

**FINANCIAL REPORT**

**OF**

**PAPERLINX SPS TRUST**  
**(ASRN 123 839 814)**

**FOR**

**YEAR ENDED 30 JUNE 2011**

**FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2011**

<b>Contents</b>	<b>Page</b>
Directors' Report	3
Statement of Financial Position	7
Statement of Comprehensive Income	8
Statement of Changes in Equity	9
Statement of Cash Flows	10
Notes to the Financial Statements	11
Directors' Declaration	25
Auditor's Independence Declaration	26
Independent Auditor's Report	27
Corporate Governance Statement	29
Supplementary Information	33

## **PaperlinX SPS Trust (ARSN 123 839 814)**

### **Directors' Report**

#### **For the year ended 30 June 2011**

The Directors of The Trust Company (RE Services) Limited, the Responsible Entity of PaperlinX SPS Trust (the "SPS Trust") present their report together with the financial report of the SPS Trust for the year ended 30 June 2011 and the independent auditor's report thereon.

#### **Responsible Entity**

The Trust Company (RE Services) Limited (the "Responsible Entity") has acted in the capacity of Responsible Entity of the SPS Trust since it was established under a trust deed dated 7 February 2007.

The registered office and principal place of business of the Responsible Entity is Level 15, 20 Bond Street, Sydney, NSW, 2000.

The names of the Directors of the Responsible Entity holding office during the year ended 30 June 2011 and until the date of this report were:

**Vicki Allen**

**Resigned on 18 March 2011**

**John Atkin**

**David Grbin**

**Michael Britton**

**Andrew Cannane**

**Appointed 31 March 2011**

**Sally Ascroft**

**Alternate Director (for David Grbin) for the period 24 June 2010 to 1 August 2010 of the Responsible Entity**

**Alternate Director (for Michael Britton) for the period 31 March 2011 to 24 June 2011 of the Responsible Entity**

#### **Principal activities**

The SPS Trust was established for the purpose of issuing a security called PaperlinX Step-up Preference Securities (PSPS). The PSPS are perpetual, preferred units in the 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 Australian Securities Exchange ("ASX") under "PXUPA".

The SPS Trust issued 1 ordinary unit at an issue price of \$100 per unit to PaperlinX Limited.

The SPS Trust is a registered managed investment scheme and the SPS Trust is domiciled in Australia.

The SPS Trust did not have any employees during the year.

# PaperlinX SPS Trust (ARSN 123 839 814)

## Directors' Report (cont.)

### For the year ended 30 June 2011

#### Review of operations

##### Results

The SPS Trust's net loss from operations for the current year was \$166,802,053 (2010: profit of \$9,591,678).

Distributions on the PSPS are at the discretion of the Responsible Entity and ultimately, the Directors of PaperlinX Limited, and are paid on a floating rate, unfranked, non-cumulative, discretionary and semi-annual basis. If a distribution is not paid in full, the distribution does not accumulate and may never be paid on the PSPS. If a distribution is not paid in full, PaperlinX Limited will be restricted from paying dividends or making other distributions on any class of its share capital until such time as two consecutive distributions are paid by the PaperlinX SPS Trust or an optional distribution is paid equal to the unpaid amount of scheduled distributions for the 12 months preceding (but not including) the payment date of the optional distribution, in accordance with the SPS Trust Constitution which includes the SPS Terms.

The interim distribution on step-up preference securities declared and paid on 31 December 2010 was \$10,581,480 (2010: \$nil) representing a distribution of \$3.7128 (2010: \$nil) on each of 2,850,000 fully paid units.

The final distribution on step-up preference securities declared and paid on 30 June 2011 was \$10,644,467 representing a distribution of \$3.7349 on 2,850,000 fully paid units. The final distribution on step-up preference securities declared and paid for the prior year 30 June 2010 was \$9,591,678 representing a distribution of \$3.3655 on 2,850,000 fully paid units.

The distribution rate for the period 1 July 2011 to 31 December 2011 is 7.4450%. The distribution will be payable at the ultimate discretion of the directors of PaperlinX Limited.

The distribution on the 1 ordinary unit for the period ended 30 June 2011 was \$nil (2010: \$nil).

During the year as a result of a reassessment of the fair value of SPS Trust's investment in PaperlinX SPS LLC, there has been a negative movement in the fair value for the amount of \$188.0m recorded in the income statement.

##### Interests of the Responsible Entity

The Responsible Entity, its associates and other trusts or schemes under the management of the Responsible Entity have not held any units in the SPS Trust during the financial year. Set out below are the fees paid or payable by the SPS Trust to the Responsible Entity, or any of its associates, during the year:

	2011 \$	2010 \$
Responsible Entity and associates		
- Management fees	100,203	95,955
- Custody fees	18,260	17,730
	<u>118,463</u>	<u>113,685</u>

##### Significant changes in the state of affairs

During the year as a result of a reassessment of the fair value of SPS Trust's investment in PaperlinX SPS LLC, there has been a negative movement in the fair value for the amount of \$188.0m recorded in the income statement.

Other than the above, in the opinion of the Directors of the Responsible Entity, there were no significant changes in the state of affairs of the SPS Trust that occurred during the financial year.

##### Likely developments

The first periodic remarketing date of the PSPS is 30 June 2012 and provides various options. To date, no decision has been made with respect to the option(s) to be adopted. Refer to Note 5 for details.

Further information about likely developments in the operations of the SPS Trust and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the SPS Trust.

## **PaperlinX SPS Trust (ARSN 123 839 814)**

### **Directors' Report (cont.)**

#### **For the year ended 30 June 2011**

##### **Directors' interests**

No Directors have any relevant interest in the securities issued by the SPS Trust and other related body corporates as notified by the Directors to the ASX in accordance with section 205G(1) of the *Corporations Act 2001*, at the date of this report.

Directors are not entitled to any share based payments.

##### **Environmental regulations**

The SPS Trust's operations are not subject to any significant environmental regulations under either Commonwealth, State or Territory legislation.

##### **Key Management Personnel**

The SPS Trust has no employees and the Responsible Entity is considered the Key Management Personnel of the SPS Trust. As such, a remuneration report is not prepared.

##### **Going Concern basis of accounting**

The SPS Trust's financial report has been prepared on a going concern basis. The considerations regarding PaperlinX Limited's ability to continue as a going concern have flow on consequences for the SPS Trust's financial report. The Directors of the Responsible Entity have relied on PaperlinX Limited's assessment of its going concern status in determining the SPS Trust's going concern status, as disclosed in the PaperlinX Limited 30 June 2011 financial report (Note 2).

##### **Events subsequent to balance date**

There has not arisen in the interval between the end of the financial year and the date of this report any items, transaction or event of a material and unusual nature likely, in the opinion of the Directors of Responsible Entity, to affect significantly the operation of the SPS Trust, the results of those operations, or the state of affairs of the SPS Trust, in future financial years.

##### **Indemnities and insurance premiums for Officers or Auditors**

###### ***Indemnification***

Under the SPS Trust Constitution the Responsible Entity, including its officers and employees, is indemnified out of the SPS Trust's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the SPS Trust. The SPS Trust has not indemnified any auditor of the SPS Trust.

###### ***Insurance premiums***

No insurance premiums are paid out of the SPS Trust's assets in relation to insurance cover for the Responsible Entity, its officers and employees, the Compliance Committee or the auditors of the SPS Trust.

##### **Lead Auditor's independence declaration**

The lead auditor's independence declaration is set out on page 26 and forms part of the Directors' Report for the year ended 30 June 2011.

