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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?

30 APR 2012

ASIC registered agent number (if applicable)

Firm/organisation
Paper Australia Pty Ltd

Contact name/position description
Felicity Walsh, Company secretary

Telephone number (during business hours)
(03) 8540 2231

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.

- [ ] A public company or a disclosing entity which is not a registered scheme or prescribed interest undertaking (A)
- [ ] A Tier 2 public company limited by guarantee (L) — See Guide for definition of Tier 2 public company limited by guarantee
- [ ] A registered scheme (B)
- [ ] Amendment of financial statements or directors' report (company) (C)
- [ ] Amendment of financial statements or directors' report (registered scheme) (D)
- [x] A large proprietary company that is not a disclosing entity (H) — See Guide for definition of large proprietary company
- [ ] 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) — See Guide for definition of small proprietary company
- [ ] 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 01/01/11 [D D] [M M] [Y Y] to Financial year ends 31/12/11 [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?

788,479,000

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

911,539,000

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

1368

D How many members does the large proprietary company have?

1

3 Auditor's or reviewer's report

Were the financial statements audited or reviewed?

Tick one box and complete relevant section(s)

- [x] 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
- [x] No

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

- [ ] Yes
- [x] 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 (A) are a true copy of the original reports required to be lodged under s319 of the *Corporations Act 2001*.

Name

Felicity Walsh

Signature

F Walsh

Capacity

☐ Director

☒ Company secretary

Date signed

26/04/12
[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.

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.

For more information

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

Paper Australia Pty Ltd
Financial Report
for the year ended 31 December 2011

This is Annexure "A" of 25 pages including this cover page referred to in Form 388 "Copy of Financial Statements and Reports".

FELICITY WALSH
COMPANY SECRETARY
26/4/12

Paper Australia Pty Ltd
ABN 63 061 583 533

Financial Report 31 December 2011

Directors' Report

The Directors present their report together with the financial report of Paper Australia Pty Ltd ("the Company") for the year ended 31 December 2011 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:
Jim Henneberry
Peter Williams
Mitsuo Nagoshi
Masaru Motomura
Kunihiko Kashima (Appointed 1/8/2011)

Mr Yasuhito Obayashi resigned as a director on 1/8/2011.

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.

Paper Manufacturing 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 $40.9 million (2010: net profit after tax $16.7 million). The underlying business operations deteriorated during the year as a result of the increase in the AUD/ USD exchange rate. The appreciating AUD resulted in cheaper imports and low translation returns on exported products. Production and operating performance improved during 2011 but these gains were not sufficient to counter the adverse impacts of the exchange rate.

The tsunami that hit the east coast of Japan significantly impacted the paper manufacturing operations of the parent company NPI Co Ltd. This event resulted in the termination of coated paper exports to the company from the parent. Although the paper volume and sales value were material the profit impact of the event was relatively less significant to the company.

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 2011.

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 for the 12 months ended 30 June 2011 and future periods. The Company has established data collection systems and processes are in place to meet the new requirements.

In addition, the Company's Australian operations will be required to comply with the Australian Federal Government's Clean Energy Act 2011 which has been substantively enacted as at the date of this report and is expected to be phased in from July 2012.

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.

The Government released the Clean Energy Act 2011 (the "Act" or the "Scheme") which will have an impact on the Australian economy and also on the Company. The Act, which is substantially enacted as at 31 December 2011, will commence on 1 July 2012. The Company is a "liable" entity under the Scheme, as direct emissions (that are covered by the Scheme) at any of its facilities exceed 25,000 tonnes of CO2-e.

Management is currently reviewing its expected financial impacts and opportunities, based on the information released by the Government and it appears that the paper and pulp production activities are eligible for assistance under the Jobs and Competitiveness Program as the activity is Emissions Intensive Trade Exposed and as such assistance will be provided in the form of free carbon permits.

Dividends
The Company has declared and paid a dividend of $5.019 million for the year ended 31 December 2011 (2010: $2.224 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:

Income tax advice
Fringe benefit tax advice
Foreign employee advice
JSOX review
Partial Exemption Certificate 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
30 March 2012

Ernst & Young

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 2011, 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.

