

25 August 2005**Statement to Australian Stock Exchange and News Media
for the financial year ended 30 June 2005****REVIEW OF THE TWELVE MONTHS**

For the year to 30 June 2005 PaperlinX had a strong operating cash flow of \$273 million and has a sound financial position with net debt reducing by \$159m to \$874 million, and gearing of net debt to net debt plus equity at 33%.

Net profit after tax for the year excluding the Australian Tax Consolidation ("ATC") benefit was \$91.5 million, down 16% on the prior year. Net profit after tax including a \$77 million once only benefit arising from the company's election to enter the ATC regime was \$168.5 million.

Profit before interest and tax of \$185 million was down 3% on the prior year due to the substantially lower earnings contributed by the Australian Paper manufacturing business, offset partially by the increased earnings from the paper merchanting business.

Earnings per share including the ATC benefit and before goodwill amortisation was 42.3 cents. Excluding the ATC benefit and before goodwill amortisation, earnings per share was 25.0 cents.

The global paper industry has faced a tough year with subdued demand, high levels of available fine paper, lower selling prices and higher oil prices.

PaperlinX's paper merchanting business continues to deliver returns in the top quartile for merchanting businesses worldwide, and exceeds the group's weighted average cost of capital. This is the first full year of including the former Buhmann merchanting businesses, acquired on 1 November 2003. These businesses were significantly earnings per share accretive in the year, enhancing shareholder value.

The major negative impact on PaperlinX has been the reduced profitability of the Australian Paper manufacturing business. Australian Paper has been adversely affected by lower selling prices in Australia due to the strong Australian currency, lower domestic sales volumes, higher logistics and production costs.

Offsetting these impacts, PaperlinX has reduced expenses throughout its businesses, reduced working capital with an improved working capital to sales ratio of 16.3% compared to 18.6% in the prior year, and delivered a solid balance sheet position. The working capital to sales ratio improved in all businesses.

Despite the difficult market environment, and benefiting from the improved working capital, PaperlinX has delivered a 6.4% return on average funds employed at a low point in the paper cycle. This result is well below our targeted return, but in the top rank of global paper companies.

Financial highlights of the year are:

		Ongoing Operations	Australian Tax Consolidation	PaperlinX Group Total
Sales volume (including commission sales)	Million tonnes	4.6	-	4.6
Sales revenue	\$ billion	7.6	-	7.6
Profit before interest and tax	\$m	184.9	-	184.9
Profit after tax	\$m	91.5	77.0	168.5
Earnings per share	cps	20.5	17.3	37.8
Earnings per share before goodwill amortisation	cps	25.0	17.3	42.3
Dividend per share	cps	23.5	2.0	25.5

<u>Key Statistics</u>	<u>PaperlinX Limited & Controlled Entities</u>			
		12 months to June 2005	12 months to June 2004 (2)	% Change
Sales Revenue	\$m	7,574	6,212	22
Profit from Ordinary Activities before interest, income tax, amortisation and depreciation	\$m	307.7	300.7	2
Profit from Ordinary Activities before interest & income tax (PBIT)	\$m	184.9	189.7	(3)
Profit from Ordinary Activities before income tax	\$m	116.4	141.2	(18)
Profit from Ordinary Activities after income tax excluding ATC	\$m	91.5	108.5	(16)
Profit from Ordinary Activities after income tax including ATC	\$m	(1) 168.5	108.5	55
Key Ratios				
Profit from Ordinary Activities before interest and income tax to average funds employed	%	6.4	7.5	
Return on average shareholders equity	%	(1) 9.4	6.2	
Net operating cash flow	\$m	273	403	
Net interest cover (times)	x	2.7	3.9	
Earnings per share before goodwill amortisation	cps	(1) 42.3	28.6	
Earnings per share	cps	(1) 37.8	24.7	
Dividend per share	cps	25.5	27.5	
Notes: <i>In this statement currency is AUD unless otherwise indicated.</i>				
(1) Includes once only benefit of entering Australian Tax Consolidation regime of \$77 million ("ATC").				
(2) Includes Buhmann's Paper Merchants Division for 8 months, acquired 1/11/03.				

DIVIDEND

Directors have declared an unfranked final dividend of 12 cents per share comprising 10 cents per share from ongoing operating earnings and 2 cents per share special dividend from the ATC benefit.

Combined with the interim dividend, total dividends for the year are 25.5 cents per share. PaperlinX's dividend policy going forward will be for a sustainable dividend payout ratio which is around 70% of operating earnings after tax.

The final dividend will be mailed on 28th September 2005 to shareholders on record as of 7th September 2005 as being entitled to the dividend.

OPERATIONS

The following table shows, for PaperlinX Limited and controlled entities, Operating Profit from Ordinary Activities, Sales Revenue, and Total Assets by industry and geographic segments for the twelve months to 30 June 2005 and 30 June 2004.

