

PaperlinX Limited  
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22 February 2012

Company Announcements Office  
Australian Stock Exchange Limited  
Level 4, 20 Bridge Street  
Sydney NSW 2000

### **2012 Interim Financial Results**

The following are for release to the market:

1. Appendix 4D which attaches the 31 December 2011 Interim Financial Report.
2. 2012 Interim Results Presentation.
3. ASX Releases :
  - PaperlinX 2012 Interim Results; and
  - PaperlinX Plan to Restore Profitability.
4. ASX Release "PaperlinX Step-Up Preference Security Update".

Regards,



James Orr  
Company Secretary

Encl.

## APPENDIX 4D

(Rules 4.2A.3)

**Name of entity:** PAPERLINX LIMITED  
**ABN:** 70 005 146 350  
**For the half-year ended:** 31 December 2011  
Previous corresponding period: 31 December 2010

### Results for announcement to the market

	2011 A\$m	2010 A\$m		% Change
External revenues from ordinary activities:				
• continuing operations	2,183.9	2,430.7	down	10%
• discontinued operations	-	11.6	down	100%
	2,183.9	2,442.3	down	11%
Net loss for the period after tax:				
• continuing operations	(59.3)	(8.3)	down	614%
• discontinued operations	(1.6)	(1.9)	up	16%
	(60.9)	(10.2)	down	497%
attributable to:				
Equity holders of PaperlinX Limited	(60.9)	(10.2)	down	497%

### Dividends

	Amount per security	Franked amount per security
Interim dividend - current period	Nil	Nil
Interim dividend - previous corresponding period	Nil	Nil
Record date for determining entitlements to the dividend		N/A
Date dividend is payable		N/A

### Commentary on results for the period

Refer to press release for explanation of results

### Net tangible assets per security

	31 December 2011	31 December 2010
Net tangible assets per security	\$0.18	\$0.34

### Details of entities over which control has been gained or lost

Nil

### Dividend reinvestment plan

The following dividend plans are in operation Dividend Reinvestment Plan ('DRP')  
The last date(s) for receipt of election notices for the dividend plans N/A  
Any other disclosures in relation to dividends N/A

### Details of associates and joint ventures

N/A

AS AT 31 DECEMBER 2011

**Information on audit or review**

This report is based on accounts which have been subject to review. A copy of the review report is included in the attached interim financial report.

The last paragraph of the review report contains an additional comment from the auditors in relation to disclosures in the interim financial report regarding the going concern basis of preparation of the accounts and the status of the PaperlinX Group's financing arrangements and trading environment.



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James Orr

**Company Secretary**

Date: 22 February 2012

# **INTERIM FINANCIAL REPORT**

of PaperlinX Limited

31 December 2011



# INTERIM FINANCIAL REPORT OF PAPERLINX LIMITED

AS AT 31 DECEMBER 2011

## Contents

Directors' Report	3
Lead Auditor's Independence Declaration	4
Condensed Consolidated Income Statement	5
Condensed Consolidated Statement of Comprehensive Income	6
Condensed Consolidated Statement of Financial Position	7
Condensed Consolidated Statement of Changes in Equity	8
Condensed Consolidated Statement of Cash Flows	10
Condensed Notes to the Consolidated Financial Statements	11
Note 1. Reporting entity	11
Note 2. Statement of compliance	11
Note 3. Significant accounting policies	11
Note 4. Accounting estimates and judgements	12
Note 5. Operating segments	13
Note 6. Individually significant items	15
Note 7. Earnings per share	15
Note 8. Other income from continuing operations	16
Note 9. Net finance costs from continuing operations	16
Note 10. Discontinued operations	16
Note 11. Dividends and distributions	17
Note 12. Impairment review of non-current assets	17
Note 13. Loans and borrowings	19
Note 14. Employee retirement benefit obligation	19
Note 15. Issued capital	20
Note 16. Reconciliation of cash flows from operating activities	21
Note 17. Contingent liabilities	21
Note 18. Events subsequent to balance date	21
Directors' Declaration	22
Independent Auditor's Review Report	23

## DIRECTORS' REPORT

The Directors of PaperlinX Limited ("the Company") present their report together with the condensed consolidated interim financial statements of the Company and its subsidiaries ("the Consolidated Entity") for the half-year ended 31 December 2011 and the auditors' review report thereon.

### Directors

The Directors of the Company during or since the end of the half-year are:

<b>Name</b>	<b>Period of directorship</b>
<b>Non-executive</b>	
Mr H (Harry) Boon	Director since May 2008. Chairman since 1 September 2011.
Mr D E (David) Meiklejohn AM	Director and Chairman from December 1999. Retired as a Director and Chairman 31 August 2011.
Mrs M L (Lyndsey) Cattermole AM	Director since December 2010.
Mr A J (Tony) Clarke	Director since June 2011.
Mr M J (Mike) McConnell	Director since 1 August 2011.
Mr J W (James) Hall	Director from May 2007. Retired 30 September 2011.
Mr L J (Lindsay) Yelland	Director from February 2000. Retired 21 October 2011.
<b>Executive</b>	
Mr T R (Toby) Marchant	Managing Director and Chief Executive Officer since 1 November 2010. Director since 1 November 2010.

### Review of operations

A review of the operations of the Consolidated Entity during the half-year, and the results of those operations is contained in PaperlinX's Statement to the Australian Stock Exchange and news media dated 22 February 2012.

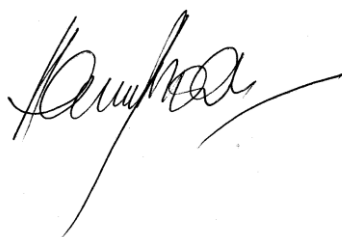
### Lead auditor's independence declaration under section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 4 and forms part of the Directors' report for the half-year ended 31 December 2011.

### Rounding off

The Company is the kind referred to in the Australian Securities and Investments Commission Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial statements have been rounded off to the nearest hundred thousand dollars, unless otherwise stated.

In accordance with a resolution of the Directors, dated at Melbourne, this 22nd day of February 2012.