Ernst & Young

Ernst & Young

Jacob Gossan
Partner
30 March 2012

Financial Report of Paper Australia Pty Ltd

Contents

Paper Australia Pty Ltd
ABN 63 061 583 533

Statements of Comprehensive Income
For the year ended 31 December 2011

	Note	Consolidated		Company	
		Year ended 31 December 2011 $'000	Year ended 31 December 2010 $'000	Year ended 31 December 2011 $'000	Year ended 31 December 2010 $'000
Continuing operations					
Revenue		788,479	872,093	724,930	801,601
Other income		2,668	4,167	3,198	4,451
Cost of sales		(681,012)	(740,609)	(634,242)	(688,920)
Personnel costs non-manufacturing		(39,714)	(40,352)	(35,602)	(35,602)
Logistics and distribution		(56,293)	(56,810)	(51,777)	(51,834)
General and administration		(5,162)	(4,375)	(3,386)	(2,531)
Sales and marketing		(7,194)	(7,974)	(7,220)	(7,840)
Research and development		(829)	(844)	(829)	(844)
Net foreign exchange losses		(762)	23	(722)	53
Results from operating activities		181	25,319	(5,650)	18,534
Finance income		599	522	592	505
Finance expenses		(10,949)	(7,146)	(10,939)	(7,073)
Net financing costs		(10,350)	(6,624)	(10,347)	(6,568)
Profit from continuing operations before income tax		(10,169)	18,694	(15,997)	11,966
Income tax (expense)/revenue		(30,760)	(1,963)	(30,127)	15
Profit from continuing operations after Income tax		(40,929)	16,731	(46,124)	11,981
Other comprehensive income					
Net foreign exchange differences on translation of overseas subsidiaries		19	(2,099)	-	-
Net gains/(losses) on hedge of net investment		(242)	-	(242)	-
Actuarial (losses)/gains on defined benefit plans		(8,960)	(1,481)	(8,960)	(1,481)
Other comprehensive income for the year, net of tax		(9,183)	(3,580)	(9,202)	(1,481)
Total comprehensive income for the year		(50,112)	13,151	(55,327)	10,500
Profit/(loss) for the year attributable to:					
Owners of the parent		(40,915)	16,683	(46,124)	11,981
Non-controlling interest		(14)	48	-	-
		(40,929)	16,731	(46,124)	11,981
Total comprehensive income for the year is attributable to:					
Owners of the parent		(50,098)	13,103	(55,327)	10,500
Non-controlling interest		(14)	48	-	-
		(50,112)	13,151	(55,327)	10,500

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 2011

	Note	Consolidated 2011 $'000	Consolidated 2010 $'000	Company 2011 $'000	Company 2010 $'000
Current assets					
Cash and cash equivalents	3	47,772	64,652	38,959	54,276
Trade and other receivables	4	109,237	117,825	117,932	114,731
Inventories	5	183,151	171,370	168,876	165,972
Other assets	6	1,500	1,500	1,500	1,500
Assets held for resale		1,013	-	1,013	-
Total current assets		342,673	355,347	328,281	336,479
Non-current assets					
Receivables	4	-	5,513	-	5,513
Investments		-	-	21,444	21,444
Property, plant and equipment	7	488,454	473,585	488,386	473,496
Intangible assets	8	860	460	831	395
Deferred tax assets	9	72,756	103,418	72,379	104,083
Other assets	6	6,796	9,620	6,796	9,620
Total non-current assets		568,866	592,596	589,836	614,551
Total assets		911,539	947,943	918,116	951,030
Current liabilities					
Trade and other payables	10	113,544	129,679	118,024	130,620
Loans and borrowings	11	53,883	75,451	58,292	75,451
Income tax payable	12	123	581	-	-
Employee benefits	13	44,033	45,352	43,658	44,970
Provisions	14	2,199	2,319	2,199	2,319
Total current liabilities		213,783	253,382	222,174	253,360
Non-current liabilities					
Other payables	10	2,987	1,085	2,987	1,085
Loans and borrowings	11	61,526	4,670	61,526	4,670
Employee benefits	13	2,043	2,351	1,591	1,893
Provisions	14	6,265	6,100	6,265	6,100
Total non-current liabilities		72,821	14,206	72,369	13,748
Total liabilities		286,604	267,588	294,544	267,108
Net assets		624,935	680,355	623,573	683,922
Equity					
Share capital	15	662,280	662,280	662,280	662,280
Reserves	16	(6,703)	(6,468)	(242)	-
Retained earnings	17	(30,780)	24,391	(38,465)	21,642
Minority interest		138	152	-	-
Total equity		624,935	680,355	623,573	683,922