	<u>Operating Profit</u>		<u>Sales Revenue</u>		<u>Total Assets</u>	
	June 2005	June 2004	June 2005	June 2004	June 2005	June 2004
	\$m	\$m	\$m	\$m	\$m	\$m
<u>Industry Segments</u>						
Merchanting & Paper Trading ^{(1) (2)}	185.8	147.5	7,035.3	5,620.4	3,048.9	3,410.6
Communication Papers ⁽¹⁾	12.3	44.8	699.8	714.7	873.2	872.5
Packaging Papers ⁽¹⁾	10.0	21.6	242.9	254.2	292.2	313.9
Corporate and Other ⁽¹⁾	(23.2)	(24.2)	100.6	100.5	121.7	142.5
Operating profit from Ordinary Activities before interest & income tax	184.9	189.7				
Net Interest	(68.5)	(48.5)				
Operating Income Tax Expense	(24.8)	(32.5)				
Income tax – Australian Tax Consolidation ⁽⁴⁾	77.0					
Outside Equity Interests	(0.1)	(0.2)				
Inter-segment Sales			(504.5)	(478.2)		
Unallocated Assets (deferred tax assets)					47.6	40.6
Total:	168.5	108.5	7,574.1	6,211.6	4,383.5	4,780.1
<u>Geographic Segments</u> ^{(2) (3)}						
Australia & New Zealand ⁽¹⁾	24.2	72.3	1,555.2	1,641.5	1,719.4	1,775.2
North America ^{(1) (2)}	25.3	16.4	1,019.6	904.3	410.8	421.9
Europe ^{(1) (2)}	132.0	98.9	4,905.9	3,576.1	2,149.5	2,483.7
Asia ^{(1) (2)}	3.4	2.1	93.4	89.7	56.2	58.7
Operating profit from Ordinary Activities before interest & income tax	184.9	189.7				
Net Interest	(68.5)	(48.5)				
Operating Income Tax Expense	(24.8)	(32.5)				
Income tax – Australian Tax Consolidation ⁽⁴⁾	77.0					
Outside Equity Interests	(0.1)	(0.2)				
Unallocated Assets (deferred tax assets)					47.6	40.6
Total:	168.5	108.5	7,574.1	6,211.6	4,383.5	4,780.1

⁽¹⁾ Profit before interest and income tax.

⁽²⁾ Buhrmann's paper merchanting division included from 1/11/03.

⁽³⁾ The geographic segments reflect PaperlinX's management structure – sales, profits and assets are shown in the region where the business is based.

⁽⁴⁾ Once only benefit of entering Australian Tax Consolidation of \$77 million.

MERCHANTING

		12 mnths Jun 05	12 mnths Jun 04 ⁽¹⁾	12 mnths Jun 04 Proforma
Sales Volume	'000 tonnes	3,813	3,060	3,848
Sales Revenue	A\$m	7,035	5,620	7,153
Operating Profit before Interest & Tax	A\$m	185.8	147.5	178.8
Return on Average Funds Employed	%	10.3	10.1	-

(1) Includes Buhrmann's Paper Merchanting Division that were acquired 1/11/03.

2005 merchanting results include a full year contribution from the Buhrmann Paper Merchanting Division ("BPMD") that was acquired on 1 November 2003, whereas in the prior year only eight months are included.

Compared to the prior year, sales volumes were up 25%, sales revenue up 25% and profit before interest and tax increased 26%, with a significant portion of the increases arising from the acquisition of BPMD.

Where reference is made to "proforma basis" in this release, it means the year to June 2004 adjusted to include the actual results of BPMD as if PaperlinX had owned it for the full year from 1 July 2003 to 30 June 2004 (in lieu of the eight months actually included in the prior year). On a proforma basis, profit before interest and tax increased 4% despite sales volumes being down 1% and sales revenue being down 1.6%. The increase in profit before interest and tax was achieved through synergy benefits, profit improvement projects and good cost control.

Return on average funds employed in merchanting continued to increase, being 10.3% for the year to June 2005, exceeding the company's weighted average cost of capital, and contributing positively to shareholder value. The improvements in returns are due to the combination of higher profit and significant reductions in working capital. The working capital to sales ratio in every region improved, despite lower selling prices in most regions.

During the year a small merchanting business was acquired in Denmark and consolidated into our existing Danish business; the business in Sweden was sold; restructures were undertaken in France, Ireland and Portugal; warehouses were consolidated in Melbourne, Australia and cost initiatives were implemented in most other businesses.

PaperlinX's merchanting business continues to deliver improved returns, in the top quartile for the industry, despite difficult market conditions, again highlighting the relatively lower volatility of paper merchanting earnings compared to paper manufacturing.

All regions continue to be focussed on improving returns through superior service to our customers, cost efficiencies, restructuring and management of working capital. Opportunities to expand the merchanting business continue to be pursued.

Australia & New Zealand

		12 mnths <u>Jun 05</u>	12 mnths <u>Jun 04</u>
Sales Volume	'000 tonnes	607	605
Sales Revenue	A\$m	1,026	1,050
Operating Profit before Interest & Tax	A\$m	24.0	29.1

Average selling prices were down 2.5% in the Australia and New Zealand markets reflecting the competitive pressures and the AUD/USD exchange rate. The lower selling prices adversely impacted profit by \$6 million. The business maintained sales volumes at the same level as the prior year.

