

5 APR 2013



Form 388

Corporations Act 2001
294, 294B, 295, 298-301, 307, 308, 319, 321, 322
Corporations Regulations
1.0.08, 2M.3.01, 2M.3.03

Copy of financial statements and reports

If there is insufficient space in any section of the form, you may photocopy the relevant page(s) and submit as part of this lodgement

Company/scheme details

Company/scheme name

Paper Australia Pty Ltd

ACN/ARSN/PIN/ABN

63 061 583 533

Lodgement details

An image of this form will be available as part of the public register.

Who should ASIC contact if there is a query about this form?

ASIC registered agent number (if applicable)

Firm/organisation

Paper Australia Pty Ltd

Contact name/position description

Peter Williams / CFO

Telephone number (during business hours)

(03) 8540 2293

Email address (optional)

Postal address

307 Ferntree Gully Road

Suburb/City

Mt Waverley

State/Territory

VIC

Postcode

3149

1 Reason for lodgement of statement and reports

Tick appropriate box.

See Guide for definition of Tier 2 public company limited by guarantee

See Guide for definition of large proprietary company

See Guide for definition of small proprietary company

- A public company or a disclosing entity which is not a registered scheme or prescribed interest (A)
- A Tier 2 public company limited by guarantee (L)
- A registered scheme (B)
- Amendment of financial statements or directors' report (company) (C)
- Amendment of financial statements or directors' report (registered scheme) (D)
- A large proprietary company that is not a disclosing entity (H)
- A small proprietary company that is controlled by a foreign company for all or part of the period and where the company's profit or loss for the period is not covered by the statements lodged with ASIC by a registered foreign company, company, registered scheme, or disclosing entity (I)
- A small proprietary company, or a small company limited by guarantee that is requested by ASIC to prepare and lodge statements and reports (J)
- A prescribed interest undertaking that is a disclosing entity (K)

Dates on which financial year begins and ends

Financial year begins

9 | 1 | 0 | 1 | 1 | 2
[D] [D] [M] [M] [Y] [Y]

to

Financial year ends

3 | 1 | 1 | 2 | 1 | 2
[D] [D] [M] [M] [Y] [Y]

2 Details of large proprietary company

See Guide for definition of large and small proprietary companies.

If the company is a large proprietary company that is not a disclosing entity, please complete the following information as at the end of the financial year for which the financial statements relate:

A What is the consolidated revenue of the large proprietary company and the entities that it controls?

754,428,000

B What is the value of the consolidated gross assets of the large proprietary company and the entities that it controls?

877,623,000

C How many employees are employed by the large proprietary company and the entities that it controls?

1377

D How many members does the large proprietary company have?

1

3 Auditor's or reviewer's report

Tick one box and complete relevant section(s)

Were the financial statements audited or reviewed?

Audited - complete B only

Reviewed - complete A and B

No

If no, is there a class or other order exemption current for audit/review relief?

Yes

No

A. Reviewed

Is the reviewer a registered company auditor, or member of The Institute of Chartered Accountants in Australia, CPA Australia Limited, or National Institute of Accountants and holds a practising certificate issued by one of those bodies?

Yes

No

B. Audited or Reviewed

Is the opinion/conclusion in the report:

Modified? (The opinion/conclusion in the report is qualified, adverse or disclaimed)

Yes

No

Does the report contain an Emphasis of Matter and/or Other Matter paragraph?

Yes

No

4 Details of current auditor or auditors

Notes:

- Registered schemes must advise ASIC of the appointment of an auditor on a Form 5137 *Appointment of scheme auditor* within 14 days of the appointment of the auditor.
- A public company limited by guarantee may, in some circumstances, have their accounts reviewed. These companies are still required to have an auditor and these details must be provided.

Auditor registration number (for individual auditor or authorised audit company)

316448

Family name

Given name

or

Company name

ACN/ABN

or

Firm name (if applicable)

Ernst & Young

Office, unit, level

Street number and Street name

8 Exhibition Street

Suburb/City

Melbourne

State/Territory

VIC

Postcode

3000

Country (if not Australia)

Date of appointment

18/02/10

[D] [D] [M] [M] [Y] [Y]

A company may have two appointed auditors, provided that both auditors were appointed on the same date. Otherwise, an appointed auditor must resign, be removed or otherwise ceased before a subsequent appointment may be made.

Auditor registration number (for individual auditor or authorised audit company)

Family name

Given name

or

Company name

ACN/ABN

or

Firm name (if applicable)

Office, unit, level

Street number and Street name

Suburb/City

State/Territory

Postcode

Country (if not Australia)

5 Statements and reports to be attached to this form

Financial statements for the year (as required by s295(2) and accounting standards)

- Statement of comprehensive income, may also include a separate income statement for the year
- Statement of financial position as at the end of the year
- Statement of cash flows for the year
- Statement of changes in equity.

OR

If required by accounting standards — the consolidated statements of comprehensive income/income statement, financial position, cash flows and changes in equity.