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

Statements of Changes in Equity

For the year ended 31 December 2011

Consolidated

	Issued capital $'000	Accumulated losses $'000	Other reserves $'000	Minority interest $'000	Total $'000
At 31 December 2009	1,459,532	(785,922)	(4,369)	104	669,345
Net profit for the year		16,683		48	16,731
Other comprehensive income		(1,481)	(2,099)		(3,580)
Total comprehensive income for the period	1,459,532	(770,720)	(6,468)	152	682,496
Transactions with owners in their capacity as owners:					
Dividends paid		(2,255)			(2,255)
Prior period adjustments		114			114
Share capital reduction	(797,252)	797,252			-
At 31 December 2010	662,280	24,391	(6,468)	152	680,355
Net profit for the period		(40,915)		(14)	(40,929)
Other comprehensive income		(8,960)	(223)		(9,183)
Total comprehensive income for the period	662,280	(25,484)	(6,691)	138	630,243
Transactions with owners in their capacity as owners:					
Dividends paid		(5,019)			(5,019)
Prior period adjustments		(277)	(12)		(289)
At 31 December 2011	662,280	(30,780)	(6,703)	138	624,935

Parent

	Issued capital $'000	Accumulated losses $'000	Other reserves $'000	Minority interest $'000	Total $'000
At 31 December 2009	1,459,532	(783,886)	-	-	675,646
Net profit for the year		11,981			11,981
Other comprehensive income		(1,481)			(1,481)
Total comprehensive income for the period	1,459,532	(773,386)	-	-	686,146
Transactions with owners in their capacity as owners:					
Dividends paid		(2,224)			(2,224)
Share capital reduction	(797,252)	797,252			-
At 31 December 2010	662,280	21,642	-	-	683,922
Net profit for the period		(46,124)			(46,124)
Other comprehensive income		(8,960)	(242)		(9,202)
Total comprehensive income for the period	662,280	(33,442)	(242)	-	628,596
Transactions with owners in their capacity as owners:					
Dividends paid		(5,019)			(5,019)
Prior period adjustments		(4)			(4)
At 31 December 2011	662,280	(38,465)	(242)	-	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 Cash Flows

