plan has commenced, to deliver a \$30 million expense saving and a fuel surcharge benefit in 2009 to mitigate fuel costs and market softness

- There is a focus on shared services and fuel surcharges and a hold on headcount and discretionary spend

These initiatives touch all parts of our business and show the benefits that can be achieved by following our clear and simple values and core operating principles.

Strategic Review Process

To ensure that the strategic advantages of our businesses are fully valued, a process is underway to identify potential investors for a share of or all of Australian Paper.

- Potential investors are currently performing due diligence, though there is no decision to sell at the time of writing
- In the event that an offer is made and accepted, it is probable that the long-term carrying value of the business may not be achieved at this low point in the business cycle, though 'through cycle' valuations support the carrying value
- We will evaluate offers in light of the overall value and the alternative uses of funds in the near and medium term

SENIOR MANAGEMENT



Tom Park
Managing Director and
Chief Executive Officer

Tom was appointed Managing Director and Chief Executive Officer of PaperlinX Limited in February 2004. He was previously Chief Executive Officer of Goodman Fielder Limited, Chief Executive Officer of Southcorp Limited, and Executive Vice-President of Kraft Foods Limited. Tom has broad business experience in Australia, Asia, North America and Europe.



David Lamont
Chief Financial Officer

David joined PaperlinX as Chief Financial Officer in February 2006 and has worldwide responsibility for finance, taxation, commercial, legal, audit and business systems. David was previously Chief Financial Officer of BHP Billiton's Carbon Steel Materials business. David has resigned from PaperlinX effective 26 September 2008.



Chris Creighton
President, PaperlinX
North America

Chris was appointed President, PaperlinX North America in March 2001 and has responsibility for the operations in the US and Canada. Chris has an extensive background in merchanting and has held various senior positions in Australia and North America.



Eduard de Voogd
Chief Executive Officer,
PaperlinX Europe
(until 30 June 2008)

Eduard was appointed Chief Executive Officer, PaperlinX Europe in November 2003 and has responsibility for the growth and strategic direction of the Merchanting businesses in Europe. Eduard has held a number of senior marketing and management positions in PaperlinX's European operating companies.



Martin Fothergill
Executive General Manager,
Merchanting Australia,
New Zealand and Asia

Martin was appointed Group General Manager, Merchanting Australasia in November 2005 with responsibility for Australia, New Zealand, Asia and Paper Trading. He was previously Regional President, UK and Ireland and joined the PaperlinX Group in 2002 as Managing Director of Bunzl Fine Paper in the UK, later renamed The Paper Company. Martin has over 30 years of experience in Paper Merchanting.



Jim Henneberry
Executive General Manager,
Australian Paper

Jim joined PaperlinX in July 2006 and has responsibility for the Group's paper manufacturing in Australia. Jim was previously with International Paper/Carter Holt Harvey in the US and New Zealand. Prior to this he held various operational, capital and strategic roles during his 29 years in the international pulp and paper industry.



Toby Marchant
Chief Executive Officer,
PaperlinX Europe
(from 1 July 2008)

Toby was appointed Chief Executive Officer, PaperlinX Europe in July 2008 and has responsibility for the growth and strategic direction of the Merchanting businesses in Europe.

Toby was previously Regional President for PaperlinX UK, Ireland and South Africa and Managing Director of Robert Horne Group and has over 25 years experience in Paper Merchanting.



Ross O'Brien
Executive General Manager,
Human Resources

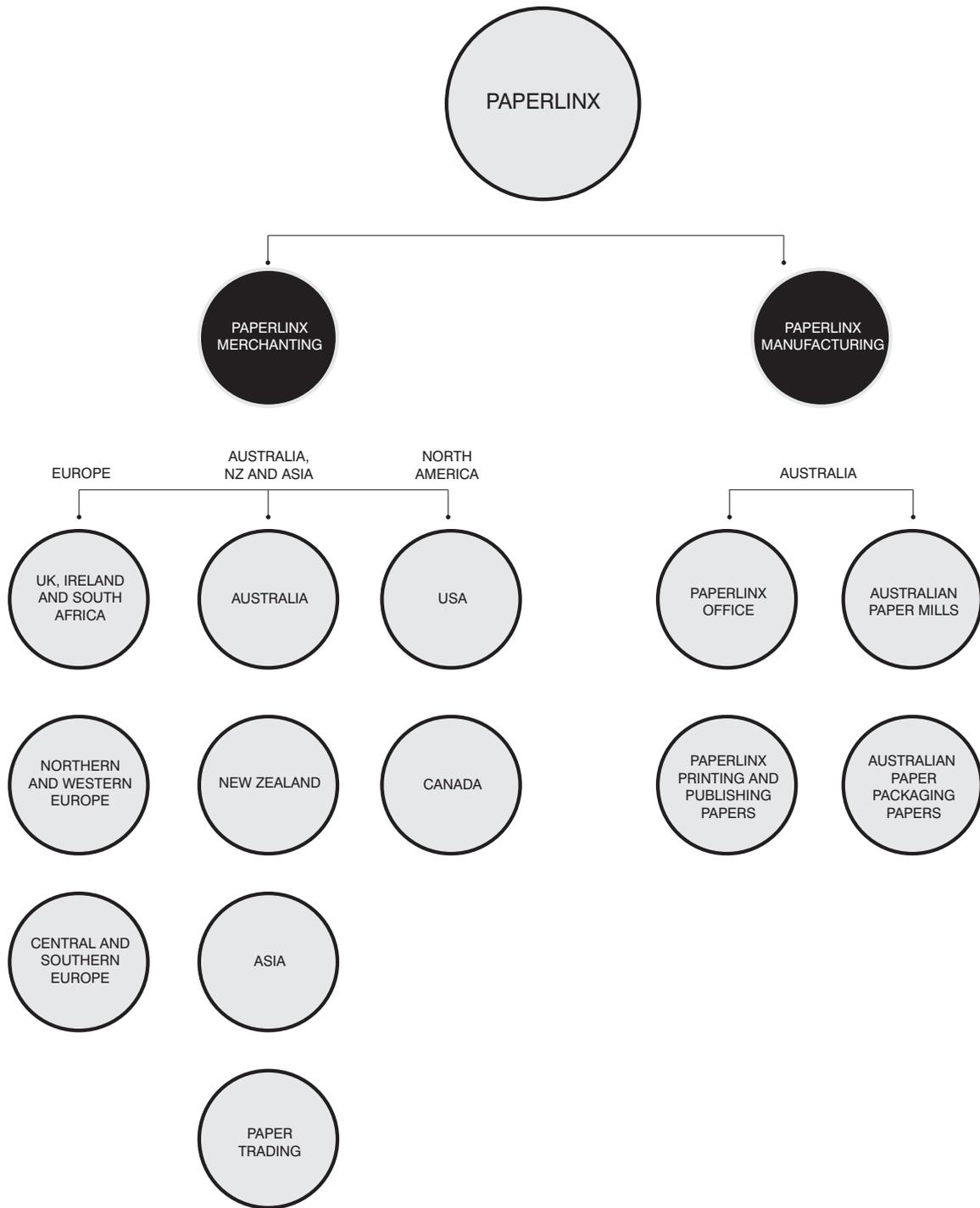
Ross joined PaperlinX in March 2003 and is responsible for developing the Group's worldwide human resources and environment, safety and health policy and strategy. Ross has held various senior executive level roles in human resources and operational areas in Australia, the US and Europe.



David Shirer
Executive General Manager,
Corporate Affairs

David joined PaperlinX in 2000 and has responsibility for investor relations, external communication, including media relations and internal communication. David has broad experience in investor relations and in the finance industry.

GROUP STRUCTURE



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ACT WITH INTEGRITY AND HONESTY

As a manufacturer and distributor of paper, we have certain responsibilities.

Building our business upon paper – a sustainable product made from a renewable natural resource that is completely recyclable – has many implications. These unique product features have become increasingly relevant to environmentally conscious consumers the world over.

To maintain our Company's growth, we must focus our sustainability strategy on these three areas:

- Economic sustainability – the successful performance of our business model.
- Social sustainability – meeting society's expectations of our responsibilities to our employees and the communities in which we operate.
- Environmental sustainability – managing natural resources wisely to continually improve our environmental performance.

SUSTAIN

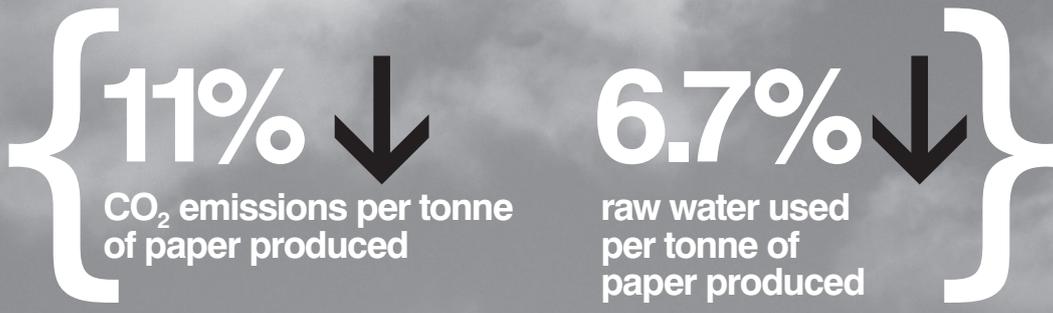
'We have developed some innovative products with environmental credentials... These are proving to be popular options for customers who are adapting their supply chains to address environmental concerns.'

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Sustainability Highlights for 2008

- For the fourth consecutive year, PaperlinX has satisfied the requirements of the FTSE4Good Index Series by meeting global standards of corporate responsibility for social, ethical and environmental performance. And we participated in the Carbon Disclosure Project Survey in Australia.
- Over the past seven years, we successfully reduced our overall Lost Time Injury Frequency Rate (LTIFR) by 50 per cent, and our Medically Treated Injury Frequency Rate (MTIFR) by 55 per cent.
- The PaperlinX Values were launched in every business to enhance our organisational culture and business performance.
- HealthLinX, our global health and wellbeing programme, was launched by offering all employees a free workplace health check.
- Carbon emissions per tonne of paper produced were reduced by 11 per cent in our Australian manufacturing business. Achieved a 6.7 per cent reduction in raw water used per tonne of paper produced in Australia.
- Developed the first Australian-made range of carbon-neutral papers, called ENVI.™ and launched yoyo™, a unique combined office paper delivery and waste collection service in the UK.
- Australian Paper qualified as a member of the World Wildlife Fund's Australia Forest and Trade Network, an initiative to promote responsible forest management and credible forest certification.
- Australian Paper received dual chain-of-custody certification for its paper products under the Programme for Endorsement of Forest Certification schemes (PEFC) and Forest Stewardship Council (FSC).
- Continued to significantly drive up the number of chain-of-custody certifications in our merchant operations in Australia, Asia, Europe and North America, confirming their ability to trace paper back to an approved sustainable source of fibre.
- The upgrade of the pulp capacity at Maryvale Mill is progressing, including the new bleach plant that will provide further improvements in environmental performance.
- Contributed \$0.9 million to a range of local programmes and non-profit organisations that support communities around our business sites.

ABILITY



{ SHARING OUR VALUES AROUND THE WORLD

The Company launched a set of organisational values to employees to provide a common thread across the organisation and to drive business performance. These values define the qualities we expect all our employees to embrace. They were developed during an 18-month consultation period with all our operating companies to reflect a Company-wide view.

The PaperlinX Values reinforce our commitment to developing a culture that allows people to work to the best of their abilities and to achieve a high point of their working life.

The PaperlinX Values are:

- Success through ideas and partnerships.
- Courage to lean forward.
- Trust and respect.
- Sustainability.
- Respect local and add value with global.
- Passion, success and pride.
- Leadership.

PEOPLE

‘Over the past seven years our safety performance has improved, reducing our Medically Treated Injury Frequency Rate by

55%’

‘This year, we offered all employees a free workplace health check’

‘We invest heavily in providing a variety of training and development programmes that assist our employees with their professional growth.’

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9,365
EMPLOYEES

**PAPER
MERCHANTING**

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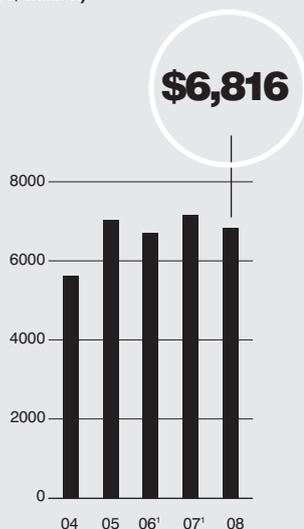


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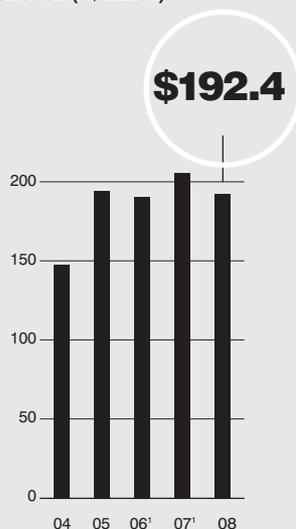
RETURN

ON AVERAGE FUNDS EMPLOYED

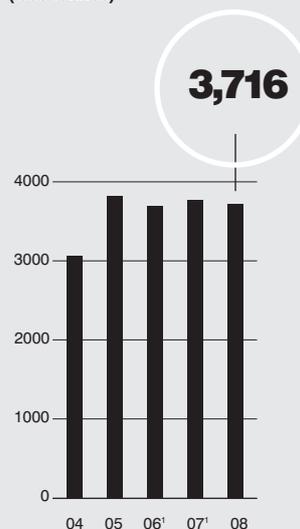
Sales revenue
(A\$ million)



Earnings before interest and tax
(A\$ million)



Sales volume
(^{'000 tonnes})



¹ Adjusted to reflect PaperlinX Office

PaperlinX is one of the world's largest global paper merchants, linking customers and suppliers through a global network of locally-focused fine paper merchants. Providing customers what they want, when they want it, backed up by global scale, and an expanding offering in Sign and Display, Industrial Packaging and Graphics.

We stock and market own branded paper, and we distribute well known mill brands in office, commercial print, printing and publishing paper. We offer a diverse range, superior product knowledge and technical expertise. We provide professional and timely solutions, and ongoing support until the job is completed.

We offer supply chain assurance that the wood fibre used in the paper we sell is sourced from sustainably managed forests. We support independent certification systems, such as the FSC accreditation process and the Programme for Endorsement of Forest Certification (PEFC).

Merchants Overall Results

Paper Merchancing produced an EBIT of \$192.4 million, down 6 per cent, with underlying EBIT of \$172.9 million, down 16 per cent. Overall, Paper Merchancing has continued to produce adequate returns in this difficult environment, with clear potential for upside from any improvements in the current market conditions. The total Merchancing return on average funds employed was 11.4 per cent.

Paper Merchancing Overall			
		Year June 2008	Year June 2007
Sales volume	'000 tonnes	3,716	3,764
Sales revenue	A\$m	6,816	7,159
Earnings before interest and tax	A\$m	192.4	205.2
EBIT/Sales ratio	%	2.8	2.9
Return on average funds employed	%	11.4	11.9

- Overall sales volume for Paper Merchancing was down 1 per cent due mainly to lower volumes in the UK and NW Europe (mostly indent and commodity uncoated) and the divestment of the Western Canadian business.
- The EBIT/sales ratio declined slightly (2.8 per cent versus 2.9 per cent) largely due to the weaker US market.
- Growth in Sign and Display, Graphics and Industrial Packaging revenue was around 3 per cent in source currency, with these non-paper businesses now accounting for 17 per cent of gross profit.
- Sales revenue for the total Paper Merchancing business was down 5 per cent (flat in constant currency) and EBIT was down 6 per cent, but up 2 per cent versus 2006.
- Average working capital was \$88 million below prior year and the average working capital to sales ratio declined from 16.1 per cent to 15.6 per cent.
- The return on average funds employed was 11.4 per cent, above the cost of capital.

Paper Merchants Europe

PaperlinX is one of Europe's leading independent merchants of paper and related products for the commercial print, office, packaging and display markets. Our European network of paper merchants across 17 countries provides over two million tonnes of paper products to our 80,000 customers. The customer base comprises printers, publishers, sign makers and advertisers who produce high added value, time-sensitive publications. We also serve resellers, retailers, offices and businesses with paper and packaging material.

Paper Merchants Europe – Results

		Year June 2008	Year June 2007
NW Europe	'000 tonnes	690	738
UK and Ireland ⁽¹⁾	'000 tonnes	1,147	1,180
Central and Southern Europe	'000 tonnes	<u>528</u>	<u>525</u>
Total European sales volume	'000 tonnes	2,365	2,443
Sales revenue	€m	2,743	2,828
Earnings before interest and tax	€m	83.3	82.8
EBIT/Sales ratio	%	3.0	2.9

(1) Also includes volume from South Africa.

- Sales volumes were down 3 per cent. Our key markets in the UK and the Netherlands both suffered market driven volume declines, with reduced stock volumes and office products sales.
- The average price realisation across the European Merchants platform was in line with last year, with the benefits to mix of the acquisition in Italy, continued growth in Sign and Display and Industrial Packaging in a number of markets, and branded sales of key coated and environmental papers balancing lower stock volumes.
- Reported EBIT was in line with the prior year, despite the lower volume, supported by gains on asset sales. Underlying EBIT was down 15 per cent (although in line with 2006), with the weaker UK result exacerbated by a weaker £ versus the €. The reported EBIT/sales ratio was 3.0 per cent.
- Average working capital improved as did the average working capital to sales ratio, which improved to 17.4 per cent from 17.8 per cent in 2007.

Paper Merchants North America

PaperlinX is a leading US West Coast and Canadian fine paper and graphic arts merchant distribution network serving printers and graphic customers across North America with a unique offering of products from domestic and international suppliers. Custom sheet converting facilities offer a fast turnaround to provide sheeting to meet customers' exact size dimensions, eliminating waste and increasing customers' productivity. As well as offering a wide variety of paper options, many of our operations also provide graphic systems solutions.

Paper Merchants North America – Results

		Year June 2008	Year June 2007
Sales volume	'000 tonnes	645	623
Sales revenue	US\$m	1,138	1,078
Earnings before interest and tax	US\$m	28.9	40.2
EBIT/sales ratio	%	2.5	3.7

- Total sales volume growth for North America of 3.5 per cent (5.5 per cent adjusted for sale of Western Canada) was well ahead of a declining market, supported by a 6.5 per cent growth in proprietary brands and various top line growth initiatives. Market share growth was strongly positive.
- Overall market conditions were soft, with the US showing reduced market volumes (total US printing and writing paper volumes were down 4.7 per cent in calendar 2007 and a further 3.2 per cent for the six months to June).
- US paper selling prices continued to be supported by mill capacity reductions (some 2.1 million short tonnes of woodfree capacity alone in North America in calendar 2007), with realised prices up 2 per cent on last year despite ongoing weakness in market demand. Canadian prices remained under pressure from the weak US dollar.
- The total operating earnings result was sharply lower, reflecting the impact of the weak US market on EBIT margins, down to 2.5 per cent.
- Kelly Paper was under particular pressure as a result of the sharp weakening of US retail and residential housing sectors on the West Coast. Both volumes and prices fell, with margins depressed.
- Canadian prices were down over 5 per cent as a result of the weak US dollar, but due to disciplined margin management gross profit percentage was up almost one full percentage point. Overall EBIT was lower as the business absorbed one-time costs relating to the new Toronto warehouse.
- Average working capital to sales at 12.7 per cent was an improvement over the prior year's 13.0 per cent.

Paper Merchants Australia, NZ and Asia

PaperlinX is the leading Merchants group in Australia and New Zealand, and also has specialist Merchants operations in Asia and an extensive global paper trading business, PPM. The primary focus is on commercial print, packaging, web and office segments, with a growing level of activity in graphics supplies. Our network of locally based merchants offers compelling benefits to the local market in the way of product range, quality and availability, supported by our global scale.

Paper Merchants Australia, NZ and Asia – Results⁽¹⁾

		Year June 2008	Year June 2007
Sales volume	'000 tonnes	731	725
Sales revenue	A\$m	1,005	1,033
Earnings before interest and tax	A\$m	21.0	13.8
EBIT/Sales ratio	%	2.1	1.3

(1) Includes the Group's paper trading activities.

- Reported EBIT was up 52 per cent, with underlying EBIT up 34 per cent. The prior year included negative currency impacts that were not repeated. Revenue was down 3 per cent, with lower revenues in paper trading (Paper Manufacturing plant shuts reducing export tonnage) having a considerable impact. Excluding paper trading, revenues were down only 1 per cent.
- Pricing in Australia and New Zealand remained under pressure from a weak US dollar. Overall price realisations for the region were down around 3.5 per cent, with regional and mix variations. This trend is reversing, with increases being realised in early fiscal 2009.
- Average working capital was reduced 15 per cent as a result of ongoing good performance on inventory management and warehouse consolidations leading to a continued improvement in the average working capital to sales ratio (11.6 per cent to 10.2 per cent).
- Earnings benefited from good performance on operating expenses, which were down 4 per cent.

**PAPER
MANUFACTURING**



**%
GROWTH**

IN REFLEX® OFFICE PAPER VOLUMES

For personal use only

PaperlinX's Australian manufacturing business, Australian Paper, is the only paper manufacturing operation in the PaperlinX Group, and is Australia's leading manufacturer of quality communication and packaging papers.

Australian Paper primarily services the Australian market directly and through sales to PaperlinX Merchanting operations, PaperlinX Office and PaperlinX Printing and Publishing Papers, other third-party merchants and packaging manufacturers.

Paper Manufacturing has channels to market, building off its Australian mills, so our local customers benefit from our expert manufacturing capabilities, our widely available product offering, our superior service, customer support, and our extensive and efficient supply lines.

Paper Manufacturing – Results

Earnings before interest and tax for Paper Manufacturing were \$(1.9) million with underlying operating earnings of \$8.2 million. Earnings were negatively impacted by higher input costs and currency, but benefited from some pricing, a positive mix, improved mill efficiencies and supply chain management.

Paper Manufacturing – Results			
		Year June 2008	Year June 2007
Communication paper sales volume	'000 tonnes	485	499
Packaging paper sales volume	'000 tonnes	<u>300</u>	<u>319</u>
Total sales volume	'000 tonnes	785	818
Sales revenue	A\$m	973	1,016
Underlying earnings before interest and tax	A\$m	8.2	20.8
Reported earnings before interest and tax	A\$m	(1.9)	10.2
Return on average funds employed	%	(0.2)	1.1

- Overall sales volumes were impacted by the four shuts relating to the pulp mill upgrade and a corresponding reduction in export volumes. Domestic communication papers volumes were up, although overall volume declined due to reduced exports. Copy paper market share in Australia has shown encouraging growth, despite price differentials as customers recognise our superior value proposition.
- The Reflex® brand of copy paper recorded a 6.3 per cent volume growth and market share growth supported by recycled offerings, advertising and delivery against the overall 'reliability' positioning.
- In the face of cost and currency impacts, good progress has been made on operating efficiencies, supply chain management and positive mix management to contain the downward impact on underlying EBIT to only \$12.6 million. Record production weeks from the Maryvale Mill were recorded post the May-June pulp mill shut.
- Higher pulp costs have continued to impact operating earnings, with the average price of hardwood pulp up 25 per cent in US dollars. Cost increases in US dollars have been mitigated to some extent by the stronger Australian dollar (up 16 per cent in Australian dollars). Pulp prices have remained high with further increases announced. Commodity input costs for all raw materials resulted in an increase of \$7.2 million.
- Reported EBIT declined to \$(1.9) million from \$10.2 million. Underlying EBIT of \$8.2 million was lower due to the combined impact of the stronger Australian dollar, higher pulp costs and weaker coated paper prices.
- The high Australian dollar continued to hold down pricing across most segments, though more particularly in coated woodfree and publication papers markets, with a net direct impact on EBIT from export earnings of \$(21.6) million.
- Ongoing work on product and customer rationalisation saw shift reductions on three manufacturing units taking effect in the second half of the year. Restructuring charges associated with the shift reductions were booked in the first half.
- The ENVI™ range of carbon-neutral papers has received strong support since its launch earlier this year, offering Australian customers and corporates the first Australian made carbon-neutral paper certified by the Australian Government's Department of Climate Change.
- Average working capital was 1 per cent lower than last year; however, the period end position for working capital to sales was adverse due to the timing of plant shuts.
- Four major shuts have now been completed for the Maryvale pulp mill project, with benefits being seen from the work completed. This will substantially simplify the final commissioning activities.

DIRECTORS OF PAPERLINX



David Meiklejohn

BCom, Dip Ed, FCPA, FAIM,
FAICD

Independent Non-executive
Director (Chairman)
Age 66

Appointed a Director and Chairman in December 1999. An experienced company director with a solid financial background and over 40 years' experience in paper manufacturing and distribution businesses. Currently, a director of ANZ Banking Group Limited (from October 2004), Coca-Cola Amatil Limited (from February 2005) and Mirrabooka Investments Limited (from March 2006). Previous roles include Chief Financial Officer of Amcor Limited; Chairman of SPC Ardmona Limited (2002–2005) and a director of Amcor Limited (1985–2000), OneSteel Limited (2001–2005) and WMC Resources Limited (2002–2005). President of Melbourne Cricket Club (since Feb 2007). He is the Chairman of the Nomination & Governance Committee and an ex officio member of the Audit Committee, Remuneration & HR Committee and Safety & Environment Committee.

Thomas (Tom) Park

BSEE, MBA

Executive Director
(Managing Director)
Age 61

Appointed Managing Director and Chief Executive Officer of PaperlinX Limited in February 2004. Broad business experience in Australia, Asia, North America and Europe. Previous roles include Managing Director and Chief Executive Officer of Goodman Fielder Limited, Chief Executive Officer of Southcorp Limited and a director of the National Australia Bank and the Business Council of Australia.

Harry Boon

LLB (Hons), BCom

Independent
Non-executive Director
Age 60

Appointed a Director in May 2008. An experienced director with a strong background in international marketing, sales and manufacturing operations. Currently, he is the Chairman of Tatts Group Limited and Gale Pacific Limited and a director of Toll Holdings Limited and Hastie Group Limited. A former Chief Executive Officer and Managing Director of Ansell Limited (retired in 2004) and a director of Funtastic Limited (September 2004 – February 2008). He is a member of the Audit Committee and Nomination & Governance Committee.