Notes to financial statements (see s295(3))

- Disclosures required by the regulations
- Notes required by the accounting standards
- Any other information necessary to give a true and fair view (see s297).

The signed directors' declaration about the statements and notes (see s295(4)).

The signed directors' report for the year, including the copy of the auditor's or reviewer's independence declaration (see s298 to s300A).

Signed auditor's report or, where applicable, reviewer's report (see s301, s307 to s308).

Concise report (if any) (see s319).

Signature

See Guide for details of signatory.

I certify that the attached documents marked () are a true copy of the original reports required to be lodged under s319 of the *Corporations Act 2001*.

Name

Peter Williams

Signature

P. Williams

Capacity

- Director
 Company secretary

Date signed

02/04/13
[D] [D] [M] [M] [Y] [Y]

Lodgement

Send completed and signed forms to:
Australian Securities and Investments Commission,
PO Box 4000, Gippsland Mail Centre VIC 3841.

For more information

Web www.asic.gov.au
Need help? www.asic.gov.au/question
Telephone 1300 300 630

Or lodge the form electronically by:

- visiting the ASIC website www.asic.gov.au
- using Standard Business Reporting enabled software. See www.sbr.gov.au for more details.

Paper Australia Pty Ltd
Financial Report
for the year ended 31 December 2012

Directors' Report

The Directors present their report together with the financial report of Paper Australia Pty Ltd ('the Company') and its subsidiaries together referred to as 'the Consolidated Entity', for the year ended 31 December 2012 and the auditor's report thereon.

Directors

The names of the Directors of Paper Australia Pty Ltd in office at any time during or since the end of the financial year are:
Fumio Manoshiro (appointed on 1/7/2012)
Kunihiko Kashima
Jim Henneberry
Hirofumi Fujimori (appointed on 1/7/2012)
Peter Williams

Mr Mitsuo Nagoshi and Mr Masaru Motomura resigned as a director on 1/7/2012.

Principal Activities

The principal activities of the Consolidated Entity are the manufacture, sale and distribution of office papers, envelope & stationery products, printing and packaging papers. There were no significant changes in the nature of the principal activities of the Consolidated Entity during the year under review.

Review and Results of Operations

Paper Australia Pty Ltd, trading as Australian Paper, primarily services the Australian market directly and through sales to merchanting operations, office suppliers, printing papers users, and packaging manufacturers.

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

The Paper Australia Pty Ltd consolidated group's reported net loss after tax is \$20.3 million (2011: net loss after tax \$40.9 million). Underlying business conditions remained challenging during the period as a result of the sustained high AUD/ USD exchange rate. A strong AUD results in cheaper imports and puts increased pricing pressure on locally produced product sales as well as reducing translation returns on exports. Production and operating performance improved again in 2012. Year on year pulp and paper production were up 15,000 tonnes and 10,000 respectively. Production improvements and a program targeting fixed costs reductions recovered much of the profit erosion from top line pricing pressure.

Significant Changes in the State of Affairs

There have been no significant changes in the state of affairs of the consolidated entity that occurred during the financial year ended 31 December 2012.

Environmental Regulation

The Consolidated Entity is subject to significant environmental regulation, in particular with respect to its manufacturing activities. Environmental performance obligations are monitored by management and subject to internal audits as well as independent external and government agency audits and site inspections.

The Company is registered under the National Greenhouse and Energy Reporting Act, under which it is required to report energy consumption and greenhouse gas emissions for its Australian facilities initially for the 12 months ended 30 June 2011 and subsequently for future periods. The Company has established data collection systems and processes are in place to meet these requirements.

Directors' Report (continued)

Future Developments/Outlook

In the opinion of the Directors no significant variation is expected in the operation of the organisation in its current structure.

On 10 October 2012, the Company announced that it would be proceeding with a \$90 million investment program to construct a premium recycled waste paper plant and associated infrastructure at our Maryvale Mill in Gippsland, Victoria. The new waste paper recycling plant will triple our usage of recycled pulp to 50,000 tonnes and result in up to 80,000 tonnes of waste paper being diverted from local landfills. Construction has already commenced and the plant will be completed by early 2014 with full production shortly after.

Dividends

The Company has not declared or paid any dividend for the year ended 31 December 2012 (2011: \$5.019 million).

Indemnities and Insurance

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

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

Audit Services

The Company has obtained an independence declaration from its auditors, Ernst & Young, which has been attached to this report.

Non-audit Services

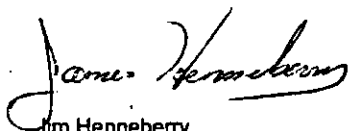
In addition to the statutory audit work during the year, the Company's auditors, Ernst & Young, have provided certain non-audit services, including:

JSOX review
Partial Exemption Certificate audit
Jobs and Competitiveness Program application
Government grant audit

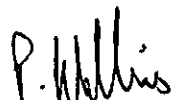
The Company has strict criteria relating to the engagement of the auditor for non-audit services. Directors at the time have reviewed the nature of non-audit services being provided, as well as their cost, and believe the provision of these services does not impair the integrity and objectivity of the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

Rounding

The Company is the kind referred to in the ASIC Class Order 98/100 dated 10 July 1998 and, in accordance with that Class Order, amounts in this Annual Report and Directors' Report have been rounded off to the nearest \$1,000, unless stated otherwise.