Harry Boon  
Chairman



Toby R Marchant  
Managing Director and Chief Executive Officer

## LEAD AUDITOR'S INDEPENDENCE DECLARATION

To: the Directors of PaperlinX Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2011 there have been:

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

KPMG

KPMG

*Paul J McDonald*

Paul J McDonald

*Partner*

Melbourne

22 February 2012

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the half-year ended 31 December

	Note	2011 \$m	2010 \$m
<b>Continuing operations</b>			
Revenue from sale of goods		2,183.9	2,430.7
Cost of inventory sold		(1,761.8)	(1,948.8)
Gross profit		422.1	481.9
Other income	8	2.8	1.6
Personnel costs		(226.7)	(249.1)
Logistics and distribution		(116.6)	(122.1)
Sales and marketing		(5.0)	(6.0)
Impairment of property, plant and equipment	12	(3.7)	-
Impairment of intangible assets	12	(35.7)	-
Other expenses		(80.1)	(86.0)
<b>Result from operating activities</b>		(42.9)	20.3
Net movement in fair value of currency option and loan	6	0.2	(23.4)
Net finance costs	9	(12.1)	(9.0)
<b>Loss before tax</b>		(54.8)	(12.1)
Tax (expense)/benefit		(4.5)	3.8
<b>Loss from continuing operations</b>		(59.3)	(8.3)
<b>Discontinued operations</b>			
Loss from discontinued operations, net of tax	10	(1.6)	(1.9)
<b>Loss for the period</b>		(60.9)	(10.2)
<b>Loss for the period attributable to:</b>			
Equity holders of PaperlinX Limited		(60.9)	(10.2)
Basic earnings per share (cents)	7	(10.0)	(3.4)
Basic earnings per share from continuing operations (cents)	7	(9.8)	(3.1)
Diluted earnings per share (cents)	7	(10.0)	(3.4)
Diluted earnings per share from continuing operations (cents)	7	(9.8)	(3.1)

Condensed notes 1 to 18 form part of these financial statements and are to be read in conjunction therewith.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December	2011 \$m	2010 \$m
<b>Loss for the period</b>	(60.9)	(10.2)
<b>Other comprehensive income:</b>		
Exchange differences on translation of overseas subsidiaries	(19.4)	(69.0)
Actuarial adjustments on defined benefit plans	(22.3)	13.8
Net change in fair value of cash flow hedges	(45.1)	33.6
Net change in fair value of cash flow hedges reclassified to Income Statement	43.9	(33.7)
Income tax benefit/(expense) on other comprehensive income	5.8	(4.4)
Other comprehensive loss for the period, net of tax	(37.1)	(59.7)
<b>Total comprehensive loss for the period, net of tax</b>	<b>(98.0)</b>	<b>(69.9)</b>
<b>Total comprehensive loss for the period attributable to:</b>		
Equity holders of PaperlinX Limited	(98.0)	(69.9)

*Condensed notes 1 to 18 form part of these financial statements and are to be read in conjunction therewith.*

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2011 \$m	As at 30 June 2011 \$m
<b>Current assets</b>			
Cash and cash equivalents		115.6	125.3
Trade and other receivables		918.6	967.9
Income tax receivable		6.9	7.3
Inventories		416.7	439.4
Assets held for sale		-	0.5
<b>Total current assets</b>		<b>1,457.8</b>	<b>1,540.4</b>
<b>Non-current assets</b>			
Receivables		11.7	6.8
Investments		1.4	1.5
Property, plant and equipment		63.1	71.5
Intangible assets		208.2	257.3
Deferred tax assets		55.4	52.6
<b>Total non-current assets</b>		<b>339.8</b>	<b>389.7</b>
<b>Total assets</b>		<b>1,797.6</b>	<b>1,930.1</b>
<b>Current liabilities</b>			
Bank overdrafts		11.3	9.8
Trade and other payables		666.7	731.9
Loans and borrowings	13	224.9	63.1
Income tax payable		2.6	1.9
Employee benefits		14.1	15.4
Provisions		20.4	23.5
<b>Total current liabilities</b>		<b>940.0</b>	<b>845.6</b>
<b>Non-current liabilities</b>			
Payables		1.4	1.4
Loans and borrowings	13	93.3	224.2
Deferred tax liabilities		12.1	12.6
Employee benefits		102.3	95.0
Provisions		9.6	14.9
<b>Total non-current liabilities</b>		<b>218.7</b>	<b>348.1</b>
<b>Total liabilities</b>		<b>1,158.7</b>	<b>1,193.7</b>
<b>Net assets</b>		<b>638.9</b>	<b>736.4</b>
<b>Equity</b>			
Issued capital	15	1,893.3	1,890.7
Reserves		(178.0)	(155.3)
Accumulated losses		(1,352.9)	(1,275.5)
Total equity attributable to holders of ordinary shares of PaperlinX Limited		362.4	459.9
PaperlinX step-up preference securities		276.5	276.5
<b>Total equity</b>		<b>638.9</b>	<b>736.4</b>

Condensed notes 1 to 18 form part of these financial statements and are to be read in conjunction therewith.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2011 \$m	Note	Attributable to equity holders of PaperlinX Limited							Total equity
		Issued capital	Exchange fluctuation reserve	Hedging reserve	Reserve for own shares	Employee share plans reserve	Accumulated losses PaperlinX step-up preference securities	Total equity	
<b>Balance at 1 July 2011</b>		1,890.7	(162.3)	1.2	(1.0)	6.8	(1,275.5)	276.5	<b>736.4</b>
<b>Total comprehensive loss for the period</b>									
Loss for the period		-	-	-	-	-	(60.9)	-	<b>(60.9)</b>
Other comprehensive income									
• Exchange differences on translation of overseas subsidiaries		-	(19.4)	-	-	-	-	-	<b>(19.4)</b>
• Net change in fair value of cash flow hedges		-	-	(45.1)	-	-	-	-	<b>(45.1)</b>
• Net change in fair value of cash flow hedges reclassified to Income Statement		-	-	43.9	-	-	-	-	<b>43.9</b>
• Actuarial adjustments on defined benefit plans <sup>(1)</sup>		-	-	-	-	-	(22.3)	-	<b>(22.3)</b>
• Income tax benefit on other comprehensive income		-	-	-	-	-	5.8	-	<b>5.8</b>
Total other comprehensive loss		-	(19.4)	(1.2)	-	-	(16.5)	-	<b>(37.1)</b>
Total comprehensive loss for the period		-	(19.4)	(1.2)	-	-	(77.4)	-	<b>(98.0)</b>
<b>Transactions with owners recorded directly in equity</b>									
• Employee share-based payment transactions		0.6	-	-	(0.6)	(3.0)	-	-	<b>(3.0)</b>
• Issue of shares to employees		2.0	-	-	1.5	-	-	-	<b>3.5</b>
Total transactions with owners		2.6	-	-	0.9	(3.0)	-	-	<b>0.5</b>
<b>Balance at 31 December 2011</b>		1,893.3	(181.7)	(0.0)	(0.1)	3.8	(1,352.9)	276.5	<b>638.9</b>

(1) Estimated actuarial loss for defined benefit pension plans using updated discount rates and inflation rate assumptions and approximating the asset values using asset market returns over the reporting period.