For the year ended 31 December 2011

	Consolidated		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Cash flows from operating activities				
Receipts from customers	802,286	884,188	727,751	817,180
Payments to suppliers and employees	(789,358)	(838,628)	(718,231)	(768,297)
Interest received	599	522	592	505
Interest paid	(10,949)	(7,146)	(10,939)	(7,073)
Income tax paid	(556)	-	-	-
Net cash from operating activities (1)	2,022	38,936	(827)	42,315
Cash flows from investing activities				
Acquisition of property, plant and equipment and intangibles	(48,928)	(34,709)	(48,926)	(34,683)
Net cash from investing activities	(48,928)	(34,709)	(48,926)	(34,683)
Cash flows from financing activities				
Dividends paid	(5,019)	(2,255)	(5,019)	(2,224)
Proceeds from borrowings	35,636	-	40,045	-
Principal finance lease payments	(590)	(3,897)	(590)	(3,897)
Net cash from financing activities	30,027	(6,152)	34,436	(6,121)
Net increase in cash and cash equivalents	(16,880)	(1,925)	(15,317)	1,510
Cash and cash equivalents at the beginning of the year	64,652	66,577	54,276	52,766
Cash and cash equivalents at the end of the year	47,772	64,652	38,959	54,276
(1) Reconciliation of profit after tax to net cash from operating activities profit for the year				
Profit for the period	(40,929)	16,731	(46,124)	11,981
Depreciation and amortisation of property, plant, equipment and intangibles	30,660	31,022	30,600	30,954
Outside equity interest	(14)	48	-	-
Decrease/(increase) in current and deferred taxes	30,204	1,552	31,704	(15)
Increase/(decrease) in provisions and employee benefits	(1,583)	6,613	(1,570)	6,739
Operating profit before changes in current and non-current assets and liabilities	18,338	55,966	14,610	49,659
Decrease/(increase) in trade and other receivables	19,661	10,713	7,871	11,932
Decrease/(increase) in inventories	(11,781)	(3,846)	(2,904)	(3,599)
(Decrease)/increase in trade and other payables	(24,196)	(23,897)	(20,404)	(15,677)
Net cash from operating activities	2,022	38,936	(827)	42,315

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 30th of March 2012.

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)

(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.

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.

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.

Notes to the financial statements

Note 1. Accounting Policies (Continued)

(6) Depreciation

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

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

Land improvements:	between 1% – 3%
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. Financial instruments are not held for trading purposes.

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

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

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 Note1 (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 Scheme.

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.

Notes to the financial statements

(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.

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), to come 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, 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) 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

Note 2. Expenses

	Consolidated 2011 $'000	Consolidated 2010 $'000	Company 2011 $'000	Company 2010 $'000
Employee benefits expenses				
Salaries and wages	143,124	147,315	139,616	143,182
Superannuation	10,978	11,118	10,374	10,502
	154,102	158,433	149,990	153,684

Note 3. Cash and Cash Equivalents

	Consolidated 2011 $'000	Consolidated 2010 $'000	Company 2011 $'000	Company 2010 $'000
Cash on hand and at bank	47,772	64,652	38,959	54,276
Total cash and cash equivalents	47,772	64,652	38,959	54,276

Note 4. Trade and Other Receivables

	Consolidated 2011 $'000	Consolidated 2010 $'000	Company 2011 $'000	Company 2010 $'000
Trade and other receivables - current				
Trade debtors	100,086	113,618	91,711	110,109
Provision for doubtful debts	(1,341)	(1,386)	(1,111)	(1,170)
Net trade debtors	98,745	112,232	90,600	108,939
Other debtors	3,034	2,155	4,064	(192)
Prepayments	7,458	3,438	7,046	3,021
Amounts owing from subsidiaries	-	-	16,222	2,963
	109,237	117,825	117,932	114,731
Receivables - non-current				
Other debtor - Surplus on defined benefit plan	-	5,513	-	5,513
	-	5,513	-	5,513

Note 5. Inventories

	Consolidated 2011 $'000	Consolidated 2010 $'000	Company 2011 $'000	Company 2010 $'000
At the lower of cost and net realisable value:				
Raw materials and stores	71,390	72,627	71,390	72,627
Provision for impairment losses	(7,697)	(8,473)	(7,697)	(8,473)
Net raw materials and stores	63,693	64,154	63,693	64,154
Work in progress	11,437	10,495	11,437	10,495
Finished goods	111,185	98,925	96,652	93,307
Provision for impairment losses	(3,164)	(2,204)	(2,906)	(1,984)
Net finished goods	108,021	96,721	93,746	91,323
Total inventories	183,151	171,370	168,876	165,972

Notes to the financial statements

Note 6. Other Assets

	Consolidated 2011 $'000	Consolidated 2010 $'000	Company 2011 $'000	Company 2010 $'000
Other assets - current	1,500	1,500	1,500	1,500
	1,500	1,500	1,500	1,500
Other assets - non-current	4,500	5,500	4,500	5,500
Capital projects	2,296	4,120	2,296	4,120
	6,796	9,620	6,796	9,620