Jim Henneberry
Director and Chief Executive Officer



Peter Williams
Director and Chief Financial Officer
28 March 2013



Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001
Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
www.ey.com/au

Auditor's Independence Declaration to the Directors of Paper Australia Pty Ltd

In relation to our audit of the financial report of Paper Australia Pty Ltd for the financial period ended 31 December 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script, appearing to be 'Jacob Gossan'.

Jacob Gossan
Partner
28 March 2013

Paper Australia Pty Ltd
ABN 63 061 583 533

Financial Report of Paper Australia Pty Ltd

Contents

Statements of Comprehensive Income	5
Statements of Financial Position	6
Statements of Changes in Equity	7
Statements of Cash Flows.....	8
Note 1. Accounting Policies.....	9
Note 2. Expenses	16
Note 3. Cash and Cash Equivalents.....	16
Note 4. Trade and Other Receivables	16
Note 5. Inventories.....	16
Note 6. Other Assets	17
Note 7. Property, Plant and Equipment.....	17
Note 8. Intangible Assets.....	18
Note 9. Deferred Tax Assets	18
Note 10. Trade and Other Payables.....	18
Note 11. Loans and Borrowings	19
Note 12. Income Tax Payable	19
Note 13. Employee Benefits	19
Note 14. Provisions.....	19
Note 15. Issued Capital	20
Note 16. Reserves.....	20
Note 17. Retained Profits	20
Note 18. Capital Expenditure Commitments	21
Note 19. Auditors' Remuneration	21
Note 20. Group Entities	21
Note 21. Contingent Liabilities.....	21
Directors' Declaration	22
Independent Auditor's Report to the Members of Paper Australia Pty Ltd.....	23

Paper Australia Pty Ltd
ABN 63 061 583 533

Statements of Comprehensive Income
For the year ended 31 December 2012

Note	Consolidated		Company	
	Year ended 31 December	Year ended 31 December	Year ended 31 December	Year ended 31 December
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Continuing operations				
Revenue	754,428	788,479	684,903	724,930
Other income	20,883	2,668	21,122	3,198
Cost of sales	(670,658)	(681,012)	(620,422)	(634,242)
Personnel costs non-manufacturing	(33,793)	(39,714)	(29,579)	(35,602)
Logistics and distribution	(62,634)	(56,293)	(57,102)	(51,777)
General and administration	(6,614)	(5,162)	(4,693)	(3,386)
Sales and marketing	(5,868)	(7,194)	(5,730)	(7,220)
Research and development	(819)	(829)	(819)	(829)
Net foreign exchange gains/(losses)	1,334	(762)	1,348	(722)
Results from operating activities	(3,741)	181	(10,972)	(5,650)
Finance income	559	599	548	592
Finance expenses	(6,203)	(10,949)	(6,193)	(10,939)
Net financing costs	(5,644)	(10,350)	(5,645)	(10,347)
Profit/(loss) from continuing operations before income tax	(9,385)	(10,169)	(16,617)	(15,997)
Income tax (expense)/revenue	(10,949)	(30,760)	(9,037)	(30,127)
Profit/(loss) from continuing operations after income tax	(20,334)	(40,929)	(25,654)	(46,124)
Other comprehensive income				
Net foreign exchange differences on translation of overseas subsidiaries	(368)	19	-	-
Net gains/(losses) on cash flow hedge	(1,119)	(242)	(1,119)	(242)
Actuarial gains/(losses) on defined benefit plans	2,940	(8,960)	2,940	(8,960)
Other comprehensive income for the year, net of tax	1,453	(9,183)	1,821	(9,202)
Total comprehensive income for the year	(18,881)	(50,112)	(23,833)	(55,327)
Profit/(loss) for the year attributable to:				
Owners of the parent	(20,302)	(40,915)	(25,654)	(46,124)
Non-controlling interest	(32)	(14)	-	-
	(20,334)	(40,929)	(25,654)	(46,124)
Total comprehensive income for the year is attributable to:				
Owners of the parent	(18,849)	(50,098)	(23,833)	(55,327)
Non-controlling interest	(32)	(14)	-	-
	(18,881)	(50,112)	(23,833)	(55,327)

The notes on pages 9 to 21 are an integral part of these consolidated financial statements.