**PaperlinX SPS Trust (ARSN 123 839 814)**

**Directors' Report (cont.)**

**For the year ended 30 June 2011**

**Rounding off**

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

This report is made in accordance with a resolution of the Directors of The Trust Company (RE Services) Limited.

Michael Britton

Director

Sydney, 31<sup>st</sup> August 2011

## PaperlinX SPS Trust (ARSN 123 839 814)

### Statement of Financial Position

As at 30 June 2011		2011 \$000	2010 \$000
<b>Assets</b>	<i>Note</i>		
<b>Current assets</b>			
Cash and cash equivalents	11	77	10
Other receivables		5	107
<b>Total current assets</b>		<u>82</u>	<u>117</u>
<b>Non current assets</b>			
Investments	11	<u>96,972</u>	<u>285,000</u>
<b>Total non current assets</b>		<u>96,972</u>	<u>285,000</u>
<b>Total assets</b>		<u>97,054</u>	<u>285,117</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		<u>82</u>	<u>117</u>
<b>Total current liabilities</b>		<u>82</u>	<u>117</u>
<b>Net assets</b>		<u>96,972</u>	<u>285,000</u>
<b>Equity</b>			
Step-up preference securities	5	285,000	285,000
Ordinary units on issue	6	*	*
(Accumulated losses) / Retained earnings		<u>(188,028)</u>	<u>-</u>
<b>Total Equity</b>		<u>96,972</u>	<u>285,000</u>

\*\$100

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 11 to 24.

## PaperlinX SPS Trust (ARSN 123 839 814)

### Statement of Comprehensive Income

For the year ended 30 June 2011		2011 \$000	2010 \$000
<b>Revenue</b>	<b>Note</b>		
Dividend income	12	21,511	9,733
Other income		-	273
Interest income		10	3
<b>Total investment income</b>		<b>21,521</b>	<b>10,009</b>
<b>Expenses</b>			
Movement in fair value of investments	11	(188,028)	-
Management fees	12	(100)	(96)
Custody fees	12	(18)	(18)
Auditors' remuneration	7	(71)	(134)
Unit registry fees		(42)	(26)
Consultant fees		(61)	(130)
Legal fees		-	(10)
Other operating costs		(3)	(3)
<b>Total Expenses</b>		<b>(188,323)</b>	<b>(417)</b>
<b>(Loss)/Profit attributable to unitholders</b>		<b>(166,802)</b>	<b>9,592</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive (loss)/income attributable to unitholders</b>		<b>(166,802)</b>	<b>9,592</b>

## PaperlinX SPS Trust

### Earnings per Unit

For the year ended 30 June 2011		2011	2010
Basic and Diluted Earnings per Unit (\$)	10	(58.5270)	3.3655

The Statement of Comprehensive Income and the Earnings per Unit are to be read in conjunction with the notes to the financial statements set out on pages 11 to 24.

## PaperlinX SPS Trust (ARSN 123 839 814)

### Statement of Changes in Equity

For the year ended 30 June 2011

	Step-up preference securities \$000	Ordinary units on issue * \$000	Accumulated Losses \$000	Total Equity \$000
<b>Balance at 1 July 2010</b>	285,000	-	-	285,000
(Loss) for the year	-	-	(166,802)	(166,802)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	(166,802)	(166,802)
<b>Transactions with unitholders</b>				
Distributions paid	-	-	(21,226)	(21,226)
<b>Balance at 30 June 2011</b>	285,000	-	(188,028)	96,972

\* \$100

For the year ended 30 June 2010

	Step-up preference securities \$000	Ordinary units on issue * \$000	Retained Earnings \$000	Total Equity \$000
<b>Balance at 1 July 2009</b>	285,000	-	-	285,000
Profit for the year	-	-	9,592	9,592
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	9,592
<b>Transactions with unitholders</b>				
Distributions paid	-	-	(9,592)	(9,592)
<b>Balance at 30 June 2010</b>	285,000	-	-	285,000

\* \$100

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 11 to 24.

## PaperlinX SPS Trust (ARSN 123 839 814)

### Statement of Cash Flows

For the year ended 30 June 2011	2011 \$000	2010 \$000
<b>Cash flows from operating activities</b>		
Dividends received	21,511	9,733
Other income received	102	235
Interest received	10	3
Payments to suppliers	(330)	(381)
<b>Net cash flows from operating activities</b>	<u>21,293</u>	<u>9,590</u>
<b>Cash flow from financing activities</b>		
Step-up preference security distributions	(21,226)	(9,592)
<b>Net cash flows from financing activities</b>	<u>(21,226)</u>	<u>(9,592)</u>
<b>Net (decrease) / increase in cash and cash equivalents</b>	67	(2)
Cash and cash equivalents at the beginning of the year	10	12
<b>Cash and cash equivalents at the end of the year</b>	<u>77</u>	<u>10</u>

### Reconciliation of cash flows from operating activities

For the year ended 30 June 2011	2011 \$000	2010 \$000
(Loss)/Profit from operating activities	(166,802)	9,592
<b>Add/(Less) non-cash item:</b>		
Movement in fair value of investments	188,028	-
<b>Changes in assets and liabilities during the year</b>		
(Increase) / decrease in receivables	102	(38)
Increase / (decrease) in payables	(35)	36
<b>Net cash flows from operating activities</b>	<u>21,293</u>	<u>9,590</u>

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 11 to 24.

## PaperlinX SPS Trust (ARSN 123 839 814)

### Notes to the financial statements for the year ended 30 June 2011

#### 1. Reporting Entity

PaperlinX SPS Trust (the "SPS Trust") is a registered Managed Investment Scheme under the *Corporations Act 2001*. The financial report of the SPS Trust is presented as at and for the year ended 30 June 2011. The SPS Trust is listed on the Australian Securities Exchange (ASX code: PXUPA).

#### 2. Basis of Preparation

##### (a) Statement of compliance

This financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. The financial report of the SPS Trust also complies with the International Financial Reporting Standards ("IFRS") and interpretations adopted by the International Accounting Standards Board ("IASB").

The financial report has been prepared on a historical cost basis, except for equity investments which have been measured at fair value.

The financial report was authorised for issue by the Directors of the Responsible Entity on 31<sup>st</sup> August 2011.

##### (b) Functional and presentation currency

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

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

##### (c) Use of estimates and judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires 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.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are set out on note 3(j).

The accounting policies have been applied consistently.

## PaperlinX SPS Trust (ARSN 123 839 814)

### Notes to the financial statements for the year ended 30 June 2011

#### 2. Basis of Preparation (cont.)

##### (d) Going Concern basis of accounting

The SPS Trust is a controlled entity of PaperlinX Limited for accounting purposes, and has an investment in preference shares issued by PaperlinX SPS LLC. The income earned by the SPS Trust from this investment is ultimately sourced from PaperlinX (Europe) Limited, a controlled entity of PaperlinX Limited.

In preparing the financial report, the Directors of the Responsible Entity made an assessment of the ability of the SPS Trust to continue as a going concern, which contemplates the continuity of business operations, realisation of assets and settlement of liabilities in the ordinary course of business.

The operation of the SPS Trust is economically dependent on PaperlinX Limited and its controlled entities (ASX: PPX). Payments made to third parties associated with the operations of the SPS Trust (including management fees, custody fees, ASX listing and share registry expenses) are funded through dividend income from the investment in PaperlinX SPS LLC. In the event that the SPS Trust does not receive dividend income, it has relied on intercompany loans from PaperlinX Limited and its controlled entities to fund on-going expenses. A liability to pay distributions only arises once declared by the SPS Trust and this is only undertaken once sufficient cash distributions are received / receivable from the SPS Trust's investment in PaperlinX SPS LLC.