Andrew Guy

LLB, MBA, FAICD

Independent
Non-executive Director
Age 60

Appointed a Director in March 2001. Experienced commercial lawyer and former director of Spicers Paper Limited. Currently a director of Djerriwarrh Investments Limited (from December 1989), Aviva Australia Holdings Limited (from June 2003) and Anglicare Victoria (from August 1997). A former managing partner in the law firm Arthur Robinson and Hedderwicks, and director of Australian Institute of Company Directors (September 2001–2007). He is the Chairman of the Safety & Environment Committee and a member of the Remuneration & HR Committee.



James (Jim) Hall
BCom (Acc), FCPA,
MAICD

Independent
Non-executive Director
Age 57

Appointed a Director in May 2007. An experienced company director and is currently a director of Alesco Corporation Limited (since July 2005), the ConnectEast Group (since June 2005), Centro Properties Group (since September 2005) and a member of JP Morgan Advisory Council (Australia) since May 2005. A former executive director finance of Orica Limited (February 2002 – April 2005) and former director Symbion Health Limited (June 2005 – February 2008). He is the Chairman of the Audit Committee and a member of the Nomination & Governance Committee.

Barry Jackson
BCom (Hons), MAICD

Independent
Non-executive Director
Age 63

Appointed a Director in February 2000. Over 30 years' experience in manufacturing and industrial marketing in Australian and international markets. Currently a director of Equity Trustees Limited (from September 2002). A former director of CSR Limited (April 2003 – March 2007) and Alesco Corporation Ltd (November 2001 – September 2008). He is a member of the Audit Committee and the Nomination & Governance Committee.

David Lamont
ACA, BCom

Executive Director
(Chief Financial Officer)
Age 43

David joined PaperlinX as Chief Financial Officer in February 2006 and was appointed an Executive Director in February 2008. David has worldwide responsibility for finance, taxation, commercial, legal, audit and business systems. David was previously Chief Financial Officer of BHP Billiton's Carbon Steel Materials business and has held a number of senior finance roles in the mining, chemical and agricultural industries. David has resigned as an Executive Director and Chief Financial Officer effective 26 September 2008.

Nora Scheinkestel
LLB (Hons) PhD, FAICD

Independent
Non-executive Director
Age 48

Appointed a Director in February 2000. An experienced company director with a background in international project and structured financing. An Associate Professor at the Melbourne Business School. Currently a director of AMP Limited (from September 2003), AMP Capital Group (from February 2004) and Orica Ltd (from August 2006). Previous directorships include Mayne Group Ltd (July 2005 – November 2005), Mayne Pharma Ltd (November 2005 – February 2007) and Newcrest Mining Limited (August 2000 – August 2007). She is a member of the Safety & Environment Committee and Remuneration & HR Committee.

Lindsay Yelland
BSc, FAICD, MACS

Independent
Non-executive Director
Age 62

Appointed a Director in February 2000. Extensive experience in the IT industry. Currently Chairman of Argus Solutions Limited (from March 2003) and a member of the NSW AICD Council and AICD Reporting Committee (from March 2008). Previous roles include: Chairman of Legion Interactive Pty Limited (2002–2005) and Ideas International Limited (November 2000 – December 2007); a Group Managing Director of Telstra Corporation; Vice President Asia-Pacific of Data General Corp; and Vice President of Apollo Computer Corporation. He is the Chairman of the Remuneration & HR Committee and a member of the Safety & Environment Committee.

DIRECTORS' REPORT

The Directors' Report contains three sections:

1. Statutory Matters
2. Remuneration Report
3. Corporate Governance

Directors

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

D E Meiklejohn	B J Jackson
T P Park	D M Lamont ⁽²⁾
H Boon ⁽¹⁾	N L Scheinkestel
A F Guy	L J Yelland
J W Hall	D A Walsh ⁽³⁾

(1) Appointed on 5 May 2008.

(2) Appointed on 21 February 2008 and has resigned effective 26 September 2008.

(3) Retired on 31 December 2007.

Details of the qualifications, experience and special responsibilities of Directors are set out on pages 26 to 27 of this Annual Report.

Principal Activities

The principal activities of the consolidated entity are the distribution and sale of printing, publishing and packaging papers and the manufacture of communication papers and packaging papers.

There were no significant changes in the nature of the principal activities of the consolidated entity during the year under review.

Review and Results of Operations

A review of the operations of the PaperlinX Group during the financial year and the results of those operations are contained in pages 20 to 25 of this Annual Report.

State of Affairs

There have been no significant changes in the state of affairs of the consolidated entity that occurred during the financial year ended 30 June 2008.

Commentary on the overall state of affairs of the economic entity is set out on pages 20 to 25 of this Annual Report.

Dividends

Dividends paid or declared by the Company since the end of the previous financial year were:

Type	Cents per share	Total amount \$m	Date of payment	Tax rate for franking credits	Franked %
In respect of the 2006/07 financial year:					
Final – fully paid shares	6.0	26.9	26 Sept 07	30%	Nil
In respect of the 2007/08 financial year:					
Interim – fully paid shares	3.0	13.5	4 Apr 08	30%	Nil
Final – fully paid shares	3.5	15.9	15 Oct 08	30%	Nil

Dividend Reinvestment Plan (DRP)

Type	Issue price per share \$	No. of shares issued	% of issued capital participation
In respect of the 2006/07 financial year:			
Final – fully paid shares	3.34	1,910,956	23.7
In respect of the 2007/08 financial year:			
Interim – fully paid shares	2.13	2,445,838	38.5

Environmental Regulation

The consolidated entity is subject to significant environmental regulation, in particular with respect to its manufacturing activities. Environmental performance obligations are monitored by management and the Board through its Safety & Environmental Committee and subjected, periodically, to internal audits as well as independent external and government agency audits and site inspections. Further details are available in the 2008 Sustainability Report.

Matters Subsequent to the Reporting Date

Subsequent to 30 June 2008, no matter or circumstance of a material and unusual nature has arisen (other than those occurring as a result of the normal vicissitudes of business) that has significantly affected or may significantly affect:

- (a) the consolidated entity's operations in future financial years; or
- (b) the results of those operations in future financial years; or
- (c) the consolidated entity's state of affairs in future financial years.

Future Developments/Outlook

Certain likely developments in the operations of the consolidated entity known at the date of this Report have been covered in the Chairman's Report on pages 8 to 9 and generally within this Annual Report. In the opinion of the Directors any further disclosure of information would be likely to result in unreasonable prejudice to the consolidated entity.

Interests of Directors in Contracts or Proposed Contracts with the Company

At the 2006 Annual General Meeting, shareholders approved a restructuring of Non-executive Director remuneration. Consequent on this, those Non-executive Directors in office at that time entered into Amending Deeds with the Company pursuant to which their accumulated retirement benefits were 'frozen' as at 31 December 2006, on the basis set out in the 2006 Notice of Annual General Meeting. An earnings rate equal to the 5 year Australian Government Bond rate will apply to 'frozen' entitlements until retirement. No obligation arose on the Company to make any payment pursuant to the Amending Deeds. Other than those 'frozen' accrued entitlements, retirement benefits are no longer paid to Directors.

Otherwise, Directors have declared their interests in contracts or proposed contracts that may result from their directorships of other corporations, as listed in their personal profiles set out on pages 26 to 27 of this Annual Report.

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.

Directors	Board of Directors		Audit Committee		Nomination & Governance Committee		Remuneration & HR Committee		Safety & Environment Committee	
	A	B	A	B	A	B	A	B	A	B
D E Meiklejohn ⁽⁴⁾	9	9	3	2	3	3	2	2	2	2
T P Park	9	9								
H Boon ⁽¹⁾	2	2								
A F Guy	9	9					5	5	4	4
J W Hall ⁽⁶⁾	9	9	5	5					4	4
B J Jackson ⁽⁷⁾	9	9	5	5	3	3	2	2		
N L Scheinkestel ⁽⁵⁾	9	9	3	3	3	3	3	3	2	1
D M Lamont ⁽²⁾	3	3								
L J Yelland	9	9					5	5	4	4
D A Walsh ⁽³⁾	4	4	3	2	2	2				

(1) Appointed on 5 May 2008.

(2) Appointed on 21 February 2008. Has resigned effective 26 September 2008.

(3) Retired on 31 December 2007.

During the financial year, the composition of the board committees changed as follows:

(4) D E Meiklejohn resigned as a member of and joined in an ex officio capacity of the Audit, Remuneration & HR and Safety & Environment Committees.

(5) N L Scheinkestel resigned from the Audit and Nomination & Governance Committees and joined the Remuneration & HR Committee and stood down from the Safety & Environmental Committee for 5 months.

(6) J W Hall resigned from the Safety & Environment Committee and joined the Nomination & Governance Committee.

(7) B J Jackson resigned from the Remuneration & HR Committee.

A – Number of meetings held during the time the Director held office or was a member of relevant committee during the year.

B – Number of meetings attended.

Directors' Interests

The relevant interest of each Director in the share capital of the Company as at 30 June 2008 is as follows:

	Fully paid ordinary shares	Performance options issued as at 30/6/08 ⁽³⁾	Performance rights issued as at 30/6/08 ⁽⁴⁾	Options issued as at 30/6/08 ⁽⁵⁾
D E Meiklejohn	117,612			
T P Park*	300,000	749,120	1,178,300	–
H Boon ⁽¹⁾	15,000			
A F Guy	79,761			
J W Hall	7,000			
B J Jackson	40,980			
D M Lamont ⁽²⁾	15,000	135,750	225,570	150,000
N L Scheinkestel	40,191			
L J Yelland	45,423			

* At the 2007 AGM, shareholders approved the issuance of 500,000 performance rights and 500,000 performance options to Mr T P Park to subscribe for ordinary shares in PaperlinX pursuant to the PaperlinX Managing Director's Strategic Initiatives Performance Rights and Performance Options Plan.

(1) Appointed on 5 May 2008.

(2) Appointed on 21 February 2008. Options, Performance Options and Performance Rights were issued prior to him becoming a Director. Has resigned effective 26 September 2008.

(3) These represent contingent interests in the maximum number of options over shares to which Executive Directors may become entitled under the Company's Performance Options Plans. For T P Park, no entitlement has been earned based on performance for the period ended 30 June 2008 and the above entitlement excludes 100,000 performance options that lapsed on 30 June 2008 but includes the 500,000 performance options which were approved at the 2007 AGM. For D M Lamont, there was no entitlement for the year ended 30 June 2008.

(4) These represent contingent interests in the maximum number of shares to which Executive Directors may become entitled under the Company's Performance Rights Plans. For T P Park, no entitlement has been earned based on performance for the period ended 30 June 2008 and the above entitlement excludes 390,430 performance rights that lapsed on 30 June 2008 but includes the 500,000 performance rights which were approved at the 2007 AGM. For D M Lamont, there was no entitlement for the year ended 30 June 2008.

(5) These are fully vested and are exercisable after 28 February 2009 at an exercise price of \$2.77.

Indemnities and Insurance

The Company has agreements with each of the Directors of the Company in office 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 Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contracts.

Non-audit Services

In addition to the statutory audit work during the year, the Company's auditors, KPMG, have provided certain non-audit services, including:

- taxation services totalling \$179,900;
- other assurance services totalling \$101,400; and
- other services totalling \$97,900.

The Company has strict criteria relating to the engagement of the auditor for non-audit services. 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, the Company has also engaged the services of other accounting firms to perform a variety of non-audit assignments.

Rounding

The Company is the kind referred to in the ASIC Class Order 98/100 dated 10 July 1998 and, in accordance with that Class Order, amounts in this Annual Report and Directors' Report have been rounded off to the nearest one hundred thousand dollars or, where the amount is \$50,000 or less, zero, unless specifically stated to be otherwise.

REMUNERATION REPORT 2008

1. Introduction

This Remuneration Report has been prepared for shareholders by Directors to explain the processes and policies underlying the determination of Board and executive remuneration. The Report forms part of the Directors' Statutory Report for the year ended 30 June 2008.

The roles of the Nomination & Governance Committee and the Remuneration & Human Resources Committee in relation to Board and executive remuneration are explained in the Directors' Corporate Governance Report on pages 38 to 42.

2. Executive Remuneration

2.1 Remuneration Policy and Principles

The policy of the Company is to design its remuneration practices so that they are sufficiently competitive to attract and retain the quality of staff that it seeks and also to encourage long-term commitment and superior performance from its employees. Rewards are linked to the achievement of business strategies and goals, and to increasing shareholder value.

The key principles upon which this remuneration policy is based include:

- All elements of remuneration will be set at appropriate levels in relation to market practice for comparable roles.
- Payment of incentive-based rewards will be dependent upon achieving demanding performance hurdles consistent with shareholder interests.
- Reward outcomes will be determined having regard to the performance of both the Company and individual executives.

2.2 Remuneration Structure

Remuneration for PaperlinX's executives consists of two main elements:

1. Total Fixed Remuneration (TFR) – includes all fixed costs such as base salary, car, health insurance and mandatory superannuation.
2. Variable Pay – comprises the short-term incentive (STI) (i.e. the annual cash incentive plan), the strategic initiatives share plan (annual strategic targets with reward deferred into shares) and the long-term incentive (LTI) (i.e. rights and options-based incentive plans).

The mix between fixed and variable pay for disclosed executives for the past year is shown in Table 1.

Table 1: Percentage of total target remuneration (annualised)

	Fixed remuneration	Variable (performance-based) remuneration
T P Park	29%	71%
C B Creighton	51%	49%
E de Voogd	53%	47%
M J Fothergill	51%	49%
J A Henneberry	50%	50%
D M Lamont	50%	50%
R F O'Brien	50%	50%

2.3 Remuneration Strategic Positioning

The Board aims to position executive Total Fixed Remuneration (TFR) at the median of the relevant market, but to provide higher levels of 'at risk' (or variable) remuneration through the short-term incentive (STI) plan, the strategic initiatives share plan and the long-term incentive (LTI) plans, so that total remuneration will only be above average if the Company performs well. Further information on the variable remuneration plans is provided below.

The TFR for direct reports to the Managing Director is reviewed annually by the Remuneration & Human Resources Committee on the basis of recommendations from the Managing Director and remuneration information provided by an independent consultant for similar roles in relevant local and international businesses.

The TFR for the Managing Director is reviewed annually by the Nomination & Governance Committee based on advice from an independent consultant.

3. Performance-reward Link

3.1 Short-term Incentive

The short-term incentive plan for executives provides for annual target cash bonuses up to 40 per cent of TFR if financial and individual performance targets are met, and a maximum payment of up to 70 per cent of TFR on the achievement of exceptional performance.

The short-term incentive plan for the Managing Director provides for an annual target cash bonus of up to 70 per cent of TFR if financial and individual performance criteria determined by the Board are met, and a maximum payment of up to 120 per cent of TFR on the achievement of exceptional performance. Group or divisional financial targets for disclosed executives represent up to 50 per cent of the maximum payment. For 2007/08, the financial measures selected by the Board as the best indicators of PaperlinX's annual financial performance were earnings before interest and tax (EBIT) and/or net profit after tax (NPAT) and economic profit (EP) and/or Average Working Capital. EP is defined as the net financial return from operating activities, less the costs associated with financing those activities, and is measured using the formula: EP = EBIT – (average funds employed x cost of funds).

Individual targets represent the remaining portion of the potential payment, and can be a combination of financial targets, people management, health and safety performance, environmental targets, implementation of business and strategic plans, and effective leadership and management.

For 2007/08, the maximum STI opportunity, the amount paid and the amount forgone for each of the disclosed executives is shown in Table 2.

Table 2: STI – Maximum opportunity, percentage paid and payment forgone

Executive	Maximum potential STI opportunity (% of TFR)	Actual percentage STI paid (% of TFI)	Actual STI as percentage of maximum potential	Actual percentage STI payment forgone (% of TFR)
T P Park	120%	51%	42.5%	69%
C B Creighton	70%	20%	28.6%	50%
E de Voogd	70%	48.7%	69.6%	21.3%
M J Fothergill	70%	31.5%	45%	38.5%
J A Henneberry ⁽¹⁾	100%	26%	26%	74%
D M Lamont	70%	36.7%	52.4%	33.3%
R F O'Brien	70%	30.7%	43.9%	39.3%

(1) Additional 30% stretch incentive for period 1/7/07 to 30/6/08.

3.2 Strategic Initiatives Share Plan

In 2007 the Board introduced an annual Strategic Initiatives Share Plan for the senior executives worldwide with effect from 1 July 2007. Targets were based on the achievement of a predetermined level of strategic initiatives over the year with rewards delivered in the form of deferred shares in PaperlinX Limited. The Plan was designed to provide greater alignment with business strategy, the competitive market, the agreed PaperlinX pay strategy and current Company circumstances.

Performance conditions and other terms of the Plan are as follows:

- Annual strategic targets were set by the Board at the commencement of the Plan year.
- Reward will be 10% of TFR at target and 20% at maximum, for senior executives.
- No reward will apply for below target performance and maximum reward will apply at 110% performance achievement.
- Reward will be in the form of performance rights.
- Measurement period is one year.
- There are two conditions to be satisfied before reward will be delivered – satisfactory achievement of the annual strategic targets, and a further two-year service condition.
- After the measurement date, and following satisfaction of the strategic performance targets, the number of qualifying performance rights will be calculated and executives will be eligible to receive cash distributions equivalent to dividends (if any) in relation to those qualifying performance rights.
- Executives will not be able to deal in the performance rights during the two-year deferral period.
- Qualifying performance rights will be forfeited if the executive's employment terminates during that time, unless due to takeover, redundancy or genuine retirement.
- After the two-year deferral period, performance rights will vest and be automatically exercised and shares will be transferred into the executive's name.

The plan has recently been reassessed by the Board and in 2008/09 will form part of the short-term incentive plan, providing reward in the form of both cash and deferred equity in PaperlinX Limited under the STI.

Grant to Managing Director

At the Annual General Meeting held on 25 October 2007 shareholders approved the introduction of the Managing Director's Strategic Initiatives Share Plan for Mr T P Park to cover the period to 30 June 2010. The Plan has been designed to provide greater alignment between Mr T P Park's remuneration and the Company's strategic business initiatives. It operates as a separate plan from the other long-term and short-term incentive plans currently in place and targets are specific to each plan.

The following are the types of initiatives which may be included: successful start up and operation of the Maryvale pulp mill; restructuring of the delivery platform and information systems in Europe; acquisitions and successful integrations in Europe and North America. For the rewards under the Plan to vest, the identified strategic initiatives must be fully implemented and delivering continuing audited benefits to the Company's underlying profit from 1 July 2010.

The Plan provides for the issue of up to 500,000 performance rights (PRs) and 500,000 performance options (POs) with vesting of all or part of the PRs and POs being dependant on the current and proposed strategic initiatives delivering audited additional benefits of over \$100 million and up to \$130 million per annum by 30 June 2010, from the base year of 2005.

Vesting will occur based on the benefits delivered from the identified initiatives as set out in the following table:

Benefit from identified initiatives	% of maximum PRs and POs to vest
Below \$100m	0%
At \$100m	25%
At \$120m	50%
At \$130m	100%

PRs and POs will vest pro rata within the above bands. The determined percentage will apply equally to rights and options.

It is a further condition for the PRs and POs to vest, that Mr T P Park must be in his current position of Managing Director and Chief Executive Officer at 30 June 2010. The Board has discretion in limited circumstances, such as a takeover or serious illness, to shorten the measurement period and make pro rata vesting.

No amount is payable on the grant of PRs and POs. Each PR will carry the right, upon vesting, to convert into one fully paid ordinary share at a zero exercise price. Each PO will carry the right, upon vesting and payment of the exercise price, to the issue of one fully paid ordinary share. The exercise price for POs will be the volume weighted average price of PaperlinX Limited ordinary shares on the Australian Securities Exchange (ASX) for June 2007 which was \$3.80.

Details of the grants of PRs, and, in the case of the Managing Director, POs that can be earned by the disclosed executives under the Strategic Initiatives Share Plan, subject to achievement of the performance criteria mentioned above are set out in Table 3.

Table 3: Strategic Initiatives Share Plan – Potential Entitlement

Name	Performance Rights For period 1/7/07 – 30/6/08 Deferred to 30/6/10		Performance Options For period 1/7/07 – 30/6/08 Deferred to 30/6/10
	Target	Maximum	Maximum
T P Park ⁽¹⁾		500,000	500,000
C B Creighton	13,930	27,860	
E de Voogd	14,620	29,230	
M J Fothergill	17,530	35,050	
J A Henneberry	15,000	30,000	
D M Lamont	21,950	43,900	
R F O'Brien	14,340	28,670	

(1) Performance rights and performance options, issued at an exercise price of \$3.80 per option, in respect of the Managing Director's Strategic Initiatives Share Plan approved at the 2007 Annual General Meeting.

3.3 Long-term Incentives

The long-term incentive plan for the most senior executives in PaperlinX worldwide comprises performance rights plus performance options to provide enhanced incentives for them to improve shareholder value over the long term. The plans are subject to performance hurdles and will only deliver rewards to executives if shareholders have also gained significantly. Performance rights comprise the majority of the entitlements and are supplemented by a relatively modest number of performance options.

Performance rights are granted to executives and senior managers and vesting is subject to the achievement of specified performance criteria as set out below. Each vested performance right entitles the executive or manager to one fully paid ordinary share of PaperlinX Limited, subject to exercise restrictions.

Performance options provide executives with the opportunity to purchase PaperlinX shares at a predetermined exercise price. The exercise price will be the volume weighted average price for PaperlinX ordinary shares on the ASX over the 30-day period prior to 30 June at the commencement of the relevant performance period. Upon the achievement of the specified performance criteria set out below, each vested performance option can be converted into one fully paid ordinary share of PaperlinX Limited, subject to exercise restrictions.

The performance criteria for performance rights and performance options are the same as those approved by shareholders at the Company's Annual General Meeting in October 2004 for the Managing Director.

No amount is payable by executives on the grant of the performance rights or performance options.

Performance rights and performance options will lapse on termination of employment or to the extent that the performance criteria are not met at the end of the relevant performance period.

Under the plan rules the Board has discretion either to cancel or to allow some or all of the performance rights or performance options to vest in certain defined circumstances.

The shares relating to the performance rights and performance options are either new issued shares or shares purchased on-market and held in trust for distribution to participants if the performance criteria are satisfied.

Performance Measures and Hurdles

The LTI performance hurdles used by PaperlinX are relative total shareholder return (TSR), and earnings per share (EPS) growth. Each hurdle applies to 50 per cent of the grant to each executive.

Relative Total Shareholder Return

The Board considers relative TSR to be a suitable LTI performance measure because executives will only be able to exercise performance rights and performance options subject to this test if shareholders have received returns on their investment in PaperlinX that compare favourably with those that could have been obtained in other Standard & Poor's (S&P)/ASX 200 companies. Under this criterion, the 'total shareholder return' of PaperlinX is measured relative to the total shareholder return of all stocks which have been included in the S&P/ASX 200 for the whole of the measurement period (Comparators).

Both PaperlinX's TSR and the Comparators' TSRs will be 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.

If PaperlinX does not perform in the top 50 per cent of the Comparator group, executives do not receive any benefit (i.e. performance rights or performance options) in respect of this criterion. PaperlinX needs to perform in the top 20 per cent for executives to obtain the maximum benefit. Pro rata arrangements apply for a ranking between these two points.

Earnings Per Share Growth

Earnings per share growth has been selected as an LTI performance measure because it is a fundamental indicator of the Company's financial performance. For executives to obtain the maximum benefit under this criterion, earnings per share growth over three years must equal or exceed the aggregate growth in the Consumer Price Index (CPI) over the three years plus 5 per cent. No benefit accrues if the earnings per share growth over the period is 50 per cent or less of the aggregate growth in CPI plus 5 per cent. Pro rata arrangements apply for performance between the 50 per cent and 100 per cent results.

Change to Performance Measurement Period

The Board has recently approved a change to the long-term incentive plans for the PaperlinX senior executive group worldwide. The change, introduced from 1 July 2007, involves multiple testing periods for measuring performance of TSR against the hurdle.

The Board considered that TSR performance (but not EPS performance) should be tested over an extended period, but that the maximum grant quantum should be scaled down accordingly in successive testing periods as follows:

Testing periods	Percentage of grant
3 years	100% (50% TSR, 50% EPS)
3.5 years	50% (100% of proportion measured against TSR; 0% EPS)
4 years & 4.5 years	25% (50% of proportion measured against TSR; 0% EPS)

The new testing principle applies only to grants made on or after 1 July 2007.

As from 1 July 2008, further testing of the TSR performance hurdle will only occur if there has not been a positive vesting of rights/options. The application of further measurement will cease as soon as a positive vesting of performance rights/options occurs.

3.4 Senior Management Long-term Incentive Plans

Details of grants of performance rights and performance options that can be earned by the disclosed executives under the LTI plans, subject to the achievement of the TSR and EPS performance criteria mentioned above, are set out in Table 4.

Table 4: Long-term Incentive Plans – Maximum Potential Entitlement Subject to Performance

Although the table below details the potential entitlement, no vesting under the LTIP has occurred over the past three years. This reflects the impact of the difficult trading conditions on our earnings and share price.

Name	Performance rights			Performance options		
	For period 1/7/05–30/6/08 ⁽¹⁾	For period 1/7/06–30/6/09	For period 1/7/07–30/6/10	For period 1/7/05–30/6/08 ⁽²⁾	For period 1/7/06–30/6/09 ⁽³⁾	For period 1/7/07–30/6/10 ⁽⁴⁾
T P Park	390,430	365,140	313,160	100,000	100,000	149,120
C B Creighton	82,880	91,710	83,580	55,250	61,140	46,430
E de Voogd	93,260	93,300	87,700	62,180	62,200	48,720
M J Fothergill	81,660	80,390	85,470	54,440	53,590	45,290
J A Henneberry		73,110	77,210		48,740	41,470
D M Lamont		110,140	115,430		73,430	62,320
R F O'Brien	74,610	69,290	73,530	49,740	46,200	39,460

(1) Performance rights issued at an exercise price of \$Nil; allocation date 22/8/05; No entitlement has been earned based on performance for this period and the entitlements have lapsed. The value of lapsed rights is: T P Park – \$874,563; C B Creighton – \$185,651; E de Voogd – \$208,902; M J Fothergill – \$182,918; R F O'Brien – \$167,126.