Paper Australia Pty Ltd
ABN 63 061 583 533

Statements of Financial Position
As at 31 December 2012

	Notes	Consolidated		Company	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current assets					
Cash and cash equivalents	3	49,743	47,772	42,181	38,959
Trade and other receivables	4	109,326	109,237	109,343	117,932
Inventories	5	166,563	183,151	149,934	168,876
Other assets	6	1,500	1,500	1,500	1,500
Assets held for resale		-	1,013	-	1,013
Total current assets		327,132	342,673	302,958	328,280
Non-current assets					
Receivables	4	1,580	-	1,580	-
Investments		-	-	21,444	21,444
Property, plant and equipment	7	480,542	488,454	480,494	488,386
Intangible assets	8	504	860	504	831
Deferred tax assets	9	62,608	72,756	62,221	72,379
Other assets	6	5,257	6,796	5,257	6,796
Total non-current assets		550,491	568,866	571,500	589,836
Total assets		877,623	911,539	874,458	918,116
Current liabilities					
Trade and other payables	10	105,463	113,544	107,336	118,024
Loans and borrowings	11	35,689	53,883	37,699	58,292
Income tax payable	12	30	123	-	-
Employee benefits	13	44,073	44,034	43,759	43,659
Provisions	14	3,083	2,199	3,083	2,199
Total current liabilities		188,338	213,783	191,877	222,174
Non-current liabilities					
Other payables	10	-	2,987	-	2,987
Loans and borrowings	11	76,596	61,526	76,596	61,526
Employee benefits	13	831	2,043	345	1,591
Provisions	14	5,900	6,265	5,900	6,265
Total non-current liabilities		83,327	72,821	82,841	72,369
Total liabilities		271,665	286,604	274,718	294,543
Net assets		605,958	624,935	599,740	623,573
Equity					
Share capital	15	662,280	662,280	662,280	662,280
Reserves	16	(8,160)	(6,703)	(1,361)	(242)
Retained earnings	17	(48,268)	(30,780)	(61,179)	(38,465)
Minority interest		106	138	-	-
Total equity		605,958	624,935	599,740	623,573

The notes on pages 9 to 21 are an integral part of these consolidated financial statements.

Paper Australia Pty Ltd
ABN 63 061 583 533

Statements of Changes in Equity
For the year ended 31 December 2012

	Consolidated				
	Issued capital \$'000	Accumulated losses \$'000	Other reserves \$'000	Minority interest \$'000	Total \$'000
At 31 December 2010	662,280	24,391	(6,468)	152	680,355
Net profit/(loss) for the year		(40,915)		(14)	(40,929)
Other comprehensive income		(8,960)	(223)		(9,183)
Total comprehensive income for the year	662,280	(25,484)	(6,691)	138	630,243
Transactions with owners in their capacity as owners:					
Dividends paid		(5,019)			(5,019)
Other adjustments		(277)	(12)		(289)
At 31 December 2011	662,280	(30,780)	(6,703)	138	624,935
Net profit/(loss) for the year		(20,302)		(32)	(20,334)
Other comprehensive income		2,940	(1,487)		1,453
Total comprehensive income for the year	662,280	(48,142)	(8,190)	106	606,054
Transactions with owners in their capacity as owners:					
Dividends paid		(59)			(59)
Other adjustments		(67)	30		(37)
At 31 December 2012	662,280	(48,268)	(8,160)	106	605,958

	Parent				
	Issued capital \$'000	Accumulated losses \$'000	Other reserves \$'000	Minority interest \$'000	Total \$'000
At 31 December 2010	662,280	21,642	-	-	683,922
Net profit/(loss) for the year		(46,124)			(46,124)
Other comprehensive income		(8,960)	(242)		(9,202)
Total comprehensive income for the year	662,280	(33,442)	(242)	-	628,596
Transactions with owners in their capacity as owners:					
Dividends paid		(5,019)			(5,019)
Other adjustments		(4)			(4)
At 31 December 2011	662,280	(38,465)	(242)	-	623,573
Net profit/(loss) for the year		(25,654)			(25,654)
Other comprehensive income		2,940	(1,119)		1,821
Total comprehensive income for the year	662,280	(61,179)	(1,361)	-	599,740
Transactions with owners in their capacity as owners:					
Dividends paid					-
Other adjustments					-
At 31 December 2012	662,280	(61,179)	(1,361)	-	599,740

The notes on pages 9 to 21 are an integral part of these consolidated financial statements.