Therefore, PaperlinX Limited's ability to continue as a going concern has flow on consequences for the SPS Trust's financial report. The Directors of the Responsible Entity have relied on PaperlinX Limited's assessment of its going concern status to determine the SPS Trust's going concern status, as disclosed in the PaperlinX Limited 30 June 2011 financial report (Note 2), which noted the following:

- (i) PaperlinX Limited is primarily funded by various regionally based receivables and inventory backed facilities. These regional facilities are predominantly classified as non-current as PaperlinX Limited expects and has the discretion to roll over these facilities for a period of greater than twelve months.
- (ii) Regardless of the non-current debt classifications, the ability of PaperlinX Limited to meet its operational cash obligations and debt covenants is dependent in part on meeting its forecast trading results and cash flows. The trading and cash flow forecasts are necessarily based on best-estimate assumptions that may or may not occur as expected and are subject to influences and events outside the control of PaperlinX Limited. In this regard, the current economic environment presents challenges in terms of sales volume and pricing as well as input costs. Whilst the Directors of PaperlinX Limited have instituted measures to reduce trading expenses, preserve cash and secure additional finance, this environment creates uncertainties over the future trading results and cash flows.
- (iii) Should the ability of PaperlinX Limited to realise sufficient cash flows from trading operations be restricted, PaperlinX Limited will actively pursue alternative funding arrangements and institute additional measures to preserve cash. These may include (but are not limited to) drawing down committed but undrawn debt facilities, sale of non-core assets, working capital reductions and further restriction of trading expenditures.
- (iv) The Directors of PaperlinX Limited have also considered the ability of PaperlinX Limited to obtain alternative sources of debt finance. In addition, the Directors of PaperlinX Limited have considered the implications of the debt facilities including regional specific covenants and restrictions on the ability to draw down debt facilities and move cash within the PaperlinX Group.

In adopting the going concern basis of accounting for the SPS Trust's financial report, the Directors of the Responsible Entity have also considered the uncertainty associated with the various options regarding the PaperlinX Step-up Preference Securities (PSPS) at the next scheduled remarketing date of 30 June 2012 (as described in Note 5). No decision has yet been taken by the Responsible Entity and ultimately, the Directors of PaperlinX Limited with respect to the option(s) to be adopted regarding the PSPS at the remarketing date of 30 June 2012.

On this basis and after making enquiries, and considering the uncertainties described above, the Directors of the Responsible Entity consider that it is appropriate for the SPS Trust to continue to adopt the going concern basis in preparing the financial report.

## **PaperlinX SPS Trust (ARSN 123 839 814)**

### **Notes to the financial statements for the year ended 30 June 2011**

#### **2. Basis of Preparation (cont.)**

##### **(e) Changes in accounting policies**

There were no changes in the accounting policies of the SPS Trust.

#### **3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The SPS Trust has not early adopted any accounting standards as at 30 June 2011.

##### **(a) Cash and cash equivalents**

Cash and cash equivalents only comprise cash at bank.

##### **(b) Interest income**

Interest income is recognised on an accruals basis that takes into account the effective yield of the financial asset.

##### **(c) Dividend income**

Dividend income from PaperlinX SPS LLC is recognised on an accruals basis when the SPS Trust obtains the right to receive the dividend.

##### **(d) Investments**

The SPS Trust has invested in preference shares issued by PaperlinX SPS LLC, a controlled entity of the PaperlinX Group. Investments are recognised initially at fair value plus directly attributable transaction costs. Subsequent to initial recognition investments are measured on the basis set out in note 3(j).

##### **(e) Expenses**

All expenses, including management fees and custodian fees, are recognised in the income statement on an accruals basis. Included in other operating expenses are administrative, legal and advisory fees.

##### **(f) Taxation**

Under current legislation the SPS Trust is not subject to income tax as its taxable income (including assessable realised capital gains) is distributed in full to the unitholders.

##### **(g) Distributions**

The SPS Trust fully distributes its distributable income, calculated in accordance with the SPS Trust Constitution and applicable taxation legislation, to the unitholders who are presently entitled to the income under the Constitution. Distributions are treated as distributions of equity, consistent with the recognition of the underlying units as equity (refer to 3(i) below). The distributions are payable at the discretion of the Responsible Entity and ultimately, the Directors of PaperlinX Limited. Under the PaperlinX SPS Terms, unpaid distributions can be made as optional distributions at the discretion of the Directors of PaperlinX Limited within a period of 12 months from the scheduled distribution date.

##### **(h) Goods and services tax**

The SPS Trust is registered for Goods and Services Tax (GST) purposes and will receive input tax credits for GST paid. Revenues, expenses and assets are recognised net of the amount of GST except:

- Where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; and
- For receivables and payables which are recognised inclusive of GST.

Cash flows are included in the statement of cash flows on a gross basis.

##### **(i) Financial instruments issued by the SPS Trust**

Step-up preference securities issued by the SPS Trust are classified as equity instruments, reflecting the terms and conditions attached to them and the substance of the underlying contractual arrangements.

## **PaperlinX SPS Trust (ARSN 123 839 814)**

### **Notes to the financial statements for the year ended 30 June 2011**

#### **3. Significant accounting policies (cont.)**

##### **(j) Financial instruments / investments**

###### ***Classification***

The SPS Trust recognises all its equity investments at fair value with movements in fair value being booked through the income statement.

The category of financial assets and financial liabilities at fair value through profit or loss comprises financial instruments / investments designated at fair value through profit or loss upon initial recognition. These include financial assets that are not held for trading purposes and which may be sold. These include investments in equity instruments and shares in unlisted entities. The fair value through profit or loss classification is in accordance with AASB 139: Financial instruments, recognition and measurement.

###### ***Recognition***

The SPS Trust recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. Financial assets are recognised using trade date accounting. From this date any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded in the income statement.

###### ***Measurement***

Financial instruments / investments are measured initially at fair value (transaction price) plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately, while on other financial instruments / investments they are amortised.

Subsequent to initial recognition, all instruments / investments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the income statement.

###### ***Investment carrying value***

The SPS Trust has invested in preference shares issued by PaperlinX SPS LLC, a controlled entity of PaperlinX Limited. Investments are initially recognised at fair value plus directly attributable transaction costs. Subsequent to initial recognition investments are measured at fair value with movements in fair value recorded in the income statement. The fair value of this investment is determined with reference to the underlying cash flows receivable from PaperlinX SPS LLC. Refer to note 2(d) for comments in relation to the uncertainty that exists in respect of the carrying value of the investment.

###### ***Fair value information***

The SPS Trust's financial instruments / investments are carried at fair value on the statement of financial position. Usually the fair value of the financial instruments / investments can be reliably determined within a reasonable range of estimates.

Fair value estimates are made at a specific point of time, based on market conditions and information about the financial instrument / investment. These estimates are subjective in nature and involve uncertainties and matters of significant judgement (e.g. interest rates, volatility, estimated cash flows, etc.) and therefore, cannot be determined with precision.

For certain other financial instruments / investments, including other receivables and payables, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments / investments.

The carrying amounts of all the SPS Trust's financial assets and liabilities at the balance sheet date approximated their fair values.