(2) Performance options issued at an exercise price of \$2.77; allocation date 26/8/05; No entitlement has been earned based on performance for this period and the entitlements have lapsed. The value of lapsed options is: T P Park – \$60,000; C B Creighton – \$33,150; E de Voogd – \$37,308; M J Fothergill – \$32,664; R F O'Brien – \$29,844.

(3) Performance options issued at an exercise price of \$3.11; allocation date 28/8/06; exercisable, subject to satisfaction of performance conditions, after measurement period ending 30/6/09; expiry date 28/8/16.

(4) Performance options issued at an exercise price of \$3.80 allocation date 24/8/07; exercisable, subject to satisfaction of performance conditions, after measurement period ending 30/6/10; expiry date 24/8/17.

Shaded figures indicate performance rights and options that have lapsed as at 30 June 2008.

3.5 Senior Management Option Plan

In addition to the above, the Company has issued options to certain disclosed executives over a specified number of shares at fixed exercise prices as set out in Table 5.

Table 5: Senior Management Option Plan

	Number	Exercise price \$	Date of grant	When exercisable	Expiry date
Executives					
C B Creighton	50,000	\$3.50	19/4/01	19/4/04 ⁽¹⁾	19/4/11
	8,300	\$4.12	13/9/01	13/9/04 ⁽¹⁾	13/9/11
	8,000	\$5.13	20/9/02	20/9/05 ⁽¹⁾	20/9/12
E de Voogd	150,000	\$4.64	25/11/03	25/11/06 ⁽¹⁾	25/11/13
M J Fothergill	50,000	\$5.13	20/9/02	20/9/05 ⁽¹⁾	20/9/12
J A Henneberry	150,000	\$3.11	4/9/06	4/9/09	4/9/16
D M Lamont	150,000	\$2.77	28/2/06	28/2/09	28/2/16
R F O'Brien	150,000	\$4.76	18/6/03	18/6/06 ⁽¹⁾	18/6/13

(1) Vested and exercisable as at 30 June 2008.

The exercise price of the options was calculated based on an average price of PaperlinX shares in the relevant period prior to the options being granted. Each option entitles the holder to purchase one fully paid ordinary share in the Company at the exercise price. Options cannot be exercised for three years from the date of being granted, except on termination of employment. Options do not entitle the holder to participate in any dividends or share issues of the Company.

In the year ended 30 June 2008, some options were exercisable by the executives referred to above; however, no options were exercised by them during or since the end of the financial year up to the date of this Report.

Options outstanding at 30 June 2008, have been independently valued, as at the grant date, in the range of \$0.47 to \$1.06. The total value of options outstanding at the date of this Report in relation to the executives specified above, based on those valuations, was \$516,021.

3.6 Prohibition on Hedging of Executive Rights or Options

PaperlinX's policy is that any executive who hedges or attempts to hedge their performance rights or options, or their initial grant of options (whether rights and options are vested or unvested), will forfeit those rights or options.

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

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

Any attempt by an executive to dispose of their rights or options has no legal basis and the transaction would not be recognised by PaperlinX. In such a case, the executive would forfeit their rights or options, and those entitlements would automatically lapse.

3.7 Change in Mix of Incentive Plans

As mentioned earlier, for the year 2007/08, the 'at risk' rewards for senior executives comprised the short-term incentive, the strategic initiatives share plan and the long-term incentive.

The Board has obtained independent advice from its remuneration advisor and has decided to restructure the variable rewards framework for its senior executives with effect from July 2008.

The strategic initiatives share plan will be merged with the short-term incentive plan and the STI will now comprise both a cash and an equity component. There will also be an increased weighting given to the STI in the total remuneration package. Associated with that change will be a greater focus on the shorter-term financial goals such as annual earnings, operating cash flow and working capital. This will ensure that senior executives have a clear focus on the key performance measures that will drive our profitability in 2008/09 and beyond.

4. Relationship Between Executive Remuneration and PaperlinX Performance

Table 6 shows the relationship between PaperlinX's earnings per share growth performance and relative total shareholder return ranking and the value of performance shares/rights and performance options that have vested or become exercisable in relation to these performance measures as a percentage of fixed remuneration in each of the past five years.

Table 6: Relationship between PaperlinX performance and LTI vesting

Year	EPS growth (% of target)	TSR ranking (percentile)	Value of equities vested or exercisable as a percentage of fixed remuneration in relation to	
			EPS performance	TSR performance
2007/08	<50%	<50th	0%	0%
2006/07	<50%	<50th	0%	0%
2005/06	<50%	<50th	0%	0%
2004/05	<50%	<50th	0%	0%
2003/04	<50%	50th	0%	15.1%

The variation in rewards results from the earlier plan having different performance and design conditions depending on the level of the participating executive. Effective 1 July 2004, all plans are the same in design and have the same performance conditions as the plan approved for the Managing Director by shareholders at the 2004 Annual General Meeting.

5. Service Agreement Provisions

PaperlinX has entered into service agreements with its disclosed 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 7. Actual payments will depend on local legal requirements. These variations reflect the differences in the practices of businesses acquired around the globe and conditions that were in place prior to acquisitions. Payment in lieu of notice is calculated using the

executive's TFR or notional base salary. In addition to the specified termination payments, on termination all executives are entitled to receive their statutory entitlements of accrued leave, together with any superannuation or pension plan benefits.

The Company may terminate the employment of any of the disclosed executives summarily without notice or payment in lieu if the executive is found guilty of serious misconduct, becomes of unsound mind, becomes insolvent or is declared bankrupt.

Table 7: Service Agreement Provisions

Executive	Company notice/ payment period	Executive notice
T P Park	12 months	3 months
D M Lamont	12 months	3 months
R F O'Brien	12 months	3 months
J A Henneberry	12 months	3 months
C B Creighton	12 months up to 25 years' service 15 months if 25 up to 30 years' service 18 months if 30 up to 35 years' service 24 months if 35+ years' service	3 months
E de Voogd ⁽¹⁾	6 months	3 months
M J Fothergill	18 months	6 months

(1) Mr E de Voogd has retired as a member of the PaperlinX Executive Board with effect from 30 June 2008.

6. Non-executive Director Remuneration

6.1 Policy on Non-executive Director Remuneration

The Directors' aggregate fees are within the maximum sums previously approved by shareholders.

The remuneration of individual Non-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 Directors.
- Reflect the complexity of the PaperlinX Group arising from its business and geographic diversity.
- 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.

It is a policy of the Board that each Non-executive Director increases their shareholding in the Company progressively so that their holding is, over a period of time, at least equal in value to one year's fees. Details of shareholdings are included in the Directors' Report on page 29.

6.2 Non-executive Director Fees

The current base fee per annum for Non-executive Directors is \$125,000 for a Director and \$330,000 for the Chairman of the Board. In addition, the Chairman of the Audit Committee receives an extra fee of \$15,000 per annum, and the Chairman of the Remuneration & Human Resources Committee and Chairman of the Safety & Environment Committee each receive an extra fee of \$10,000 per annum. These amounts exclude the Superannuation Guarantee Contribution. Committee fees are not otherwise paid.

6.3 Non-executive Director Retirement Allowance

At the 2006 Annual General Meeting, shareholders approved a restructuring of Non-executive Director remuneration. Consequent to this, those Non-executive Directors in office at that time entered into Amending Deeds with the Company pursuant to which their accumulated retirement benefits were 'frozen' as at 31 December 2006, on the basis set out in the 2006 Notice of Annual General Meeting. An earnings rate equal to the 5 year Australian Government Bond rate will apply to frozen entitlements until retirement. No obligation arose on the Company to make any payment pursuant to the Amending Deeds. Other than those 'frozen' accrued entitlements, retirement benefits are no longer paid to Directors.

The accumulated accrued amount of retiring allowances at 30 June 2008 for eligible Non-executive Directors is fully expensed to profit.

7. Directors' and Senior Executives' Remuneration – 2007/08

Details of the nature and amount of each element of the remuneration of each Director and senior executive of the Company who receive the highest remuneration and other key management personnel are set out in Tables 8 and 9. All Directors and senior executives are employed by PaperlinX Group companies. No one is employed by PaperlinX Limited.

DIRECTORS' REPORT CONTINUED

Table 8: Directors' Remuneration

	Short-term benefits					Post-Employment benefits	Long-term benefits	Termination benefits	Total	
	Salary and fees	Short-term incentives	Non-cash benefits	Discretionary share purchase	Other Income	Superannuation contribution Directors' retiring allowances. Annual adjustments excluding superannuation. Plan Terminated ⁽¹⁾	Equity plans ⁽²⁾	Termination payment including annual and long service leave		
	€	€	€	€	€	€	€	€	€	
Directors										
D E Meiklejohn, Chairman										
2008	315,000					29,340		56,721		401,061
2007	282,500					26,415		65,337		374,252
T P Park, Managing Director and Chief Executive Officer										
2008	1,669,191	919,020	36,207			100,000		482,403		3,206,821
2007	1,673,531	1,360,000	7,907			0		412,127		3,453,565
H Boon ⁽³⁾ , Non-executive Director										
2008	19,886					1,790				21,676
A F Guy, Non-executive Director										
2008	114,750			12,750		11,475		18,748		157,723
2007	100,884			7,616		9,765		24,922		143,187
J W Hall ⁽⁴⁾ , Non-executive Director										
2008	125,000					11,250				136,250
2007	13,950					1,255				15,205
B J Jackson, Non-executive Director										
2008	122,500					11,025		21,576		155,101
2007	10,000					110,990		24,560		145,550
D M Lamont ⁽⁵⁾ , Chief Financial Officer										
2008	738,525	321,387	7,352		64,238	50,000		40,000		1,221,502
2007	704,113	486,230	7,780		33,000	77,452		141,085		1,449,660
N L Scheinkestel, Non-executive Director										
2008	125,000				0	11,250		21,528		157,778
2007	113,500				7,500 ⁽⁸⁾	10,215		24,537		155,752
D A Walsh ⁽⁶⁾ , Non-executive Director										
2008	55,000				0	4,950		9,294	286,383 ⁽⁷⁾	355,627
2007	101,000				7,500 ⁽⁸⁾	9,090		22,020	0	139,610
L J Yelland, Non-executive Director										
2008	98,000			24,500		11,025		19,417		152,942
2007	85,400			15,600		9,090		22,503		132,593
Total										
2008	3,382,852	1,240,407	43,559	37,250	64,238	242,105	147,284	522,403	286,383	5,966,481
2007	3,084,878	1,846,230	15,687	23,216	48,000	254,272	183,879	553,212	0	6,009,374

(1) Retirement scheme terminated and accumulated retirement entitlements at 31/12/06 frozen and held in individual accounts for Directors until retirement. Annual adjustments made in accordance with the 5 Year Australian Government Bond rate.

(2) The value of shares included as remuneration in the table represents the proportion of the value of the maximum potential number of shares per annum to which the Executive Director may become entitled under the Company's long-term incentive plans as set out above, which is calculated based on an estimate of the probability of the performance criteria being achieved. The value of options is calculated using an appropriate valuation model and allocated evenly over the vesting period.

(3) Appointed as a Non-executive Director of PaperlinX Limited on 5.5.08.

(4) Appointed as a Non-executive Director of PaperlinX Limited on 16.5.07.

(5) Appointed as an Executive Director of PaperlinX Limited on 21.2.08 and will resign effective 26.9.08.

(6) Retired as a Non-executive Director of PaperlinX Limited on 31.12.07.

(7) Accumulated retiring allowance excluding superannuation as at date of retirement.

(8) Payment for extra work undertaken with respect to the issue of the Hybrid security.

Accumulated retiring allowances excluding superannuation as at 30 June 2008: D E Meiklejohn \$897,717, A F Guy \$296,720, B J Jackson \$341,473, N L Scheinkestel \$340,716, L J Yelland \$307,303.

Table 9: Senior Executives' Remuneration

	Base remuneration (salary and fees)	Short-term incentives	Short-term benefits	Other Income	Post- Employment benefits	Long-term benefits	Termination benefits	Total
	\$	\$	Non-cash benefits \$	\$	Superannuation contribution \$	Equity plans ⁽¹⁾ \$	Termination payment including annual and long service leave \$	\$ Total
Company Executives (excluding Directors)								
C B Creighton, President – North America								
2008	530,510	141,284	39,982		111,699	106,870		930,345 ⁽⁶⁾
2007	563,042	373,011	36,708		118,583	111,417		1,202,761
E de Voogd ⁽²⁾ , Chief Executive Officer – PaperlinX Europe								
2008	596,279	416,736	44,066		211,085	0		1,268,166 ⁽⁶⁾
2007	576,370	470,345	50,193		202,036	126,707		1,425,651
M J Fothergill, Executive General Manager – Merchanting Australia, New Zealand and Asia								
2008	531,218	216,094	67,811		108,716	106,410		1,030,249
2007	512,272	214,129	57,973		145,582 ⁽³⁾	100,625		1,030,581
J A Henneberry ⁽⁴⁾ , Executive General Manager – Australian Paper								
2008	503,480	160,056	34,114	15,085	50,348	136,126		899,209
2007	454,754	300,105	18,312	33,340	45,475	111,266		963,252
R F O'Brien, Executive General Manager – Human Resources								
2008	468,167	175,605	21,827	17,551	49,872	93,528		826,550
2007	445,160	301,254	36,260	0	48,968	88,124		919,766
Former Company Executive								
D M Goldthorp ⁽⁵⁾								
2008					0		0	0
2007					105,000		172,500	277,500
Total								
2008	2,629,654	1,109,775	207,800	32,636	531,720	442,934	0	4,954,519
2007	2,551,598	1,658,844	199,446	33,340	665,644	538,139	172,500	5,819,511

(1) The value of shares included as remuneration in the table represents the proportion of the value of the maximum potential number of shares per annum to which each executive may become entitled under the Company's long-term incentive plans as set out above, which is calculated based on an estimate of the performance criteria being achieved. The value of options is calculated using an appropriate valuation model and allocated evenly over the vesting period.

(2) Retired as a member of the PaperlinX Executive Board 30 June 2008.

(3) In addition, a once off payment of £38,104 was made to compensate for the loss of pension tax relief upon his relocation to Australia.

(4) Commenced employment with PaperlinX Group on 10 July 2006.

(5) Ceased employment on 1.7.06.

(6) This table is reported in A\$. Overseas executives are paid in their local currency. Year on year comparisons are impacted by currency exchange fluctuation.

CORPORATE GOVERNANCE

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 particular circumstances. In line with this commitment, PaperlinX has elected to make an early transition to the revised Principles and Recommendations of the ASX Corporate Governance Council.

The Board has established a 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.

The Board regularly reviews the content and application of the governance framework, the composition and performance of the Board and the membership and operation of the committees of the Board with a view to achieving the highest standards of Board performance and corporate governance.

PaperlinX considers that its corporate governance practices substantially follow the ASX Corporate Governance Council's revised Principles and Recommendations in all material respects.

PaperlinX's Guidelines for Board Operation and Management are posted on the Company's website along with other information about the Company's corporate governance practices.

BOARD OF DIRECTORS

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. Non-executive Directors meet regularly without management present.

The Board does not itself manage the business of the Company. Within the scope of the governance framework established by the Board, management is delegated to the Managing Director and it is his responsibility to manage the business, subject to the oversight and supervision of the Board.

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 Managing Director 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 members of management.

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

- (a) Appointment and remuneration of the Managing Director 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 press 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 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 policies and performance; and
 - workplace and public safety policies and performance.
- (m) Approving any major donations proposed by the Managing Director.

Board Composition and Independence

PaperlinX's Constitution provides for a minimum of 3 directors. Currently there are nine Directors, seven Non-executive Directors and two Executive Directors.

All of the Non-executive Directors, including the Chairman, are independent (in accordance with the definition in the ASX Good Corporate Governance Recommendations) and have no business or other relationships that could compromise their independence. If a potential conflict of interest should arise, the Director concerned is required to inform the Chairman and Board accordingly and, if appropriate, leave the Board meeting while the matter is considered. Directors keep the Board advised of any interests that could potentially conflict with those of the Company. The Board assesses the independence of Directors on an annual basis and as changes in Directors' interests occur.

Non-executive Directors are paid fixed fees, which are not dependent on Company performance, as well as their statutory superannuation entitlements. The Non-executive Director's retirement scheme was terminated as of 31 December 2006. Details are included in the Directors' Report on page 28.

Details of Directors' and senior executives' remuneration packages, including share, rights, and option plans and policies relating thereto, are covered in detail in the Remuneration Report.

Upon their appointment, each Director will enter 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.

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 pages 26 to 27.

At the date of this Report, there are no vacant positions on the Board. Were a vacancy to exist or if it were considered that the Board would benefit from the services of a new Director, the Nomination & Governance Committee would (with external advice if appropriate) seek to identify the qualities and competencies required to enable the Board to fulfil its responsibilities and recommend candidates with the appropriate expertise and experience.

Board Operation

Other than the Managing Director, all Directors are subject to re-election by rotation every three years and Non-executive Directors are only expected to serve on the Company's Board for terms of up to 11 years. Directors' appointment and election/re-election dates are as follows:

Director	Date appointed to Board	Last AGM at which elected
D E Meiklejohn	07/12/1999	2007
T P Park	01/02/2004	2004
H Boon	05/05/2008	–
A F Guy	02/03/2001	2006
B J Jackson	16/02/2000	2007
J W Hall	16/05/2007	2007
D M Lamont	21/02/2008	–
N L Scheinkestel	16/02/2000	2006
L J Yelland	16/02/2000	2005

For the purposes of proper performance of their duties, after consultation with the Chairman, all Directors have the right to seek independent professional advice at the Company's expense.

The Board conducts regular reviews of the internal guidelines relating to corporate governance, Board membership and operation and committee structures. This process ensures the highest standards of governance and effectiveness are maintained.

Guidelines on Board Operation and Membership of PaperlinX is available on www.paperlinx.com.

Company Secretary

James Orr, LLB, BComm was appointed as Company Secretary of PaperlinX Limited in March 2006. James is responsible for all legal and company secretarial matters. His former roles include company secretarial and legal positions with Sigma Co Ltd, Newcrest Mining Ltd, Westar Pty Ltd, Kinetik Energy Pty Ltd, AUSI Pty Ltd and Japan Australia LNG (MIM) Pty Ltd.

In addition, the Company has an alternate secretary, Peter Essex, who is able to act in that capacity when the Company Secretary is absent. Peter Essex, BComm, FCPA was appointed a Company Secretary of PaperlinX Limited in 1999. He joined the Amcor Group in 1980 and has held various management positions in Amcor and PaperlinX.

Board Review

The performance of the Board and its committees and individual Directors is evaluated annually. A review of the performance of individual Non-executive Directors, including the Chairman, is conducted periodically.

Board Committees

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

- Audit
- Nomination & Governance
- Remuneration & Human Resources
- Safety & Environment

All Committees have written Charters, which are set out in full in the Guidelines on Board Operation and Membership. 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.

Details of the number of committee meetings and the attendance record of members in the year ended 30 June 2008 are set out on page 29.

Audit Committee

The current members of the Audit Committee are all independent Non-executive Directors:

- J W Hall, Chairman
- H Boon
- B J Jackson
- D E Meiklejohn (ex officio)

The Audit Committee comprises members of diverse backgrounds who have industry and requisite financial experience.

The Managing Director, Chief Financial Officer, relevant senior staff and the internal and external auditors are invited to Audit Committee meetings at the discretion of the Committee.

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;
- maintenance of an effective framework of business risk management, including compliance, internal controls and the internal audit; and
- the insurance programme.

The Audit Committee is responsible for the procedures for appointing the external auditor and rotating external audit engagement partners.

The Audit Committee annually reviews the 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 derogate from the auditor's independence. Various authority levels for non-audit work undertaken by the Company's auditors have been established by the PaperlinX Board depending upon the estimated cost of the non-audit work.

DIRECTORS' REPORT CONTINUED

The Audit Committee monitors the integrity and implementation of the Company's internal compliance and control systems. These include a comprehensive quarterly compliance reporting system, an operational risk management programme and an internal audit function.

The auditor attends the Company's AGM and is available to answer questions about the conduct of the audit and the preparation and content of the Auditor's Report.

Nomination & Governance Committee

The current members of the Nomination & Governance Committee are all independent Non-executive Directors:

- D E Meiklejohn, Chairman
- H Boon
- J W Hall
- B J Jackson

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

Remuneration & Human Resources Committee

The current members of the Remuneration & Human Resources Committee are:

- L J Yelland, Chairman
- A F Guy
- N L Scheinkestel
- D E Meiklejohn (ex officio)

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

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

The Company has remuneration policies that link remuneration paid to key executives and corporate performance. These policies are summarised in the Remuneration Report section of the Directors' Report. The process for evaluating the performance of executives is provided in the Remuneration Report. Also included in the Remuneration Report are the relevant disclosures required under section 300A of the Corporations Act and AASB 124.

The Committee's role also includes responsibility for share option plans, incentive performance packages and succession planning, including reviewing recruitment, retention and termination policies.

Safety & Environment Committee

The current members of the Safety & Environment Committee are:

- A F Guy, Chairman
- N L Scheinkestel
- L J Yelland
- D E Meiklejohn (ex officio)

The Safety & Environment Committee's primary responsibilities are to make recommendations to, and assist, the Board in relation to safety (including occupational health and wellbeing) and environment matters generally.

Safety and environmental audits are conducted by safety and environment managers within the PaperlinX Group as part of the PaperlinX Operations Management System, which supports the various external safety and environment certifications.

Key issues arising from safety and environmental audits are presented to the Safety & Environment Committee on a quarterly basis and the Committee visits Group operations on a regular basis.

Risk Oversight and Management

PaperlinX has a comprehensive risk oversight and management programme that involves a detailed analysis of the material risks to the business of the Company worldwide and operates at various levels underpinned by specific systems and procedures. As part of this programme, material risks are identified and assessed by management's Risk Management Committee which comprises key executives of the Company and also by external parties, as are procedures and other actions for managing and mitigating them.

The responsibility for monitoring specific areas of compliance has been delegated to committees of the Board and these responsibilities are set out in the individual charters for each committee. The Audit Committee has responsibility for and oversees the implementation of the Organisation Risk Assessment Programme. Management reports to the Audit Committee twice yearly on the activities and results of the Programme.

The risk oversight and management policies and procedures are reviewed periodically and are updated where necessary. In addition, every business has operational manuals, procedures and training that are designed to ensure safe operations at all levels in compliance with the law.

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;
- internal and external audits; and
- training.

The Managing Director and the Chief Financial Officer provide an assurance to the Board that:

- there is a sound system of risk management and internal control which is operating effectively in all material respects;
- the Company's financial records have been properly maintained; and
- the financial statements and notes comply with the accounting standards and give a true and fair view of the Company's financial position.

The Company commissions audits by experts in relation to environmental liabilities, safety processes and procedures, and other specific risk areas as required.

Group Internal Audit

The Group internal audit function provides further assurance in relation to the Company's internal controls, 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 the organisation risk assessment programme in planning the annual internal audit plan.

Group internal audit also reviews and prepares post-completion reports in relation to major investments undertaken by the Company.

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.

Ethical and Responsible Decision-making

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.

The Company has a set of Values and Core Operating Principles and has also established ethical values and professional standards of behaviour for all Officers and employees in the conduct of the Company's affairs. These are set out in employee handbooks and Company policies, which are distributed to all business units to ensure employees are familiar with their contents. The Values and Core Operating Principles are also posted on the Company website.

The Company has numerous policies designed to prevent fraud and illegal practices and to encourage and protect persons who report suspected fraud or illegal activities. The Employee Guide to Business Conduct, including the 'Speak Up' reporting service (for reporting improper conduct), is posted on the Company website and has been communicated to employees throughout the Group.

Trading in Company Securities by Directors, Officers and Employees

It is a policy of the Board that each Non-executive Director increase their shareholding in the Company progressively so that their holding is over a period of time at least equivalent in value to one year's fees. Under the Company's Constitution, each Director must hold a minimum of 1,000 shares in PaperlinX Limited. Directors' relevant interests in PaperlinX shares at the date of this Report are shown on page 29.

The Board has established policies to be observed by Directors and senior managers in relation to buying, selling and dealing in the Company's securities.

The overriding principle is that Directors and senior managers cannot deal in the Company's securities at any time when they are aware of price sensitive information that is not public. Subject to that overriding principle, Directors and senior managers will ordinarily be permitted to deal in the Company's securities:

- in the period between 48 hours after release of the Company's annual results to the ASX and 14 days after the Annual General Meeting;
- in the period between 48 hours after release of the Company's half yearly results to the ASX and 14 days thereafter; and
- if participating in offers or entitlements made available to shareholders generally, subject to compliance with relevant ASX Listing Rules.

The Transacting in Company Securities Policy is available at PaperlinX's website at www.paperlinx.com.

Disclosure Policies

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

The Continuous Disclosure 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.

Senior managers of the Company are aware of the need to advise the ASX of any information that may have a material effect on the price or value of PaperlinX's securities.

The Disclosure Committee comprises the Managing Director, Chief Financial Officer together with the Executive General Manager Corporate Affairs and the Company Secretary and General Counsel. There is a continuous review all information of which they become aware for the purposes of ASX Listing Rule 3.1. The Continuous Disclosure policy is posted on the Company website.

Rights of Shareholders and Communications Strategy

The Company is committed to promoting open 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.

In 2008, the Company provided an option to shareholders to receive an Annual Review which is a short form non statutory report of the Company's annual performance. The Company's Annual Review is distributed to all shareholders (except any who specifically request not to receive it). The full Annual Report, which is the full statutory report with detailed financial and governance information, is available to shareholders and will be sent to shareholders, upon request. Both the Annual Review and full Annual Report are available on the Company's website at www.paperlinx.com.

The Company also produces a half yearly financial report summarising the financial information and review of the operations of the Company during each half year. The half yearly financial report is prepared in accordance with the applicable accounting standards and Corporations Act requirements. It is sent to shareholders and is lodged with the Australian Securities and Investments Commission and the ASX.