Paper Australia Pty Ltd
ABN 63 061 583 533

Statements of Cash Flows
For the year ended 31 December 2012

	Consolidated		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Cash flows from operating activities				
Receipts from customers	776,729	802,286	717,275	727,751
Payments to suppliers and employees	(740,740)	(789,358)	(678,960)	(718,231)
Interest received	559	599	548	592
Interest paid	(6,203)	(10,949)	(6,193)	(10,939)
Income tax paid	(895)	(556)	-	-
Net cash from operating activities (1)	29,450	2,022	32,670	(827)
Cash flows from investing activities				
Acquisition of property, plant and equipment and intangibles	(22,809)	(48,928)	(22,806)	(48,926)
Net cash from investing activities	(22,809)	(48,928)	(22,806)	(48,926)
Cash flows from financing activities				
Dividends paid	(59)	(5,019)	-	(5,019)
Proceeds/(repayments) from borrowings	(4,186)	35,636	(6,217)	40,045
Principal finance lease payments	(425)	(590)	(425)	(590)
Net cash from financing activities	(4,670)	30,027	(6,642)	34,436
Net increase in cash and cash equivalents	1,971	(16,880)	3,222	(15,317)
Cash and cash equivalents at the beginning of the year	47,772	64,652	38,959	54,276
Cash and cash equivalents at the end of the year	49,743	47,772	42,181	38,959
(1) Reconciliation of profit after tax to net cash from operating activities profit for the year				
Profit for the period	(20,334)	(40,929)	(25,654)	(46,124)
Depreciation and amortisation of property, plant, equipment and intangibles	33,109	30,660	33,057	30,600
Outside equity interest	(32)	(14)	-	-
Decrease/(increase) in current and deferred taxes	10,055	30,204	10,158	31,704
Increase/(decrease) in provisions and employee benefits	(653)	(1,583)	(626)	(1,570)
Operating profit before changes in current and non-current assets and liabilities	22,145	18,338	16,935	14,610
Decrease/(increase) in trade and other receivables	2,505	19,661	11,287	7,871
Decrease/(increase) in inventories	16,588	(11,781)	18,942	(2,904)
(Decrease)/increase in trade and other payables	(11,888)	(24,196)	(14,494)	(20,404)
Net cash from operating activities	29,450	2,022	32,670	(827)

The notes on pages 9 to 21 are an integral part of these consolidated financial statements.

Note 1. Accounting Policies

The following significant accounting policies have been applied by Paper Australia Pty Ltd ('the Company') and its subsidiaries together referred to as 'the Consolidated Entity', having regard to their activities, in the preparation of the Consolidated Financial Report ('the financial report').

(1) Reporting Entity

In the opinion of the Directors, the Company is not a reporting entity. The financial report of the Company has been drawn up as a special purpose financial report for distribution to the members and for the purpose of fulfilling the requirements of the Corporations Act 2001.

(2) Basis of Preparation

The special purpose financial report has been prepared in accordance with the requirements of the Corporations Act 2001 and the recognition, measurement and classification aspects of all applicable Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB).

The financial report does not include the disclosure requirements of all AASBs except for the following minimum requirements:

AASB 101 Presentation of Financial Statements

AASB 107 Cash Flow Statements

AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors

The financial statements were approved by the Board of Directors on 28th of March 2013.

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

The financial report is prepared on the going concern and the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments.

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

The presentation currency applied in the financial report is Australian dollars.

(3) Basis of Consolidation

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

Subsidiaries

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

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

Dividend distributions from subsidiaries are recognised by the parent entity when they are declared by the subsidiaries.

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

Other Entities

Dividends from other investments are recognised when dividends are received.

(4) Revenue Recognition

Sales Revenue

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

Commissions

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

Notes to the financial statements

Note 1. Accounting Policies (Continued)

(4) Revenue Recognition (Continued)

Government Grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

(5) Taxation

Income Tax

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

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

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Tax Consolidation

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

The Company has elected to form a new tax consolidated group effective from 1 June 2009 comprising all Australian entities within the corporate group.

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

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

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

Goods and Services Tax

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

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

Notes to the financial statements

Note 1. Accounting Policies (Continued)

(5) Taxation (Continued)

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

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

(6) Depreciation

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

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

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

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

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

(7) Employee Benefits

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

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

Employee Retirement Benefit Obligations

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

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

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

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

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

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

Notes to the financial statements

Note 1. Accounting Policies (Continued)

(8) Net Financing Costs

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

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

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

(9) Property, Plant and Equipment

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

(10) Inventories

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

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. The provision for impairment losses is based on an ageing analysis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(11) Cash and Cash Equivalents

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

(12) Foreign Currency

Functional Currency

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

Transactions

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

Translation of Foreign Subsidiaries

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

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

Notes to the financial statements

Note 1. Accounting Policies (Continued)

(13) Financial Instruments

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

Derivative Instruments

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

Changes in the fair value of forward exchange contracts are recognised immediately in the statement of comprehensive income. Changes in the fair value of interest rate swaps and net investment hedges are recognised in the statement of changes in equity.

Financial Instruments Included in Liabilities

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

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

Liabilities are classified as non-current when the Consolidated Entity has an unconditional right to defer settlement for at least 12 months after the reporting period.

Financial Instruments Included in Assets

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

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

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

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Cash and cash equivalents comprise cash balances and call deposits.

(14) Leased Assets

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

Operating Leases

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

(15) Research and Development Expenditure

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

(16) Other Intangible Assets

Other intangible assets that are acquired by the Consolidated Entity are stated at cost less accumulated amortisation and impairment losses (see Note 1 (17)). The period of amortisation equates to the period over which benefits are expected to be derived.

Notes to the financial statements

Note 1. Accounting Policies (Continued)

(17) Impairment of Assets

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

These assumptions include management's expectation of the impact of the introduction of a carbon price under the Australian Carbon Pricing Mechanism.

Recoverable Amount

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

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

Reversals of Impairment

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

(18) Provisions

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

Dividends on Ordinary Shares

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

Surplus Leased Premises

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

Restructuring

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

Environmental Remediation

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

(19) Revisions of Accounting Estimates

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

(20) Accounting Estimates and Judgements

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

Impairment of Non-Current assets

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

Notes to the financial statements

Note 1. Accounting Policies (Continued)

(20) Accounting Estimates and Judgements (Continued)

Defined Benefit Superannuation Fund Obligations

Various actuarial assumptions are utilised in the determination of the Consolidated Entity's defined benefit superannuation fund obligations.