Sales volumes in the sheet fed sector and the web sector increased, however selling prices reduced due to currency and competition from low priced imports.

In New Zealand selling prices have reduced over the last six months due to competitor activity to increase market share. PaperlinX is maintaining volume at reduced margins.

One of the major profit improvement programmes completed during the year was the centralisation of the Melbourne, Australia, operations to one facility. The cost of implementing the project adversely impacted profit in the year, but will positively add to earnings in future years through lower warehouse, distribution and administration costs.

Working capital was reduced by 10% from the prior year through improved debtor collections and creditor terms. Working capital to sales ratio has also improved, despite the lower selling prices.

Both the Australian and New Zealand businesses continue to hold solid market shares and deliver healthy returns.

Europe

		12 mnths <u>Jun 05</u>	12 mnths <u>Jun 04⁽¹⁾</u>	12 mnths <u>Jun 04</u> <u>Proforma</u>
Sales Volume	'000 tonnes	2,534	1,835	2,576
Sales Revenue	€m	2,828	2,092	2,942
Operating Profit before Interest & Tax	€m	77.5	57.9	75.1

(1) Includes Buhrmann's Paper Merchating Division for 8 months, acquired 1/11/03.

PaperlinX Europe comprises all of PaperlinX's merchating businesses throughout Europe and South Africa, in total operating in 19 countries.

As previously indicated, the prior year results include only 8 months of Buhrmann's Paper Merchating Division.

Compared to the prior year on a proforma basis, profit increased 3.2% despite volume being down 1.6% and sales revenue down 3.9%. The European business was substantially earnings per share accretive in the year.

Demand in Europe has been soft, especially in the second half of the year. There is also an excess supply of paper, which has depressed selling prices, despite efforts to increase selling prices on coated woodfree grades by our major supplier late in the financial year. The efforts to increase selling prices resulted in some lost volumes. Overall average selling prices reduced by 2.3%, reflecting the competitive situation.

PaperlinX Europe's main reductions in proforma sales volumes were attributable to restructuring where businesses have exited low or negative contribution sales, particularly in Germany (40,000 tonnes) and France (15,000 tonnes). The businesses in these two countries have undergone major restructuring and downsizing to improve competitiveness and to move towards acceptable returns – Germany in 2004 and France in 2005. In Germany, profit improved almost €4 million and France improved almost €2 million over the prior year proforma.

Sales volumes for PaperlinX's own brands (including Hello, Core, Motif and On) increased 10% compared to the prior year.

In our major European market of the UK, sales volumes increased ahead of the market growth, and operating earnings improved, although markets slowed in the second half of the year. The Paper Company, Robert Horne Group and M6 all improved returns.

In the Netherlands, volumes were maintained, however average selling prices were down 3.5%, resulting in lower earnings.

Demand across central Europe was solid, with overall profit improving.

The balance of the European business overall maintained volumes and profit levels.

In France and Ireland restructuring was implemented to reduce costs and improve service levels. An acquisition in Denmark in November 2004 has been smoothly integrated into the existing business, with the anticipated benefits now being achieved. The business in Sweden was sold in February 2005 as it was not capable of achieving an acceptable sustainable level of return. The once off costs of the restructures and integrations adversely affected profit in the year, but result in a lower cost base going forward.

Funds invested in Europe have reduced predominantly through proactive management of working capital. Working capital as a percentage of sales reduced compared to the prior year. Combined with the increased profit, return on funds employed continues to improve and is in excess of the groups' weighted average cost of capital.

Projects to further increase the business synergies including IT, supply and logistics, are being pursued, as are acquisition opportunities for further consolidating European merchanting.



North America

		12 mnths <u>Jun 05</u>	12 mnths <u>Jun 04</u> ⁽¹⁾	12 mnths <u>Jun 04</u> <u>Proforma</u>
Sales Volume	'000 tonnes	416	391	404
Sales Revenue	US\$m	662	573	616
Operating Profit before Interest & Tax	US\$m	18.2	⁽²⁾ 12.0	⁽²⁾ 13.6

(1) Includes Buhrmann's Paper Merchating Division for 8 months, acquired 1/11/03.
(2) Includes \$1.8 million profit on sale of Canadian property.

PaperlinX North America delivered an excellent result, with sales volumes increasing 2.7%, sales revenue up 7.5% and profit increasing 34% on a proforma basis. In addition, working capital reduced 12%, thereby increasing returns substantially. Sales volumes of PaperlinX's own brands (including Pacesetter and Endeavour) increased 20%.

In the USA, the improved economic conditions, particularly in the first half of the year, resulted in increases in selling prices and margins. Volumes increased 5% on a proforma basis. Towards the end of the year demand softened and selling prices were under pressure.

In the USA, the Kelly Paper business delivered an outstanding result with revenue up 9% and improved margins, profit and return on funds invested. A new store was started up in Seattle, with additional stores planned for 2006.