Condensed notes 1 to 18 form part of these financial statements and are to be read in conjunction therewith.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CONTINUED**

For the half-year ended 31 December 2010 \$m	Note	Attributable to equity holders of PaperlinX Limited							Total equity
		Issued capital	Exchange fluctuation reserve	Hedging reserve	Reserve for own shares	Employee share plans reserve	Accumulated losses PaperlinX step-up preference securities		
<b>Balance at 1 July 2010</b>		1,894.9	(99.6)	0.3	(6.7)	6.5	(1,148.0)	276.5	<b>923.9</b>
<b>Total comprehensive loss for the period</b>									
Loss for the period		-	-	-	-	-	(10.2)	-	<b>(10.2)</b>
Other comprehensive income									
• Exchange differences on translation of overseas subsidiaries		-	(69.0)	-	-	-	-	-	<b>(69.0)</b>
• Effective portion of changes in fair value of cash flow hedges		-	-	33.6	-	-	-	-	<b>33.6</b>
• Net change in fair value of cash flow hedges transferred to Income Statement		-	-	(33.7)	-	-	-	-	<b>(33.7)</b>
• Actuarial adjustments on defined benefit plans (1)		-	-	-	-	-	13.8	-	<b>13.8</b>
• Income tax expense on other comprehensive income		-	-	-	-	-	(4.4)	-	<b>(4.4)</b>
Total other comprehensive (loss)/income		-	(69.0)	(0.1)	-	-	9.4	-	<b>(59.7)</b>
Total comprehensive loss for the period		-	(69.0)	(0.1)	-	-	(0.8)	-	<b>(69.9)</b>
<b>Transactions with owners recorded directly in equity</b>									
• Employee share-based payment transactions		-	-	-	-	(1.5)	-	-	<b>(1.5)</b>
• Issue of shares to employees		(2.3)	-	-	3.4	-	-	-	<b>1.1</b>
• Employee loans forgiven - forfeited entitlements	15	0.1	-	-	-	-	-	-	<b>0.1</b>
• Distributions paid on PaperlinX step-up preference securities	11	-	-	-	-	-	(10.6)	-	<b>(10.6)</b>
Total transactions with owners		(2.2)	-	-	3.4	(1.5)	(10.6)	-	<b>(10.9)</b>
<b>Balance at 31 December 2010</b>		1,892.7	(168.6)	0.2	(3.3)	5.0	(1,159.4)	276.5	<b>843.1</b>

(1) Estimated actuarial gain for defined benefit pension plans using updated discount rates and inflation rate assumptions and approximating the asset values using asset market returns over the reporting period.

Condensed notes 1 to 18 form part of these financial statements and are to be read in conjunction therewith.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December	Note	2011 \$m	2010 \$m
<b>Cash flows from operating activities</b>			
Receipts from customers		2,182.6	2,449.4
Payments to suppliers and employees		(2,221.1)	(2,444.8)
Interest received		1.2	1.1
Interest paid		(8.9)	(10.0)
Income taxes paid		(2.8)	(3.5)
<b>Net cash used in operating activities</b>	16	(49.0)	(7.8)
<b>Cash flows from investing activities</b>			
Acquisition of:			
• Controlled entities and businesses (net of cash and bank overdraft acquired)		-	(0.3)
• Property, plant and equipment and intangibles		(7.9)	(6.4)
Net (payments)/proceeds from the sale of:			
• Controlled entities and businesses (proceeds less transaction costs)		(0.8)	(3.1)
• Property, plant and equipment		0.6	0.9
• Investments		-	3.5
Tasmanian manufacturing operations closure payments		(1.9)	(24.7)
Loans repaid by other persons		-	0.7
<b>Net cash used in investing activities</b>		(10.0)	(29.4)
<b>Cash flows from financing activities</b>			
Step-up preference securities distributions paid		-	(10.8)
Proceeds from borrowings		57.4	35.5
Repayment of borrowings		(1.6)	(6.8)
Cash flow hedges		(0.9)	(2.4)
Capitalised borrowing costs paid		(2.0)	(0.1)
Other borrowing costs paid		(0.2)	(0.5)
<b>Net cash from financing activities</b>		52.7	14.9
<b>Net decrease in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the period		115.5	107.6
Effect of exchange rate changes on cash held		(4.9)	(7.3)
<b>Cash and cash equivalents at the end of the period</b>	16	104.3	78.0

*Condensed notes 1 to 18 form part of these financial statements and are to be read in conjunction therewith.*

# CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

## Note 1. Reporting entity

The Company is a company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the six months ended 31 December 2011 comprises the Company and its subsidiaries (together referred to as "the Consolidated Entity").

The consolidated annual financial report of the Consolidated Entity as at and for the year ended 30 June 2011 is available upon request from the Company's registered office at 7 Dalmore Drive, Scoresby Victoria 3179 or at [www.paperlinx.com.au](http://www.paperlinx.com.au).

This condensed consolidated interim financial report was approved by the Board of Directors on 22 February 2012.

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

## Note 2. Statement of compliance

The condensed consolidated interim financial report has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

The condensed consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Consolidated Entity as at and for the year ended 30 June 2011.

### Going concern basis of accounting

In preparing the condensed consolidated interim financial report, the Directors made an assessment of the ability of the Consolidated Entity to continue as a going concern, which contemplates the continuity of normal business operations, realisation of assets and settlement of liabilities in the ordinary course of business and without the intention or necessity to dispose of or curtail a significant part of the business.