These assumptions are discussed in Note 1(7).

Environmental remediation

The Consolidated Entity assesses if it has any environmental remediation liabilities or contingent liabilities on an annual basis. The assessment makes reference to both internal and external (including government agency) reviews that are conducted during the reporting period.

Carbon Impact

The estimated impact of the Australian Carbon Pricing Mechanism (CPM), which came into effect on 1 July 2012, has been included in determining the Consolidated Entity's cash flow projections.

The CPM requires the Consolidated Entity to annually obtain and surrender emission units to cover the Consolidated Entity's direct greenhouse gas emissions for the facilities in Australia (scope 1 emissions). The CPM increases the costs of electricity (scope 2 direct emissions) and the cost of other goods and services (scope 3 indirect emissions).

The Australian Government has enacted programs to assist emissions-intensive trade exposed activities in the form of free permits, including pulp and paper manufacturing. In Australia this will involve the allocation of free permits at the maximum rate (94.5% in first year) with the assistance rate decreasing by 1.3% per annum.

In estimating the impact of CPM for impairment assessment purposes the Company has taken into account its liable entity status, the assistance provided by the Government and the pass through of costs by suppliers. The impact of CPM for the Consolidated Entity does not have a significant impact on the Consolidated Entity's cash flow projections.

Taxation

The Company's accounting policy for taxation requires management's judgement. Judgement is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets arising from temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of comprehensive income.

(21) Emissions Trading Scheme

The Company is a participant in the Australian Carbon Pricing Mechanism (CPM), which came into effect on 1 July 2012. Under the Australian Government's program to assist emissions-intensive trade exposed activities, the Company received an allocation of free permits. The Company has accounted for the CPM under the net liability method.

Under the net liability method, no liability is recognised until actual emissions exceed the number of free carbon units on hand. If there are not enough units on hand to cover all emissions made to date, this portion of the liability is measured at the fair value of acquiring units to settle the liability. A gain is recognised immediately on the sale of free permits.

(22) New Standards and Interpretations Not Yet Adopted

There are no new standards and amendments available for early adoption that would materially affect the financial statements of the Consolidated Entity.

Notes to the financial statements

	Consolidated		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Note 2. Expenses				
Employee benefits expenses				
Salaries and wages	138,393	143,124	134,733	139,616
Superannuation	11,084	10,978	10,530	10,374
	<u>149,477</u>	<u>154,102</u>	<u>145,263</u>	<u>149,990</u>

	Consolidated		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Note 3. Cash and Cash Equivalents				
Cash on hand and at bank	49,743	47,772	42,181	38,959
	<u>49,743</u>	<u>47,772</u>	<u>42,181</u>	<u>38,959</u>

	Consolidated		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Note 4. Trade and Other Receivables				
Trade and other receivables - current				
Trade debtors	97,413	100,086	84,366	91,711
Provision for doubtful debts	(1,684)	(1,341)	(1,462)	(1,111)
Net trade debtors	<u>95,729</u>	<u>98,745</u>	<u>82,904</u>	<u>90,600</u>
Other debtors	4,051	3,034	2,568	4,064
Prepayments	9,546	7,458	9,265	7,046
Amounts owing from subsidiaries	-	-	14,606	16,222
	<u>109,326</u>	<u>109,237</u>	<u>109,343</u>	<u>117,932</u>

Receivables - non-current				
Other debtor - Surplus on defined benefit plan	1,580	-	1,580	-
	<u>1,580</u>	<u>-</u>	<u>1,580</u>	<u>-</u>

	Consolidated		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Note 5. Inventories				
Raw materials and stores	68,080	71,390	68,080	71,390
Provision for impairment losses	(6,407)	(7,697)	(6,407)	(7,697)
Net raw materials and stores	<u>61,673</u>	<u>63,693</u>	<u>61,673</u>	<u>63,693</u>
Work in progress	10,231	11,437	10,231	11,437
Finished goods	97,224	111,185	80,303	96,652
Provision for impairment losses	(2,565)	(3,164)	(2,273)	(2,906)
Net finished goods	<u>94,659</u>	<u>108,021</u>	<u>78,030</u>	<u>93,746</u>
Total Inventories	<u>166,563</u>	<u>183,151</u>	<u>149,934</u>	<u>168,876</u>

Paper Australia Pty Ltd
ABN 63 061 583 533

Notes to the financial statements

	Consolidated		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Note 6. Other Assets				
Other assets - current	1,500	1,500	1,500	1,500
	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>
Other assets - non-current	3,118	4,500	3,118	4,500
Capital projects	2,139	2,296	2,139	2,296
	<u>5,257</u>	<u>6,796</u>	<u>5,257</u>	<u>6,796</u>

Other assets represent amounts receivable from third parties for the reimbursement of environmental remediation costs.