In Canada, selling prices were reduced by 3% as a result of the continued strengthening of the Canadian currency against the US currency. Sales volumes increased, margins were maintained, and the cost base improved by restructuring parts of the business, in net leading to an improved profit result. Substantial reductions were also achieved in working capital.

The North American business is successfully leveraging the synergy advantages of the combined operations and thereby improving all the individual businesses results. Our businesses are well placed with proprietary brands, an efficient cost structure and a combination of service options for the various customer segments.

Asia

		12 mnths <u>Jun 05</u>	12 mnths <u>Jun 04⁽¹⁾</u>	12 mnths <u>Jun 04</u> <u>Proforma</u>
Sales Volume	'000 tonnes	75	71	77
Sales Revenue	S\$m	109	99	108
Operating Profit before Interest & Tax	S\$m	3.7	2.2	2.3

(1) Includes Buhrmann's Paper Merchating Division for 8 months, acquired 1/11/03.

Market demand remained consistent in Asia throughout the year. Average selling prices increased 3.5% which was achieved through a disciplined approach to the market by suppliers and a focus on improving the mix of our business. Volumes were down slightly on a proforma basis as we scaled back our business in Hong Kong to focus on profitable sales and to achieve a sustainable return.

Costs were reduced, particularly in Singapore, where synergy benefits have been achieved between the pre-existing and acquired businesses. The Malaysian business achieved a solid improvement over the prior year.

Improved margins have been achieved through the focus on our own or exclusive brands, which now represent in excess of 60% of sales in this region.

Overall profit and return on funds employed increased on a proforma basis by over 60%.

In the last few months the market has shown signs of softening, with selling price reductions in some grades of paper following substantial capacity increases in the region.

Paper Trading

		12 mnths <u>Jun 05</u>	12 mnths <u>Jun 04⁽¹⁾</u>	12 mnths <u>Jun 04</u> <u>Proforma</u>
Sales Volume	'000 tonnes	190	158	185
Commission Volume	'000 tonnes	295	318	328
Sales Revenue	A\$m	173	131	158
Operating Profit before Interest & Tax	A\$m	2.7	3.6	3.2

(1) Includes Buhrmann's Paper Merchating Division for 8 months, acquired 1/11/03.

Paper Products Marketing is PaperlinX's paper trading business that trades paper in over 65 countries. The business links paper manufacturers and customers, predominantly on a commission basis. The trading business performance was adversely affected by the strengthening of the Australian dollar (less commission generated) and by restructuring costs as it consolidated the former Buhrmann trading business which has been operating at a loss.

AUSTRALIAN PAPER - CONSOLIDATED

		12 mnths <u>Jun 05</u>	12 mnths <u>Jun 04</u>
Sales Volume	'000 tonnes	840	836
Sales Revenue	A\$m	943	969
Operating Profit before Interest & Tax	A\$m	22.3	66.4
Return on Average Funds Employed	%	2.1	5.8

Australian Paper is the trading name for PaperlinX's Communication Papers and Packaging Papers businesses, which produce printing and writing papers and packaging papers predominately for the Australian and New Zealand markets.

Compared to the prior year Australian Paper was able to maintain overall sales volumes, however sales volumes in Australasia were down 5% or 36,000 tonnes and export tonnes increased 22% or 39,000 tonnes. The profit per tonne from export sales is significantly lower than sales in Australasia, hence the increase in export sales in lieu of Australasian sales had a negative impact on overall profitability.

Average selling prices in Australasia were down 3%, due to competitive pressures including the effect of the stronger Australian dollar against the United States dollar which has the effect of reducing the cost of imported paper and hence lower selling prices.

Australian Paper has incurred a range of manufacturing cost increases that have not been capable of being recovered in higher selling prices or fully offset through improved efficiencies, including labour (\$5 million), transport and distribution - higher oil costs (\$6 million), imported pulp (\$7 million) and raw materials (\$8 million). In addition, production performance/efficiency on the Maryvale 4 paper machine deteriorated, negatively impacting profit by \$5 million, particularly due to new machine guarding that was installed on the machine. Steps were taken to rectify these adverse influences, resulting in a substantially improved operating performance in July 2005.

The negative profit impact of the strengthened Australian currency compared to the US currency is estimated at \$16 million.

Working capital and funds employed reduced predominantly due to management's focus on lowering inventory levels.

A tragic death of a valued production worker occurred in May 2005 at Maryvale during a routine production maintenance procedure. The company deeply regrets the incident and extends sincere condolences to the family and workforce. This accident challenges the Group to move to an even higher level of awareness, ownership and understanding in the critical area of safety.

Following a strategic review of the Australian Paper business and taking steps to improve profitability, the PaperlinX Board on 24 August 2005 approved capital expenditure of \$192 million plus \$11 million of capitalised interest to be spent over three years to replace the bleach plant and upgrade pulping at Maryvale Mill. The project will improve product quality for copy paper and all other products, cost competitiveness and environmental performance. Additionally, miscellaneous ancillary capital projects costing an average of \$18.2 million per year over three years have been approved to be carried out concurrently with the pulping capital works, thereby achieving the most cost efficient outcome.