Following the 23 December 2011 announcement by the Company that there was likely to be non-current asset impairments in the European business in the 31 December 2011 accounts, the Company sought and received an amendment to its debt facility from its main lender in Europe to waive any actual or potential breach of covenants as at 31 December 2011. This waiver and amendment was agreed in February 2012. Based upon recording goodwill and other non-current asset impairment charges of \$39.4m in the interim financial report at 31 December 2011, the debt covenants would have been breached if this waiver and amendment had not been agreed. As this waiver was agreed post reporting date, these debts have been reclassified as current liabilities. The waiver and amendment included certain revised debt covenants and other restrictions and obligations including a requirement to obtain lender approval for future hybrid distributions and asset sales. The Consolidated Entity also maintains other regionally based Receivables and Inventory backed debt facilities. These other regional facilities are predominantly classified as non-current as the Consolidated Entity expects and has the discretion to roll over these facilities for a period greater than 12 months.

Regardless of the non-current debt classifications, the ability of the Consolidated Entity to meet its operational cash obligations and debt covenants is dependent on a number of factors, including meeting its forecast trading results, achieving forecast cash flows, maintaining trading terms with key trading partners (including suppliers and credit insurers) and complying with other covenant obligations. 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 the Consolidated Entity. In this regard, the current economic environment in the Consolidated Entity's key markets presents challenges in terms of sales volume and pricing as well as input costs. Whilst the Directors have instituted measures to preserve cash and secure finance, this environment creates uncertainties over the future trading results and cash flows. In addition, whilst asset sales are anticipated, there exists some uncertainty over the timing and completion of those sales.

Should the ability of the Consolidated Entity to realise sufficient cash flows from trading operations be restricted, the Consolidated Entity 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 (subject to the implications of regionally specific debt covenants and restrictions on the ability to draw down debt facilities and move cash within the Consolidated Entity), asset sales, working capital reductions, non-payment of ordinary and hybrid distributions and further restrictions of operational and capital expenditures.

After making enquiries, and considering the implications of the material uncertainties described above, the Directors have a reasonable expectation that the Consolidated Entity will have adequate resources to continue to operate and meet its obligations as and when they fall due for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the condensed consolidated interim financial report.

## Note 3. Significant accounting policies

Except as detailed below, the accounting policies and disclosures applied by the Consolidated Entity in this condensed consolidated interim financial report are the same as those applied by the Consolidated Entity in its consolidated financial report as at and for the year ended 30 June 2011.

### Changes in accounting policy and disclosures

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

New and revised Standards and Interpretations effective for the current reporting period that are relevant to the Consolidated Entity include:

- AASB 124 *Related Party Disclosures*, AASB 2009-12 *Amendments to Australian Accounting Standards*
- AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2010-6 *Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets*
- AASB 2009-14 *Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement*

The adoption of these standards did not have any impact on the current reporting period or any prior period.

None of the other new and revised Standards and Interpretations issued by the AASB are considered relevant to the Consolidated Entity's results and disclosures for the six months ended 31 December 2011.

**Note 4. Accounting estimates and judgements**

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial report, the significant estimates and judgements in applying the Consolidated Entity's accounting policies were consistent with those applied to the consolidated financial statements as at and for the year ended 30 June 2011.

During the current period, management have revisited the assumptions and estimates associated with the closure of the Tasmanian manufacturing operations. There are no material changes to previously reported estimates. If the final amounts relating to the site closures differ from the current estimate, variations will be brought to account in future periods. If required, these adjustments will be disclosed in the income statement as discontinued operations.

# CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

## Note 5. Operating segments

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

Segment	Description of operations
Merchanting	International merchant supplying the printing and publishing industry and office supplies. North America comprises the United States of America and Canada. Europe comprises Continental Europe, the United Kingdom, Ireland and South Africa.
Discontinued 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. Paper Manufacturing is treated as a discontinued operation as a result of the disposal of the Australian Paper business (completed in May 2009) and the closure of the Tasmanian manufacturing operations (completed in June 2010) - refer Note 10.

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

	Note	Merchanting Europe \$m	Merchanting North America \$m	Merchanting Australia, New Zealand, Asia \$m	Unallocated \$m	Total Continuing Operations \$m	Discontinued Paper Manufacturing \$m	Group Eliminations \$m	Group \$m
<b>For the half-year ended 31 December 2011</b>									
External sales revenue		1,482.8	452.3	248.8	-	2,183.9	-	-	2,183.9
Inter-segment sales revenue		-	-	2.8	(2.8)	-	-	-	-
<b>Total revenue</b>		<b>1,482.8</b>	<b>452.3</b>	<b>251.6</b>	<b>(2.8)</b>	<b>2,183.9</b>	<b>-</b>	<b>-</b>	<b>2,183.9</b>
(Loss)/profit before net finance costs, tax and significant items		(6.4)	7.1	5.5	(9.7)	(3.5)	(0.6)	-	(4.1)
Significant items (pre-tax)	6	(39.4)	-	-	0.2	(39.2)	-	-	(39.2)
Net other finance costs	9	-	-	-	(3.7)	(3.7)	-	-	(3.7)
(Loss)/profit before interest and tax		(45.8)	7.1	5.5	(13.2)	(46.4)	(0.6)	-	(47.0)
Net interest	9,10				(8.4)	(8.4)	(1.0)	-	(9.4)
Loss before tax					(21.6)	(54.8)	(1.6)	-	(56.4)
Tax expense - pre-significant items					(4.5)	(4.5)	-	-	(4.5)
<b>Loss for the period</b>					<b>(26.1)</b>	<b>(59.3)</b>	<b>(1.6)</b>	<b>-</b>	<b>(60.9)</b>
The loss before tax includes:									
Depreciation and amortisation		(6.9)	(2.2)	(1.0)	(0.3)	(10.4)	-	-	(10.4)
Impairment of non-current assets		(39.4)	-	-	-	(39.4)	-	-	(39.4)
Depreciation, amortisation and impairment		(46.3)	(2.2)	(1.0)	(0.3)	(49.8)	-	-	(49.8)
Capital expenditure		6.5	1.1	0.2	-	7.8	-	-	7.8
<b>As at 31 December 2011</b>									
Total assets		1,172.8	309.2	246.1	63.8	1,791.9	5.7	-	1,797.6
Total liabilities		581.9	126.5	83.3	347.5	1,139.2	19.5	-	1,158.7
<b>Net assets/(liabilities)</b>		<b>590.9</b>	<b>182.7</b>	<b>162.8</b>	<b>(283.7)</b>	<b>652.7</b>	<b>(13.8)</b>	<b>-</b>	<b>638.9</b>