	Consolidated		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Note 7. Property, Plant and Equipment				
Land:				
• At cost	3,724	3,724	3,724	3,724
• Accumulated impairment losses	(1,976)	(1,976)	(1,976)	(1,976)
	<u>1,748</u>	<u>1,748</u>	<u>1,748</u>	<u>1,748</u>
Land improvements:				
• At cost	16,608	16,446	16,608	16,446
• Accumulated depreciation and impairment losses	(10,413)	(10,214)	(10,413)	(10,214)
	<u>6,195</u>	<u>6,232</u>	<u>6,195</u>	<u>6,232</u>
Buildings:				
• At cost	129,544	129,286	129,544	129,286
• Accumulated depreciation and impairment losses	(95,831)	(94,420)	(95,831)	(94,420)
	<u>33,713</u>	<u>34,866</u>	<u>33,713</u>	<u>34,866</u>
Plant and equipment:				
• At cost	2,063,488	2,043,134	2,063,031	2,042,426
• Accumulated depreciation and impairment losses	(1,625,571)	(1,597,526)	(1,625,162)	(1,596,886)
	<u>437,917</u>	<u>445,608</u>	<u>437,869</u>	<u>445,540</u>
Finance lease assets:				
• Finance lease assets	2,271	57	2,271	57
• Accumulated amortisation and impairment losses	(1,302)	(57)	(1,302)	(57)
	<u>969</u>	<u>-</u>	<u>969</u>	<u>-</u>
Total property, plant and equipment	<u>480,542</u>	<u>488,454</u>	<u>480,494</u>	<u>488,386</u>

Depreciation and amortisation expenses are \$33.11 million (31 December 2011: \$30.66 million) for the Consolidated Entity and \$33.06 million (31 December 2011: \$30.60 million) for the Company for the year ended 31 December 2012.

Paper Australia Pty Ltd
ABN 63 061 583 533

Notes to the financial statements

	Consolidated		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Note 8. Intangible Assets				
Computer software:				
• At cost	82,473	82,477	82,292	82,292
• Accumulated amortisation	(82,041)	(81,709)	(81,860)	(81,553)
	432	768	432	739
Other intangibles:				
• At cost	100	100	100	100
• Accumulated amortisation	(28)	(8)	(28)	(8)
	72	92	72	92
Total intangibles assets	504	860	504	831

	Consolidated		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Note 9. Deferred Tax Assets				
Deferred tax assets	62,608	72,756	62,221	72,379
	62,608	72,756	62,221	72,379
Deferred tax assets comprise of the following:				
Provisions and employee benefits	15,251	14,913	14,979	14,647
Accrued expenses not claimed	-	15	-	-
Trading stock valuation adjustments	2,709	3,273	2,604	3,181
Property, plant and equipment	44,648	54,555	44,638	54,551
	62,608	72,756	62,221	72,379

	Consolidated		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Note 10. Trade and Other Payables				
Trade and other payables - current				
Trade creditors	92,731	97,394	85,473	94,210
Other creditors	12,732	16,150	21,863	23,814
	105,463	113,544	107,336	118,024
Other payables - non current				
Long term incentive plan	-	251	-	251
Deficit on defined benefit plan	-	2,736	-	2,736
	-	2,987	-	2,987

Paper Australia Pty Ltd
ABN 63 061 583 533

Notes to the financial statements

	Consolidated		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Note 11. Loans and Borrowings				
Unsecured loans and borrowings - current				
Bank loans	10,980	31,182	10,980	31,182
Other loans	622	581	622	581
Loans from related parties	23,653	22,120	25,663	26,529
Finance lease liabilities	434	-	434	-
	<u>35,689</u>	<u>53,883</u>	<u>37,699</u>	<u>58,292</u>

Unsecured loans and borrowings - non current				
Bank loans	68,688	57,437	68,688	57,437
Other loans	7,419	4,089	7,419	4,089
Finance lease liabilities	489	-	489	-
	<u>76,596</u>	<u>61,526</u>	<u>76,596</u>	<u>61,526</u>

	Consolidated		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Note 12. Income Tax Payable				
Income tax	30	123	-	-
	<u>30</u>	<u>123</u>	<u>-</u>	<u>-</u>

	Consolidated		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Note 13. Employee Benefits				
Employee benefits – current				
	44,073	44,034	43,759	43,659
	<u>44,073</u>	<u>44,034</u>	<u>43,759</u>	<u>43,659</u>
Employee benefits – non-current				
	831	2,043	345	1,591
	<u>831</u>	<u>2,043</u>	<u>345</u>	<u>1,591</u>

	Consolidated		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Note 14. Provisions				
Provisions – current				
Other	3,083	2,199	3,083	2,199
	<u>3,083</u>	<u>2,199</u>	<u>3,083</u>	<u>2,199</u>
Provisions – non-current				
Other	5,900	6,265	5,900	6,265
	<u>5,900</u>	<u>6,265</u>	<u>5,900</u>	<u>6,265</u>

The Company has provided \$7.6 million for environmental remediation costs regarding landfill works at the Maryvale mill.