The pulping project is expected to deliver returns in excess of the company's 12% return target for manufacturing. A separate announcement provides more detail on these expenditures and projects.

Australian Paper: Communication Papers

		12 mnths <u>Jun 05</u>	12 mnths <u>Jun 04</u>
Sales Volume	'000 tonnes	522	506
- Australia/New Zealand	%	73	78
Sales Revenue	A\$m	700	715
Operating Profit before Interest & Tax	A\$m	12.3	44.8

Continued intense competition from imported paper and the stronger currency combined with higher costs, have adversely impacted the Communication Papers business. On average during the year, the Australian dollar was worth USD74.5¢ compared to 70.5¢ in the prior year.

Sales volumes were stable in Australia, however they reduced by 25% in New Zealand due to the loss of a major contract to imports. Export volumes increased 24%, reflecting higher overall production and sales. Total sales volumes increased 3% to 522,000 tonnes. Solid demand has continued for two grades of paper, namely film coated offsets and coated woodfree sheets. Despite the strong demand, prices have not improved for these products which currently do not generate an adequate return.

During the year the Reflex copy paper range was successfully relaunched, with a whiter, brighter sheet. Australian Paper's market share of the Australian copy paper market (including all brands and contract volumes) for the last quarter of the year was up 10 points compared to prior year. Average selling prices in Australasia have reduced 4% compared to the prior year, with average export prices increasing 4% despite the stronger Australian currency.

Australian Paper: Packaging Papers

		12 mnths <u>Jun 05</u>	12 mnths <u>Jun 04</u>
Sales Volume	'000 tonnes	318	330
- Australia/New Zealand	%	77	81
Sales Revenue	A\$m	243	254
Operating Profit before Interest & Tax	A\$m	10.0	21.6

The Packaging Papers segment of Australian Paper comprises two main sectors, namely linerboards, used in the manufacture of corrugated boxes, and sack and bag papers, used to make paper sacks, carry bags and wrapping papers.

A major factor affecting the Packaging Papers business in the year was the poor production performance on the Maryvale 4 linerboard machine. Production volume decreased and costs increased with a total impact of \$5 million. A major reason for the poor performance was the effect of new guarding that had been installed on the machine for improved occupational health and safety. The new guarding made operating the machine more difficult. Steps were taken to rectify the situation with new staff, automatic sheet feeding equipment and high technology cameras installed in the machine. The machine's performance has substantially improved in July 2005.

Australasian sales of linerboard were 8% (17,000 tonnes) less this year than the prior year, and sack and bag volumes were also down, reducing profit by \$4 million. Overall average selling prices were stable, with slight reductions in Australasia offset by higher selling prices on exports.

The sack and bag machine, M1, is well progressed with the major capital investment to produce improved semi-extensible sack kraft paper. The rebuild is substantially complete, with machine production trials currently underway. The benefits of the upgrade, including enhanced quality characteristics which are in the top quartile globally, will commence to be delivered in the 2005/06 financial year.

CORPORATE & OTHER

		12 mnths <u>Jun 05</u>	12 mnths <u>Jun 04</u>
Sales Revenue	A\$m	101	101
Operating Profit before Interest & Tax	A\$m	(23.2)	(24.2)

Corporate and other includes the stationery and envelopes business as well as the corporate expenses of PaperlinX.

The stationery and envelopes business competes with imported products as well as envelopes manufactured in Australia. Competition continued at a high level, and combined with the stronger Australian currency, resulted in lower overall selling prices. Sales revenue and profit was maintained at a similar level due to the business' focus on supplying a unique range of products under well known brand names. The Tudor brand was successfully relaunched during the year.

Stationery and envelopes' working capital levels were reduced and returns on funds employed were higher than the prior year.

Corporate costs were at a similar level to the prior year.

FINANCIAL POSITION

At 30 June 2005, PaperlinX has a solid financial position with the ratio of the net debt to net debt plus equity of 32.5%, which is substantially lower than the group's target range of 40% to 50%. Interest cover remained stable throughout the year at 2.7 times. Both of the ratios are well in excess of debt covenants.

Net cash flow from operations was strong at \$273 million. Net debt has reduced by \$159 million to \$874 million.

Minimising working capital and achieving a strong cash flow continues to be a key management focus. All businesses improved their working capital to sales ratios and the group's working capital efficiency ratios for debtors, inventory and creditors all improved on the prior year.

In February 2005 PaperlinX increased the size of its multi-currency bank debt facility from US\$700 million to US\$850 million to ensure adequate financial flexibility and to take advantage of competitive interest rates. PaperlinX has an appropriate mix of long, medium and short term debt.

Capital expenditure of \$86 million was 84% of depreciation. Over the last five years, PaperlinX's capital expenditure has represented 83% of depreciation expense for the period, which is below the target for capital expenditure to be approximately equal to depreciation expense. PaperlinX's capital expenditure has remained below depreciation expense while a number of strategic projects have been considered, including the pulping upgrade announced with these results.