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

Note 7. Property, Plant and Equipment

	Consolidated 2011 $'000	Consolidated 2010 $'000	Company 2011 $'000	Company 2010 $'000
Land:				
• At cost	3,724	3,724	3,724	3,724
• Accumulated impairment losses	(1,976)	(1,976)	(1,976)	(1,976)
Total net land	1,748	1,748	1,748	1,748
Land improvements:				
• At cost	16,446	15,694	16,446	15,694
• Accumulated depreciation and impairment losses	(10,214)	(10,069)	(10,214)	(10,069)
Total net land improvements	6,232	5,625	6,232	5,625
Buildings:				
• At cost	129,286	160,741	129,286	160,741
• Accumulated depreciation and impairment losses	(94,420)	(111,054)	(94,420)	(111,054)
Total net buildings	34,866	49,687	34,866	49,687
Plant and equipment:				
• At cost	2,043,134	1,880,537	2,042,426	1,879,834
• Accumulated depreciation and impairment losses	(1,597,526)	(1,510,613)	(1,596,886)	(1,509,999)
Total net plant and equipment	445,608	369,924	445,540	369,835
Finance lease assets:				
• Finance lease assets	57	92,057	57	92,057
• Accumulated amortisation and impairment losses	(57)	(45,456)	(57)	(45,456)
Total net finance lease assets	-	46,601	-	46,601
Total property, plant and equipment	488,454	473,585	488,386	473,496

Depreciation and amortisation expenses are $30.66 million (31 December 2010: $31.02 million) for the Consolidated Entity and $30.60 million (31 December 2010: $30.95 million) for the Company for the year ended 31 December 2011.

Notes to the financial statements

Note 8. Intangible Assets

	Consolidated 2011 $'000	Consolidated 2010 $'000	Company 2011 $'000	Company 2010 $'000
Computer software:				
• At cost	82,477	81,882	82,292	81,698
• Accumulated amortisation	(81,709)	(81,422)	(81,553)	(81,303)
Total net computer software	768	460	739	395
Other intangibles:				
• At cost	100	0	100	0
• Accumulated amortisation	(8)	0	(8)	0
Total other intangibles	92	0	92	0
Total intangibles assets	860	460	831	395

Note 9. Deferred Tax Assets

	Consolidated 2011 $'000	Consolidated 2010 $'000	Company 2011 $'000	Company 2010 $'000
Deferred tax assets	72,756	103,418	72,379	104,083
Total deferred tax assets	72,756	103,418	72,379	104,083
Deferred tax assets comprise of the following:				
Provisions and employee benefits	14,913	15,132	14,647	14,836
Accrued expenses not claimed	15	1,059	-	948
Trading stock valuation adjustments	3,273	3,137	3,181	3,137
Property, plant and equipment	54,555	65,222	54,551	65,221
Unrealised foreign exchange gains	-	1	-	-
Tax losses carry forward	-	18,867	-	19,941
	72,756	103,418	72,379	104,083

Note 10. Trade and Other Payables

	Consolidated 2011 $'000	Consolidated 2010 $'000	Company 2011 $'000	Company 2010 $'000
Trade and other payables - current				
Trade creditors	97,394	108,842	94,210	105,468
Other creditors	16,150	20,837	23,814	25,152
	113,544	129,679	118,024	130,620
Other payables - non current				
Long term incentive plan	251	1,085	251	1,085
Deficit on defined benefit plan	2,736	-	2,736	-
Total payables	2,987	1,085	2,987	1,085

Notes to the financial statements

Note 11. Loans and Borrowings

	Consolidated 2011 $'000	Consolidated 2010 $'000	Company 2011 $'000	Company 2010 $'000
Unsecured loans and borrowings - current				
Bank loans	31,182	-	31,182	-
Other loans	581	1,426	581	1,426
Loans from related parties	22,120	-	26,529	-
Finance lease liabilities	-	74,025	-	74,025
	53,883	75,451	58,292	75,451
Unsecured loans and borrowings - non current				
Bank loans	57,438	-	57,438	-
Other loans	4,089	4,670	4,089	4,670
	61,526	4,670	61,526	4,670