At the Annual General Meeting, the Chairman and Managing Director 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 the Annual General Meeting where ample opportunity is given for questions and answers. Questions can be lodged with the Company 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 Auditors 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.

DIRECTORS' REPORT CONTINUED

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 addresses at the Annual General Meeting;
- material that is posted on the website as recommended in the ASX Good Corporate Governance Recommendations;
- a dedicated Investor Relations section;
- profiles of the Board and senior management; and
- analyst briefings, which are given on a regular basis.

PaperlinX's communication policy is incorporated in its Continuously Disclosure Policy which is available on its website at www.paperlinx.com.

Other Stakeholders

The Board and management recognise the legitimate interests of all stakeholders in the Company, including shareholders, employees, suppliers, customers and the wider community. The Company is committed to policies and practices that are aimed at improving these relationships through mutually beneficial outcomes. Further information about the Company's corporate values, policies and systems of internal compliance and control are set out on the Company's website. More information on the Company's sustainability policies and processes are set out in the Sustainability Report.

Signed in Melbourne this 20th day of August 2008.



David Meiklejohn
Chairman



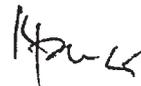
Thomas P Park
Managing Director and
Chief Executive Officer

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the 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 2008 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.



KPMG



Peter Jovic
Partner

Melbourne
20th day of August 2008

FINANCE OVERVIEW

FINANCIAL POSITION

Funding

At 30 June 2008, PaperlinX had net debt of \$776 million (prior year \$612 million), represented by interest bearing liabilities \$1,017 million and cash assets \$241 million.

In January 2008, PaperlinX renegotiated its syndicated multi-currency debt facility. The new syndicated facility of USD\$589 million consists of a USD\$251 million 1-Year Tranche, USD\$263 million 3-Year Tranche and a USD\$75 million 5-Year Tranche. This is a facility reduction of USD\$111 million from the prior year. PaperlinX has an appropriate mix of long, medium and short-term debt.

PaperlinX's financial indicators in relation to the group's financial position as at 30 June 2008 are:

- gearing:
 - net debt to net debt plus equity of 29 per cent
 - net debt to equity of 40 per cent;
- interest cover of 2.0 times;
- funds employed are \$2,701 million;
- stockholders equity is \$1,925 million.

All of the ratios are in compliance with the Group's debt covenants.

PaperlinX's policy on interest rate risk management is to monitor and, where appropriate, hedge the Company's exposure to movements in interest via a combination of interest rate swaps and fixed rate issuances.

Offshore debt is managed to minimise the translation impact on the Company's Australian balance sheet while aiming to optimise the returns to the Company.

PaperlinX actively reviews funding options with the aim of achieving the lowest possible cost of funds.

Equity

As at 30 June 2008, PaperlinX had \$285 million (prior year \$285 million) of hybrid securities in the form of PaperlinX Step-up Preference Securities (SPS).

Cash Flow and Working Capital

For the year to 30 June 2008, PaperlinX had an operating cash flow of \$113 million. Minimising working capital and achieving strong cash flow continues to be a key management focus. Net trade working capital for the Group at 30 June 2008 was \$1,153 million which was 5 per cent lower than June 2007. The working capital to sales ratio continued to show improvement reducing to 15.4 per cent versus 15.5 per cent at June 2007.

Capital Expenditure

Capital expenditure for the year was \$343.8 million (\$76.4 million excluding the pulp mill project, 81 per cent of depreciation). PaperlinX's target is for capital expenditure to be approximately equal to depreciation expense.

FULL FINANCIAL REPORT OF PAPERLINX LIMITED

As at 30 June 2008

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The June 2008 Financial Report has been prepared in accordance with the Australian Accounting Standards and other mandatory requirements applicable for the year to 30 June 2008. This is similar in format and content to the June 2007 Financial Report.

INCOME STATEMENTS

For the year ended 30 June

	Note	CONSOLIDATED		PAPERLINX LIMITED	
		2008 \$m	2007 \$m	2008 \$m	2007 \$m
Revenue	2	7,488.1	7,817.3	31.0	23.1
Other income	3	50.3	15.3	34.5	34.1
Expenses	4(a)	(7,395.5)	(7,642.1)	(14.0)	(11.8)
Result from operating activities		142.9	190.5	51.5	45.4
Financial income	5(c)	26.9	6.3	–	–
Financial expenses	5(c)	(69.4)	(82.9)	–	–
Net financing costs		(42.5)	(76.6)	–	–
Profit before tax	5(a)	100.4	113.9	51.5	45.4
Tax expense	6	(28.1)	(34.3)	(5.5)	(4.1)
Profit after tax expense but before profit from discontinued operations		72.3	79.6	46.0	41.3
Profit from discontinued operations, net of tax	11	–	0.6	–	–
Profit for the period	5(a)	72.3	80.2	46.0	41.3
Profit for the period attributable to:					
Equity holders of PaperlinX Limited	30	72.2	80.1	46.0	41.3
Minority interest		0.1	0.1	–	–
		72.3	80.2	46.0	41.3
Basic earnings per share (cents)	44	10.1	16.4		
Basic earnings per share from continuing operations (cents)	44	10.1	16.3		
Diluted earnings per share (cents)	44	9.9	16.3		
Diluted earnings per share from continuing operations (cents)	44	9.9	16.2		

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

STATEMENTS OF RECOGNISED INCOME AND EXPENSE

For the year ended 30 June

	Note	CONSOLIDATED		PAPERLINX LIMITED	
		2008 \$m	2007 \$m	2008 \$m	2007 \$m
Net foreign exchange differences on translation of overseas subsidiaries	29	41.5	(42.9)	–	–
Actuarial (losses)/gains on defined benefit plans	30	(43.8)	20.6	–	–
Net income recognised in equity		(2.3)	(22.3)	–	–
Profit for the period		72.3	80.2	46.0	41.3
Total recognised income for the period		70.0	57.9	46.0	41.3
Total recognised income for the period attributable to:					
Equity holders of PaperlinX Limited		69.9	57.8	46.0	41.3
Minority interest		0.1	0.1	–	–
		70.0	57.9	46.0	41.3

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

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BALANCE SHEETS

As at 30 June

	Note	CONSOLIDATED		PAPERLINX LIMITED	
		2008 \$m	2007 \$m	2008 \$m	2007 \$m
Current assets					
Cash and cash equivalents	8	240.7	448.8	–	–
Trade and other receivables	9	1,522.8	1,564.0	1.9	0.8
Inventories	10	822.0	861.2	–	–
Assets held for sale	11	92.2	–	–	–
Total current assets		2,677.7	2,874.0	1.9	0.8
Non-current assets					
Receivables	12	54.4	17.7	–	–
Investments	13	13.6	13.3	1,912.1	1,912.1
Property, plant and equipment	14	1,155.3	1,066.6	–	–
Intangible assets	15	409.0	417.9	–	–
Deferred tax assets	16	67.7	52.9	–	–
Total non-current assets		1,700.0	1,568.4	1,912.1	1,912.1
Total assets		4,377.7	4,442.4	1,914.0	1,912.9
Current liabilities					
Trade and other payables	17	1,182.6	1,256.8	181.3	199.3
Loans and borrowings	18	293.1	494.9	–	–
Income tax payable	19	0.4	5.1	5.0	3.4
Employee benefits	20	50.8	47.1	–	–
Provisions	21	9.1	19.1	–	–
Total current liabilities		1,536.0	1,823.0	186.3	202.7
Non-current liabilities					
Payables	22	96.4	53.8	–	–
Loans and borrowings	23	723.6	565.7	–	–
Deferred tax liabilities	24	50.8	48.9	–	–
Employee benefits	25	39.0	37.8	–	–
Provisions	26	5.7	7.6	–	–
Deferred income	27	1.6	0.5	–	–
Total non-current liabilities		917.1	714.3	–	–
Total liabilities		2,453.1	2,537.3	186.3	202.7
Net assets		1,924.6	1,905.1	1,727.7	1,710.2
Equity					
Issued capital	28	1,713.4	1,701.5	1,713.4	1,701.5
Reserves	29	(46.4)	(87.9)	–	–
(Accumulated losses)/retained profits	30	(19.0)	15.0	14.3	8.7
Total equity attributable to holders of ordinary shares of PaperlinX Limited		1,648.0	1,628.6	1,727.7	1,710.2
PaperlinX step-up preference securities	31	276.5	276.4	–	–
Minority interest	32	0.1	0.1	–	–
Total equity		1,924.6	1,905.1	1,727.7	1,710.2

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

STATEMENTS OF CASH FLOWS

For the year ended 30 June

	Note	CONSOLIDATED		PAPERLIX LIMITED	
		2008 \$m	2007 \$m	2008 \$m	2007 \$m
Cash flows from operating activities					
Receipts from customers		7,526.1	7,803.6	30.0	25.8
Payments to suppliers and employees		(7,304.9)	(7,578.7)	(14.0)	(11.1)
Dividends received		0.6	0.5	34.5	34.1
Interest received		5.4	6.3	–	–
Interest paid		(87.1)	(82.6)	–	–
Income taxes paid		(38.8)	(16.3)	(3.5)	(2.3)
Other income received		11.7	10.1	–	–
Net cash from operating activities⁽¹⁾		113.0	142.9	47.0	46.5
Cash flows from investing activities					
Loans advanced to other persons		–	(0.1)	–	–
Acquisition of:					
Controlled entities and businesses (net of cash and bank overdraft acquired)		(17.8)	(35.3)	–	–
Property, plant and equipment and intangibles ^(a)	42	(326.0)	(177.4)	–	–
Partial refund of the purchase price in relation to an acquisition in a prior period		–	8.7	–	–
Proceeds from the sale of: Controlled entities and businesses (net of cash and bank overdraft disposed)	42	–	32.0	–	–
Discontinued operations		–	15.9	–	–
Property, plant and equipment		55.3	24.0	–	–
Net cash used in investing activities		(288.5)	(132.2)	–	–
Cash flows from financing activities					
Dividends paid		(28.8)	(33.8)	(28.8)	(33.8)
Proceeds from employee share plan loans		0.1	0.1	0.1	0.1
Proceeds on issue of step-up preference securities		–	285.0	–	–
Step-up preference securities distributions paid		(33.3)	–	–	–
Issue costs of step-up preference securities		0.1	(8.6)	–	–
Proceeds from options exercised		–	0.8	–	0.8
Loans (repaid to)/received from subsidiaries		–	–	(18.3)	(13.6)
Proceeds from borrowings		1,387.6	1,431.6	–	–
Repayment of borrowings		(1,337.4)	(1,666.8)	–	–
Principal finance lease repayments		(0.2)	(0.2)	–	–
Borrowing costs paid		(1.6)	–	–	–
Net cash used in/(from) financing activities		(13.5)	8.1	(47.0)	(46.5)
Net (decrease)/increase in cash and cash equivalents		(189.0)	18.8	–	–
Cash and cash equivalents at the beginning of the period		448.8	453.9	–	–
Effect of exchange rate changes on cash		(19.1)	(23.9)	–	–
Cash and cash equivalents at the end of the period⁽²⁾		240.7	448.8	–	–

(a) Includes expenditure in relation to the Maryvale Pulp Mill project of \$249.7 million (2007: \$104.5 million).

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

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	Note	CONSOLIDATED		PAPERLIX LIMITED	
		2008 \$m	2007 \$m	2008 \$m	2007 \$m
(1) Reconciliation of profit after tax to net cash from operating activities profit for the period					
		72.3	80.2	46.0	41.3
Depreciation and amortisation of property, plant, equipment and intangibles		93.9	101.0	–	–
Amortisation of capitalised borrowing costs		2.0	1.7	–	–
Profit on disposal of non-current assets		(38.0)	(9.0)	–	–
Interest capitalised		(18.8)	(4.2)	–	–
Increase/(decrease) in current and deferred taxes		(10.7)	18.1	2.0	1.8
Increase/(decrease) in provisions		(9.6)	(7.3)	–	–
Movement in accrued and prepaid interest		(2.9)	(1.2)	–	–
Employee share options		4.7	1.6	–	–
Movement in deferred income		1.0	0.5	–	–
Profit element of the partial refund of the purchase price in relation to an acquisition in a prior period		–	(2.6)	–	–
Impact of unrealised (profit)/loss in inventories		(0.1)	(1.2)	–	–
Operating profit before changes in current and non-current assets and liabilities		93.8	177.6	48.0	43.1
(Increase)/decrease in trade and other receivables		31.9	(42.3)	(1.0)	2.8
(Increase)/decrease in inventories		21.8	(12.6)	–	–
Increase/(decrease) in trade and other payables		(34.5)	20.2	–	0.6
Net cash from operating activities		113.0	142.9	47.0	46.5
(2) Reconciliation of cash					
For the purposes of the Statements of Cash Flows, cash includes cash on hand and at bank and short-term money market investments, net of outstanding bank overdrafts. Cash as at 30 June as shown in the Statements of Cash Flows is reconciled to the related items in the Balance Sheets as follows:					
Cash and cash equivalents	8	240.7	448.8	–	–
Bank overdrafts	18	–	–	–	–
		240.7	448.8	–	–

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

NOTES TO THE FINANCIAL STATEMENTS AS AT 30 JUNE 2008

Note 1. Accounting policies

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

(1) Accounting Standards

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

(2) Basis of Preparation

The financial report is a general purpose financial report prepared in accordance with Australian Accounting Standards ('AASBs'), other authoritative pronouncements of the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The financial report complies with the International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board.

The financial report has been prepared on a going concern basis, which contemplates the realisation of assets and extinguishment of liabilities in the ordinary course of business. In preparing the 30 June 2008 financial report, the Group's assessment of going concern has necessarily considered the current market conditions impacting the debt and credit markets and the ability of the Group to obtain debt finance, particularly in the context of the Group's short-term debt facilities which mature within the next 12 months as disclosed in notes 18 and 23. Should the ability of the Group to extend the facilities beyond maturity be restricted, the Group will actively pursue alternative funding arrangements and sources of cash flow. These may include (but is not limited to) obtaining new debt facilities, sale of non-core assets as commenced in the current financial year in respect of European properties, restriction of operating expenditure, and capital raising transactions. Further information regarding management of refinancing risk is set out in Note 45 and Note 18. In addition, it is prudent to highlight the sensitivities around the successful completion of the Maryvale Pulp Mill project in the context of the accounts preparation. This project is forecast to positively impact the contribution to the group result of Australian Paper. Refer to Note 14 for further information.

Issued Standards Early Adopted

The Group has elected to early adopt AASB 8 Operating Segments, which requires segment information disclosure based on segments monitored by management rather than on a business/geographical basis. This change in accounting policy has been recognised retrospectively in accordance with transitional provisions of the standard, and comparatives have been restated. As a result of the standard's early adoption, segment information is now provided in respect of Paper Merchanting, Paper Manufacturing and Corporate.

Issued Standards Not Early Adopted

The following standards and amendments 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:

- Revised AASB 3 Business Combinations changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests.
- Revised AASB 101 Presentation of Financial Statements introduces as a financial statement (formerly 'primary' statement) the 'statement of comprehensive income'.
- Revised AASB 123 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.
- Revised AASB 127 Consolidated and Separate Financial Statements changes the accounting for investments in subsidiaries.

These standards become mandatory for the consolidated entity's financial statements for the year ending 30 June 2010. The consolidated entity has not yet determined the potential effect of the amending standard on the consolidated entity's financial report.

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

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

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

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

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

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

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

(3) Basis of Consolidation

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

Subsidiaries

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

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

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

Minority interest in the equity and results of the entities that are controlled by the consolidated entity are shown as a separate item in the financial report.

Other Entities

Dividends from other investments are recognised when dividends are received.

PaperlinX Step-up Preference Securities

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

Note 1. Accounting policies continued

(4) Revenue Recognition

Sales Revenue

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

Commissions

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

Government Grants

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

(5) Taxation

Income Tax

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

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

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

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

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

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

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

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

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

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

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

Nature of Tax Funding Arrangements and Tax Sharing Agreements

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

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

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

Goods and Services Tax

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED AS AT 30 JUNE 2008

Note 1. Accounting policies continued

(6) Depreciation

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

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

Land improvements:	between 1% – 3% (2007 1% – 3%)
Buildings:	between 1% – 4% (2007 1% – 4%)
Plant and equipment:	between 4% – 20% (2007 4% – 20%)
Finance leases for equipment:	between 4% – 20% (2007 4% – 20%)

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

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

(7) Employee Benefits

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

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

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

Employee Share Plans

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

Employee Share Purchase Plan

Non-recourse Loan Plan

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

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

plan ceased in 2004 with the loans remaining at this date being repaid over time in accordance with the rules of the plan.

Purchase Plan

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

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

Employee Share and Option Plan

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

Issue or Purchase of Shares

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

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

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

Performance Options and Performance Rights

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

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

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

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

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

Note 1. Accounting policies continued

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

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

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

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

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

(8) Net Financing Costs

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

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

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

(9) Property, Plant and Equipment

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

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

(10) Inventories

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

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

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

(11) Cash and Cash Equivalents

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

(12) Foreign Currency

Functional Currency

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

Transactions

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

Translation of Foreign Subsidiaries

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

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

(13) Financial Instruments

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

Derivative Instruments

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

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

Financial Instruments included in Liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED AS AT 30 JUNE 2008

Note 1. Accounting policies continued

Financial Instruments continued

Financial Instruments Included in Assets

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

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

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

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

Cash and cash equivalents comprise cash balances and call deposits.

(14) Leased Assets

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

Operating Leases

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

(15) Research and Development Expenditure

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

(16) Goodwill

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

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

(17) Other Intangible Assets

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

(18) Brand Names

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

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

(19) Business Combinations

Business Combinations Prior to 1 July 2004

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

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

Business Combinations Since 1 July 2004

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

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

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

(20) Impairment of Assets

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

Recoverable Amount

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

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

Reversals of Impairment

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

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

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

(21) Provisions

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

Note 1. Accounting policies continued

Provisions continued

Dividends on Ordinary Shares

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

Distribution on PaperlinX Step-up Preference Securities

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

Surplus Leased Premises

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

Workers' Compensation

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

Restructuring

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

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.

(22) Earnings per Share

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

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

(23) Revisions of Accounting Estimates

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

(24) Accounting Estimates and 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.

Impairment of Non-Current assets

The consolidated entity assesses whether non-current assets are impaired at least annually. These calculations involve an estimation of the recoverable amount of the cash generating units to which the non-current assets are allocated based on forecast future cash flows and certain related assumptions. These assumptions are discussed in Note 14.

Defined Benefit Superannuation Fund Obligations

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

Sale of Property Receivable

Included in Note 9 is an outstanding receivable for a deferred settlement on a European property. Detailed in Note 45 is the judgement on the outstanding settlement risk.

(25) Segment Reporting

The Group has elected to early adopt AASB 8 Operating Segments, which requires segment information disclosure based on segments monitored by management rather than on a business/geographical basis. This change in accounting policy has been recognised retrospectively in accordance with transitional provisions of the standard, and comparatives have been restated. As a result of the standard's early adoption, segment information is now provided in respect of Paper Merchanting, Paper Manufacturing and Corporate.

(26) Non-Current Assets Held For Sale

Non-current assets that are expected to be recovered primarily through a sale and lease back process 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.

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	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 2. Revenue				
Sales of goods	7,485.1	7,814.1	–	–
Commissions	3.0	3.2	31.0	23.1
Total Revenue	7,488.1	7,817.3	31.0	23.1
Note 3. Other income				
Rent	2.7	2.5	–	–
Dividends	0.6	0.5	34.5	34.1
Net profit on disposal of non-current assets ⁽¹⁾	38.0	8.1	–	–
Insurance proceeds	4.1	–	–	–
Government grants	0.3	–	–	–
Other	4.6	4.2	–	–
Total other income	50.3	15.3	34.5	34.1

(1) Includes \$34.7 million (2007: \$Nil million) in relation to profits arising on the disposal of certain properties within the European Merchandising business, some of which are subject to commercial sale and lease back arrangements. The income tax expense arising on disposal of these properties is \$4.3 million (2007: \$Nil million). In accordance with the ongoing review of owned properties, it is expected that further commercial sale and lease back arrangements may be undertaken in the future. Also refer to Note 11.

	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 4. Expenses				
(a) Expenses (excluding financing costs):				
Cost of sales	(6,114.6)	(6,369.0)	–	–
Personnel costs non-manufacturing	(689.3)	(683.5)	–	–
Logistics and distribution	(308.4)	(316.4)	–	–
General and administration	(251.5)	(240.2)	(14.0)	(11.8)
Sales and marketing	(30.7)	(31.9)	–	–
Research and development	(1.0)	(1.1)	–	–
Total expenses (excluding financing costs)⁽¹⁾	(7,395.5)	(7,642.1)	(14.0)	(11.8)
(b) Personnel costs included above:				
Wages and salaries	(649.3)	(645.2)	–	–
Increase in liability for employee benefits – refer Note 5(b)	(29.6)	(27.9)	–	–
Contributions to defined contribution plans	(29.8)	(26.4)	–	–
Employee share options and rights – refer Note 30	(4.7)	(1.6)	–	–
Net increase in liability for defined benefit obligation – refer Note 41	(8.1)	(14.7)	–	–
	(721.5)	(715.8)	–	–

(1) Included in expenses is \$30.8 million (2007: \$22.3 million) of business restructure costs.

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	CONSOLIDATED		PAPERLIX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 5. Profit for the period				
(a) Profit for the period comprises the following:				
Revenue sale of goods				
• Continuing operations	7,485.1	7,814.1	–	–
• Discontinued operations	–	25.2	–	–
	7,485.1	7,839.3	–	–
Profit before depreciation, impairment, amortisation, net interest and tax				
• Continuing operations	254.3	285.3	51.5	45.4
• Discontinued operations	–	1.2	–	–
	254.3	286.5	51.5	45.4
Depreciation, impairment and amortisation				
• Continuing operations	(93.9)	(101.0)	–	–
• Discontinued operations	–	–	–	–
	(93.9)	(101.0)	–	–
Profit before net interest and tax				
• Continuing operations	160.4	184.3	51.5	45.4
• Discontinued operations	–	1.2	–	–
	160.4	185.5	51.5	45.4
Net interest				
• Continuing operations	(60.0)	(70.4)	–	–
• Discontinued operations	–	(0.5)	–	–
	(60.0)	(70.9)	–	–
Profit before tax				
• Continuing operations	100.4	113.9	51.5	45.4
• Discontinued operations	–	0.7	–	–
	100.4	114.6	51.5	45.4
Tax				
• Continuing operations	(28.1)	(34.3)	(5.5)	(4.1)
• Discontinued operations	–	(0.1)	–	–
	(28.1)	(34.4)	(5.5)	(4.1)
Profit for the period				
• Continuing operations	72.3	79.6	46.0	41.3
• Discontinued operations	–	0.6	–	–
	72.3	80.2	46.0	41.3

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	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 5. Profit for the period (continued)				
(b) Profit before tax has been arrived at after (charging)/crediting:				
Depreciation:				
• of land improvements	(0.5)	(0.2)	–	–
• of buildings	(7.9)	(10.0)	–	–
• of plant and equipment	(68.7)	(73.7)	–	–
	(77.1)	(83.9)	–	–
Amortisation:				
• of computer software intangibles	(16.3)	(16.9)	–	–
• of leased assets	(0.1)	(0.1)	–	–
• other	(0.4)	(0.1)	–	–
	(16.8)	(17.1)	–	–
Total depreciation, impairment and amortisation	(93.9)	(101.0)	–	–
Total depreciation, impairment and amortisation is included in the following expense categories:				
• cost of goods sold	(48.9)	(52.9)	–	–
• general and administration	(16.7)	(17.0)	–	–
• logistics and distribution	(28.3)	(31.1)	–	–
	(93.9)	(101.0)	–	–
Provisions:				
• employee benefits	(29.6)	(27.9)	–	–
• doubtful debts	1.4	8.4	–	–
• diminution in value of inventories	7.6	–	–	–
• other	(1.5)	(0.6)	–	–
Total provisions	(22.1)	(20.1)	–	–
Lease rentals:				
• operating leases	(94.5)	(65.9)	–	–
(c) Net financing costs, continuing operations				
Financial income:				
• Interest income	5.3	6.3	–	–
• Net foreign exchange gains	21.6	–	–	–
Total financial income	26.9	6.3	–	–
Financial expenses:				
• Interest expense	(84.1)	(80.9)	–	–
• Less capitalised interest expense on qualifying capital expenditure	18.8	4.2	–	–
	(65.3)	(76.7)	–	–
• Net foreign exchange losses	–	(3.4)	–	–
• Other borrowing costs	(4.1)	(2.8)	–	–
Total financial expenses	(69.4)	(82.9)	–	–
Total net financing costs, continuing operations	(42.5)	(76.6)	–	–
Net interest, continuing operations:				
• Interest income	5.3	6.3	–	–
• Interest expense	(84.1)	(80.9)	–	–
• Less capitalised interest expense on qualifying capital expenditure	18.8	4.2	–	–
	(65.3)	(76.7)	–	–
Total net interest, continuing operations	(60.0)	(70.4)	–	–

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	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 6. Tax expense				
Prima facie income tax expense attributable to profit from operations at the rate of 30% (2007: 30%)	(30.1)	(34.3)	(15.5)	(13.6)
(Add)/deduct the tax effect of:				
• Non assessable dividends from Australian subsidiaries	–	–	10.4	10.2
• Amortisation of goodwill allowable	1.7	7.4	–	–
• Overseas tax rate differential	2.5	0.7	–	–
• Research and development incentives	1.5	1.5	–	–
• Tax losses not brought to account	(14.9)	(9.8)	–	–
• Tax benefit of deductions in foreign operations	8.1	1.9	–	–
• Foreign exchange loss allowable	3.6	–	–	–
• Non deductible expense for employee share options and rights	(1.4)	(0.5)	–	–
• Other	(0.2)	(3.0)	(0.4)	(0.1)
• Over/(under) provision in prior years	1.1	1.8	–	(0.6)
Total tax expense	(28.1)	(34.3)	(5.5)	(4.1)
Recognised in the income statement				
Current tax expense				
Current year	(29.2)	(36.2)	(5.5)	(3.5)
Adjustments for prior years	1.1	1.8	–	(0.6)
	(28.1)	(34.4)	(5.5)	(4.1)
Total tax expense in income statement	(28.1)	(34.4)	(5.5)	(4.1)
Attributable to:				
Continuing operations	(28.1)	(34.3)	(5.5)	(4.1)
Discontinued operations	–	(0.1)	–	–
	(28.1)	(34.4)	(5.5)	(4.1)
Recognised directly in equity:				
Tax effect of actuarial (losses)/gains on defined benefit plans	18.3	(9.3)	–	–
Total	18.3	(9.3)	–	–

The balance of the consolidated franking account as at 30 June 2008 was \$Nil million (2007: \$Nil million).