In October 2004 a small acquisition was completed in Denmark at a cost of A\$13 million, which has been successfully integrated into our pre-existing Danish business.

PaperlinX has adequate funding available for its current and planned projects.

Australian Tax Consolidation

As reported in the six months result to December 2004, PaperlinX Limited has elected to form a tax consolidation group in Australia effective from 1 July 2003. Under the Australian Tax Consolidation ("ATC") rules, the PaperlinX group has chosen to reset the tax cost base of certain depreciable assets which will result in additional tax depreciation over the lives of the asset. This required restatement of the deferred tax balances with a consequential tax benefit of \$77 million (previously reported \$73 million) being recorded in the statement of financial performance in accordance with UIG52 – Income Tax Accounting under the Tax Consolidation System.

International Financial Reporting Standards ("AIFRS")

For reporting periods beginning on or after 1 January 2005, the PaperlinX group must comply with Australian equivalents to International Financial Reporting Standards ("AIFRS") as issued by the Australian Accounting Standards Board.

The adoption of AIFRS does not have any effect on the strategy and business management of the group.

Attachment I to this statement explains the impact of the adoption of AIFRS on the PaperlinX group.

The PaperlinX group statements of Financial Position and Financial Performance are as follows:

STATEMENT OF FINANCIAL POSITION

		PAPERLINX LIMITED AND CONTROLLED ENTITIES	
		June 2005	June 2004
		<u>\$m</u>	<u>\$m</u>
Current Assets	\$m	2,683.8	2,999.6
Non current assets	\$m	1,699.7	1,780.5
Total Assets	\$m	4,383.5	4,780.1
Current Liabilities	\$m	1,390.5	1,341.1
Non Current Liabilities	\$m	1,180.6	1,625.7
Total Liabilities	\$m	2,571.1	2,966.8
Shareholders Equity	\$m	1,812.4	1,813.3
<u>Key Balance Sheet Ratios</u>			
Net Debt	\$m	873.5	1,033.1
Net debt to net debt and shareholders equity	%	32.5	36.3
Net debt to shareholders equity	%	48.2	57.0
Net tangible assets per share	\$	3.21	3.15

STATEMENT OF FINANCIAL PERFORMANCE

		PAPERLINX LIMITED AND CONTROLLED ENTITIES	
		12 months ended 30 June	
		2005	2004
		<u>\$m</u>	<u>\$m</u>
SALES REVENUE		7,574.1	6,211.6
Operating Profit from Ordinary Activities before depreciation, amortisation, interest and income tax		307.7	300.7
Depreciation and amortisation		(122.8)	(111.0)
Operating Profit from Ordinary Activities before interest and income tax		184.9	189.7
Net Interest Expense		(68.5)	(48.5)
Operating profit from Ordinary Activities before income tax		116.4	141.2
Income tax expense on Operating profit		(24.8)	(32.5)
Income tax – Australian Tax Consolidation		77.0	
Outside Equity Interests		(0.1)	(0.2)
OPERATING PROFIT		168.5	108.5

RETURN ON AVERAGE FUNDS EMPLOYED ⁽²⁾

	12 mnths <u>Jun 05</u>	12 mnths <u>Jun 04</u>
Merchanting*	10.3	10.1 ⁽¹⁾
Australian Paper*	2.1	5.8
PaperlinX Group	6.4	7.5
* before allocation of corporate overheads		
⁽¹⁾ excluding Buhrmann paper merchanting division		
⁽²⁾ EBIT / average funds employed		

OUTLOOK

Demand in the last six months has been softer than anticipated and below the prior year and selling prices have generally reduced or are under pressure, partially due to excess global supply. We do not see any near term improvements in the market conditions experienced during the last six months. Demand for fine papers, particularly sheet fed coated paper, in Europe, Australia and North America is forecasted to remain soft throughout this calendar year.

PaperlinX's focus is to continue to pursue the areas the company can manage, particularly tight cost and working capital management, identification and delivery of synergy benefits across merchanting and improving our supply chains and service to our customers. Improving manufacturing efficiencies and delivering the forecast benefits from capital expenditure projects are key deliverables.

PaperlinX's merchanting acquisitions have diversified the revenue base and enhanced earnings per share. The group will continue to maximise the leverage from these businesses and evaluate new growth opportunities as they arise.

The competitiveness of the Australian Paper manufacturing business should gradually improve through improved production efficiencies, essential cost reductions and from the capital expenditure programmes currently underway. However some improvement in the external environment is needed to return to the 12% Return on Average Funds Employed target for Australian Paper through the cycle.

PaperlinX will continue to build on the strength of its people, products and businesses and its unique position in merchanting and manufacturing to deliver improving returns to its shareholders.

END

Attachment I: Australian Equivalents to International Financial Reporting Standards ("AIFRS")

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Australian Equivalents to International Financial Reporting Standards ("AIFRS")

For reporting periods beginning on or after 1 January 2005, the PaperlinX group must comply with Australian equivalents to International Financial Reporting Standards ("AIFRS") as issued by the Australian Accounting Standards Board.