Note 12. Income Tax Payable

	Consolidated 2011 $'000	Consolidated 2010 $'000	Company 2011 $'000	Company 2010 $'000
Income tax	123	581	-	-
Total income tax payable	123	581	-	-

Note 13. Employee Benefits

	Consolidated 2011 $'000	Consolidated 2010 $'000	Company 2011 $'000	Company 2010 $'000
Employee benefits – current	44,033	45,352	43,658	44,970
	44,033	45,352	43,658	44,970
Employee benefits – non-current	2,043	2,351	1,591	1,893
	2,043	2,351	1,591	1,893

Note 14. Provisions

	Consolidated 2011 $'000	Consolidated 2010 $'000	Company 2011 $'000	Company 2010 $'000
Provisions – current				
Other	2,199	2,319	2,199	2,319
	2,199	2,319	2,199	2,319
Provisions – non-current				
Other	6,265	6,100	6,265	6,100
	6,265	6,100	6,265	6,100

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

Notes to the financial statements

Note 15. Issued Capital

	Consolidated 2011 $'000	Consolidated 2010 $'000	Company 2011 $'000	Company 2010 $'000
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 2011 (2010: 3,208,084,653 ordinary shares).

Note 16. Reserves

	Consolidated 2011 $'000	Consolidated 2010 $'000	Company 2011 $'000	Company 2010 $'000
Cash flow hedge reserve				
Balance at beginning of period	-	-	-	-
Net gains from cash flow hedges	(242)	-	(242)	-
Balance at end of period	(242)	-	(242)	-
Other reserve				
Balance at beginning of period	-	-	-	-
Prior period adjustments	(12)	-	-	-
Balance at end of period	(12)	-	-	-
Foreign currency translation reserve				
Balance at start of period	(6,468)	(4,369)	-	-
Translation of overseas subsidiaries	19	(2,099)	-	-
Balance at end of period	(6,449)	(6,468)	-	-
Total reserves	(6,703)	(6,468)	(242)	-

Note 17. Retained Profits

	Consolidated 2011 $'000	Consolidated 2010 $'000	Company 2011 $'000	Company 2010 $'000
Balance at beginning of year	24,391	(785,922)	21,642	(783,886)
Net profit attributable to equity holders of Paper Australia Pty Ltd	(40,915)	16,683	(46,124)	11,981
Dividends paid	(5,019)	(2,255)	(5,019)	(2,224)
Prior period adjustments	(277)	114	(4)	-
Actuarial gains on defined benefit plans	(8,960)	(1,481)	(8,960)	(1,481)
Share capital reduction	-	797,252	-	797,252
Total retained profits	(30,780)	24,391	(38,465)	21,642

Notes to the financial statements

	Consolidated 2011 $'000	Consolidated 2010 $'000	Company 2011 $'000	Company 2010 $'000
Note 18. Capital Expenditure Commitments				
Capital expenditure contracted but not provided for:				
Not later than one year	4,136	2,548	4,136	2,548
Total capital expenditure commitments	4,136	2,548	4,136	2,548

	Consolidated 2011 $'000	Consolidated 2010 $'000	Company 2011 $'000	Company 2010 $'000
Note 19. Auditors' Remuneration				
Amounts received or due and receivable for audit services by:				
• Auditors of the Company	300	290	300	290
Amounts received or due and receivable for other services by:				
• Auditors of the Company	142	131	142	131
Total auditors' remuneration	442	421	442	421

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 2011**	**31 December 2010**
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 Frohlen 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 $9.4 million.

(ii) Guarantees
The Company has issued performance and financial guarantees to the value of $12,910,852 (2010: $11,208,368) to unrelated parties as at 31 December 2011.

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 2011 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

30 March 2012

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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 2011, 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.

ERNST & YOUNG

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 2011 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

Ernst & Young

Jacob Gossan
Partner
Melbourne
30 March 2012