**NOTES TO THE FINANCIAL
STATEMENTS CONTINUED
AS AT 30 JUNE 2008**

	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 7. Dividends and distributions				
(a) Dividends on PaperlinX Limited ordinary shares				
Interim dividend paid:				
• 3.0 cents per share paid on 4 April 2008, Nil% franked at a 30% tax rate on fully paid share ⁽²⁾	13.5	–	13.5	–
• 5.0 cents per share paid on 5 April 2007, Nil% franked at a 30% tax rate on fully paid shares ⁽²⁾	–	22.4	–	22.4
Final dividend paid:				
• 6.0 cents per share paid on 26 September 2007, Nil% franked at a 30% tax rate on fully paid shares ⁽²⁾	26.9	–	26.9	–
• 4.5 cents per share paid on 13 October 2006, Nil% franked at a 30% tax rate on fully paid shares ⁽¹⁾	–	20.1	–	20.1
	40.4	42.5	40.4	42.5

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

(2) Paid out of profits measured in accordance with Australian equivalents to International Financial Reporting Standards and issued by the Australian Accounting Standards Board and the financial reporting requirements applicable for the years ended 30 June 2007 and 30 June 2008.

PaperlinX Limited has declared a dividend, at the date of this report on ordinary shares payable 15 October 2008 – 3.5 cents per share, unfranked on fully paid shares. This dividend has not been provided for in the accounts as at 30 June 2008.

It is expected that the interim dividend in respect of the year ending 30 June 2009 will be unfranked.

(b) Distributions on PaperlinX step-up preference securities

Interim distributions paid:				
• Rate of 8.97% for the period 1 July 2007 to 31 December 2007	12.9	–	–	–
	12.9	–	–	–
Final distributions paid:				
• Rate of 9.72% for the period 1 January 2008 to 30 June 2008 ⁽¹⁾	13.8	–	–	–
• Rate of 9.04% for the period 30 March 2007 to 30 June 2007	–	6.6	–	–
	26.7	6.6	–	–

(1) This distribution was paid on 30 June 2008.

The interim distribution rate for the period 1 July 2008 to 31 December 2008 is 10.36%.

	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 8. Cash and cash equivalents				
Cash on hand and at bank	234.2	328.0	–	–
Deposits at call	6.5	120.8	–	–
Total cash and cash equivalents	240.7	448.8	–	–
Note 9. Trade and other receivables				
Trade debtors	1,421.1	1,507.5	–	–
Provision for impairment losses	(74.0)	(74.1)	–	–
Net trade debtors	1,347.1	1,433.4	–	–
Other debtors	133.9	87.6	1.3	0.3
Prepayments	41.8	43.0	–	–
Amounts owing from subsidiaries	–	–	0.6	0.5
Total trade and other receivables	1,522.8	1,564.0	1.9	0.8

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	CONSOLIDATED		PAPERLIX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 10. Inventories				
At cost:				
Raw materials and stores	102.3	101.2	-	-
Provision for impairment losses	(8.5)	(9.7)	-	-
Net raw materials and stores	93.8	91.5	-	-
Work in progress	12.7	15.9	-	-
Finished goods	715.0	752.3	-	-
Provision for impairment losses	(14.0)	(20.6)	-	-
Net finished goods	701.0	731.7	-	-
At net realisable value:				
Finished goods	14.5	22.1	-	-
Total inventories	822.0	861.2	-	-

**NOTES TO THE FINANCIAL
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Note 11. Assets and liabilities held for sale

The assets held for sale in 2008 relate to certain freehold land and buildings within the European Merchenting business. During the year the Group's management decided to sell a portfolio of properties, with a book value of \$154.1 million. During the year \$61.9 million of assets were sold and at 30 June 2008 the assets remaining as held for sale were \$92.2 million. Profit recorded on properties sold during the year is detailed in Note 3.

The assets and liabilities held for sale in 2007 relate to part of the Merchenting and Paper Trading business purchased in Canada during the previous year, which were required to be sold as a condition of the regulatory approval of the total acquisition. The sale was concluded in October 2006.

	CONSOLIDATED	
	2008	2007
	\$m	\$m
Results from discontinued operations:		
Revenue – sales of goods	–	25.2
Profit before depreciation, impairment, amortisation, net interest and tax		
• Operating activity	–	0.4
• Profit on disposal	–	0.8
	–	1.2
Profit before net interest and tax		
• Operating activity	–	0.4
• Profit on disposal	–	0.8
	–	1.2
Net interest		
• Operating activity	–	(0.5)
• Profit on disposal	–	–
	–	(0.5)
Profit before tax		
• Operating activity	–	(0.1)
• Profit on disposal	–	0.8
	–	0.7
Tax expense		
• Operating activity	–	(0.1)
• Profit on disposal	–	–
	–	(0.1)
Profit for the period		
• Operating activity	–	(0.2)
• Profit on disposal	–	0.8
	–	0.6
Effect of the disposal on individual assets and liabilities of the consolidated entity		
Assets		
• Trade and other receivables	–	9.5
• Inventories	–	5.5
• Property, plant and equipment	–	0.4
	–	15.4
Liabilities		
• Trade and other payables	–	(0.3)
	–	(0.3)
Net identifiable assets and liabilities	–	15.1
Consideration		
• Received in cash	–	15.9
	–	15.9
Profit on disposal before tax	–	0.8

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

During the year ended 30 June 2008, there were no cash inflows or outflows resulting from the Canadian assets held for sale.

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	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 12. Receivables				
Other debtors	54.4	17.7	–	–
Total receivables	54.4	17.7	–	–
Note 13. Investments				
Shares in controlled entities ⁽¹⁾ :				
• At cost	–	–	1,912.1	1,912.1
Total investment in shares in controlled entities	–	–	1,912.1	1,912.1
Shares in other companies – Not listed on stock exchanges:				
• At cost	13.6	13.3	–	–
Total investment in other companies	13.6	13.3	–	–
Total investments	13.6	13.3	1,912.1	1,912.1

(1) A list of controlled entities is contained in Note 42.

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	CONSOLIDATED		PAPERLIX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 14. Property, plant and equipment				
Land:				
• At cost	8.0	70.3	–	–
• Accumulated impairment losses	(2.3)	(2.3)	–	–
Total net land	5.7	68.0	–	–
Land improvements:				
• At cost	15.4	12.7	–	–
• Accumulated depreciation and impairment losses	(3.9)	(3.3)	–	–
Total net land improvements	11.5	9.4	–	–
Buildings:				
• At cost	218.4	363.2	–	–
• Accumulated depreciation and impairment losses	(109.1)	(171.0)	–	–
Total net buildings	109.3	192.2	–	–
Plant and equipment:				
• At cost ⁽¹⁾	2,324.5	2,061.5	–	–
• Accumulated depreciation and impairment losses	(1,296.2)	(1,264.8)	–	–
Total net plant and equipment	1,028.3	796.7	–	–
Leased assets:				
• Finance leases	1.4	1.3	–	–
• Accumulated amortisation and impairment losses	(0.9)	(1.0)	–	–
Total net leased assets	0.5	0.3	–	–
Total property, plant and equipment⁽²⁾	1,155.3	1,066.6	–	–

(1) Included in cost is amounts relating to assets under construction totalling \$284.1 million (2007: \$154.8 million) which are not subject to depreciation. Depreciation will commence once the related assets become available for use.

(2) All non-current assets, the majority of which are property, plant and equipment and intangibles are analysed for asset impairment purposes on a cash generating unit basis. An impairment test is undertaken at least annually or otherwise when there is an impairment trigger based on value in use calculations. These calculations use cash flow projections based on Board approved budgets and forecasts that vary from one to five years, which are then projected over the estimated remaining life of the key assets for each cash generating unit. A pre-tax discount rate of 10.3 per cent (2007: 9.5 per cent) has been used in discounting the projected cash flows.

For the Australian Paper cash generating unit the cash flow projections are based on current business in use to assess the carrying value of non-current assets at 30 June 2008 of \$1,110.4 million. These cash flows include incremental net cash flows forecast to arise from the commencement of the new Maryvale Pulp Mill and incorporate an EBIT improvement of between \$40–\$50 million per annum. The value of non-current assets includes forecast capital expenditure up to the commencement of the new Maryvale Pulp Mill. Forecasts include a reversion to a long-term AUD/USD exchange rate by 2012 of 70 cents. The analysis indicates that the net present value of the Board approved business in use cash flows based on a 20 year life exceed the carrying value in less than 17 years. Cash flows sensitivities have been considered for movements in key assumptions including GDP growth rates, volume and price outcomes, productivity initiatives and foreign exchange rates.

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

Land:

Balance at beginning of year				
Cost	70.3	77.1	–	–
Accumulated impairment losses	(2.3)	(2.4)	–	–
Net balance at beginning of year	68.0	74.7	–	–
Disposals ⁽²⁾	(24.7)	(4.5)	–	–
Foreign currency movements	0.2	(4.3)	–	–
Transfers ⁽⁵⁾	(37.8)	2.1	–	–
Net balance at end of year	5.7	68.0	–	–

Land improvements:

Balance at beginning of year				
Cost	12.7	11.4	–	–
Accumulated depreciation and impairment losses	(3.3)	(3.1)	–	–
Net balance at beginning of year	9.4	8.3	–	–
Additions ⁽¹⁾	2.6	1.3	–	–
Depreciation	(0.5)	(0.2)	–	–
Net balance at end of year	11.5	9.4	–	–

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	CONSOLIDATED		PAPERLIX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 14. Property, plant and equipment (continued)				
Buildings:				
Balance at beginning of year				
Cost	363.2	382.5	–	–
Accumulated depreciation and impairment losses	(171.0)	(169.4)	–	–
Net balance at beginning of year	192.2	213.1	–	–
Additions ⁽¹⁾	7.3	5.2	–	–
Disposals ⁽²⁾	(37.9)	(6.5)	–	–
Depreciation	(7.9)	(10.0)	–	–
Acquisition of subsidiaries/businesses ⁽³⁾	6.8	–	–	–
Disposal of subsidiaries/businesses ⁽⁴⁾	–	(0.4)	–	–
Transfers ⁽⁵⁾	(50.4)	(1.4)	–	–
Foreign currency movements	(0.8)	(7.8)	–	–
Net balance at end of year	109.3	192.2	–	–
Plant and equipment:				
Balance at beginning of year				
Cost	2,061.5	1,926.4	–	–
Accumulated depreciation and impairment losses	(1,264.8)	(1,232.1)	–	–
Net balance at beginning of year	796.7	694.3	–	–
Additions ⁽¹⁾	306.5	185.2	–	–
Disposals ⁽²⁾	(1.9)	(2.4)	–	–
Depreciation	(68.7)	(73.7)	–	–
Acquisition of subsidiaries/businesses ⁽³⁾	0.6	4.3	–	–
Disposal of subsidiaries/businesses ⁽⁴⁾	–	(0.9)	–	–
Transfers	(1.7)	(0.3)	–	–
Transfers to computer software	–	(4.1)	–	–
Foreign currency movements	(3.2)	(5.7)	–	–
Net balance at end of year	1,028.3	796.7	–	–
Leased assets:				
Balance at beginning of year				
Cost	1.3	1.4	–	–
Accumulated amortisation and impairment losses	(1.0)	(1.0)	–	–
Net balance at beginning of year	0.3	0.4	–	–
Amortisation	–	(0.1)	–	–
Additions ⁽¹⁾	0.2	0.1	–	–
Disposals ⁽²⁾	–	(0.1)	–	–
Net balance at end of year	0.5	0.3	–	–

(1) The total additions included above are \$316.6 million (2007: \$191.8 million).

(2) The total disposals included above are \$64.5 million (2007: \$13.5 million).

(3) The total acquisitions of subsidiaries/businesses included above are \$7.4 million (2007: \$4.3 million).

(4) The total disposals of subsidiaries/businesses included above is \$Nil million (2007: \$1.3 million).

(5) Includes transfers to assets held for sale and intangibles.

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	CONSOLIDATED		PAPERLIX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 15. Intangible assets				
Goodwill at cost	330.2	343.4	–	–
Computer software at cost	188.2	168.0	–	–
Accumulated amortisation and impairment losses	(135.6)	(120.6)	–	–
	52.6	47.4	–	–
Brand names at cost	22.3	24.9	–	–
Other at cost	4.8	2.8	–	–
Accumulated amortisation and impairment losses	(0.9)	(0.6)	–	–
	3.9	2.2	–	–
Total intangible assets	409.0	417.9	–	–
The reconciliation of the movement in each class of intangible assets is as follows:				
Goodwill at cost: ⁽¹⁾⁽²⁾				
Balance at beginning of year	343.4	344.9	–	–
Acquisition of subsidiaries/businesses	7.5	14.4	–	–
Foreign currency movements	(20.8)	(18.2)	–	–
Additions ⁽³⁾	0.1	1.6	–	–
Other	–	0.7	–	–
Balance at end of year	330.2	343.4	–	–
Computer software: ⁽¹⁾				
Balance at beginning of year				
Cost	168.0	154.9	–	–
Accumulated amortisation and impairment losses	(120.6)	(105.5)	–	–
Net balance at beginning of year	47.4	49.4	–	–
Amortisation	(16.3)	(16.9)	–	–
Acquisition of subsidiaries/businesses	–	0.2	–	–
Disposal of subsidiaries/businesses	–	(0.2)	–	–
Transfers	0.2	4.1	–	–
Disposals	(0.3)	–	–	–
Foreign currency movements	(0.2)	(1.3)	–	–
Additions ⁽³⁾	21.8	12.1	–	–
Net balance at end of year	52.6	47.4	–	–
Brand names at cost: ⁽¹⁾⁽²⁾				
Balance at beginning of year	24.9	25.8	–	–
Foreign currency movements	(2.6)	(1.2)	–	–
Additions ⁽³⁾	–	0.3	–	–
Balance at end of year	22.3	24.9	–	–
Other: ⁽¹⁾⁽²⁾				
Balance at beginning of year				
Cost	2.8	2.0	–	–
Accumulated amortisation and impairment losses	(0.6)	(0.5)	–	–
Net balance at beginning of year	2.2	1.5	–	–
Additions ⁽³⁾	–	0.9	–	–
Acquisition of subsidiaries/businesses	2.7	–	–	–
Transfers	(0.3)	–	–	–
Amortisation	(0.4)	(0.1)	–	–
Foreign currency movements	(0.3)	(0.1)	–	–
Net balance at end of year	3.9	2.2	–	–

(1) Refer to Note 14 for details of impairment testing for intangible assets.

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

(3) The total additions included above are \$22.0 million (2007: \$14.9 million).

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	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 16. Deferred tax assets				
Deferred tax assets ⁽¹⁾	67.7	52.9	–	–
Total deferred tax assets	67.7	52.9	–	–
Deferred tax assets comprise of the following:				
Provisions and employee benefits	49.6	43.5	–	–
Accrued expenses not claimed	1.0	1.5	–	–
Other items	8.9	4.5	–	–
Tax losses⁽²⁾	8.2	3.4	–	–
	67.7	52.9	–	–

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

(2) Potential further future income tax benefits of the consolidated entity relating to accumulated tax losses at 30 June 2008 of \$104.7 million (2007: \$90.3 million) were not recognised on the basis that it is not probable that future taxable profit will be available against which the consolidated entity can use the benefit.

	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 17. Trade and other payables				
Trade creditors	917.5	975.8	–	–
Other creditors	265.1	281.0	0.6	0.6
Amounts owing to subsidiaries	–	–	180.7	198.7
Total trade and other payables	1,182.6	1,256.8	181.3	199.3

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	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 18. Loans and borrowings – current				
Unsecured loans and borrowings ⁽¹⁾				
• Bank overdrafts ⁽²⁾	–	–	–	–
• Bank borrowings ⁽³⁾	289.3	490.4	–	–
• CAD notes	3.2	3.4	–	–
• Other loans	0.5	0.8	–	–
Finance lease liabilities	0.1	0.3	–	–
Total loans & borrowings	293.1	494.9	–	–

(1) Relates to the following unsecured loans and borrowings:

CONSOLIDATED				
	Currency	Nominal Interest Rate	Year of Maturity	2008 \$m
Bank Loans Unsecured	GBP	LIBOR	2009	115.8
Bank Loans Unsecured	AUD	BBSY	2009	135.0
Bank Loans Unsecured	SGD	SIBOR	2009	3.0
Bank Loans Unsecured	MYR	BBLR ⁽⁴⁾	2009	3.9
Bank Loans Unsecured	MYR	BBLR ⁽⁴⁾	2009	1.8
Bank Loans Unsecured	CAD	LIBOR	2009	10.6
Bank Loans Unsecured	NZD	NZBAB ⁽⁵⁾	2008	20.0
Notes – Unsecured	CAD	7.59%	2009	3.2
Other Loans Unsecured	AUD	BBSY	2008	0.5
Finance Lease Liabilities				0.1
Capitalised Borrowing Costs				(0.8)
				293.1

CONSOLIDATED				
	Currency	Nominal Interest Rate	Year of Maturity	2007 \$m
Bank Loans Unsecured	GBP	LIBOR	2008	131.9
Bank Loans Unsecured	AUD	BBSY	2008	2.0
Bank Loans Unsecured	GBP	LIBOR	2008	167.8
Bank Loans Unsecured	AUD	BBSY	2008	80.5
Bank Loans Unsecured	CAD	LIBOR	2008	52.8
Bank Loans Unsecured	CAD	LIBOR	2008	4.3
Bank Loans Unsecured	SGD	SIBOR	2008	1.7
Bank Loans Unsecured	NZD	NZBAB ⁽⁵⁾	2007	23.1
Bank Loans Unsecured	MYR	BBLR ⁽⁴⁾	2008	3.4
Bank Loans Unsecured	EUR	EURIBOR	2008	24.8
Notes – Unsecured	CAD	7.59%	2008	3.4
Other Loans Unsecured	AUD	BBSY	2007	0.8
Capitalised Borrowing Costs				(1.9)
Finance Lease Liabilities				0.3
				494.9

(2) The consolidated entity has committed bank overdraft facilities to a maximum of \$13.7 million (2007: \$15.4 million). As at 30 June 2008, the unused portions of the facilities were \$13.7 million (2007: \$15.4 million). The bank overdrafts are payable on demand and are subject to annual review.

(3) Bank borrowings are net of capitalised borrowing costs.

(4) BBLR: Bank Based Lending Rate.

(5) NZBAB: New Zealand Bank Accepted Bill Rate.

As announced to the market in January 2008, the Company renegotiated its syndicated multi-currency debt facility. The new syndicated facility of USD\$589 million consists of a USD\$251 million 1–Year Tranche, USD\$263 million 3–Year Tranche and a USD\$75 million 5–Year Tranche.

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	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 19. Income tax payable				
Income tax	0.4	5.1	5.0	3.4
Total income tax payable	0.4	5.1	5.0	3.4
Note 20. Employee benefits – current				
Employee benefits	50.8	47.1	–	–
Total employee benefits	50.8	47.1	–	–
Note 21. Provisions – current				
Dividend payable ⁽¹⁾	–	–	–	–
Distribution payable ⁽²⁾	–	6.6	–	–
Other ⁽³⁾	9.1	12.5	–	–
Total provisions	9.1	19.1	–	–
<i>(1) The reconciliation of the movement in the provision for dividend payable on PaperlinX Limited ordinary shares is as follows:</i>				
<i>Balance at beginning of year</i>	–	–	–	–
<i>Provided during the year</i>	40.4	42.5	40.4	42.5
<i>Paid during the year – cash</i>	(28.7)	(33.8)	(28.7)	(33.8)
<i>Paid during the year – non-cash</i>	(11.7)	(8.7)	(11.7)	(8.7)
<i>Balance at end of year</i>	–	–	–	–
<i>(2) The reconciliation of the movement in the provision for distribution payable on PaperlinX step-up preference securities is as follows:</i>				
<i>Balance at beginning of year</i>	6.6	–	–	–
<i>Provided during the year</i>	26.7	6.6	–	–
<i>Paid during the year – cash</i>	(33.3)	–	–	–
<i>Balance at end of year</i>	–	6.6	–	–
<i>(3) The reconciliation of the movement in other provisions is as follows:</i>				
<i>Balance at beginning of year</i>	12.5	13.8	–	–
<i>Provided during the year</i>	1.1	1.8	–	–
<i>Paid during the year</i>	(2.5)	(3.4)	–	–
<i>Transfers</i>	(2.0)	(1.6)	–	–
<i>Acquisition of subsidiaries/businesses</i>	–	2.1	–	–
<i>Foreign currency movements</i>	–	(0.2)	–	–
<i>Balance at end of year</i>	9.1	12.5	–	–

	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 22. Payables				
Other creditors	96.4	53.8	–	–
Total payables	96.4	53.8	–	–

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	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 23. Loans and borrowings – non-current				
Unsecured loans and borrowings ⁽¹⁾				
• Bank borrowings ⁽²⁾	322.0	109.6	–	–
• USD notes	127.0	144.1	–	–
• CAD notes	61.4	69.3	–	–
• GBP notes	213.1	242.6	–	–
Finance lease liabilities	0.1	0.1	–	–
Total loans and borrowings	723.6	565.7	–	–
Reconciliation of Consolidated Loans and Borrowings				
Current loans and borrowings – refer Note 18	293.1	494.9	–	–
Non-current loans and borrowings – refer above in Note 23	723.6	565.7	–	–
Total loans and borrowings	1,016.7	1,060.6	–	–
Cash and cash equivalents – refer Note 8	(240.7)	(448.8)	–	–
Net loans and borrowings	776.0	611.8	–	–

(1) Relates to the following unsecured loans and borrowings:

	Currency	Nominal Interest Rate	Year of Maturity	CONSOLIDATED	
				2008 \$m	2007 \$m
Bank Loans Unsecured	GBP	LIBOR	2010	–	24.0
Bank Loans Unsecured	AUD	BBSY	2010	–	85.5
Bank Loans Unsecured	GBP	LIBOR	2011	105.3	–
Bank Loans Unsecured	AUD	BBSY	2011	60.0	–
Bank Loans Unsecured	CAD	LIBOR	2011	74.2	–
Bank Loans Unsecured	AUD	BBSY	2013	83.0	–
Notes – Unsecured	USD	7.88%	2011–2017	58.8	66.7
Notes – Unsecured	USD	5.70%	2014	52.5	59.5
Notes – Unsecured	USD	6.05%	2019	15.7	17.9
Notes – Unsecured	CAD	7.59%	2010–2012	9.5	13.6
Notes – Unsecured	CAD	8.01%	2011–2017	51.9	55.7
Notes – Unsecured	GBP	6.67%	2014	121.0	137.7
Notes – Unsecured	GBP	6.48%	2019	92.1	104.9
Other Loans Unsecured	EUR	EURIBOR	2009	0.3	0.3
Capitalised Borrowing Costs				(0.8)	(0.2)
Finance Lease Liabilities				0.1	0.1
				723.6	565.7

(2) Bank borrowings are net of capitalised borrowing costs. As at 30 June 2008, the unused portions of both current and non-current facilities totalled \$82.7 million (2007: \$342.3 million).

The Group's bank borrowings under the Syndicated Multi Currency facility and Senior Unsecured Notes are subject to certain covenants which specify minimum earnings, net asset and interest cover amounts. The Group was in compliance with all covenant limits at 30 June 2008, 31 December 2007 and at the end of the previous financial year.

	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 24. Deferred tax liabilities				
Deferred income tax	50.8	48.9	–	–
Total deferred tax liabilities	50.8	48.9	–	–
Deferred tax liabilities comprise the following:				
Property, plant and equipment	27.1	23.5	–	–
Intangibles	21.9	21.9	–	–
Other	1.8	3.5	–	–
	50.8	48.9	–	–

	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 25. Employee benefits – non-current				
Employee benefits ⁽¹⁾	39.0	37.8	–	–
Total employee benefits	39.0	37.8	–	–
The aggregate employee benefits at end of year:				
Current – refer Note 20	50.8	47.1	–	–
Non-current – refer above in Note 25	39.0	37.8	–	–
Total employee benefits	89.8	84.9	–	–

(1) Included in the above employee benefits of the consolidated entity are Directors' retiring allowances of \$2.5 million (2007: \$2.3 million), which are disclosed in detail in the Directors' Report. These benefits only relate to those Non-executive Directors of PaperlinX Limited appointed before 31 December 2006 and are in accordance with the Company's Constitution and with agreements between the Company and individual Directors and have now been frozen. An earnings rate equal to the 5 year Australian Government Bond Rate applies to frozen entitlements. No liability exists for Directors' retiring allowances in respect of Directors in full time employment of PaperlinX Limited or its subsidiaries.

	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 26. Provisions – non-current				
Other ⁽¹⁾	5.7	7.6	–	–
Total provisions	5.7	7.6	–	–
The aggregate other provisions at end of year: ⁽²⁾				
Current – refer Note 21	9.1	12.5	–	–
Non-current – refer above in Note 26	5.7	7.6	–	–
Total other provisions	14.8	20.1	–	–

(1) The reconciliation of the movement in other provisions is as follows:

Balance at beginning of year	7.6	10.9	–	–
Provided/(released) during the year	0.5	(1.2)	–	–
Paid during the year	(3.8)	(0.3)	–	–
Transfers	1.3	0.3	–	–
Foreign currency movements	0.1	(0.3)	–	–
Disposal of subsidiaries/businesses	–	(1.8)	–	–
Balance at end of year	5.7	7.6	–	–

(2) Included in the above aggregate other provisions of the consolidated entity are provisions relating to surplus leased premises of \$3.3 million (2007: \$5.3 million), and self-insurance for workers compensation in Tasmania and Victoria of \$5.9 million (2007: \$7.6 million).