The financial results in this statement to the Stock Exchange have been prepared in accordance with Australian accounting standards and other financial reporting requirements ("AGAAP") applicable for the reporting period ended 30 June 2005.

The adoption of AIFRS does not have any effect on the strategy and business management of the PaperlinX group.

The PaperlinX group has established a formal project, monitored by a steering committee, to achieve transition to AIFRS reporting. The first reporting period is the half year ending 31 December 2005.

The following information detailing the estimated impact of adopting AIFRS is based on AIFRS standards that management expect to be in place when preparing the first complete AIFRS financial report for December 2005. The AIFRS standards are not yet finalised and hence changes in the standards or interpretation of them can affect the estimated impacts on the financial reports.

This commentary provides only a summary. Further details will be included in the PaperlinX Financial Report for June 2005.

The significant impacts on PaperlinX of adopting AIFRS are anticipated to be in the areas of:

- (i) Defined benefit retirement plans
- (ii) Impairment of non-current assets
- (iii) Non-amortisation of goodwill
- (iv) Non-depreciation of impaired non-current assets
- (v) Business combinations/acquisitions.

The areas of minor impact on PaperlinX of adopting AIFRS, for which further detailed information is included in the PaperlinX Financial Report for June 2005, are:

- (i) Share based payments
- (ii) Employee share plan loans
- (iii) Shares held in trust
- (iv) Income tax
- (v) Disposal of foreign denominated subsidiaries
- (vi) Reclassification of computer software
- (vii) Revenue disclosures in relation to the sale of non-current assets
- (viii) Reclassification of other income.

Further explanation on the impact of the five significant areas of adopting AIFRS follows, with a detailed explanation included in the PaperlinX Financial Report for June 2005.

(i) Defined Benefit Retirement Plans

Under AGAAP, defined benefit retirement plans are accounted for on a cash basis, with none of the plan assets or obligations recognised in the statement of financial position.

Under AIFRS the group's obligation in respect of defined benefit retirement plans and the assets of the plans are recognised in the statement of financial position.

On transition to AIFRS on 1 July 2004, the estimated adjustments are:

- Decrease in retained earnings of \$36.8 million, comprising:
 - Increase in liabilities of \$53.5 million
 - Increase in deferred taxes of \$16.7 million.

For the year to 30 June 2005 the estimated impacts are:

- Decrease in net profit after tax of \$0.3 million, comprising:
 - Increase in employee benefit expense \$0.7 million
 - Reduction in income tax expense \$0.4 million.

For future years it is not possible to determine the impact of defined benefit plans on the group as they are highly influenced by the investment performance of each fund.

(ii) Impairment of Non-Current Assets

Under current AGAAP, the carrying amounts of non-current assets valued on a cost basis, are reviewed at reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds its recoverable amount the asset is written down to the lower amount, with the write-down recognised in the income statement in the period in which it occurs. Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

Under AIFRS, the carrying amount of the consolidated entity's non-current assets, excluding investment property, defined benefit assets, deferred tax assets, goodwill and indefinite life intangible assets (brand names) will be reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset will be tested for impairment by comparing its recoverable amount to its carrying amount.

The major differences between AGAAP and AIFRS are:

- the impairment test is performed at a cash generating unit level, and
- the cash flows must be discounted

Goodwill, which is not amortised under AIFRS and intangible assets (brand names) that have an indefinite useful life are tested for impairment annually.

If there is any indication that an asset is impaired, the recoverable amount will be estimated for the individual asset. If it is not practical to estimate the recoverable amount for the individual asset, the recoverable amount of the cash generating unit to which the asset belongs will be determined.

A cash generating unit will be the smallest identifiable group of assets that generate independent cash inflows. Each cash-generating unit must be no larger than a segment.

An impairment loss will be recognised in the profit and loss whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount.

Impairment losses recognised in respect of a cash generating unit will be allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to reduce the carrying amount of the other assets in the unit pro rata based on their carrying amounts. The discount rate used equates to the consolidated entity's pre tax weighted average cost of capital, applicable to the assets being funded, being 9.5%.

On transition to AIFRS on 1 July 2004, the estimated adjustments are:

- Decrease in retained earnings of \$169.6 million, comprising:
 - Decrease in property, plant and equipment of \$242.3 million
 - Tax effect of impairment of \$72.7 million.

For the year to 30 June 2005 the estimated impacts are:

- Decrease in net profit after tax of \$11.7 million, comprising:
 - Impairment expense on plant and equipment of \$16.7 million
 - Tax effect of expense of \$5.0 million.

The impairment losses relate wholly to the Australian Paper manufacturing business.

(iii) Non-amortisation of goodwill

Under current AGAAP, as adopted, goodwill is amortised on a straight line basis over the period which the benefits are expected to arise and not exceed 20 years.

Under AIFRS, amortisation of goodwill is prohibited and will be replaced by annual impairment testing focusing on the cash inflows of the applicable cash generating unit.

There is no transition effect.

For the year to 30 June 2005, the estimated impacts are:

- Increase in net profit after tax of \$20.1 million, comprising:
 - Reduction in amortisation expense of \$20.1 million.