## PaperlinX SPS Trust (ARSN 123 839 814)

### Notes to the financial statements for the year ended 30 June 2011

#### 3. Significant accounting policies (cont.)

##### (k) New standards and interpretations not yet adopted

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

The following amendments to an accounting standard has been identified as those which may be relevant to the SPS Trust and were available for early adoption at 30 June 2011 but have not been applied in preparing this financial report:

- AASB 9 *Financial Instruments* (Dec 2009) includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become applicable to annual reporting periods beginning on or after 1 July 2013.
- AASB 9 *Financial Instruments* (Dec 2010) includes requirements for the classification and measurement of financial liabilities resulting from Phase 2 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become applicable to annual reporting periods beginning on or after 1 July 2013.
- Revised AASB 124 *Related Party Disclosures* simplifies and clarifies the intended meaning of the definition of a related party and includes an explicit requirement to disclose commitments involving related parties.
- AASB 1053 *Application of Tiers of Australian Accounting Standards* & AASB 2010-2 *Amendments to Australian Accounting Standards to Australian Accounting Standards arising from Reduced Disclosure Requirements* implement the differential financial reporting framework consisting of two tiers of reporting requirements for general purpose financial statements. AASB 1053 & AASB 2010-2 will become applicable to annual reporting periods beginning on or after 1 July 2013.
- AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* amends a number of pronouncements, including clarifications to financial statement disclosures.
- AASB 2010-5 *Amendments to Australian Accounting Standards* are primarily editorial amendments, rather than disclosure amendments.
- AASB 2010-6 *Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets* introduces additional disclosures to AASB 7 *Financial Instruments: Disclosures* designed to allow users to improve their understanding in respect of risk exposures arising from transferred financial assets.

Unless otherwise stated above, these changes are applicable to annual reporting periods beginning on or after 1 July 2011.

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

#### 4. Operating Segments

The primary activity of the SPS Trust is to invest in preference shares issued by PaperlinX SPS LLC, a wholly owned subsidiary of PaperlinX Limited. The SPS Trust is domiciled in Australia.

## PaperlinX SPS Trust (ARSN 123 839 814)

### Notes to the financial statements for the year ended 30 June 2011

#### 5. Step-up preference securities

All preference securities in the SPS Trust are of the same class and carry equal rights. Under the SPS Trust Constitution, each unit represents a right to the underlying assets of the SPS Trust.

	30 June 2011	30 June 2010
	\$000	\$000
<b>Opening balance</b>	<u>285,000</u>	<u>285,000</u>
<b>Closing balance</b>	<u>285,000</u>	<u>285,000</u>

The SPS Trust was established for the purpose of issuing a security called PaperlinX Step-up Preference Securities (PSPS). The PSPS are perpetual, preferred units in the 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 par value of the units is equal to the issue price. The PSPS are listed on the ASX under "PXUPA".

The Responsible Entity has the discretion to pay distributions on the PSPS, which is economically dependent on the performance of the PaperlinX Group, and is paid on a floating rate, unfranked, non-cumulative, discretionary and semi-annual basis. Distributions are therefore only paid after declaration by the Responsible Entity and ultimately at the discretion of the Directors of PaperlinX Limited. 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 restricted from paying dividends or making other distributions on any class of its share capital until such time as two consecutive distributions are paid by the PaperlinX SPS Trust or an optional distribution is paid equal to the unpaid amount of scheduled distributions for the 12 months preceding (but not including) the payment date of the optional distribution, in accordance with the SPS Trust Constitution which includes the SPS Terms.

The distribution rate is the 180 day bank bill swap rate plus a margin of 2.40%. The first periodic remarketing date is 30 June 2012 and provides the following options:

- a remarketing process may be conducted to establish a new margin and add or adjust such other terms of the PSPS, which if successful would apply until the next remarketing date;
- PSPS may be realised (redeemed for cash, exchanged for PaperlinX Limited ordinary shares or resold to a third party); or
- begin paying discretionary distributions at the step-up margin on the PSPS. The step-up margin is the sum of the margin which applies immediately before the relevant remarketing date (the current 2.40%) and an additional 2.25% per annum.

On the first scheduled remarketing date of 30 June 2012, PaperlinX Limited can elect how the PSPS are to be realised. If PaperlinX Limited does not elect to realise the PSPS on that date, then it must apply the step-up margin to distributions.

If a remarketing is unsuccessful and the step-up margin applies, each subsequent distribution payment date will be a periodic remarketing date until a different remarketing date is set under a successful remarketing process.

At the date of this report, no decision has yet been made by the Responsible Entity and ultimately, the Directors of PaperlinX Limited with respect to the option(s) to be adopted regarding the PSPS on the remarketing date of 30 June 2012.

#### 6. Ordinary units on issue

There is 1 ordinary unit issued by the SPS Trust to PaperlinX Limited which represents a right to the underlying assets of the trust. The ordinary unit has a par value of \$100.

## PaperlinX SPS Trust (ARSN 123 839 814)

### Notes to the financial statements for the year ended 30 June 2011

#### 7. Auditor's remuneration

<b>Audit Services:</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Auditors of the SPS Trust – KPMG Australia:		
Audit and review of the financial reports (1)	57,858	119,005
Other regulatory audit services	13,000	15,000
	70,858	134,005

(1) Includes \$68,000 in year ended 30 June 2010, relating to finalisation of the 31 December 2008 and 30 June 2009 financial reports.

#### 8. Distributions on step-up preference securities

	<b>2011</b>		<b>2010</b>	
	<b>\$000</b>	<b>Dollar per unit</b>	<b>\$000</b>	<b>Dollar per unit</b>
Distribution for period 1 July 2009 to 31 December 2009 not paid (Distribution rate 5.685%)			-	-
Distribution for period 1 January 2010 to 30 June 2010 paid on 30 June 2010 (Distribution rate 6.787%)			9,592	3.3655
Distribution for period 1 July 2010 to 31 December 2010 paid on 31 December 2010 (Distribution rate 7.365%)	10,581	3.7128		
Distribution for period 1 January 2011 to 30 June 2011 paid on 30 June 2011 (Distribution rate 7.5317%)	10,645	3.7349		
	21,226	7.4477	9,592	3.3655

## PaperlinX SPS Trust (ARSN 123 839 814)

### Notes to the financial statements for the year ended 30 June 2011

#### 9. Distribution on ordinary units

	30 June 2011	30 June 2010
	\$000	\$000
Distribution for period 1 July 2009 to 31 December 2009.	-	-
Distribution for period 1 January 2010 to 30 June 2010.	-	-
Distribution for period 1 July 2010 to 31 December 2010.	-	-
Distribution for period 1 January 2011 to 30 June 2011.	-	-

#### 10. Earnings per Unit

	30 June 2011	30 June 2010
Net (loss)/profit	\$(166,802,053)	\$9,591,678
Weighted average number of units	2,850,001	2,850,001
<b>Basic and Diluted Earnings per Unit</b>	<u>\$(58.5270)</u>	<u>\$3.3655</u>

#### 11. Financial Risk Management

The SPS Trust has exposure to the following risks from their use of financial instruments / investments:

- credit risk
- market risk
- liquidity risk

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

The SPS Trust was established for the purpose of issuing PaperlinX Step-Up Preference Securities (PSPS) as part of PaperlinX Limited Group ("Group") funding activities. As such, the Group Board of Directors acknowledges that the risk management function is carried out on a consolidated basis for the Group. The Group's financial risk management policies and procedures includes establishment of management policies to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems of the Group are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit and by a dedicated Risk Management function.