	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 27. Deferred income				
Government grants	1.6	0.5	–	–
Total deferred income	1.6	0.5	–	–

**NOTES TO THE FINANCIAL
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	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 28. Issued capital				
Issued and paid-up share capital				
453,094,354 ordinary shares	1,715.2	1,703.5	1,715.2	1,703.5
(2007: 448,737,560 ordinary shares)				
Employee share plan loans	(1.8)	(2.0)	(1.8)	(2.0)
Total issued capital	1,713.4	1,701.5	1,713.4	1,701.5
Movement in ordinary share capital:				
Balance at beginning of year	1,703.5	1,694.2	1,703.5	1,694.2
Nil (2007: 180,000) shares issued at \$3.13 each pursuant to options exercised	–	0.6	–	0.6
Nil (2007: 32,500) shares issued at \$3.32 each pursuant to options exercised	–	0.1	–	0.1
Nil (2007: 25,000) shares issued at \$3.50 each pursuant to options exercised	–	0.1	–	0.1
2,445,838 (2007: 731,880) shares issued at \$2.13 (2007: \$4.09) each pursuant to the dividend reinvestment plan for interim dividend	5.3	3.0	5.3	3.0
1,910,956 (2007: 1,585,971) shares issued at \$3.34 (2007: \$3.50) each pursuant to the dividend reinvestment plan for the final dividend	6.4	5.5	6.4	5.5
Balance at end of year	1,715.2	1,703.5	1,715.2	1,703.5
Movement in employee share plan loans:				
Balance at beginning of year	(2.0)	(2.3)	(2.0)	(2.3)
Repayments	0.2	0.3	0.2	0.3
Balance at end of year	(1.8)	(2.0)	(1.8)	(2.0)

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

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

Employee shares

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

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

Options

- During the year, no options over shares were exercised.
- During the prior year, the following options over shares were exercised:
 - 180,000 options, which had been granted on 14 April 2000 at an exercise price of \$3.13, were exercised between 30 October 2006 and 27 February 2007. The market price of the shares was between \$4.04 and \$4.22.
 - 32,500 options, which had been granted on 20 November 2000 at an exercise price of \$3.32, were exercised between 30 October 2006 and 27 February 2007. The market price of the shares was between \$4.04 and \$4.22.
 - 25,000 options, which had been granted on 19 April 2001 at an exercise price of \$3.50, were exercised on 16 October 2006. The market price of the shares was \$3.67.
 This resulted in the aggregate issue of 237,500 shares.
- During the year, the following options lapsed:
 - 10,000 options, which had been granted on 14 April 2000, at an exercise price of \$3.13.
 - 5,000 options, which had been granted on 20 November 2000, at an exercise price of \$3.32.
 - 75,000 performance options, which had been granted on 19 April 2001 at an exercise price of \$3.50.
 - 40,800 options, which had been granted on 13 September 2001 at an exercise price of \$4.12.
 - 21,000 options, which had been granted on 20 September 2002 at an exercise price of \$5.13.
 - 530,080 performance options, which had been granted on 22 December 2004, at an exercise price of \$4.85.
 - 70,530 performance options, which had been granted on 2 September 2005 at an exercise price of \$2.77.
 - 28,170 performance options, which had been granted on 28 August 2006, at an exercise price of \$3.11.
 - 26,040 performance options, which had been granted on 24 August 2007, at an exercise price of \$3.80.
 An aggregate of 806,620 options lapsed during the year ended 30 June 2008.
- During the prior year, the following options lapsed:
 - 10,000 options, which had been granted on 13 September 2001 at an exercise price of \$4.12.
 - 4,000 options, which had been granted on 20 September 2002 at an exercise price of \$5.13.
 - 75,120 performance options, which had been granted on 22 December 2004 at an exercise price of \$4.85.
 - 111,610 performance options, which had been granted on 2 September 2005 at an exercise price of \$2.77.
 - 30,850 performance options, which had been granted on 5 September 2006 at an exercise price of \$3.11.
 An aggregate of 231,580 options lapsed during the year ended 30 June 2007.

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

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

- Employee Share and Option Plan
958,110 performance options over 958,110 ordinary shares on the grant date of 24 August 2007 at an exercise price of \$3.80 per option, which was the weighted average share price in the Australian Securities Exchange for the 30 days prior to 30 June 2008.
649,120 performance options over 649,120 ordinary shares on the grant date of 30 November 2007 at an exercise price of \$3.80 per option, which was the weighted average share price in the Australian Securities Exchange for the 30 days prior to 30 June 2008.
50,000 options over 50,000 ordinary shares on the grant date of 30 April 2008 at a zero exercise price per option.

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

- Employee Share and Option Plan
1,121,240 performance options, over 1,121,240 ordinary shares on the grant date of 5 September 2006 at an exercise price of \$3.11 per option, which was the weighted average price in the Australian Securities Exchange for the 30 days prior to 30 June 2006.
150,000 options, over 150,000 ordinary shares on the grant date of 4 September 2006 at an exercise price of \$3.11 per option, which was the weighted average price on the Australian Securities Exchange for the 30 days prior to 30 June 2006.

At reporting date, there are 5,204,930 (2007: 4,354,320) unissued shares of PaperlinX Limited which are under option whose exercise is subject to the satisfaction of the terms of the option agreements. The details of the options on issue at balance date are as follows:

275,000	(2007: 285,000)	at	\$3.13 at the grant date of 14 April 2000
157,500	(2007: 162,500)	at	\$3.32 at the grant date of 20 November 2000
300,000	(2007: 375,000)	at	\$3.50 at the grant date of 19 April 2001
177,900	(2007: 218,700)	at	\$4.12 at the grant date of 13 September 2001
50,000	(2007: 50,000)	at	\$4.18 at the grant date of 13 September 2001
145,000	(2007: 166,000)	at	\$5.13 at the grant date of 20 September 2002
150,000	(2007: 150,000)	at	\$4.76 at the grant date of 18 June 2003
150,000	(2007: 150,000)	at	\$4.64 at the grant date of 26 November 2003
–	(2007: 530,080)	at	\$4.85 at the grant date of 22 December 2004
806,120	(2007: 876,650)	at	\$2.77 at the grant date of 2 September 2005
150,000	(2007: 150,000)	at	\$2.77 at the grant date of 28 February 2006
1,062,220	(2007: 1,090,390)	at	\$3.11 at the grant date of 5 September 2006
150,000	(2007: 150,000)	at	\$3.11 at the grant date of 4 September 2006
932,070	(2007: Nil)	at	\$3.80 at the grant date of 24 August 2007
649,120	(2007: Nil)	at	\$3.80 at the grant date of 30 November 2007
50,000	(2007: Nil)	at	\$Nil at the grant date of 30 April 2008.

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	2008 Number	2007 Number
Outstanding at beginning of year	4,354,320	3,552,160
Lapsed during the period	(806,620)	(231,580)
Granted during the period	1,657,230	1,271,240
Exercised	–	(237,500)
Outstanding at end of year	5,204,930	4,354,320

The weighted average exercise price for options outstanding at the end of the financial year was \$3.45 (2007: \$3.53).

Employee share plan loans

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

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	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 29. Reserves				
Reserve for own shares				
Balance at beginning of year	(9.7)	(9.7)	–	–
Balance at end of year	(9.7)	(9.7)	–	–
Exchange fluctuation reserve				
Balance at beginning of year	(78.2)	(35.3)	–	–
Exchange fluctuation on translation of overseas subsidiaries	41.5	(42.9)	–	–
Balance at end of year	(36.7)	(78.2)	–	–
Total reserves	(46.4)	(87.9)	–	–

Nature and purpose of reserves

Reserve for own shares

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

Exchange fluctuation reserve

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

	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 30. Retained profits				
Balance at beginning of year	15.0	(38.2)	8.7	9.9
Net profit attributable to equity holders of PaperlinX Limited	72.2	80.1	46.0	41.3
Employee share options and rights	4.7	1.6	–	–
Actuarial (losses)/gains on defined benefit plans	(43.8)	20.6	–	–
Dividends paid on PaperlinX Limited ordinary shares	(40.4)	(42.5)	(40.4)	(42.5)
Distributions provided and paid on PaperlinX step-up preference securities	(26.7)	(6.6)	–	–
Total retained profits	(19.0)	15.0	14.3	8.7

Note 31. PaperlinX step-up preference securities

Balance at beginning of year	276.4	–	–	–
Proceeds on issue	–	285.0	–	–
Issue costs	0.1	(8.6)	–	–
Total PaperlinX step-up preference securities	276.5	276.4	–	–

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 Responsible Entity and are paid on a floating rate, unfranked, non-cumulative, discretionary and semi-annual basis. Distributions are therefore only paid after declaration by the Responsible Entity. If a distribution is not paid in full, the distribution does not accumulate and may never be paid on the PSPS. If a distribution is not paid in full, PaperlinX Limited will be prohibited from paying dividends or making other distributions on any class of its share capital until such time as scheduled distributions are paid by the PaperlinX SPS Trust. The distribution rate is the 180 day bank bill swap rate plus a margin of 2.40 per cent. The first periodic remarketing date is 30 June 2012 and provides PaperlinX SPS Trust with the following options:

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

	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 32. Minority interest				
Issued capital	0.1	0.1	–	–
Total minority interest	0.1	0.1	–	–
Note 33. Capital expenditure commitments				
Capital expenditure contracted but not provided for:				
• Not later than one year	50.2	101.2	–	–
• Later than one year but not later than five years	–	0.3	–	–
Total capital expenditure commitments	50.2	101.5	–	–
Note 34. Lease commitments				
Finance lease liability				
Lease expenditure contracted and provided for:				
• Not later than one year	0.1	0.1	–	–
• Later than one year but not later than five years	0.1	0.3	–	–
Minimum lease payments	0.2	0.4	–	–
Less: Future finance charges	–	–	–	–
Total finance lease liability	0.2	0.4	–	–
Current lease liabilities – refer Note 18	0.1	0.3	–	–
Non-current lease liabilities – refer Note 23	0.1	0.1	–	–
Total finance lease liability	0.2	0.4	–	–

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

	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Operating lease commitments				
Lease expenditure contracted but not provided for:				
• Not later than one year	94.5	89.5	–	–
• Later than one year but not later than five years	224.4	228.4	–	–
• Later than five years	150.6	154.4	–	–
Total operating lease commitments	469.5	472.3	–	–

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

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

	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 35. Other expenditure commitments				
Expenditure contracted but not provided for covering supplies and services to be provided:				
• Not later than one year	71.9	41.9	–	–
• Later than one year but not later than five years	234.4	106.8	–	–
• Later than five years	318.3	159.2	–	–
Total other expenditure commitments	624.6	307.9	–	–

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	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 36. Contingent liabilities				
Contingent liabilities arising in respect of related bodies corporate:				
• Bank guarantees (government)	–	–	8.9	8.9
• Bank guarantees (trade)	12.0	12.5	4.2	4.1
• Loan guarantees (subsidiaries)	–	–	404.8	459.4
• Payment guarantees (external)	40.4	–	40.4	–
Total contingent liabilities	52.4	12.5	458.3	472.4

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

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

The subsidiary loan guarantees of \$404.8 million (2007: \$459.4 million) relate to the following items:

- \$58.8 million (2007: \$66.7 million), being USD56.0 million Senior Unsecured Notes issued by subsidiary companies.
- \$64.6 million (2007: \$72.7 million), being CAD61.0 million (2007: CAD64.0 million) Senior Unsecured Notes issued by subsidiary companies.
- \$68.2 million (2007: \$77.4 million), being USD65.0 million Senior Unsecured Notes issued by subsidiary companies.
- \$213.1 million (2007: \$242.6 million), being GBP101.2 million Senior Unsecured Notes issued by subsidiary companies.

The external payment guarantee of \$40.4 million relates to the future payment obligations of an external party in relation to the financing of the Woodyard at the Maryvale Mill in Victoria.

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

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

	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Note 37. Auditors' remuneration				
Amounts received or due and receivable for audit services by:				
• Auditors of the Company	4.533	4.660	–	–
Amounts received or due and receivable for other services by:				
• Auditors of the Company	–	–	–	–
Other assurance services	0.101	0.085	–	–
Taxation services	0.180	0.206	–	–
Other services	0.098	0.197	–	–
Total auditors' remuneration	4.912	5.148	–	–

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

Note 38. Key management personnel

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

1 Non-executive Directors

D E Meiklejohn	Chairman
H Boon	Director (appointed 5 May 2008)
A F Guy	Director
J W Hall	Director
B J Jackson	Director
N L Scheinkestel	Director
D A Walsh	Director (retired 31 December 2007)
L J Yelland	Director

2 Executive Directors

T P Park	Managing Director & Chief Executive Officer
D M Lamont	Chief Financial Officer (appointed as an Executive Director 21 February 2008 and will resign effective 26 September 2008)

3 Executives

C B Creighton	President North America
E de Voogd	Chief Executive Officer PaperlinX Europe
M J Fothergill	Executive General Manager Merchandising Australia, New Zealand and Asia
J A Henneberry	Executive General Manager Australian Paper
R F O'Brien	Executive General Manager Human Resources

(a) Key management personnel compensation for the period is as follows:

	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$	2007 \$	2008 \$	2007 \$
Short-term benefits	6,397,989	9,461,239	–	–
Post-employment benefits	921,109	1,103,795	–	–
Equity plans	–	1,091,351	–	–
Termination benefits	286,383	172,500	–	–
	7,605,481	11,828,885	–	–

(b) Individual Directors and Executives compensation contracts

Disclosures of remuneration policies, service contracts and details of remuneration, are included in the Remuneration Report as set out on pages 30 to 37 of the Directors' Report.

(c) Maximum potential shares – Executive Directors and Executives

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

	MAXIMUM POTENTIAL ENTITLEMENT		
	At 30 June 2007	Movement ⁽¹⁾	At 30 June 2008
Executive Directors			
T P Park	755,570	422,730	1,178,300
D M Lamont	110,140	115,430	225,570
Executives			
C B Creighton	174,590	700	175,290
E de Voogd	186,560	(5,560)	181,000
M J Fothergill	162,050	3,810	165,860
J A Henneberry	73,110	77,210	150,320
R F O'Brien	143,900	(1,080)	142,820

In the year ended 30 June 2008, none of those shares were vested to any Executive Director or Executive.

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Note 38. Key management personnel (continued)

	MAXIMUM POTENTIAL ENTITLEMENT		
	At 30 June 2006	Movement ⁽¹⁾	At 30 June 2007
Executive Directors			
T P Park	1,080,645	(325,075)	755,570
Executives			
C B Creighton	134,160	40,430	174,590
D M Lamont	–	110,140	110,140
E de Voogd	148,530	38,030	186,560
M J Fothergill	130,870	31,180	162,050
D M Goldthorp ⁽²⁾	142,400	(142,400)	–
J A Henneberry	–	73,110	73,110
R F O'Brien	115,890	28,010	143,900

(1) Includes performance shares/rights that have lapsed as at the respective balance date.

(2) Employment ceased 1 July 2006.

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

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

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

	At 30 June 2007 \$	Repayments \$	At 30 June 2008 \$
Executive Directors	–	–	–
Executives (number included at the end of the year 1)	27,140	(1,986)	25,154

	At 30 June 2006 \$	Repayments \$	At 30 June 2007 \$
Executive Directors (number included at the end of the year 0)	–	–	–
Executives (number included at the end of the year 1)	29,549	(2,409)	27,140

Note 38. Key management personnel (continued)**(e) Shareholdings of key management personnel**

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

	At 1 July 2007	Purchased	Ceased Employment	Earned as Remun- eration	Exercise of Options	At 30 June 2008	Shares Held Nominally at 30 June 2008
Directors							
D E Meiklejohn	97,612	20,000	–	–	–	117,612	–
T P Park	100,000	200,000	–	–	–	300,000	–
D M Lamont ⁽¹⁾	–	15,000	–	–	–	15,000	–
A F Guy	80,048	(287)	–	–	–	79,761	–
J W Hall	7,000	–	–	–	–	7,000	–
B J Jackson	40,980	–	–	–	–	40,980	–
N L Scheinkestel	38,932	1,259	–	–	–	40,191	–
D A Walsh ⁽²⁾	30,898	–	(30,898)	–	–	–	–
L J Yelland	35,460	9,963	–	–	–	45,423	–
H Boon ⁽³⁾	–	15,000	–	–	–	15,000	–
Executives							
C B Creighton	76,700	–	–	–	–	76,700	–
E de Voogd	–	–	–	–	–	–	–
M J Fothergill	–	–	–	–	–	–	–
J A Henneberry	–	–	–	–	–	–	–
R F O'Brien	5,000	224	–	–	–	5,224	–
Total:	512,630	261,159	(30,898)	–	–	742,891	–

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

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

(1) Appointed as Executive Director on 21 February 2008. Has resigned effective 26 September 2008.

(2) Ceased to be a Director on 31 December 2007.

(3) Appointed 5 May 2008.

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Note 38. Key management personnel (continued)

(f) Options holdings of key management personnel

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

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

	MAXIMUM POTENTIAL ENTITLEMENT			
	At 30 June 2007	Granted as compensation (1)(2)	At 30 June 2008	Vested and Exercisable at 30 June 2008
Executive Directors				
T P Park	200,000	549,120	749,120	–
D M Lamont ⁽³⁾	223,430	62,320	285,750	–
Executives				
C B Creighton	182,690	(8,820)	173,870	66,300
E de Voogd	274,380	(13,460)	260,920	150,000
M J Fothergill	158,030	(9,150)	148,880	50,000
J A Henneberry	198,740	41,470	240,210	–
R F O'Brien	245,940	(10,280)	235,660	150,000

	MAXIMUM POTENTIAL ENTITLEMENT			
	At 30 June 2006	Granted as compensation (1)(2)	At 30 June 2007	Vested and Exercisable at 30 June 2007
Executive Directors				
T P Park	200,000	–	200,000	–
Executives				
C B Creighton	155,740	26,950	182,690	66,300
E de Voogd	249,030	25,350	274,380	150,000
M J Fothergill	137,250	20,780	158,030	50,000
D M Goldthorp	269,940	(269,940) ⁽⁴⁾	–	–
J A Henneberry	–	198,740	198,740	–
D M Lamont	150,000	73,430	223,430	–
R F O'Brien	227,260	18,680	245,940	150,000

(1) The details of options granted during the year are detailed in Note 28.

(2) Includes performance options that have lapsed as at 30 June.

(3) Includes 150,000 options issued prior to becoming a Director.

(4) Lapsed 94,940 on termination of employment on 1 July 2006 and subsequently exercised 175,000.

Note 39. Employee share options and plans

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

The ESOP includes the following performance plans:

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

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

Performance Share Plan

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

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

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

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

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

The shares purchased have an aggregate fair value of \$3.4 million at 30 June 2008 (2007: \$7.4 million).

The reconciliation of the number of shares purchased by the plan to date that may be earned as equity compensation by employees, including executive Directors and executives, over a 3 year period subject to the satisfaction of specified performance criteria is as follows:

	At 30 June 2007	Distributed on	Purchased	At 30 June 2008
Balance	1,990,133	–	–	1,990,133

None of the shares held by the trust at 30 June 2008 have vested.

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

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

Performance Rights Plan

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

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

- to receive a maximum of 2,037,580 options over 2,037,580 shares at an exercise price of \$Nil (grant date 24 August 2007). The fair value at the date of the grant was \$2.64 per option.
- to receive a maximum of 477,430 options over 477,430 shares at an exercise price of \$Nil (grant date 27 August 2007). The fair value at the grant date was \$3.19 per option.
- to receive a maximum of 313,160 options over 313,160 shares at an exercise price of \$Nil (grant date 30 November 2007). The fair value at the grant date was \$1.54 per option.
- to receive a maximum of 500,000 options over 500,000 shares at an exercise price of \$Nil (grant date 30 November 2007). The fair value at the date of the grant was \$1.31 per option.

At 30 June 2008, the aggregate issues of rights are:

- to receive a maximum of 313,160 options over 313,160 shares at an exercise price of \$Nil (grant date 30 November 2007). The fair value at the grant date was \$1.54 per option.
- to receive a maximum of 500,000 options over 500,000 shares at an exercise price of \$Nil (grant date 30 November 2007). The fair value at the date of the grant was \$1.31 per option.
- to receive a maximum of 461,910 options over 461,910 shares at an exercise price of \$Nil (grant date 27 August 2007). The fair value at the date of the grant was \$3.19 per option.
- to receive a maximum of 1,941,640 options over 1,941,640 shares at an exercise price of \$Nil (grant date 24 August 2007). The fair value at the date of the offer was \$2.64 per option.
- to receive a maximum of 2,444,590 options over 2,444,590 shares at an exercise price of \$Nil (grant date 27 August 2006). The fair value at the date of the grant was \$2.52 per option.
- to receive a maximum of 2,043,430 options over 2,043,430 shares at an exercise price of \$Nil (grant date 22 August 2005). The fair value at the date of the grant was \$2.24 per option.

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Note 39. Employee share options and plans (continued)

In the event that the specified performance criteria are not fully achieved, the number of options will be proportionally reduced. The details of the above offers which have been made to executive Directors of PaperlinX Limited and Executives are set out in Note 38.

Performance Option Plan

PaperlinX Limited has issued to certain senior management options at a fixed exercise price at a date in the future subject to specific performance criteria being achieved. If exercised, the exercise price is recognised in equity. The options are independently valued at the grant date. These values have been determined using an appropriate valuation model (either Monte Carlo simulation model or Black-Scholes formula, 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 per cent to 28 per cent); the dividend yield (range of 3 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 profit over the applicable measurement period.

During the year, the following issues were made:

- to receive a maximum of 958,110 options over 958,110 shares at an exercise price of \$3.80 (grant date 24 August 2007). The fair value at the date of the grant was \$1.05 per option.
- to receive a maximum of 149,120 options over 149,120 shares at an exercise price of \$3.80 (grant date 30 November 2007). The fair value at the date of grant was \$0.47 per option.
- to receive a maximum of 500,00 options over 500,000 shares at an exercise price of \$3.80 (grant date 30 November 2007). The fair value at the date of grant was \$1.31 per option.

At 30 June 2008, aggregate issues are:

- to receive a maximum of 149,120 options over 149,120 shares at an exercise price of \$3.80 (grant date 30 November 2007). The fair value at the date of grant was \$0.47 per option.
- to receive a maximum of 500,00 options over 500,000 shares at an exercise price of \$3.80 (grant date 30 November 2007). The fair value at the date of grant was \$1.31 per option.
- to receive a maximum of 806,120 options over 806,120 shares at an exercise price of \$2.77 (grant date 2 September 2005). The fair value at the date of the offer was \$0.60 per option.
- to receive a maximum of 932,070 options over 932,070 shares at an exercise price of \$3.80 (grant date 24 August 2007). The fair value at the date of the grant was \$1.05 per option.
- to receive a maximum of 1,062,220 options over 1,062,220 shares at an exercise price of \$3.11 (grant date 5 September 2006). The fair value at the date of the grant was \$0.94 per option.

In the event that the specified performance criteria are not fully achieved, the number of options will be proportionally reduced. The details of the above offers which have been made to Executive Directors of PaperlinX Limited and Executives are set out in Note 38.

Note 40. Segment reporting

Business segments

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

Segment	Description of operations
Paper Merchanting	International paper merchant and paper trader supplying the printing and publishing industry and office supplies.
Paper Manufacturing	Manufacture of communication papers, including office papers, graphic papers, converting papers and other speciality and coated papers. Manufacture of packaging papers and industrial papers.
Corporate	Corporate operations.

Note 40. Segment reporting (continued)

	CONSOLIDATED			
	Segment result ⁽³⁾ \$m	Segment revenue \$m	Segment assets \$m	Segment liabilities \$m
For the year ended 30 June 2008				
Business segments				
Paper Merchants				
• Europe	139.0	4,573.1	2,019.5	812.8
• North America	32.4	1,275.0	457.5	163.7
• Australia, New Zealand, Asia	21.0	1,005.0	444.0	136.1
• Inter-segment sales ⁽²⁾	–	(37.6)	–	–
	192.4	6,815.5	2,921.0	1,112.6
Paper Manufacturing	(1.9)	973.0	1,353.7	242.0
Corporate	(30.1)	–	35.3	30.6
Profit before net interest and tax	160.4			
Net interest ⁽¹⁾	(60.0)			
Profit before tax	100.4			
Tax expense ⁽¹⁾	(28.1)			
Profit for the period	72.3			
Inter-segment sales ⁽²⁾		(303.4)		
Unallocated assets (deferred tax balances)			67.7	
Unallocated liabilities ⁽⁶⁾				1,067.9
Total	72.3	7,485.1	4,377.7	2,453.1

	CONSOLIDATED			
	Segment result ⁽³⁾ \$m	Segment revenue \$m	Segment assets \$m	Segment liabilities \$m
For the year ended 30 June 2007				
Business segments				
Paper Merchants				
• Europe	139.9	4,780.2	2,148.1	814.1
• North America	50.3	1,355.1	502.0	181.2
• Australia, New Zealand, Asia	13.8	1,033.3	461.9	162.9
• Inter-segment sales ⁽²⁾	–	(34.4)	–	–
	204.0	7,134.2	3,112.0	1,158.2
• Discontinued Operations	1.2	25.2	–	–
	205.2	7,159.4	3,112.0	1,158.2
Paper Manufacturing	10.2	1,016.3	1,148.7	229.1
Corporate	(29.9)	–	128.8	35.4
Profit before net interest and tax	185.5			
Net interest ⁽¹⁾	(70.9)			
Profit before tax	114.6			
Tax expense ⁽¹⁾	(34.4)			
Profit for the period	80.2			
Inter-segment sales ⁽²⁾		(336.4)		
Unallocated assets (deferred tax balances)			52.9	
Unallocated liabilities ⁽⁶⁾				1,114.6
Total	80.2	7,839.3	4,442.4	2,537.3

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Note 40. Segment reporting (continued)

	CONSOLIDATED		
	Depreciation & amortisation \$m	Non-cash items ⁽⁴⁾ \$m	Capital expenditure ⁽⁵⁾ \$m
For the year ended 30 June 2008			
Business segments			
Paper Merchancing			
• Europe	24.1	(40.6)	57.0
• North America	5.4	3.4	14.1
• Australia, New Zealand, Asia	3.0	2.5	4.4
	32.5	(34.7)	75.5
Paper Manufacturing	49.2	6.9	279.9
Corporate	12.2	11.8	0.9
Total	93.9	(16.0)	356.3

	CONSOLIDATED		
	Depreciation & amortisation \$m	Non-cash items ⁽⁴⁾ \$m	Capital expenditure ⁽⁵⁾ \$m
For the year ended 30 June 2007			
Business segments			
Paper Merchancing			
• Europe	28.8	(14.4)	46.3
• North America	5.1	2.8	9.3
• Australia, New Zealand, Asia	3.2	4.2	1.7
	37.1	(7.4)	57.3
Paper Manufacturing	53.4	15.5	167.0
Corporate	10.5	2.7	1.4
Total	101.0	10.8	225.7

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

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

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

(4) The non-cash items above comprise the following items:

	2008 \$m	2007 \$m
• Provisions charged – refer Note 5(b)	22.1	20.1
• Net profit on disposal of property, plant and equipment – refer Note 3	(38.0)	(8.1)
• Impact of unrealised (profit)/loss in inventories – refer Statements of Cash Flows	(0.1)	(1.2)
	(16.0)	10.8

(5) Capital Expenditure above comprises the following items:

• Acquisition of property, plant, equipment and intangibles – refer Statements of Cash Flows	326.0	177.4
• Capitalised interest	18.8	4.2
• Movement in accruals	(6.7)	25.1
	338.1	206.7
• Goodwill in relation to acquisitions of subsidiaries – refer Note 42	7.6	14.4
• Other intangibles acquired on acquisition of subsidiaries – refer Note 42	2.8	0.2
• Property, plant and equipment acquired on acquisition of subsidiaries – refer Note 42	7.8	4.4
	356.3	225.7

(6) The unallocated segment liabilities comprise the following items:

• Current loans and borrowing – refer Note 18	293.1	494.9
• Current tax liabilities – refer Note 19	0.4	5.1
• Non-current loans and borrowing – refer Note 23	723.6	565.7
• Non-current deferred tax liabilities – refer Note 24	50.8	48.9
	1,067.9	1,114.6

Note 41. Employee retirement benefit obligations

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

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

Company sponsored plans

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

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

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

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

Government plans

Employer companies participate in government plans, on behalf of certain employees, which provide pension benefits. There exists a legally enforceable obligation on employer companies to contribute as required by legislation.