Paper Australia Pty Ltd
ABN 63 061 583 533

Notes to the financial statements

	Consolidated		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Note 15. Issued Capital				
Issued and paid-up share capital				
Balance at the beginning of the year	662,280	662,280	662,280	662,280
Total issued capital	662,280	662,280	662,280	662,280

The Company has 3,208,084,653 ordinary shares issued as at 31 December 2012 (2011: 3,208,084,653 ordinary shares).

	Consolidated		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Note 16. Reserves				
Cash flow hedge reserve				
Balance at beginning of period	(242)	-	(242)	-
Net gains/(losses) from cash flow hedges	(1,119)	(242)	(1,119)	(242)
	(1,361)	(242)	(1,361)	(242)
Other reserve				
Balance at beginning of period	(12)	-	-	-
Other adjustments	30	(12)	-	-
	18	(12)	-	-
Foreign currency translation reserve				
Balance at start of period	(6,449)	(6,468)	-	-
Translation of overseas subsidiaries	(368)	19	-	-
	(6,817)	(6,449)	-	-
Total reserves	(8,160)	(6,703)	(1,361)	(242)

	Consolidated		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Note 17. Retained Profits				
Balance at beginning of year	(30,780)	24,391	(38,465)	21,642
Net profit attributable to equity holders of Paper Australia Pty Ltd	(20,302)	(40,915)	(25,654)	(46,124)
Dividends paid	(59)	(5,019)	-	(5,019)
Other adjustments	(67)	(277)	-	(4)
Actuarial gains on defined benefit plans	2,940	(8,960)	2,940	(8,960)
	(48,268)	(30,780)	(61,179)	(38,465)

Notes to the financial statements

	Consolidated		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Note 18. Capital Expenditure Commitments				
Capital expenditure contracted but not provided for:				
Not later than one year	8,498	4,136	8,498	4,136
	<u>8,498</u>	<u>4,136</u>	<u>8,498</u>	<u>4,136</u>

	Consolidated		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Note 19. Auditors' Remuneration				
Amounts received or due and receivable for audit services by:				
• Auditors of the Company	313	300	313	300
Amounts received or due and receivable for other services by:				
• Auditors of the Company	70	142	70	142
	<u>383</u>	<u>442</u>	<u>383</u>	<u>442</u>

Note 20. Group Entities

Parent and ultimate controlling party

The ultimate controlling party of the Group is Nippon Paper Inc, incorporated in Japan.

Significant subsidiaries	Country of incorporation	Ownership interest	
		31 December 2012	31 December 2011
Australian Paper Pty Ltd	Australia	100%	100%
Paper Products Marketing Pty Ltd	Australia	100%	100%
Paper Products Marketing Taiwan Ltd	Taiwan	80%	80%
Paper Products Marketing Hong Kong Ltd	Hong Kong	100%	100%
Paper Products Marketing Singapore Pte Ltd	Singapore	100%	100%
Paper Products Marketing USA Inc	USA	100%	100%
Josef Frohler Papiergrosshandlung-Willi			
Reddeman Import-Export GmbH	Germany	100%	100%

Note 21. Contingent Liabilities

(i) Environmental

The Company has possible future expenditure obligations for environmental remediation regarding various aspects at the Maryvale mill. The potential liability based upon preliminary independent reports is \$9.8 million.

(ii) Guarantees

The Company has issued performance and financial guarantees to the value of \$14,394,471 (2011: \$12,910,852) to unrelated parties as at 31 December 2012.

Directors' Declaration

In the opinion of the Directors of Paper Australia Pty Ltd (the 'Company'):

- (a) the Company is not a reporting entity;
- (b) the financial statements and notes, set out on pages 5 to 21, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 31 December 2012 and of their performance for the financial year ended on that date in accordance with the statement of compliance and basis of preparation described in note 1; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) to the extent described in note 1, and the Corporations Regulations 2001;
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:



Jim Henneberry
Director



Peter Williams
Director

28 March 2013

Independent auditor's report to the members of Paper Australia Pty Ltd

We have audited the accompanying financial report, being a special purpose financial report of Paper Australia Pty Ltd, which comprises the statements of financial position as at 31 December 2012, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report and have determined that the basis of preparation described in Note 1 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the members.

The directors' responsibility also includes such internal controls as the directors determine are necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We have 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 judgment, 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 controls relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We 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*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

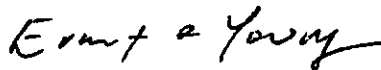
Opinion

In our opinion the financial report of Paper Australia Pty Ltd is in accordance with the *Corporations Act 2001*, including:

- a. giving a true and fair view of the company's and consolidated entity's financial positions as at 31 December 2012 and of their performance for the year ended on that date; and
- b. complying with Australian Accounting Standards to the extent described in Note 1, and the *Corporations Regulations 2001*.

Basis of accounting

Without modifying our opinion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose.



Ernst & Young



Jacob Gossan
Partner
Melbourne
28 March 2013