## PaperlinX SPS Trust (ARSN 123 839 814)

### Notes to the financial statements for the year ended 30 June 2011

#### 11. Financial Risk Management (cont.)

##### **Credit risk**

Credit risk is the risk of financial loss to the SPS Trust if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the SPS Trust's cash balances and equity investment.

Credit risk is concentrated given the SPS Trust's investments are represented solely by an investment in unlisted securities issued by a controlled entity of the Group, which has in turn lent funds to other operating entities within the Group. Credit risk is therefore reflective of factors impacting the credit risk profile of the Group.

The carrying amount of financial assets recorded in the financial statements represents the SPS Trust's maximum exposure to credit risk.

##### **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Trust'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 SPS Trust is not exposed to foreign exchange risk. The investment in PaperlinX SPS LLC and its related cash flows are denominated in Australian dollars.

The SPS Trust is exposed to interest rate risk due to the SPS Trust's cash balances, but the exposure is not considered significant given the SPS Trust only holds short term cash balances in order to pay distributions to Unitholders. In respect of income earning financial assets, the following tables indicate their effective interest rates at the balance sheet date and the periods in which they reprice. The assets are variable rate instruments and the carrying amount approximates its fair value.

2011	Floating interest rate (\$000)	Non-interest bearing (\$000)	Total (\$000)	Effective interest rate
<b>Assets</b>				
Cash and cash equivalents	77	-	77	0.40%
Investment in PaperlinX SPS LLC	96,972	-	96,972	7.53%

2010	Floating interest rate (\$000)	Non-interest bearing (\$000)	Total (\$000)	Effective interest rate
<b>Assets</b>				
Cash and cash equivalents	10	-	10	0.01%
Investment in PaperlinX SPS LLC	285,000	-	285,000	6.79%

##### **Cash flow sensitivity analysis for the floating rate instruments**

An increase of 100 basis points in interest rates at the reporting date would have increased profit by \$2.9m. A decrease of 100 basis points in interest rates at the reporting date would have had an equal but a decreasing effect by the same amount as above, on the basis that all other variables remain constant.

## PaperlinX SPS Trust (ARSN 123 839 814)

### Notes to the financial statements for the year ended 30 June 2011

#### 11. Financial Risk Management (cont.)

##### **Liquidity risk**

Due to the limited nature of operations, the SPS Trust is not significantly exposed to liquidity risk. A liability to pay distributions only arises once declared by the SPS Trust and this is only undertaken once sufficient cash distributions are received / receivable from the SPS Trust's investment in PaperlinX SPS LLC.

##### **Capital management**

The capital management policy of the SPS Trust is determined by the provisions of the Trust's Constitution. The capital held by SPS Trust is the Step-up Preference Securities and the one ordinary unit.

##### **Fair Value of financial instruments**

The Directors of the Responsible Entity consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair value.

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

##### **Fair Value measurements recognised in the statement of financial position**

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

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

(\$000)	Level 1	Level 2	Level 3	Total
30 June 2011				
<i>Financial assets held at fair value through profit or loss</i>				
Equity investments	-	-	96,972	96,972
<b>Total</b>	<b>-</b>	<b>-</b>	<b>96,972</b>	<b>96,972</b>

(\$000)	Level 1	Level 2	Level 3	Total
30 June 2010				
<i>Financial assets held at fair value through profit or loss</i>				
Equity investments	-	-	285,000	285,000
<b>Total</b>	<b>-</b>	<b>-</b>	<b>285,000</b>	<b>285,000</b>

## PaperlinX SPS Trust (ARSN 123 839 814)

### Notes to the financial statements for the year ended 30 June 2011

#### 11. Financial Risk Management (cont.)

##### *Reconciliation of Level 3 fair value measurements of financial assets*

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy:

(\$000)	Fair value through profit or loss	Total
<b>30 June 2011</b>		
Balance at beginning of the year	285,000	285,000
Total Gains or Losses:		
In profit or loss	(188,028)	(188,028)
In other comprehensive income	-	-
Purchases	-	-
Issues	-	-
Settlements	-	-
Transfers into Level 3	-	-
Transfers out of Level 3	-	-
Balance at the end of the year	96,972	96,972
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period.	(188,028)	(188,028)

##### *Reconciliation of Level 3 fair value measurements of financial assets*

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy:

(\$000)	Fair value through profit or loss	Total
<b>30 June 2010</b>		
Balance at beginning of the year	285,000	285,000
Total Gains or Losses:		
In profit or loss	-	-
In other comprehensive income	-	-
Purchases	-	-
Issues	-	-
Settlements	-	-
Transfers into Level 3	-	-
Transfers out of Level 3	-	-
Balance at the end of the year	285,000	285,000
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period.	-	-

## PaperlinX SPS Trust (ARSN 123 839 814)

### Notes to the financial statements for the year ended 30 June 2011

#### 11. Financial Risk Management (cont.)

##### *Fair value determined using valuation techniques*

Valuation is based on an internally prepared discounted present value model of expected future cash flows.

As the next remarketing date falls within 12 months from when the 30 June 2011 financial statements of the SPS Trust are to be signed, the impact of the various alternatives at the remarketing date need to be considered when reviewing the carrying value of the investment in PaperlinX SPS LLC. This is required as the alternatives will impact the future cash flows from the investment and consequently, the carrying value of the investment.

The available options on the first periodic remarketing date of 30 June 2012 are as follows:

1. conduct a remarketing process to establish a new margin and add or adjust such other terms of the PSPS, which if successful would apply until the next remarketing date;
2. PSPS may be realised (redeemed for cash, exchanged for PaperlinX Limited ordinary shares or resold to a third party); or
3. begin paying discretionary distributions at the step-up margin on the PSPS. The step-up margin is the sum of the margin which applies immediately before the relevant remarketing date and an additional 2.25% per annum.

To date no decision has been taken by the Directors of PaperlinX Limited with respect to the option(s) to be adopted regarding the PSPS on the remarketing date of 30 June 2012, which creates inherent uncertainty regarding the valuation of the investment as at 30 June 2011.

##### *Assumptions*

The fair value of the investment has been determined based on the step-up option (number 3 above) and includes the following key assumptions:

- PaperlinX SPS LLC will continue to pay half-yearly distributions into perpetuity and there will be no redemption in the foreseeable future
- Distributions will be paid at the margin of 2.40% from 1 July 2011 to 30 June 2012 and thereafter at the step-up margin of 4.65%
- A risk adjusted discount rate of 27.5%. The discount rate reflects the uncertainty in future cash flows and includes an appropriate credit margin for PaperlinX Group for this type of investment.

The above assumptions represent a fundamental change in the assumptions adopted at 30 June 2010 which was based on redemption at the first periodic remarketing date of 30 June 2012.

##### *Results*

Due to the uncertainties surrounding the treatment of the PSPS at the remarketing date, which have been factored into the discount rate, the fair value of the investment is estimated to be \$97.0m, which is \$188.0m less than the carrying value of \$285m. The movement in fair value of the investment of \$188.0m has been recognised in the income statement.

## PaperlinX SPS Trust (ARSN 123 839 814)

### Notes to the financial statements for the year ended 30 June 2011

#### 11. Financial Risk Management (cont.)

##### *Fair value determined using valuation techniques (cont.)*

##### *Sensitivity analysis*

Although the Directors of the Responsible Entity of the SPS Trust believe that its estimate of fair value of the SPS Trust's investment in PaperlinX SPS LLC is appropriate, the use of different assumptions could lead to different measurements of fair value.