**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

**Note 5. Operating segments – (continued)**

	Note	Merchanting Europe \$m	Merchanting North America \$m	Merchanting Australia, New Zealand, Asia \$m	Unallocated \$m	Total Continuing Operations \$m	Discontinued Paper Manufacturing \$m	Group Eliminations \$m	Group \$m
<b>For the half-year ended</b>									
<b>31 December 2010</b>									
External sales revenue		1,654.0	500.5	276.2	-	2,430.7	11.6	-	2,442.3
Inter-segment sales revenue		-	-	3.7	(3.7)	(0.0)	4.2	(4.2)	-
Total revenue		1,654.0	500.5	279.9	(3.7)	2,430.7	15.8	(4.2)	2,442.3
Profit/(loss) before net finance costs, tax and significant items		12.8	8.1	9.4	(10.0)	20.3	(0.2)	-	20.1
Significant items (pre-tax)	6	-	-	-	(23.4)	(23.4)	(0.4)	-	(23.8)
Net other finance costs	9	-	-	-	(0.9)	(0.9)	-	-	(0.9)
Profit/(loss) before interest and tax		12.8	8.1	9.4	(34.3)	(4.0)	(0.6)	-	(4.6)
Net interest	9,10				(8.1)	(8.1)	(1.3)	-	(9.4)
Loss before tax					(42.4)	(12.1)	(1.9)	-	(14.0)
Tax expense - pre-significant items					(2.8)	(2.8)	-	-	(2.8)
Tax benefit - significant items	6				6.6	6.6	-	-	6.6
Loss for the period					(38.6)	(8.3)	(1.9)	-	(10.2)
The loss before tax includes:									
Depreciation and amortisation		(7.9)	(2.5)	(1.1)	(0.3)	(11.8)	-	-	(11.8)
Depreciation, amortisation and impairment		(7.9)	(2.5)	(1.1)	(0.3)	(11.8)	-	-	(11.8)
Capital expenditure		4.4	1.1	0.7	-	6.2	-	-	6.2
<b>As at 30 June 2011</b>									
Total assets		1,307.0	300.7	252.0	64.4	1,924.1	6.0	-	1,930.1
Total liabilities		628.9	124.7	85.3	332.4	1,171.3	22.4	-	1,193.7
Net assets/(liabilities)		678.1	176.0	166.7	(268.0)	752.8	(16.4)	-	736.4

# CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

## Note 6. Individually significant items

	Continuing			Discontinued			Total		
	Pre-tax \$m	Tax impact \$m	Post-tax \$m	Pre-tax \$m	Tax impact \$m	Post-tax \$m	Pre-tax \$m	Tax impact \$m	Post-tax \$m
<b>For the half-year ended 31 December</b>									
<b>2011</b>									
Impairment of property, plant and equipment	(3.7)	-	(3.7)	-	-	-	(3.7)	-	(3.7)
Impairment of intangible assets	(35.7)	-	(35.7)	-	-	-	(35.7)	-	(35.7)
Net movement in fair value of currency option and loan (1)	0.2	-	0.2	-	-	-	0.2	-	0.2
<b>Total individually significant items</b>	<b>(39.2)</b>	<b>-</b>	<b>(39.2)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(39.2)</b>	<b>-</b>	<b>(39.2)</b>
<b>2010</b>									
Net movement in fair value of currency option and loan (1)	(23.4)	6.6	(16.8)	-	-	-	(23.4)	6.6	(16.8)
Transaction costs related to sale of Australian Paper	-	-	-	(4.9)	-	(4.9)	(4.9)	-	(4.9)
Net benefits related to closure of discontinued Tasmanian operations	-	-	-	4.5	-	4.5	4.5	-	4.5
<b>Total individually significant items</b>	<b>(23.4)</b>	<b>6.6</b>	<b>(16.8)</b>	<b>(0.4)</b>	<b>-</b>	<b>(0.4)</b>	<b>(23.8)</b>	<b>6.6</b>	<b>(17.2)</b>

(1) The Consolidated Entity has a currency option to hedge a foreign currency exposure on an intercompany loan. AASB 139 Financial Instruments: Recognition and Measurement (AASB 139) permits reporting entities to separate the intrinsic value and time value of an option. AASB 139 allows for the intrinsic value of an option to be designated as part of a hedging relationship. However, the time value component does not qualify for hedge accounting and changes in fair value are recognised immediately in the income statement for the financial period as they do not form part of a hedging relationship. This methodology can cause volatility in the amount of the time value expense, even though the cash cost of the option was fixed at the time of purchase.

## Note 7. Earnings per share

	Note	Continuing		Discontinued		Total	
		2011 \$m	2010 \$m	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Loss for the period		(59.3)	(8.3)	(1.6)	(1.9)	(60.9)	(10.2)
Less PaperlinX step-up preference securities distributions	11	-	(10.6)	-	-	-	(10.6)
Loss for the period attributable to holders of ordinary shares in PaperlinX Limited		(59.3)	(18.9)	(1.6)	(1.9)	(60.9)	(20.8)
Weighted average number of shares - basic (millions)		607.4	603.6	607.4	603.6	607.4	603.6
Basic EPS (cents)		(9.8)	(3.1)	(0.2)	(0.3)	(10.0)	(3.4)
Weighted average number of shares - diluted (millions)		607.4	603.6	607.4	603.6	607.4	603.6
Diluted EPS (cents)		(9.8)	(3.1)	(0.2)	(0.3)	(10.0)	(3.4)

The earnings per share have been calculated in accordance with Australian Accounting Standard AASB 133 *Earnings per Share* (AASB 133). 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 period, divided by the weighted average number of ordinary shares of the parent entity on issue during the financial period.

The diluted earnings per share are calculated in accordance with the requirements of AASB 133, whereby options are considered to be potential shares. The options to purchase shares on issue during the half-year ended 31 December 2011 (weighted average 11.388 million shares) have not been included in determining the diluted earnings per share because they are anti-dilutive. The options to purchase shares on issue during the half-year ended 31 December 2010 (weighted average 19.039 million shares) have not been included in determining the diluted earnings per share for the prior period because they are anti-dilutive.

# CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

## Note 8. Other income from continuing operations

For the half-year ended 31 December	2011 \$m	2010 \$m
Net profit on disposal of non-current assets	-	0.4
Other	2.8	1.2
<b>Total other income</b>	<b>2.8</b>	<b>1.6</b>

## Note 9. Net finance costs from continuing operations

For the half-year ended 31 December	2011 \$m	2010 \$m
<b>Net interest</b>		
Interest expense	(9.9)	(9.2)
Interest income	1.5	1.1
Total net interest	(8.4)	(8.1)
<b>Other finance costs</b>		
Net other foreign exchange (losses)/gains	(1.9)	0.5
Other borrowing costs	(1.8)	(1.4)
Total other finance costs	(3.7)	(0.9)
<b>Total net finance costs</b>	<b>(12.1)</b>	<b>(9.0)</b>

## Note 10. Discontinued operations

Discontinued operations for the current and comparative reporting periods comprise:

- The Tasmanian paper manufacturing operations. The closure of the Wesley Vale mill and part of the Burnie operations was announced on 7 December 2009. On 13 April 2010 the Company announced the closure of the Burnie operations, completing the Consolidated Entity's exit from paper manufacturing.
- Costs arising from the sale of the Australian Paper paper manufacturing business. The sale was completed on 31 May 2009.

The sale of Australian Paper and closure of the Tasmanian paper manufacturing operations were undertaken in order to concentrate the Consolidated Entity on its core merchandising and distribution operations.

For the half-year ended 31 December	Note	2011 \$m	2010 \$m
<b>Result from discontinued operations</b>			
Revenue		-	15.8
Other income		0.2	0.3
Trading expenses		(0.8)	(16.3)
Result from operating activities pre-significant items		(0.6)	(0.2)
Individually significant items	6	-	(0.4)
Result from operating activities		(0.6)	(0.6)
Unwind of discount on provisions		(1.0)	(1.3)
<b>Loss before tax</b>		<b>(1.6)</b>	<b>(1.9)</b>
Tax expense		-	-
<b>Loss for the period</b>		<b>(1.6)</b>	<b>(1.9)</b>
<b>Cash flows from discontinued operations</b>			
Net cash (used in)/from operating activities		(1.9)	10.9
Net cash used in investing activities		(2.3)	(28.4)
<b>Net cash used in discontinued operations</b>		<b>(4.2)</b>	<b>(17.5)</b>

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

**Note 11. Dividends and distributions**

**(a) Dividends on PaperlinX Limited ordinary shares**

The Company is prohibited 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 (see Note 11(b)). As the December 2011 distribution was not paid, the Company does not meet the relevant criteria and no dividend can be paid.

**(b) Distributions on PaperlinX step-up preference securities**

For the half-year ended 31 December	2011 \$m	2010 \$m
Interim distribution paid:		
• Rate of 7.365% for the period 1 July 2010 to 31 December 2010	-	10.6
<b>Total distributions on PaperlinX step-up preference securities</b>	<b>-</b>	<b>10.6</b>

On 21 October 2011, the Directors of the Company announced that the distribution for the period 1 July to 31 December 2011 would not be paid.

The distribution rate for the period 1 January to 30 June 2012 is 6.7417%. The distribution is payable at the discretion of the Directors of the Company.

**Note 12. Impairment review of non-current assets**

As required under AASB 136 *Impairment of Assets*, the Consolidated Entity performs an impairment assessment when there is an indication or "trigger" of a possible impairment of its non-current assets and, in addition, at least annually performs an impairment review of goodwill and indefinite life intangible assets, regardless of whether an impairment trigger has been identified. The annual review of goodwill and indefinite life intangible assets was performed at 30 June 2011. A review for impairment triggers was undertaken at 31 December 2011.

*Impairment triggers*

After considering the trading performance of the Consolidated Entity's Cash Generating Units ("CGUs") for the six months to 31 December 2011 and the other factors outlined in AASB 136, impairment triggers were identified in two CGUs - Continental Europe (excluding Spain); and United Kingdom, Ireland, Spain and South Africa. Detailed impairment testing was undertaken for these CGUs.

*Impairment testing*

Impairment testing compares the carrying value of an individual asset or CGU with its recoverable amount based on the higher of its value in use calculation or fair value less costs to sell.

*Assumptions*

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

The following assumptions have been used in determining the recoverable amount of the Continental Europe and United Kingdom, Ireland, Spain and South Africa CGUs:

Discount rates:	Continental Europe – 12.0% (June 2011: 12.1%), and United Kingdom, Ireland, Spain and South Africa – 12.3% (June 2011: 12.4%). The discount rates represent the pre-tax discount rate applied to the cash flow projections. The discount rates reflect the market determined, risk adjusted discount rates.
Terminal growth rate:	Terminal growth rate: 2.0% (June 2011: 2.0%). The terminal growth rate represents the growth rate applied to extrapolate cash flows beyond the five year forecast period. The growth rate is based upon expectations of the CGUs' long-term performance.
Gross margin:	An overall improvement in gross margins as a result of a change in the sales mix from lower margin core paper to higher margin diversified products over the forecast period and operational efficiencies in the core paper business.
Trading expenses:	An overall improvement in the ratio of trading expenses to sales as a result of certain committed restructuring programs and operating efficiencies over the forecast period.
Sales volumes:	For the core paper business, sales volumes are forecast to remain flat or decline based on industry forecasts for each CGU (except certain geographical regions of Continental Europe, which are forecast to grow). For the diversified business, volume growth is based on management's estimates of market growth and market share.
Sales prices:	Forecast to increase or decrease based on assumptions about local industry conditions and, where relevant, exchange rates.

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

**Note 12. Impairment review of non-current assets – (continued)**

*Results*

The valuations for Continental Europe CGU and United Kingdom, Ireland, Spain and South Africa CGU exceed net assets. However, testing at the country level within both CGUs highlighted several countries where the carrying value of net assets exceeded the valuation.

Ongoing weak demand for core paper products in Continental Europe combined with a subdued outlook for paper in the foreseeable future has resulted in an impairment charge of \$38.4 million being booked against the carrying value of non-current assets in the Continental Europe CGU.

Ongoing and sustained weak demand for core paper products in South Africa has resulted in an impairment charge of \$1.0 million being booked against the carrying value of non-current assets in the United Kingdom, Ireland, Spain and South Africa CGU.