Industry/union plans

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

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

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

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Note 41. Employee retirement benefit obligations (continued)

	CONSOLIDATED		PAPERLIX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
The amounts recognised in the balance sheet are determined as follows:				
Present value of the defined benefit obligation	521.6	528.3	–	–
Less fair value of defined benefit plan assets	(439.1)	(498.3)	–	–
Add limitation on recoupment of net surplus positions	2.5	8.4	–	–
Net liability in the balance sheet	85.0	38.4	–	–
The net liability in the balance sheet is disclosed as follows:				
Liabilities	(87.8)	(49.7)	–	–
Assets	2.8	11.3	–	–
Net liability in the balance sheet	(85.0)	(38.4)	–	–
Changes in the present value of the defined benefit obligations are as follows:				
Balance at beginning of year	528.3	604.0	–	–
Current service costs	12.7	31.9	–	–
Interest on obligation	27.8	32.4	–	–
Past service costs	0.2	–	–	–
Actuarial (gains)/losses on defined benefit obligations	13.7	(41.9)	–	–
Contributions by member	2.3	4.3	–	–
Liabilities assumed in a business combination	–	4.2	–	–
Transfer out to external pension provider	–	(36.2)	–	–
Curtailement gains	–	(13.8)	–	–
Exchange differences on foreign plans	(35.8)	(29.8)	–	–
Benefits paid	(27.6)	(26.8)	–	–
Balance at end of year	521.6	528.3	–	–
Changes in the fair value of plan assets are as follows:				
Balance at beginning of year	498.3	517.8	–	–
Expected return on plan assets	33.3	35.8	–	–
Actuarial gains/(losses) on fair value of plan assets	(54.3)	(5.2)	–	–
Contributions by employer	18.3	22.9	–	–
Contributions by member	2.3	4.3	–	–
Assets acquired in a business combination	–	–	–	–
Transfer out to external pension provider	–	(26.3)	–	–
Exchange differences on foreign plans	(33.9)	(26.1)	–	–
Benefits paid	(24.9)	(24.9)	–	–
Closing fair value of plan assets	439.1	498.3	–	–
Less limitation on recoupment of net surplus position	(2.5)	(8.4)	–	–
Balance at end of year	436.6	489.9	–	–
Expense recognised in the income statement:				
Current service costs	13.4	31.9	–	–
Interest on obligation	27.8	32.4	–	–
Past service costs	0.2	–	–	–
Expected return on plan assets	(33.3)	(35.8)	–	–
Curtailement gains	–	(13.8)	–	–
	8.1	14.7	–	–
Amount recognised in the statement of recognised income and expense:				
Actuarial gains/(losses) on defined benefit obligations	(13.7)	41.9	–	–
Actuarial gains/(losses) on fair value of plan assets	(54.3)	(5.2)	–	–
Movement in limitation on recoupment of net surplus position	5.9	(6.8)	–	–
	(62.1)	29.9	–	–
Less tax effect, where applicable	18.3	(9.3)	–	–
	(43.8)	20.6	–	–

Note 41. Employee retirement benefit obligations (continued)**Principal actuarial assumptions:**

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

	CONSOLIDATED		PAPERLINX LIMITED	
	2008	2007	2008	2007
Discount rate	4% to 6.3%	4.25% to 5.9%	–	–
Salary increase rate	1% to 4.2%	1% to 4.3%	–	–
Inflation	2% to 3.8%	2% to 3.3%	–	–
Expected asset return	5.5% to 8%	5.2% to 8%	–	–

Plans as at 30 June 2008	Plan assets \$m	Defined benefit obligation \$m	Surplus/ (deficit) \$m
• PaperlinX Superannuation Fund (Australia) ⁽¹⁾	61.5	58.7	2.8
• PaperlinX New Zealand Superannuation Fund (New Zealand)	0.4	0.4	–
• Coast Paper Pension Plan for Employees (Canada)	7.4	7.3	0.1
• Coast Paper Pension Plan for Executive Employees (Canada)	6.2	8.2	(2.0)
• Pension Plan for Employees of PaperlinX Canada (Canada)	50.8	51.2	(0.4)
• PaperlinX Pensioenfond (Netherlands)	62.6	62.6	–
• Pension Plan for Buhrmann Ubbens employees with Nationale Nederlanden (Netherlands)	19.7	30.5	(10.8)
• The Howard Smith Paper Group Pension Scheme (UK)	50.1	62.4	(12.3)
• Robert Horne Group Pension Scheme (UK)	171.0	211.1	(40.1)
• Robert Horne Paper (Ireland) Ltd Pension & Life Assurance Scheme (Ireland)	6.9	8.1	(1.2)
• Other post-employment pension plans funded directly by employer companies	–	21.1	(21.1)
	436.6	521.6	(85.0)

(1) Combined into one fund during the year.

Plans as at 30 June 2007	Plan assets \$m	Defined benefit obligation \$m	Surplus/ (deficit) \$m
• PaperlinX Superannuation Fund (Australia) – Fund No. 1 ⁽¹⁾	37.8	34.5	3.3
• PaperlinX Superannuation Fund (Australia) – Fund No. 2 ⁽¹⁾	30.5	25.0	5.5
• PaperlinX New Zealand Superannuation Fund (New Zealand)	0.9	0.9	–
• Coast Paper Pension Plan for Employees (Canada)	8.2	8.4	(0.2)
• Coast Paper Pension Plan for Executive Employees (Canada)	7.9	9.8	(1.9)
• Pension Plan for Employees of PaperlinX Canada (Canada)	58.6	56.0	2.6
• PaperlinX Pensioenfond (Netherlands)	60.2	60.2	–
• Pension Plan for Buhrmann Ubbens employees with Nationale Nederlanden (Netherlands)	18.9	34.2	(15.3)
• The Howard Smith Paper Group Pension Scheme (UK)	59.5	61.0	(1.5)
• Robert Horne Group Pension Scheme (UK)	198.9	206.1	(7.2)
• Robert Horne Paper (Ireland) Ltd Pension & Life Assurance Scheme (Ireland)	8.5	9.0	(0.5)
• Other post-employment pension plans funded directly by employer companies	–	23.2	(23.2)
	489.9	528.3	(38.4)

(1) Combined into one fund during year ended 30 June 2008.

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Note 42. PaperlinX's subsidiaries

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

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

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

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

Income statement	2008 \$m	2007 \$m
Profit/(loss) before tax	119.6	43.1
Tax (expense)/benefit	(3.2)	(1.6)
Profit/(loss) for the year	116.4	41.5
Accumulated losses at beginning of year	(193.6)	(197.8)
Employee share options and rights	4.7	1.6
Actuarial (losses)/gains on defined benefit plans	(4.4)	3.6
Dividends paid	(40.5)	(42.5)
Accumulated losses at end of year	(117.4)	(193.6)

Note 42. PaperlinX's subsidiaries (continued)

Balance sheet	2008 \$m	2007 \$m
Current assets		
Cash and cash equivalents	43.9	122.1
Trade and other receivables	237.4	261.6
Inventories	266.0	272.4
Total current assets	547.3	656.1
Non-current assets		
Receivables	2.7	8.7
Investments	726.1	684.1
Property, plant and equipment	1,052.5	824.3
Intangible assets	152.4	161.3
Deferred tax assets	30.9	32.3
Total non-current assets	1,964.6	1,710.7
Total assets	2,511.9	2,366.8
Current liabilities		
Trade and other payables	256.9	269.7
Loans and borrowings	135.6	82.0
Income tax payable	2.1	6.1
Employee benefits	43.1	42.4
Provisions	7.4	9.6
Total current liabilities	445.1	409.8
Non-current liabilities		
Payables	0.3	–
Loans and borrowings	423.6	405.5
Deferred tax liabilities	26.3	22.8
Employee benefits	34.8	34.5
Provisions	2.4	4.0
Deferred income	1.6	0.5
Total non-current liabilities	489.0	467.3
Total liabilities	934.1	877.1
Net assets	1,577.8	1,489.7
Equity		
Issued capital	1,713.4	1,701.6
Reserves	(9.7)	(9.7)
Accumulated losses	(117.4)	(193.6)
	1,586.3	1,498.3
PaperlinX step-up preference securities issue costs	(8.5)	(8.6)
Total equity	1,577.8	1,489.7

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Note 42. PaperlinX's subsidiaries (continued)

During the current year the consolidated entity purchased the following entities/businesses:

- iMedia, effective 1 October 2007
- Parkside Packaging Ltd, effective 1 July 2007
- Donnington Packaging Supplies Ltd effective 31 December 2007

During the prior year, the consolidated entity purchased the following entity/business:

- Antalis SpA, effective 1 May 2007

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

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

	CONSOLIDATED	
	2008	2007
	\$m	\$m
iMedia		
• Consideration paid in cash	2.2	–
Parkside Packaging Ltd		
• Consideration paid in cash	13.4	–
• Consideration accrued	1.4	–
	14.8	–
Donnington Packaging Supplies Ltd		
• Consideration accrued	4.1	–
Antalis SpA		
• Consideration paid in cash	0.6	38.4
• Consideration accrued	2.5	–
	3.1	38.4
Total	24.2	38.4
The consideration paid comprises the following:		
• Consideration paid in cash	16.2	38.4
• Consideration accrued	8.0	–
	24.2	38.4
Net asset acquired:		
Current Assets		
Cash and cash equivalents	2.7	14.6
Trade and other receivables	6.6	103.3
Inventories	2.4	32.9
Non-Current Assets		
Receivables	–	0.2
Property, plant and equipment	7.8	4.4
Intangible assets – other	2.8	0.2
Deferred tax assets	0.9	–
Total Assets	23.2	155.6
Current Liabilities		
Trade and other payables	(4.8)	(103.5)
Loans and borrowings	–	(18.1)
Income tax payable	(0.6)	(0.7)
Provisions	–	(2.1)
Non-Current Liabilities		
Other payables	(0.1)	(7.2)
Provisions	(1.1)	–
Employee benefits	–	–
Total Liabilities	(6.6)	(131.6)
Goodwill on acquisition ⁽¹⁾	7.6	14.4
Total net assets acquired⁽²⁾	24.2	38.4

(1) Goodwill arises as assets acquired do not meet the criteria of recognition as a separately identifiable intangible asset at the date of the acquisition.

(2) No material fair value adjustments were booked on acquisition.

Note 42. PaperlinX's subsidiaries (continued)

	CONSOLIDATED	
	2008 \$m	2007 \$m
Cash flow impact:		
Cash paid	16.2	38.4
Cash settlement of amounts accrued in prior period	4.3	11.5
	20.5	49.9
Less cash acquired	(2.7)	(14.6)
Cash flow impact – per Statement of Cash Flows	17.8	35.3

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

	CONSOLIDATED	
	2008 \$m	2007 \$m
iMedia		
• Revenue	6.7	–
• Profit after tax	0.1	–
Parkside Packaging Ltd		
• Revenue	15.5	–
• Profit after tax	1.1	–
Donnington Packaging Supplies Ltd		
• Revenue	8.3	–
• Profit after tax	0.4	–
Antalis SpA		
• Revenue	–	279.6
• Loss after tax	–	(1.4)

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Note 42. PaperlinX's subsidiaries (continued)

During the prior year the consolidated entity disposed of the following entity:

- Axelium SAS, effective 1 May 2007

The operating result of this entity is not included in the consolidated profit from its effective disposal date.

The consideration received and the net assets at the date of disposal are set out in the table below:

	CONSOLIDATED	
	2008	2007
	\$m	\$m
Axelium SAS		
• Consideration received in cash	–	37.3
	–	37.3
Net asset disposed:		
Current Assets		
Cash and cash equivalents	–	5.3
Trade and other receivables	–	45.6
Inventories	–	11.1
Non-Current Assets		
Receivables	–	0.5
Property, plant and equipment	–	1.3
Intangible assets – other	–	0.2
Total Assets	–	64.0
Current Liabilities		
Trade and other payables	–	(18.0)
Loans and borrowings	–	(6.3)
Income tax payable	–	–
Non-Current Liabilities		
Other payables	–	(0.7)
Provisions	–	(1.7)
Employee benefits	–	–
Total Liabilities	–	(26.7)
Total net assets disposed	–	37.3

	CONSOLIDATED	
	2008	2007
	\$m	\$m
Cash flow impact:		
Cash received	–	37.3
Cash settlement of amounts accrued in prior period	–	–
	–	37.3
Less cash disposed	–	(5.3)
Cash flow impact – per Statement of Cash Flows	–	32.0

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

	CONSOLIDATED	
	2008	2007
	\$m	\$m
Axelium SAS		
• Revenue	–	181.4
• Profit after tax	–	(6.9)

Note 42. PaperlinX's subsidiaries (continued)

	Note	Country of Incorporation	Consolidated Subsidiary Interest	
			2008	2007
Paper Australia Pty Ltd	(1)	Australia	100%	100%
Australian 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%
B J Ball Pty Ltd	(1)	Australia	100%	100%
Paper Associates Pty Ltd	(1)	Australia	100%	100%
PPX Australia LP		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%
21st Century Paper Ltd	(5)	United Kingdom	100%	100%
Powell & Heilbron (Paper) Ltd	(5)	United Kingdom	100%	100%
Rothera & Brereton (Sheffield) Ltd	(5)	United Kingdom	100%	100%
Michael Jackson (Paper) Ltd	(5)	United Kingdom	100%	100%
Grove Paper Company Ltd	(5)	United Kingdom	100%	100%
Rothera & Brereton Ltd	(5)	United Kingdom	100%	100%
Paramount Paper Sales (London) Ltd	(5)	United Kingdom	100%	100%
Lagan Papers Ltd	(5)	United Kingdom	100%	100%
Dixon & Roe (Birmingham) Ltd	(5)	United Kingdom	100%	100%
Alba Paper Ltd	(5)	United Kingdom	100%	100%
Mason's Paper Holdings Ltd	(5)	United Kingdom	100%	100%
The Mason's Paper Co Ltd	(5)	United Kingdom	100%	100%
Southern Paper Ltd	(5)	United Kingdom	100%	100%
Southern Paper co (Brighton)	(5)	United Kingdom	100%	100%
Donald Murray (Paper) Ltd	(5)	United Kingdom	100%	100%
Donald Murray Paper (Bristol) Ltd	(5)	United Kingdom	100%	100%
Donald Murray Paper (Glasgow) Ltd	(5)	United Kingdom	100%	100%
Donald Murray Paper (Newcastle) Ltd	(5)	United Kingdom	100%	100%
Dixon & Roe Group Ltd	(5)	United Kingdom	100%	100%
Dixon & Roe Ltd	(5)	United Kingdom	100%	100%
Dixon & Roe (Herts) Ltd	(5)	United Kingdom	100%	100%
The Paper Company No. 2 Ltd	(5)	United Kingdom	100%	100%
Hopefair Ltd	(5)	United Kingdom	100%	100%
Jarvis Paper Sales Ltd	(5)	United Kingdom	100%	100%
Reel Papers Ltd	(5)	United Kingdom	100%	100%
Somerset Paper Sales Ltd	(5)	United Kingdom	100%	100%
Parkside Packaging Ltd	(2)	United Kingdom	100%	–
Donnington Packaging Supplies Ltd	(2)	United Kingdom	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	(7)	Netherlands	100%	–
PaperlinX Netherlands Holdings BV		Netherlands	100%	100%
BuhmannUbbens BV		Netherlands	100%	100%

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Note 42. PaperlinX's subsidiaries (continued)

	Note	Country of Incorporation	Consolidated Subsidiary Interest	
			2008	2007
VRG Insurances BV		Netherlands	100%	100%
Brabantse Poort BV		Netherlands	100%	100%
Rhosili Amsterdam CV		Netherlands	100%	100%
PaperlinX Netherlands BV		Netherlands	100%	100%
Proost en Brandt BV		Netherlands	100%	100%
Velpa Enveloppen BV		Netherlands	100%	100%
Polyedra SpA	(4)	Italy	100%	100%
Carthargo Srl	(7)	Italy	100%	–
Josef Frohlen Papiergrosshandlung – WilliReddeman Import – Export GmbH		Germany	100%	100%
PaperlinX Austria GmbH		Austria	100%	100%
PaperNet GmbH		Austria	100%	100%
PaperNet GmbH & Co KG		Austria	100%	100%
Adria Papir doo		Croatia	100%	100%
Budapest Papir Kft		Hungary	100%	100%
Tulipel – Comercio de Paperis Lda		Portugal	100%	100%
Alpe Papir Trgovina na Veliko doo		Slovenia	100%	100%
Dunav Papir D.o.o.		Serbia	100%	100%
Bratislavská Papierenská Spoločnosť		Slovakia	100%	100%
Ospap Velkoobchod Papiřem AS		Czech Republic	100%	100%
Multiexpo Spol sro		Czech Republic	100%	100%
PaperlinX Denmark ApS		Denmark	100%	100%
PaperlinX Scandinavia AS		Denmark	100%	100%
Epacar NV		Belgium	100%	100%
Mercator Papier Spzoo		Poland	100%	100%
PaperNet Oy		Finland	100%	100%
Union Papelera Merchanting SL		Spain	100%	100%
Interpapier AG		Switzerland	100%	100%
The Howard Smith Paper Group Ltd		United Kingdom	100%	100%
Contract Paper Ltd		United Kingdom	100%	100%
Howard Smith Paper Ltd		United Kingdom	100%	100%
Precision Publishing Papers Ltd		United Kingdom	100%	100%
Savory Paper Ltd		United Kingdom	100%	100%
Trade Paper Ltd		United Kingdom	100%	100%
Howard Smith Paper (Scotland) Ltd		United Kingdom	100%	100%
The M6 Paper Group Ltd		United Kingdom	100%	100%
Thomas Papier Srl		France	100%	100%
Robert Horne UK Ltd		United Kingdom	100%	100%
Cogladle Ltd		United Kingdom	100%	100%
Robert Horne Pension Trustees Ltd		United Kingdom	100%	100%
Robert Horne Group Ltd		United Kingdom	100%	100%
Adhesive and Display Products Ltd		United Kingdom	100%	100%
Robert Horne Paper Company Ltd		United Kingdom	100%	100%
W Lunnon & Company Ltd		United Kingdom	100%	100%
Glenmore Lomond Paper Group Ltd		United Kingdom	100%	100%
Robert Horne Paper (Scotland) Ltd		United Kingdom	100%	100%
Pinnacle Film & Board Sales Ltd		United Kingdom	100%	100%
Sheet & Roll Converters Ltd		United Kingdom	100%	100%
Transplastix Ltd		United Kingdom	100%	100%
Williaam Cox Plastics Ltd		United Kingdom	100%	100%

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Note 42. PaperlinX's subsidiaries (continued)

	Note	Country of Incorporation	Consolidated Subsidiary Interest	
			2008	2007
PaperlinX North America Inc		USA	100%	100%
Kelly Paper Company		USA	100%	100%
Spicers Paper Inc		USA	100%	100%
Paper Products Marketing (USA) Inc		USA	100%	100%
PPX Investment Corp		Canada	100%	100%
PaperlinX Canada (2001) Corp		Canada	100%	100%
PaperlinX Canada Ltd		Canada	100%	100%
PPX Canada Corp		Canada	100%	100%
PaperlinX Holdings (Asia) Pte Ltd		Singapore	100%	100%
Spicers Paper (Asia) Trading Pte Ltd	(5)	Singapore	100%	100%
Norscan Forest Products Pte Ltd	(5)	Singapore	100%	100%
Spicers Paper (Singapore) Pte Ltd		Singapore	100%	100%
Paper Products Marketing (Singapore) Pte Ltd		Singapore	100%	100%
Winpac Paper Pte Ltd		Singapore	100%	100%
Spicers Paper (Hong Kong) Ltd		Hong Kong	100%	100%
Paper Products Marketing (Hong Kong) Ltd		Hong Kong	100%	100%
Spicers Paper (Malaysia) Sdn Bhd		Malaysia	100%	100%
Finwood Papers (Pty) Ltd		South Africa	100%	100%
Finwood Properties Pty Ltd		South Africa	100%	100%
PaperlinX Ireland Holdings Ltd		Ireland	100%	100%
PaperlinX Ireland Ltd	(3)	Ireland	100%	100%
Paper Sales Ltd		Ireland	100%	100%
Contact Papers Ltd		Ireland	100%	100%
Supreme Paper Company Ltd		Ireland	100%	100%
DM Paper Ltd		Ireland	100%	100%
PPX Insurance Ltd		New Zealand	100%	100%
Spicers Paper (NZ) Ltd		New Zealand	100%	100%
PaperlinX Investments Pty Ltd	(1)	Australia	100%	100%
Paper Products Marketing Pty Ltd	(1)	Australia	100%	100%
Paper Products Marketing (Taiwan) Ltd		Taiwan	80%	80%
PaperlinX (N.Z.) Ltd		New Zealand	100%	100%

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

(2) Subsidiaries acquired since 30 June 2007

(3) Subsidiaries renamed since 30 June 2007

PaperlinX Ireland Ltd (Robert Horne Paper Ireland Ltd)

(4) Subsidiaries merged since 30 June 2007

Antalis SpA was merged with Polyedra SpA

(5) Subsidiaries placed in liquidation

(6) Subsidiaries no longer controlled since 30 June 2007

Paperwealth Pty Ltd

PP CPC Pty Ltd

Empire Office Supplies Pty Ltd

PP ED Pty Ltd

Besmac Pty Ltd

VRG Paper (Malaysia) Sdn Bhd

Pacific Paper Marketing Australia Pty Ltd

(7) Subsidiaries established since 30 June 2007

**NOTES TO THE FINANCIAL
STATEMENTS CONTINUED
AS AT 30 JUNE 2008**

Note 43. Other related party disclosures

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

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

Directors of PaperlinX Limited

Directors of PaperlinX Limited, who held office during the year ended 30 June 2008 are:

D E Meiklejohn
T P Park
A F Guy
H Boon (appointed 5 May 2008)
J W Hall
B J Jackson
N L Scheinkestel
D A Walsh (retired 31 December 2007)
L J Yelland
D M Lamont (appointed as an Executive Director 21 February 2008)

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

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

Loans to Directors of PaperlinX Limited in Note 38 total \$Nil (2007: \$Nil).

Directors of subsidiaries

Loans to Directors of subsidiaries total \$28,000 (2007: \$31,000). This amount comprises employee share plan loans only.

During the year, employee share plan loan repayments totalling \$1,000 were received from:

C B Creighton, P N Jones, B A Smart, A J Kennedy, J R Peters, A O Knight, P G Holloway.

During the prior year, employee share plan loan repayments totalling \$2,000 were received from:

G C Butcher, C B Creighton, P N Jones, B A Smart, A J Kennedy, J R Peters, A O Knight, P G Holloway.

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

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

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

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

Note 44. Earnings per share

	Continuing \$m	Discontinued \$m	Total \$m
June 2008			
Profit for the period	72.3	–	72.3
Less PaperlinX step-up preference securities distributions	(26.7)	–	(26.7)
Less profit for the period attributable to minority interest	(0.1)	–	(0.1)
Profit for the period attributable to holders of ordinary shares of PaperlinX Limited	45.5	–	45.5
Weighted average number of shares – basic (millions)	450.8	–	450.8
Basic EPS (cents)	10.1	–	10.1
Weighted average number of shares – diluted (millions)	460.2	–	460.2
Diluted EPS (cents)	9.9	–	9.9
June 2007			
Profit for the period	79.6	0.6	80.2
Less PaperlinX step-up preference securities distributions	(6.6)	–	(6.6)
Less profit for the period attributable to minority interest	(0.1)	–	(0.1)
Profit for the period attributable to holders of ordinary shares of PaperlinX Limited	72.9	0.6	73.5
Weighted average number of shares – basic (millions)	447.6	447.6	447.6
Basic EPS (cents)	16.3	0.1	16.4
Weighted average number of shares – diluted (millions)	451.9	451.9	451.9
Diluted EPS (cents)	16.2	0.1	16.3

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

The options to purchase shares on issue during the years ended 30 June 2008 and 30 June 2007 have not been included in determining the basic earnings per share.