The fair value of the investment has been determined based on the above assumptions, in particular, that distributions will be paid at the step-up margin from 1 July 2012. If another option is chosen on the first periodic remarketing date, the investment will be revalued using assumptions relevant to the option selected.

Changing the discount rate assumption used to reasonably possible alternative assumptions would have the following effects:

*in thousands of dollars*

	Effect on profit or Loss	
	Decrease in discount rate by 2.5% Favourable \$	Increase in discount rate by 2.5% (Unfavourable) \$
Investment in PaperlinX SPS LLC	10,243	(8,592)

#### 12. Related parties

##### *Parent entity and Responsible entity*

The parent and ultimate parent of the SPS Trust is PaperlinX Limited (incorporated in Australia).

The Responsible Entity for the SPS Trust is The Trust Company (RE Services) Limited (ABN 45 003 278 831) whose ultimate holding company is The Trust Company Limited (ABN 59 004 027 749).

##### *Key Management Personnel*

The SPS Trust does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the SPS Trust, and accordingly the Directors of the Responsible Entity are deemed to be Key Management Personnel of that entity and their names are listed in the Directors' Report.

No compensation is paid to Directors or directly by the SPS Trust to any Key Management Personnel of the Responsible Entity.

<i>Responsible entity fees and other transactions</i>	2011	2010
	\$	\$
Fees paid or payable to the Responsible Entity and associates as at reporting date		
- Management fees	100,203	95,955
- Custody fees	18,260	17,730
	<u>118,463</u>	<u>113,685</u>

##### *Related party transactions*

All transactions with related parties are conducted on normal commercial terms and conditions.

## **PaperlinX SPS Trust (ARSN 123 839 814)**

### **Notes to the financial statements for the year ended 30 June 2011**

#### **12. Related parties (cont.)**

##### ***Related party loans***

The ultimate parent of the SPS Trust, PaperlinX Limited and/or its subsidiaries provided the SPS Trust with an intercompany loan during the year which represented third party costs associated with operating the SPS Trust. This intercompany loan of \$80,307 was repaid by the SPS Trust prior to 30 June 2011.

##### ***Related party investments held by the SPS Trust***

The SPS Trust has no investment in The Trust Company (RE Services) Limited or its associates (2010: Nil).

##### ***Units in the SPS Trust held by related parties***

At 30 June 2011 neither the Responsible Entity nor any of its related entities held units in the SPS Trust (2010: Nil).

##### ***Units in the SPS Trust held by other related parties***

As at 30 June 2011 no Key Management Personnel of PaperlinX Limited held units in the SPS Trust (2010: Nil).

##### ***Key Management Personnel loan disclosures***

The SPS Trust has not made, guaranteed or secured, directly or indirectly, any loans to Key Management Personnel or their personally related entities at any time during the year (2010: Nil).

##### ***Other transactions within the SPS Trust***

Apart from those details disclosed in this note, no Director has entered into a material contract with the SPS Trust during the year and there were no material contracts involving Directors' interests existing at year end.

##### ***Investments***

SPS Trust received dividend income from its investment in PaperlinX SPS LLC of \$21,510,846 in the year (2010: \$9,732,888).

The distribution paid by the SPS Trust was as declared by the Responsible Entity, but at the ultimate discretion of the Directors of PaperlinX Limited.

#### **13. Contingent Assets and Liabilities**

At the date of this report, the Directors of the Responsible Entity are not aware of any contingent liabilities or contingent assets that relate to the SPS Trust. The Directors of the Responsible Entity were not aware of any contingent liabilities or contingent assets that related to the prior financial year ended 30 June 2010.

#### **14. Subsequent Events**

There has not arisen in the interval between the end of the financial year and the date of this report any items, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Responsible Entity, to affect significantly the operation of the SPS Trust, the results of those operations, or the state of affairs of the SPS Trust.

## Directors' Declaration

In the opinion of the Directors of The Trust Company (RE Services) Limited, the Responsible Entity of PaperlinX SPS Trust ("the SPS Trust"):

- (a) the financial statements and notes, set out on pages 7 to 24, are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of the SPS Trust as at 30 June 2011 and of its 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) there are reasonable grounds to believe that the SPS Trust will be able to pay its debts as and when they become due and payable;
- (c) the financial statements and notes, set out on pages 7 to 24, are in accordance with the provisions of the Constitution of the SPS Trust; and
- (d) the Directors draw attention to note 2(a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors of The Trust Company (RE Services) Limited:

Michael Britton  
Director

Sydney, 31<sup>st</sup> August 2011

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

To: the directors of The Trust Company (RE Services) Limited, the Responsible Entity of PaperlinX SPS Trust

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

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

KPMG

**Paul J McDonald**  
*Partner*

Melbourne

31<sup>st</sup> August 2011

# Independent Auditor's Report to the Unitholders of PaperlinX SPS Trust

## Report on the financial report

We have audited the accompanying financial report of PaperlinX SPS Trust (the Trust), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 14 comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

### *Directors' responsibility for the financial report, as Responsible Entity for the Trust*

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

### *Auditor's responsibility*

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

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

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

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

### *Independence*

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

### *Auditor's opinion*

In our opinion:

- (a) the financial report of PaperlinX SPS Trust is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Trust's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

## **Independent Auditor's Report to the Unitholders of PaperlinX SPS Trust**

### **Report on the financial report (cont.)**

#### *Material uncertainty relating to the fair value of investment in PaperlinX SPS LLC*

Without modification to the opinion expressed above, we draw attention to the following matter. Note 11 to the financial statements sets out the basis on which the fair value of the Trust's investment in PaperlinX SPS LLC has been determined at 30 June 2011. Inherent in the valuation are certain assumptions regarding the payment of dividends from PaperlinX SPS LLC to the Trust and the options available in relation to the PaperlinX Step-Up Preference Securities (PSPS) under the PaperlinX SPS Trust's Constitution at the first periodic remarketing date of 30 June 2012. These decisions are ultimately at the discretion of the Directors of PaperlinX Limited.

The assumptions regarding future dividend payments and the treatment of the PSPS at the first periodic remarketing date (and subsequent remarketing dates) materially impact the assessment of the fair value of the Trust's investment in PaperlinX SPS LLC. As the intentions of the Directors of PaperlinX Limited are not yet known, there is a material uncertainty regarding the valuation of the investment at 30 June 2011.

KPMG

**Paul J McDonald**  
*Partner*

Melbourne

31<sup>st</sup> August 2011

# Corporate Governance Statement For the year ended 30 June 2011

## PaperlinX SPS Trust ARSN 123 839 814

### General

The Directors of The Trust Company (RE Services) Limited (the “**Responsible Entity**”) as Responsible Entity of the PaperlinX SPS Trust ARSN 123 839 814 (the “**SPS Trust**”) consider that good quality corporate governance practices provide the framework for effective systems and business operations to deliver utmost value to the SPS Trust’s unitholders and other stakeholders. The Responsible Entity’s role is to act in the best interests of the unitholders of the SPS Trust.

The Trust Company (RE Services) Limited is a wholly owned subsidiary of The Trust Company Limited (“**The Trust Company**”). The operations of the SPS Trust are governed by the:

- Constitution;
- *Corporations Act 2001*;
- ASX Listing Rules;
- Compliance Plan;
- Relevant services agreements; and
- General law.

The Responsible Entity is responsible for the SPS Trust’s overall operation and administrative functions including the:

- preparation of financial statements, notices and reports; and
- monitoring of the SPS Trust’s service providers including registry, management and custody.