The impairment charges all relate to the Merchating Europe segment and have been disclosed as “impairment of property, plant and equipment” and “impairment of intangibles” in the Condensed Consolidated Income Statement.

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

\$ million	Property, plant and equipment					Intangibles		
	Land	Buildings	Plant and equipment	Leased assets	Total	Goodwill	Computer software	Total
Impairment charges:								
• Continental Europe	(1.8)	(1.0)	0.1	-	(2.7)	(36.1)	0.4	(35.7)
• United Kingdom, Ireland, Spain and South Africa	-	(0.7)	(0.2)	(0.1)	(1.0)	-	-	-
<b>Total</b>	<b>(1.8)</b>	<b>(1.7)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(3.7)</b>	<b>(36.1)</b>	<b>0.4</b>	<b>(35.7)</b>

In the prior comparative period, no impairment of property, plant and equipment or intangibles was identified.

*Sensitivity analysis*

**Continental Europe:** The recoverable amount for this CGU exceeds the carrying value. However, the recoverable amount is particularly sensitive to several key assumptions. The recoverable amount assumes improvement in cost management as a result of restructuring programs and operating efficiencies. If these cost targets are not achieved, further impairment may arise. The recoverable amount also assumes growth in gross margins due to continued growth in diversified products and margin management. If these conditions fail to materialise, further impairment may arise.

**United Kingdom, Ireland, Spain and South Africa:** The recoverable amount for this CGU exceeds the carrying value. However, the recoverable amount is sensitive to several key assumptions. The recoverable amount assumes sustained growth in diversified products and improvement in core paper gross margins through margin management initiatives. The recoverable amount also assumes that recently implemented restructuring programs will improve cost management and limit the growth in trading expenses. If any of these assumptions fail to materialise, further impairment may arise.

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

**Note 13. Loans and borrowings**

For the half-year ended 31 December	2011 \$m	2010 \$m
Balance at beginning of period	287.3	271.5
Borrowings		
• Unsecured loan - Malaysia	1.5	-
Expiring facilities		
• Unsecured loan - Austria	-	(6.8)
• Unsecured loan - Malaysia	(0.6)	-
Other net drawdowns	54.9	35.5
Net proceeds from borrowings	55.8	28.7
Movement in capitalised borrowing costs	(0.4)	1.0
Foreign exchange	(24.5)	(23.4)
<b>Balance at end of period</b>	<b>318.2</b>	<b>277.8</b>
Balance at the end of the period comprises:		
Current liabilities		
• Bank loans - secured	218.6	58.7
• Bank loans - unsecured	6.5	3.3
• Other loans - unsecured	0.1	-
• Capitalised borrowing costs	(0.3)	(0.6)
	224.9	61.4
Non-current liabilities		
• Bank loans - secured	96.7	220.2
• Other loans - unsecured	-	0.2
• Capitalised borrowing costs	(3.4)	(4.0)
	93.3	216.4
<b>Total loans and borrowings</b>	<b>318.2</b>	<b>277.8</b>

Loans and borrowings predominantly comprise regional asset backed facilities in Australia, New Zealand, USA, Canada and Europe. These facilities include regional covenant measures such as fixed charge coverage ratios, interest cover, net worth tests and gearing levels and have availability periods extending beyond the next 12 months. These facilities have restrictions on the ability to draw down and move cash within the Consolidated Entity.

The facilities in Australia, New Zealand and Europe involve the sale of receivables. The Consolidated Entity has classified the majority of the 31 December 2011 loan balances for the Australian and New Zealand facilities as non-current as it expects, and has the discretion, to rollover the obligations of these facilities for at least twelve months from balance date. The amount that has been determined as non-current is the lowest expected balance of these facilities in the twelve month period post balance date based on management forecasts.

*Waiver and Amendment to European loan covenants*

Following the 23 December 2011 announcement by the Company that there was likely to be non-current asset impairments in the European business in the 31 December 2011 accounts, the Company sought and received an amendment to its debt facility from its main lender in Europe to waive any actual or potential breach of covenants as at 31 December 2011. This waiver and amendment was agreed in February 2012. Based upon recording goodwill and other non-current asset impairment charges of \$39.4m in the period, at 31 December 2011, the debt covenants would have been breached if this waiver and amendment had not been agreed. As this waiver was agreed post reporting date, these debts have been reclassified as current liabilities. If the waiver and amendment had been in place as at reporting date, an additional \$147.5 million of secured bank loans would have been classified as non-current.

**Note 14. Employee retirement benefit obligation**

As required under AASB 119 *Employee Benefits*, the Consolidated Entity undertakes a full actuarial review of material defined benefit plans each financial year. The previous actuarial review was undertaken at 30 June 2011. A desktop review has been undertaken to determine whether there has been a material change in the net balance sheet obligation since 30 June 2011 based on market conditions at 31 December 2011. An estimated actuarial loss of \$21.1 million was identified in relation to the United Kingdom plans due to lower than expected discount rates and asset returns. This was partially offset by foreign exchange translation benefits due to the appreciating Australian dollar and top-up contributions by the Consolidated Entity.

The movement in the net employee retirement benefit obligation is as follows:

For the half-year ended 31 December	2011 \$m	2010 \$m
Opening balance	88.5	118.1
Estimated net pension contributions	(6.0)	(5.6)
Foreign exchange translation gain	(5.2)	(14.2)
Estimated actuarial loss/(gain) (1)	21.1	(14.6)
<b>Closing balance</b>	<b>98.4</b>	<b>83.7</b>

(1) United Kingdom and Netherlands plans only, translated at the spot rate at 31 December.

# CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

## Note 15. Issued capital

	As at 31 December 2011 \$m	As at 30 June 2011 \$m
<b>Issued capital</b>		
Issued and paid-up share capital - 609,280,761 ordinary shares (June 2011: 603,580,761)	1,894.0	1,891.4
Employee share plan loans	(0.7)	(0.7)
<b>Total issued capital</b>	<b>1,893.3</b>	<b>1,890.7</b>
<b>For the half-year ended 31 December</b>		
	2011 \$m	2010 \$m
Movement in employee share plan loans:		
Balance at beginning of reporting period	(0.7)	(0.8)
Loans forgiven - forfeited entitlements	-	0.1
Balance at end of reporting period	(0.7)	(0.7)
<b>For the half-year ended 31 December</b>		
	2011 thousands of shares	2010 thousands of shares
<b>Movement in issued shares</b>		
Ordinary shares on issue at beginning of reporting period	603,580.8	603,580.8
Shares issued under employee short and long-term incentive plans	5,700.0	-
Ordinary shares on issue at end of reporting period	609,280.8	603,580.8

### Employee share plan loans

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

Loans to executives to acquire shares in an entity subsequently acquired by the Company were made under an Executive Share Purchase Plan in 1989. The plan is closed. The loans are interest free. 50% of PaperlinX Limited ordinary dividends are used to pay down the loans, and employees have two years after termination of employment to repay outstanding loan balances.

### Options

At the reporting date, there are 2,489,041 (2010: 4,985,745) unissued shares of the Company 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:

	2011 number	2010 number
Outstanding at the beginning of the period	4,494,454	7,609,061
Lapsed during the period	(2,005,413)	(4,284,356)
Granted during the period	-	1,661,040
<b>Outstanding at the end of the period</b>	<b>2,489,041</b>	<b>4,985,745</b>

### Rights

At the reporting date, there are 5,065,148 (2010: 13,391,555) rights to potentially acquire fully paid ordinary shares in the Company when performance conditions are met. The details of the rights on issue at balance date are as follows:

	2011 number	2010 number
Outstanding at the beginning of the period	12,336,327	15,685,523
Lapsed during the period	(2,404,347)	(8,113,770)
Granted during the period	-	6,506,380
Exercised	(4,866,832)	(686,578)
<b>Outstanding at the end of the period</b>	<b>5,065,148</b>	<b>13,391,555</b>

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

**Note 16. Reconciliation of cash flows from operating activities**

For the half-year ended 31 December

	Note	2011 \$m	2010 \$m
<b>Reconciliation of loss after tax to net cash from operating activities</b>			
<b>Loss for the period</b>		(60.9)	(10.2)
Add back non-cash items:			
• Depreciation and amortisation of property, plant, equipment and intangibles		10.4	11.8
• Impairment of property, plant, equipment and intangibles		39.4	-
• Profit on disposal of property, plant and equipment		(0.2)	(0.7)
• Revaluations of assets held for sale		-	(1.7)
• Employee share options and rights expense		0.4	(0.4)
• Movement in fair value of currency option and loan	6	(0.2)	23.4
• Amortisation of capitalised borrowing costs		1.6	1.2
Add back other items classified as investing/financing:			
• Provision for costs related to closure of discontinued Tasmanian operations		0.1	(4.5)
• Additional transaction costs relating to the sale of Australian Paper		-	4.9
• Borrowing costs expensed		0.2	0.2
(Increase)/decrease in trade and other receivables		(8.8)	15.9
Increase in inventories		(1.2)	(8.8)
Decrease in trade and other payables		(24.0)	(17.8)
Decrease in provisions		(7.5)	(13.8)
Decrease/(increase) in current and deferred taxes		1.7	(7.3)
<b>Net cash used in operating activities</b>		<b>(49.0)</b>	<b>(7.8)</b>
<b>Reconciliation of cash</b>			
For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank and short-term money market investments, net of outstanding bank overdrafts.			
Cash as at 31 December as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:			
Cash and cash equivalents		115.6	130.0
Bank overdrafts		(11.3)	(52.0)
		104.3	78.0

**Note 17. Contingent liabilities**

	As at 31 December 2011 \$m	As at 30 June 2011 \$m
Contingent liabilities arising in respect of related bodies corporate:		
• Bank guarantees (trade)	6.0	6.0
• Other guarantees and warranties	3.0	3.6
• Other	0.5	0.6
<b>Total contingent liabilities</b>	<b>9.5</b>	<b>10.2</b>

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

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

**Note 18. Events subsequent to balance date**
**Dividends on the Company's ordinary shares**

No interim dividend has been declared for the period ended 31 December 2011 - refer Note 11(a).

**Agreement reached with lenders**

In February 2012, the Company received an amendment to its debt facility from its main lender in Europe to waive any actual or potential breach of covenants as at 31 December 2011 (refer Notes 2 and 13).

## DIRECTORS' DECLARATION

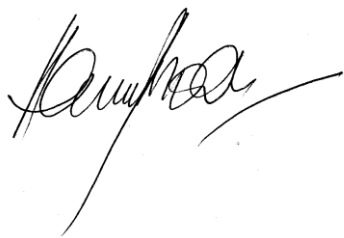
In the opinion of the Directors of PaperlinX Limited ("the Company"):

- 1 The financial statements and notes set out on pages 5 to 21 are in accordance with the Corporations Act 2001, including:
  - Giving a true and fair view of the financial position of the Consolidated Entity as at 31 December 2011 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
  - Complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- 2 There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

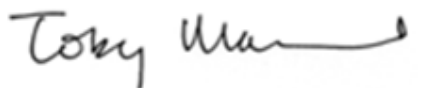
The Directors draw attention to Note 2 on page 11 regarding the going concern basis of preparation of the financial report and the status of the Consolidated Entity's financing arrangements and trading environment.

In accordance with a resolution of the Directors, dated at Melbourne, this 22nd day of February 2012.

Signed in accordance with a resolution of the Directors:



Harry Boon  
Chairman



Toby R Marchant  
Managing Director and Chief Executive Officer

## INDEPENDENT AUDITOR'S REVIEW REPORT

We have reviewed the accompanying interim financial report of PaperlinX Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2011, condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the interim period ended on that date, notes 1 to 18, comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the interim period's end or from time to time during the interim period.

### Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2011 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of PaperlinX Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Independence

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

### Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of PaperlinX Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2011 and of its performance for the interim period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

### Material uncertainty regarding the ability of the Group to continue as a going concern

Without modification to the conclusion set out above, we draw attention to note 2 in the financial report regarding the going concern basis of preparation of the financial report and the status of the Group's financing arrangements and trading environment. The matters set out in note 2 indicate the existence of a material uncertainty in respect of the ability of the Group to continue to operate as a going concern, and therefore whether it will realise its assets and extinguish its liabilities at the amounts stated in the financial report.

KPMG

Paul J McDonald  
Partner

Melbourne  
22 February 2012