Note 44. Earnings per share (continued)

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

The options to purchase shares on issue during the years ended 30 June 2008 and 30 June 2007 have been included in determining the diluted earnings per share. The impact of this inclusion is the weighted average number of shares on issue increases by 9.4 million shares for the year ended 30 June 2008 (2007: 4.3 million shares).

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

No options have been issued since 30 June 2008 up to the date of this report.

No options have been exercised, resulting in the issuing of nil shares since 30 June 2008 up to the date of this report. In addition, 1,041,120 options have lapsed since 30 June 2008 including 806,120 performance options in respect of the plan period ended 30 June 2008.

Shares issued since 30 June 2008 up to the date of this report have not been included in the calculation of the basic earnings per share calculation at 30 June 2008.

Note 45. Financial risk management and financial instrument disclosures

Overview

The Company and consolidated entity have exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's and consolidated entity's exposure to each of the above risks, their 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 committee reports regularly to the Board of Directors on its activities. In addition, a Risk Management Committee that comprises management from various disciplines reviews and monitors in detail the risk management framework and reports its findings regularly to the Audit Committee.

Risk management policies and procedures are established to identify and analyse the risks faced by the Company and 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 Company's and consolidated entity's activities. The Company and consolidated entity, through their training and management standards and procedures, aim 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 Company's and 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 Company and consolidated entity. The Audit Committee is assisted in its oversight role by Internal Audit and by a dedicated Group 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.

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

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, aging 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. Customers that are graded as 'high risk' are placed on a restricted customer list, and future sales are made on a prepayment or cash only basis.

Goods are sold subject to retention of title clauses, 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 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED AS AT 30 JUNE 2008

Note 45. Financial risk management and financial instrument disclosures (continued)

Credit risk (continued)

Settlement risk

At year end included in current other receivables is an amount of \$44.5 million being an amount due from the purchaser of a property sold by the group prior to year end pursuant to a legally enforceable sale and leaseback arrangement. The cash settlement date is after the date of this report. Settlement risk attached to this transaction is assessed as being low based on available information including the ability of the buyer to obtain debt financing for the transaction.

Foreign exchange contracts

In order to control any exposure which may result from non-performance by counterparties, foreign exchange contracts are only entered into with major banks with a minimum long term rating of A+ by Standard & Poor's or A1 by Moody's. In addition, the Board must approve these banks for use, and specific internal guidelines have been established with regard to limits, dealing and settlement procedures.

The maximum credit risk exposure on foreign 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 consolidated entity are detailed in Note 36.

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 for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the consolidated entity maintains the following lines of credit:

- unsecured bank overdraft facility.
- unsecured overnight borrowing facility.

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 derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Audit Committee.

Currency risk

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), Canadian dollar (CAD) and United States dollar (USD). Primarily the transactions undertaken by the group entities are denominated in their functional currency.

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

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities 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 the 'net financing costs' (see Note 5).

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

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, USD and CAD. This provides an economic hedge and no derivatives are entered into.

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.

The consolidated entity does not enter into commodity contracts other than to meet expected usage and sale requirements.

Note 45. Financial risk management and financial instrument disclosures (continued)**Market risk** (continued)**Interest rate risk**

The consolidated entity adopts a practice of targeting approximately 40 per cent of its exposure to changes in interest rates on borrowings to be on a fixed rate basis. This is achieved by entering into fixed rate currency agreements and interest rate swaps. 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.

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 Group defines as net operating income divided by total shareholders' equity, excluding non-redeemable preference shares and minority interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with the 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 per cent; during the year ended 30 June 2008 the return was 5.7 per cent (2007: 7.0 per cent). In comparison the weighted average interest rate on interest-bearing borrowings (excluding liabilities with imputed interest) was 6.9 per cent (2007: 6.7 per cent).

The Board has established various incentive plans whereby remuneration is through shares in PaperlinX Limited. For this purpose the consolidated entity purchases its own shares on the market; the timing of these depends on-market prices. Primarily the shares are intended to be used for issuing shares under the consolidated entity's share option programme. Buy and sell decisions are made on a specific transaction basis by the Remuneration Committee; the consolidated entity does not have a defined share buy-back plan.

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	CONSOLIDATED		PAPERLINX LIMITED	
		2008 \$m	2007 \$m	2008 \$m	2007 \$m
Financial assets at fair value through profit or loss:					
Current trade and other receivables ⁽¹⁾		1,478.9	1,564.0	1.3	0.3
Cross currency interest rate swaps		43.7	–	–	–
Forward exchange contracts		0.2	–	–	–
Total current trade & other receivables	9	1,522.8	1,564.0	1.3	0.3
Non-current trade & other receivables	12	54.4	17.7	–	–
Total trade & other receivables		1577.2	1581.7	1.3	0.3
Cash & cash equivalents	8	240.7	448.8	–	–
		1,817.9	2,030.5	1.3	0.3

(1) Consolidated entity current trade receivables net of cross currency interest rate swaps and forward exchange contracts. PaperlinX Limited excludes amounts owing from subsidiaries.

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

	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Australia, Asia, New Zealand	294.1	323.8	1.3	0.3
Europe	1,148.1	1,107.7	–	–
North America	135.0	150.2	–	–
	1,577.2	1,581.7	1.3	0.3

Receivables relate to wholesale and end-user customers

**NOTES TO THE FINANCIAL
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Note 45. Financial risk management and financial instrument disclosures (continued)

Impairment losses

The ageing of the trade debtors at the reporting date was:

	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Not past due	1,182.1	1,300.8	–	–
Past due 0–30 days	117.8	115.8	–	–
Past due 31–120 days	51.3	30.4	–	–
Past due 121 days to one year	17.4	13.9	–	–
More than one year	52.5	46.6	–	–
	1,421.1	1,507.5	–	–

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

	CONSOLIDATED		PAPERLINX LIMITED	
	2008 \$m	2007 \$m	2008 \$m	2007 \$m
Balance at 1 July	(74.1)	(57.3)	–	–
Impairment gain/(loss) recognised	0.1	(16.8)	–	–
Balance at 30 June	(74.0)	(74.1)	–	–

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 estimate.

In certain circumstances the consolidated entity renegotiates the terms of trade receivables. The provision accounts in respect of trade receivables are used to record impairment losses unless the consolidated entity is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off to the profit/loss for the period. The amount of any provision in respect of the written off trade receivable is written back to the profit/loss for the period.

Exposure to liquidity risk

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

CONSOLIDATED 2008 \$m	Carrying amount	Total	Contractual cash flows		
			1 year or less	1 to 5 years	More than 5 years
Non-derivative financial liabilities					
Trade and other payables	1,279.0	1,279.0	1,182.6	96.4	–
Interest bearing loans and borrowings	611.8	704.8	303.6	401.2	–
USD Notes	127.0	197.1	–	–	197.1
CAD Notes	64.6	105.1	3.4	12.4	89.3
GBP Notes	213.1	327.2	–	–	327.2
Finance leases liabilities	0.2	0.2	0.1	0.1	–
Derivative financial liabilities					
Foreign exchange contracts	14.7	14.7	14.7	–	–

CONSOLIDATED 2007 \$m	Carrying amount	Total	Contractual cash flows		
			1 year or less	1 to 5 years	More than 5 years
Non-derivative financial liabilities					
Trade and other payables	1,310.6	1,310.6	1,256.8	53.8	–
Interest bearing loans and borrowings	600.8	644.3	511.4	132.9	–
USD Notes	144.1	233.4	–	–	233.4
CAD Notes	72.7	122.8	3.7	18.8	100.3
GBP Notes	242.6	388.5	–	–	388.5
Finance leases liabilities	0.4	0.4	0.3	0.1	–
Derivative financial liabilities					
Foreign exchange contracts	22.1	22.1	22.1	–	–

PaperlinX Limited, the parent company of consolidated entity, does not have any exposure to liquidity risk at year end as it does not hold any significant external financial liabilities.

Note 45. Financial risk management and financial instrument disclosures (continued)**Exposure to currency risks**

The consolidated entity's exposure to foreign currency risk arising on transactions not denominated in the group entity's functional currency at reporting date was as follows, based on notional amounts:

\$m	CONSOLIDATED 2008				CONSOLIDATED 2007			
	AUD	EUR	USD	YEN	AUD	EUR	USD	YEN
Trade and other receivables	0.8	1.3	3.5	6.6	1.5	–	5.8	0.7
Trade and other payables	(1.0)	(1.9)	(18.9)	(1.5)	(1.9)	(0.2)	(24.1)	(1.6)
Gross balance sheet exposure	(0.2)	(0.6)	(15.4)	5.1	(0.4)	(0.2)	(18.3)	(0.9)
Foreign exchange contracts	0.3	1.1	13.3	–	–	0.2	21.9	–
Net balance sheet exposure	0.1	0.5	(2.1)	5.1	(0.4)	–	3.6	(0.9)

PaperlinX Limited, the parent company of the consolidated entity, has no exposure to foreign exchange risk as it does not hold any significant balances denominated in foreign currency.

The following significant exchange rates against the consolidated entity's functional currency AUD applied at the end of the year:

Reporting date spot rate	2008	2007
USD	0.9525	0.8398
YEN	101.93	104.70

Sensitivity analysis

A 10 per cent strengthening of the Australian dollar against the following currencies at 30 June would have increased/(decreased) profit or loss 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 2007.

CONSOLIDATED \$m	2008	2007
USD	0.2	(0.3)
YEN	(0.5)	0.1

A 10 per cent weakening of the Australian dollar against the above currencies at 30 June would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Exposure to interest rate risks**Profile**

At the reporting date the interest rate profile of PaperlinX and the consolidated entity's interest bearing financial instruments was:

\$m	CONSOLIDATED 2008					CONSOLIDATED 2007				
	Floating interest	Fixed interest	Non-interest bearing	Total	Effective interest rate %	Floating interest	Fixed interest	Non-interest bearing	Total	Effective interest rate %
Financial Assets										
Cash and cash equivalents	240.7	–	–	240.7	4.43	448.8	–	–	448.8	4.90
Trade and other receivables	–	–	1,577.2	1,577.2	–	–	–	1,581.7	1,581.7	–
Financial liabilities										
Trade and other payables	–	–	1,279.0	1,279.0	–	–	–	1,310.6	1,310.6	–
Interest bearing loans and borrowings	611.8	–	–	611.8	6.97	600.8	–	–	600.8	6.61
USD Notes	–	127.0	–	127.0	6.76	–	144.1	–	144.1	6.75
CAD Notes	–	64.6	–	64.6	7.93	–	72.7	–	72.7	7.91
GBP Notes	–	213.1	–	213.1	6.59	–	242.6	–	242.6	6.59
Finance leases liabilities	–	0.2	–	0.2	8.00	–	0.4	–	0.4	8.00

PaperlinX Limited has no exposure to interest rate risk as it does not hold any significant external interest bearing liabilities.

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.

**NOTES TO THE FINANCIAL
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Note 45. Financial risk management and financial instrument disclosures (continued)

Exposure to interest rate risks (continued)

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 2007.

CONSOLIDATED \$m	2008	2007
Floating Interest	(6.1)	(6.0)

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

Fair values

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

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

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

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

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

Note 46. Events subsequent to balance date

Dividends on PaperlinX Limited ordinary shares

For dividends declared after 30 June 2008, see Note 7.

Distributions on PaperlinX step-up preference securities

For the distribution rate for the period 30 June 2008 to 31 December 2008, see Note 7.

Australian Paper

PaperlinX is seeking to identify potential investors for all or part of its Australian manufacturing business, Australian Paper. Interested parties commenced a formal due diligence process in July 2008 and no firm offers have been received to date. No decision to sell has been made and the Board will evaluate any offers based on the overall value and the alternative uses of proceeds in the near and medium term. In the event that an offer is accepted, it is probable that the 'value in use' valuation of these assets at 30 June 2008 would not be achieved at this depressed point in the business cycle.

DIRECTORS' DECLARATION

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

- (a) the financial statements and notes including the remuneration disclosures that are contained in sections 1 to 3 and sections 5 to 7 of the Remuneration report in the Directors' report, set out on 45 to 102, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2008 and of their performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a);
- (c) the remuneration disclosures that are contained in sections 1 to 3 and sections 5 to 7 of the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 Related Party Disclosures; and
- (d) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 There are reasonable grounds to believe that the Company and the controlled entities identified in Note 42 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.

3 The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2008.

Signed in accordance with a resolution of the Directors:



David E Meiklejohn
Chairman



Thomas P Park
Managing Director

Dated at Melbourne, in the State of Victoria this 20 August 2008.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PAPERLINX LIMITED

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

We have audited the accompanying financial report of Paperlinx Limited 'the Company', which comprises the balance sheets as at 30 June 2008, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 46 and the Directors' Declaration set out on page 103 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the Directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report, comprising the financial statements and notes, complies 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 and the remuneration report contained in the Directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration report contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration report contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

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

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 Company's and the Group's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report of the Group also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the remuneration report

We have audited the Remuneration Report included in pages 30 to 37 of the Directors' report for the year ended 30 June 2008. 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 2008, complies with Section 300A of the Corporations Act 2001.

KPMG

Peter Jovic
Partner

Melbourne
20 August 2008

SHAREHOLDING INFORMATION

1. Number of shareholders

There were 56,352 shareholders at 14 August 2008. 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	29,464	52.29	12,136,198	2.68
1,001 – 5,000	21,649	38.42	48,995,551	10.81
5,001 – 10,000	3,437	6.10	24,343,711	5.37
10,001 – 100,000	1,724	3.06	34,107,162	7.53
100,001 – over	78	0.14	333,511,732	73.61
Total	56,352	100.00	453,094,354	100.00

3. Unmarketable parcels

There were 9,345 members holding less than a marketable parcel of shares in the Company (i.e. a parcel of shares valued at less than \$500).

4. Listing

The Company's shares are quoted on the ASX.

5. Twenty largest shareholders at 14 August 2008

	Number of shares	% of shares
HSBC Custody Nominees (Australia) Limited	82,214,215	18.15
J P Morgan Nominees Australia Limited	79,968,076	17.65
National Nominees Limited	75,152,361	16.59
Citicorp Nominees Pty Limited	24,215,565	5.34
ANZ Nominees Limited (Cash Income A/C)	12,222,238	2.70
Cogent Nominees Pty Limited	12,193,726	2.69
RBC Dexia Investor Services Australia Nominees Pty Limited	8,074,703	1.78
Australian Foundation Investment Company Limited	5,411,757	1.19
Citicorp Nominees Pty Limited (CFSIL CWLTH AUST SHS 1 A/C)	4,157,746	0.92
Queensland Investment Corporation	3,612,684	0.80
Merrill Lynch (Australia) Nominees Pty Limited	2,373,503	0.52
ARGO Investments Limited	2,203,100	0.49
CPU Share Plans Pty Ltd (PPX SMSP Unallocated A/C)	1,990,133	0.44
M F Custodians Ltd	1,654,892	0.37
HSBC Custody Nominees (Australia) Limited – A/C 2	1,334,980	0.29
Citicorp Nominees Pty Limited (CFSIL CWLTH AUST SHS 8 A/C)	1,234,220	0.27
RBC Dexia Investor Services Australia Nominees Pty Ltd (PISELECT A/C)	806,620	0.18
HSBC Custody Nominees (Australia) Limited – A/C 3	792,233	0.17
UBS Wealth Management Australia Nominees Pty Ltd	729,204	0.16
Ace Property Holdings Pty Ltd	680,000	0.15
Total top 20 shareholders	321,021,956	70.85
Total issued shares	453,094,354	100.00

6. Register of substantial shareholders

The names of substantial shareholders in the Company as disclosed in the substantial shareholder notifications to the Company are as follows:

	Number of shares	Percentage held
AXA Group	68,883,284	15.22%
Maple-Brown Abbott Ltd	57,061,192	12.59%
Schroder Investment Management Australia Limited	22,782,611	5.06%
Orbis Investment Management	22,729,231	5.02%

SHAREHOLDING INFORMATION CONTINUED

7. Geographic location of shareholders by registered address

	Number of shareholders	Number of shares
Australian Capital Territory	956	2,227,054
New South Wales	14,036	229,165,252
Northern Territory	96	137,151
Queensland	7,237	20,259,186
South Australia	3,171	8,893,225
Tasmania	1,312	2,220,858
Victoria	23,071	180,765,042
Western Australia	2,854	6,682,646
Total Australia	52,733	450,350,414
Canada	409	151,122
New Zealand	784	1,130,442
United Kingdom	201	535,082
United States of America	1,745	504,242
Germany	79	24,825
Hong Kong	34	158,498
Singapore	26	70,686
Spain	130	13,026
Switzerland	124	51,695
Other	87	104,322
Total overseas	3,619	2,743,940

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 60
- Number of securities 4,163,810

Performance rights

The Company has issued performance rights to certain senior management. Each performance right gives a contingent interest to one PaperlinX share.

The vesting of performance rights depends upon the achievement of PaperlinX's long-term incentive plan performance conditions.

- Number of employees participating 232
- Number of securities 5,646,430

FIVE YEAR HISTORY

For years ended 30 June

(\$AUD million except where indicated)

	Actual ⁽¹⁾ 2007/2008	Actual ⁽¹⁾ 2006/2007	Actual ⁽¹⁾ 2005/2006	Actual ⁽¹⁾ 2004/2005	Actual 2003/2004	
Paperlinx consolidated financial performance						
Sales revenue	7,485 ⁽³⁾	7,839 ⁽³⁾	7,372 ⁽³⁾	7,574	6,212	
Sales growth (%)	(4.5)	6.2	(2.7)	21.9	71.7	
Earnings from ordinary activities before depreciation, amortisation, net interest and income tax	254.3	286.5	257.1	293.0	300.7	
Earnings from ordinary activities before interest and income tax	160.4	185.5	152.4	180.1	189.7	
Profit from ordinary activities before income tax	100.4	114.6	87.3	111.6	141.2	
Profit from ordinary activities after income tax (excluding ATC)	72.3	80.1	65.4	89.6	108.5	
Profit from ordinary activities after income tax (including ATC)	72.3	80.1	65.4	166.6 ⁽²⁾	108.5	
Financial statistics						
Depreciation and amortisation expense	93.9	101.0	104.7	112.9	111.0	
Net interest expense	60.0	70.9	65.1	68.5	48.5	
Cash flow from operating activities	113.0	142.9	259.8	273.4	402.7	
Capital expenditure – acquisitions	17.8	35.3	100.9	44.6	1,104.1	
Capital expenditure – plant and equipment	326.0	177.4	101.4	86.3	54.7	
Earnings from ordinary activities before interest and income tax by segments						
Merchanting and Paper Trading	192.4	205.2	188.9	194.1	147.5	
Paper Manufacturing	(1.9) ⁽⁴⁾	10.2 ⁽⁴⁾	(3.3) ⁽⁴⁾	12.1	66.4	
Corporate	(30.1)	(29.9)	(33.2)	(26.1)	(24.2)	
Total EBIT	160.4	185.5	152.4	180.1	189.7	
Financial position summary						
Current assets	2,678	2,874	2,881	2,674	3,000	
Non-current assets	1,700	1,568	1,510	1,493	1,781	
Total assets	4,378	4,442	4,391	4,167	4,781	
Current liabilities	1,536	1,823	1,460	1,373	1,341	
Non-current liabilities	917	714	1,322	1,231	1,626	
Total liabilities	2,453	2,537	2,782	2,604	2,967	
Net Assets/Total shareholders' equity	1,925	1,905	1,609	1,563	1,814	
Financial ratios						
Basic earning per share (excluding ATC)	(cents)	10.1	16.4	14.7	20.1	24.7
Basic earning per share (including ATC)	(cents)	10.1	16.4	14.7	37.3 ⁽²⁾	24.7
Earnings per share growth (excluding ATC)	(%)	(38.4)	11.6	(26.9)	(18.6)	(33.1)
Return on average funds employed	(%)	5.7	7.0	6.2	6.7	7.5
Return on average shareholders' equity	(%)	3.8	4.7	4.4	10.4 ⁽²⁾	6.2
Dividend per ordinary share	(cents)	6.5	11.0	10.0	25.5	27.5
Dividend franking	(%)	0	0	0	0	0
Net tangible asset per ordinary share	(\$)	2.59	2.58	2.49	2.40	3.15
Net interest cover	(times)	2.0 ⁽⁵⁾	2.5 ⁽⁵⁾	2.3 ⁽⁵⁾	2.6	3.9
Gearing (Net debt/net debt and shareholders' equity)	(%)	28.7	24.3	36.0	35.9	36.3
Gearing (Net debt/shareholders' equity)	(%)	40.3	32.1	56.2	55.9	57.0
Other information						
PaperlinX share price:						
• Year's high	(\$)	3.71	4.40	3.86	5.46	5.85
• Year's low	(\$)	1.72	3.03	2.85	2.33	4.42
• Close as at 30 June	(\$)	1.72	3.72	3.12	3.01	4.85
Fully paid ordinary shares as at 30 June	(millions)	453.1	448.7	446.2	446.2	446.1
Weighted average number of shares	(millions)	450.8	447.6	446.2	446.1	439.9
Market capitalisation as at 30 June	(millions)	779	1,669	1,392	1,343	2,163
Number of shareholders as at 30 June		57,002	62,663	73,223	90,889	109,011
Employee numbers as at 30 June		9,365	9,502	9,672	9,369	9,666

(1) Reported under AIFRS.

(2) Includes once only benefit of entering Australian Tax Consolidation regime of \$77 million.

(3) Sales revenue is net of trade and settlement discounts.

(4) Paper Manufacturing reflects the formation of Paperlinx Office.

(5) Includes capitalised interest in 2008 of \$18.8 million, \$4.2 million in 2007 and \$0.3 million in 2006.

INVESTOR INFORMATION

Share Registry

Shareholders with queries about anything related to their shareholding 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 email at web.queries@computershare.com.au

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 and postcode to enable access to personal information.

Dividends

The Company normally pays dividends in September and April. Shareholders should retain full details of dividend payments for taxation purposes.

The following options are available to shareholders regarding payment of dividends:

1. By direct deposit to a financial institution in Australia, New Zealand, United Kingdom and United States of America.
2. By cheque payable to the shareholder. Lost or stolen cheques should be reported immediately to the PaperlinX Share Registry, in writing, to enable stop payment and replacement.

Shareholders may choose to have their dividends paid directly into a nominated bank, building society or credit union account anywhere in Australia. Shareholders resident in New Zealand, United Kingdom and United States of America may choose to have their dividends paid directly into a nominated financial institution located in their respective jurisdictions. Payments are electronically credited on the dividend date and confirmed by a payment advice sent to the shareholder. Request forms for this service are available from the PaperlinX Share Registry.

Shareholders resident in Australia and New Zealand may choose to participate in the Dividend Reinvestment Plan (DRP). Request forms for the DRP are available from the PaperlinX Share Registry.

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

No stamp duty is payable on off-market transfers.

Annual General Meeting

The Annual General Meeting is normally held in October.

The 2008 Annual General Meeting will be held at 11.00am on Friday, 24th October 2008 at the Melbourne Exhibition Centre, Level 2 Auditorium, 2 Clarendon Street, Southbank, Victoria, 3006 Australia.

Financial Calendar

Full Year Results 2008	21 August 2008
Record Date for 2008	
Final Dividend	19 September 2008
Final Dividend Mailed	15 October 2008
Annual General Meeting 2008	24 October 2008
Interim Results 2009	19 February 2009
Full Year Results 2009	20 August 2009
Annual General Meeting 2009	23 October 2009

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'.

Publications

Annual Review 2008

This year, PaperlinX Limited has produced an Annual Review. This is a short form non-statutory review of the Company's performance and activities for the year. The Annual Review will be sent to shareholders unless they elect not to receive it.

Full Annual Report 2008

The PaperlinX Limited 2008 Full Annual Report, including the Independent Auditor's Report, is available to all shareholders. It will only be sent to those shareholders who have requested a printed copy. Shareholders can request a copy of the Full Annual Report from the Share Registry by Telephone (Australia 1800 232 867, outside Australia +613 9415 4000) or by email at contact@paperlinx.com.au. Alternatively, the Full Annual Report and Annual Review can be accessed on the PaperlinX website at www.paperlinx.com.

Since 2005, results have been reported under Australian equivalents to International Financial Reporting Standards (AIFRS). Prior periods to that have not been adjusted.

Other sources of information include:

1. The addresses of the Chairman and Managing Director to the Annual General Meeting, which are available on the PaperlinX website that same day and mailed to shareholders in November.
2. The half-year Financial Report reviewing the July – December half-year, which is mailed to shareholders in March.

PaperlinX Website

A range of corporate information may be obtained from the PaperlinX website at www.paperlinx.com. Investor information is available from the Investor Relations section.



Change of address

Issuer sponsored shareholders should notify the PaperlinX Share Registry immediately, in writing, signed by the shareholder(s), of any change to their registered address. For added security, shareholders should quote their previous address and HIN or SRN. CHESS uncertified shareholders should advise their sponsoring broker or non-broker participant.

Removal from mailing list

Shareholders who do not wish to receive a paper copy of the Annual Review or other publications should advise the PaperlinX Share Registry, in writing, and include their HIN or SRN.

Change of name

Shareholders who change their name should notify the PaperlinX Share Registry, in writing, and attach a certified copy of a relevant marriage certificate or deed poll, and include their HIN or SRN.

Registered Office and Head Office

PaperlinX Limited
ABN 70 005 146 350

307 Ferntree Gully Road
Mount Waverley
Victoria 3149
Australia

Telephone: +61 3 8540 2211
Facsimile: +61 3 8540 2280
Internet: www.paperlinx.com
Email: contact@paperlinx.com.au

Share Registry

PaperlinX Share Registry
Yarra Falls,
452 Johnston Street
Abbotsford
Victoria 3067
Australia

Telephone: 1300 662 058 or + 61 3 9415 4021
Facsimile: +61 3 9473 2500
Internet: www.computershare.com.au
Email: web.queries@computershare.com.au

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FULL ANNUAL REPORT 2008

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