### Structure

Pursuant to the Services and Indemnity Agreement between the Responsible Entity and PaperlinX Limited (“PaperlinX”), PaperlinX is responsible for the performance of certain management services on behalf of the Responsible Entity in respect of the SPS Trust, including asset management, financial reporting, taxation services and investor communications and meetings.

### ASX Corporate Governance Principles

As a listed entity and a managed investment scheme, the SPS Trust is also required to comply with the ASX Listing Rules and provide a statement in the SPS Trust’s financial report disclosing the extent to which the Responsible Entity has followed the Corporate Governance Principles and Recommendations. Below, the Responsible Entity addresses each of the eight principles for the financial year ended 30 June 2011. This corporate governance statement is current as at the date of this financial report.

#### Principle 1

##### Lay solid foundations for management and oversight

##### Role of the board and management

The structure and role of the boards of the Responsible Entity and of any of the relevant appointed service providers are designed to responsibly maximise value for investors by providing appropriate oversight, strategic direction and independent commercial judgement.

The Responsible Entity has a Constitution which sets out, amongst other things, the appointment and removal procedures for directors, board meeting requirements and remuneration policies. Internal procedures have been developed for:

- monitoring business risk;
- appropriate oversight of business units;
- compliance with regulatory requirements, scheme compliance plan and Constitution;
- monitoring of third party service providers; and
- monitoring conflicts of interest.

The Responsible Entity's directors, along with management, have the role of ensuring that the Responsible Entity complies with its obligations as Responsible Entity of the SPS Trust. The Board of the Responsible Entity ("**Board**") generally meets monthly to consider client activities of the Responsible Entity and any relevant compliance matters but also meets when specific issues emerge. The Responsible Entity's management elevates relevant compliance matters to its Audit, Risk & Compliance Committee ("**ARCC**"). ARCC also fulfils the Responsible Entity's statutory responsibility to have a compliance committee in respect of the SPS Trust.

The Responsible Entity is accountable to unitholders. In addition, the Responsible Entity is responsible for the SPS Trust's overall operation, its regulatory and compliance obligations, and its administrative functions. The Responsible Entity regularly reviews and monitors the performance of the SPS Trust's affairs and activities so that they are conducted in the best interest of unitholders.

The Responsible Entity's functions include:

- maintaining high ethical and business standards;
- ensuring the preparation, review and approval of annual and half yearly financial statements, preparation of disclosures, notices and reports to unitholders, ASX and other regulators;
- consultation with PaperlinX; engaged to provide services in respect of the SPS Trust
- monitoring and responsibility for certain other specialist external service providers to assist the Responsible Entity from time to time in the proper, efficient and timely delivery of services;
- compliance with the Responsible Entity's constitution that sets out amongst other things the appointment and removal procedures for the director's, meeting rules and requirements and disclosure procedure;
- maintaining internal procedures for monitoring business risk and ensuring appropriate oversight of the SPS Trust's compliance plan and Constitution;
- empowering management of the Responsible Entity to report compliance matters relating to the SPS Trust to the Board and ARCC;
- The Trust Company as the ultimate parent company of the Responsible Entity, providing executive directors, responsible managers and company secretarial functions for the Responsible Entity. Those directors along with internal management have the ongoing task of ensuring the Responsible Entity complies with its obligations as Responsible Entity of the SPS Trust; and
- ensuring all available relevant information in connection with the SPS Trust is discussed at meetings of the Board.

## **Principle 2**

### **Structure the board to add value**

Both the Responsible Entity and PaperlinX add value through being completely independent of each other with no common directors and no related party interests between the two entities. This ensures no conflicts of interest when discretionary decisions are required of either entity.

The Responsible Entity currently has four executive directors which meet monthly to consider the operational activities and financial performance of the Responsible Entity. The directors are provided by the Responsible Entity's ultimate parent company, The Trust Company.

The procedures for selecting a Chairman, powers of the Board, appointment, removal and remuneration of Directors, Board meeting requirements and other related matters are set out in the Responsible Entity's constitution.

New director's are fully briefed on the terms and conditions of their appointment by The Trust Company's executives and undertake an induction program to familiarise themselves with the Responsible Entity and its business operations.

As each Director of the Responsible Entity is an executive of The Trust Company, ARCC is comprised of a majority of external members (non-executives of The Trust Company) and has been established to meet the requirements of chapter 5C of the *Corporations Act 2001* ("Corporations Act"). In addition, the independence of the external members of ARCC meets the requirements of section 601JA(2) of the Corporations Act. The Trust Company has structured itself so that the Responsible Entity's role as Responsible Entity of the SPS Trust adds real value through its focus on compliance with the regulatory requirements and its overarching responsibility to act in the best interests of unitholders.

## **Principle 3**

### **Promote ethical and responsible decision-making**

The Responsible Entity is committed to maintaining the highest standards of integrity with respect to its role as the Responsible Entity and seeks to ensure all its activities in regard to the SPS Trust are undertaken with efficiency, honesty and fairness. The Responsible Entity has various policies and procedures in addition to a Code of Conduct and Share Trading Policy that apply to all directors and employees without exception. All codes and policies are designed to promote integrity, responsibility, accountability and adherence to relevant legislative requirements. They apply to the directors and officers of the Responsible Entity as a member of the The Trust Company group and Responsible Entity of the SPS Trust.

#### **Principle 4**

##### **Safeguard integrity in financial reporting**

The Responsible Entity has engaged service providers to assist in the preparation of the half year and annual financial statements for the SPS Trust. These financial statements are audited by an external auditor whose report is provided to the Responsible Entity's Board. The current auditor is KPMG.

The Responsible Entity meets with the service providers, PaperlinX and the external auditor to discuss the audit plan and scope prior to each financial year end. The financial statements and auditor's report are tabled for the Board's consideration and approval.

The Responsible Entity reviews the financial statements and provides formal statements to the Board confirming that the SPS Trust's financial reports present a true and fair view, in all material aspects, of the SPS Trust's financial position, and that operational results are in accordance with the SPS Trust's constitution and relevant accounting standards. In addition, it confirms that the statements are founded on a sound system of risk management and internal compliance and control which implements policies adopted by the Board.

#### **Principle 5**

##### **Make timely and balanced disclosure**

The Responsible Entity has continuous disclosure procedures to ensure the SPS Trust's compliance with ASX Listing Rules and the Corporations Act. Service providers to the SPS Trust under outsourcing arrangements are required to adhere to the ASX listing rules in terms of continuous disclosure requirements and must report to the Responsible Entity instances where a disclosure obligation is required. The Responsible Entity has procedures in place to monitor the compliance of service providers with these requirements. The Company Secretary of the Responsible Entity is responsible for disclosures to the ASX in relation to the continuous disclosure obligations of the SPS Trust.

#### **Principle 6**

##### **Respect the rights of unitholders**

The Responsible Entity is committed to providing timely and accurate information concerning the SPS Trust to its unitholders. The SPS Trust's compliance plan and Constitution further set out the Responsible Entity's obligations and the rights of unitholders in this regard, including unitholders rights to have their complaints addressed appropriately..

The financial report of the SPS Trust comprising the financial statements, directors' report, directors' declaration and independent auditor's report is sent to unitholders each year. The financial report includes the ASX Listing Rule disclosure requirements and although registered schemes are not required to hold meetings of unitholders, the constitution of the SPS Trust provides for such meetings if and when required.

Under the Services and Indemnity Agreement, PaperlinX is required to ensure that any actions or decisions it makes do not breach the terms of the SPS Trust's Constitution or any relevant law or transaction document in relation to the SPS Trust which could adversely affect the rights of unitholders.

#### **Principle 7**

##### **Recognise and manage risk**

Under the Services and Indemnity Agreement, PaperlinX is required to:

- ensure that it regularly and adequately trains its representatives and agents so that they have the necessary competencies to deliver the services required;
- establish and maintain adequate risk management systems;
- use its best endeavours to ensure that it complies with any legislative requirements directly applicable to PaperlinX and its activities; and
- notify the Responsible Entity in writing immediately regarding any event which may trigger the enhanced disclosure provisions of the Corporations Act.

The Responsible Entity values the importance of robust risk management systems and, in conjunction with its ultimate parent company, The Trust Company, has established ARCC to support the compliance obligations of the SPS Trust with respect to its corporate governance and risk responsibilities.

The ARCC is comprised of a majority of external members skilled in the areas of audit, financial reporting, risk and compliance. The ARCC is responsible for the oversight of risk management and internal control systems for the Responsible Entity. It reviews internal and external audit processes and monitors the Responsible Entity's compliance with laws and regulations. The ARCC meets regularly with The Trust Company's executive team, senior management and external advisers, and reports directly to The Trust Company and Responsible Entity.

The Responsible Entity has a formal risk management program in place which has been adopted from its parent entity, The Trust Company. It is based on Standards Australia AS/NZS4360:2004-Risk Management Standard and includes policies and procedures to identify and address material financial and non-financial risks.

The Trust Company also maintains an independent internal audit function which reports directly to ARCC and the Responsible Entity's Board if necessary.

**Principle 8**  
**Remunerate fairly and responsibly**

Remuneration policies are in place to maintain and attract talented and motivated directors and employees. The policies are designed to improve the performance of The Trust Company and its controlled entities. As The Trust Company is the parent of the Responsible Entity it provides executive directors and internal management for the Responsible Entity. Directors and internal management of the Responsible Entity are remunerated by The Trust Company and not by the SPS Trust.

The Responsible Entity's fees are set out in the Constitution for the SPS Trust. Both the Responsible Entity and PaperlinX monitor all fees and expenses paid from the SPS Trust to ensure they are allowable under the SPS Trust's documentation.

## Supplementary Information – ASX Listing Rule 4.10

### 1. ASX Listing Rule 4.10.3

Refer page 29 of the financial report

### 2. ASX Listing Rules 4.10.4 & 4.10.9

Twenty largest holders of the PaperlinX SPS Trust as at 22 August 2011

	NAME	No. of Units	%
1.	J P MORGAN NOMINEES AUSTRALIA LIMITED	491,087	17.23
2.	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <GSENI A/C>	110,416	3.87
3.	CITICORP NOMINEES PTY LIMITED	70,375	2.47
4.	NATIONAL NOMINEES LIMITED	68,400	2.40
5.	UBS NOMINEES PTY LTD	59,766	2.10
6.	BLANN INVESTMENTS PTY LIMITED <BLANN HOLDING A/C>	57,948	2.03
7.	MR GABRIEL BERGER	49,616	1.74
8.	TAVERNERS N PTY LTD	47,311	1.66
9.	AVANTEOS INVESTMENTS LIMITED <ENCIRCLE IMA A/C>	34,300	1.20
10.	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <MLCI A/C>	26,076	0.91
11.	M F CUSTODIANS LTD	25,149	0.88
12.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	20,688	0.73
13.	THE AUSTRALIAN NATIONAL UNIVERSITY	20,000	0.70
14.	DIMBULU PTY LTD	20,000	0.70
15.	EQUITY TRUSTEES LIMITED <ALLOCATED PENSION ACCOUNT>	20,000	0.70
16.	MANATEE PTY LTD <LONGWAVE SUPER FUND A/C>	19,150	0.67
17.	MCDONALD BROS HOLDINGS PTY LTD	18,000	0.63
18.	SUNBASE INVESTMENTS PTY LTD	16,500	0.58
19.	THORWOOD INVESTMENTS PTY LTD <A I STERN SUPER FUND A/C>	16,095	0.56
20.	SANDHURST TRUSTEES LTD <DMP ASSET MANAGEMENT A/C>	15,873	0.56
	<b>TOTAL: TOP 20 HOLDERS</b>	<b>1,206,750</b>	<b>42.34</b>
	<b>TOTAL: REMAINING HOLDERS BALANCE</b>	<b>1,643,250</b>	<b>57.66</b>

## Supplementary Information – ASX Listing Rule 4.10 (cont.)

### 3. ASX Listing Rule 4.10.5

Issued and quoted securities at end of current period

Category of +securities	Total number	Number quoted	Issue price per security A\$	Amount paid up per security A\$
<b>8.1 + Ordinary securities</b> <i>(1 ordinary unit issued to PaperlinX Limited which represents a right to the underlying assets of the trust)</i>	1	-	100	100
<b>8.2</b> Changes during current period (a) Increases through issues (b) Decreases through returns of capital, buybacks, redemptions	- -	- -	- -	- -
<b>8.3 + Securities</b> <i>(all preference securities are of the same class and carry equal rights, each unit represents a right to the underlying assets of the trust )</i>	2,850,000	2,850,000	100	100
<b>8.4</b> Changes during current period (a) Increases through issues (b) Decreases through returns of capital, buybacks, redemptions	- -	- -	- -	- -

### 4. ASX Listing Rule 4.10.6

#### Voting Rights

Each unit carries one vote at a meeting of unitholders of that unit class.

### 5. ASX Listing Rule 4.10.7

Analysis of number of security holders by size of holding as at 22 August 2011:

Holding Size	No. of Holders	% of Issue
1 – 1,000	2,141	87.07
1,001 – 5,000	257	10.45
5,001 – 10,000	31	1.26
10,001 – 100,000	28	1.14
100,001 & over	2	0.08
Total	2,459	100.0

### 6. ASX Listing Rules 4.10.8, 4.10.14, 4.10.15, 4.10.20, & 4.10.21

Not applicable.

### 7. ASX Listing Rule 4.10.10

Responsible Entity – The Trust Company (RE Services) Limited

Joint Company Secretaries – Adrian Lucchese and Sally Ascroft

## Supplementary Information – ASX Listing Rule 4.10 (cont.)

### 8. ASX Listing Rules 4.10.11 & 4.10.12

<b>Registered Office</b>	
Level 15	
20 Bond Street	
Sydney NSW 2000	
Telephone: (02) 8295 8100	
Facsimile: (02) 8295 8656	
<b>Auditor</b>	<b>Share Registry</b>
KPMG	Computershare Registry Services Pty Ltd
147 Collins Street	Yarra Falls
Melbourne VIC 3000	452 Johnston Street
	Abbotsford VIC 3067
	Telephone: 1300 738 908
	Facsimile: (03) 9473 2500

### 9. ASX Listing Rule 4.10.13

#### Quotation of Securities

The PaperlinX SPS Trust's Step-up Preference Securities are quoted on the Australian Securities Exchange and are not quoted on any other exchange.

### 10. ASX Listing Rule 4.10.16

#### Unquoted Equity Securities

There is one ordinary unit on issue that is not quoted and which is held by PaperlinX Limited.

### 11. ASX Listing Rule 4.10.17

Refer page 3 of the Financial Report.

### 12. ASX Listing Rule 4.10.18

#### On-Market Share Buy Back

The PaperlinX SPS Trust does not have an on-market buy-back of units currently in operation.

### 13. ASX Listing Rule 4.10.19

Refer page 3 of the Financial Report.