(iv) Non-depreciation of non-current assets

Under current Australian GAAP, the non-current assets impaired as at 1 July 2004 on transition to AIFRS were depreciated during the year ended 30 June 2005.

Under AIFRS, non-current assets impaired as at 1 July 2004 are not subject to depreciation during the year ended 30 June 2005.

For the year to 30 June 2005, the estimated impacts are:

- Increase in net profit after tax of \$7.1 million, comprising:
 - Reduction in depreciation expense of \$10.2 million
 - Tax effect of expense of \$3.1 million.

(v) Business combinations/acquisitions

Under current AGAAP post acquisition adjustments to goodwill are permitted to be made in subsequent periods, where appropriate.

Under AIFRS, post acquisition adjustments are only permitted to be made within a 12 month period from the date of the acquisition. As a result, any such adjustments booked to goodwill under AGAAP after 31 October 2004 in relation to the acquisition of the Paper Merchants Division of Buhrmann NV, will need to be adjusted against reported earnings.

The consolidated entity has not elected to apply Accounting Standard AASB (Business Combinations) retrospectively and hence the impact of the above only affects the AIFRS restated profit for the year ended 30 June 2005.

For the year to 30 June 2005, the estimated impacts are:

- Increase in once up operating costs of \$8.8 million
- There is no tax effect.

Summary of Transition Adjustments

The following tables set out the expected adjustments to the consolidated entity at transition to AIFRS as at 1 July 2004.

	1 JULY 2004 CONSOLIDATED				
	A\$M				
	Contributed Equity	Reserves	Retained Profits	Outside Equity Interest	Total Equity
Net assets as at 1 July 2004 under AGAAP	1,693.8	(18.7)	137.0	1.2	1,813.3
• Defined benefit plans	-	-	(36.8)	-	(36.8)
• Employee Share Plan loans	(3.4)	-	-	-	(3.4)
• Shares held in trust	-	-	3.6	-	3.6
• Shares held in trust, reclassification as a “negative” reserve	-	(9.7)	(0.5)	-	(10.2)
• Impairment of non-current assets	-	-	(169.6)	-	(169.6)
• Income tax	-	-	(0.2)	-	(0.2)
Net assets as at 1 July 2004 under AIFRS	1,690.4	(28.4)	(66.5)	1.2	1,596.7

	1 JULY 2004 CONSOLIDATED		
	A\$M		
	AGAAP	Adjustments	AIFRS
Current Assets	2,999.6	(3.0)	2,996.6
Non-current Assets			
- Property, plant & Equipment	1,343.4	(312.4)	1,031.0
- Intangibles	364.4	70.1	434.5
- Other	72.7	11.2	83.9
Total Non-current Assets	1,780.5	(231.1)	1,549.4
Total Assets	4,780.1	(234.1)	4,546.0
Current Liabilities	1,341.1	-	1,341.1
Non-current Liabilities	1,625.7	(17.5)	1,608.2
Total Liabilities	2,966.8	(17.5)	2,949.3
Net Assets	1,813.3	(216.6)	1,596.7

Summary of Year to 30 June 2005

The following table sets out the expected adjustments to the consolidated statement of financial performance for the year ended 30 June 2005. No adjustments are expected in relation to PaperlinX Limited.

	30 JUNE 2005 CONSOLIDATED A\$M						
	Profit from ordinary activities before interest, tax, depreciation & amortisation	Depreciation & amortisation	Profit from ordinary activities before net interest and income tax	Net Interest	Profit from ordinary activities before income tax expense	Income tax benefit/expense	Profit from ordinary activities after income tax expense before equity interests
30 June 2005 (before tax consolidation adjustment)	307.7	(122.8)	184.9	(68.5)	116.4	(24.8)	91.6
Tax consolidation adjustment	-	-	-	-	-	77.0	77.0
30 June 2005 under AGAAP	307.7	(122.8)	184.9	(68.5)	116.4	52.2	168.6
Defined benefit plans	(0.7)	-	(0.7)	-	(0.7)	0.4	(0.3)
Share based payments	(2.3)	-	(2.3)	-	(2.3)	-	(2.3)
Shares held in trust	(1.0)	-	(1.0)	-	(1.0)	0.3	(0.7)
Non amortisation of goodwill	-	20.1	20.1	-	20.1	-	20.1
Non depreciation of non-current assets impaired as at 1 July 2004	-	10.2	10.2	-	10.2	(3.1)	7.1
Impairment of non-current assets	(16.7)	-	(16.7)	-	(16.7)	5.0	(11.7)
Income Tax	-	-	-	-	-	(0.3)	(0.3)
Disposal of foreign denominated subsidiary	(1.7)	-	(1.7)	-	(1.7)	-	(1.7)
Business combinations / acquisitions	(8.8)	-	(8.8)	-	(8.8)	-	(8.8)
30 June 2005 under AIFRS	276.5	(92.5)	184.0	(68.5)	115.5	54.5	170.0

Accumulated Impact on Statement of Financial Position at 30 June 2005

The following tables set out the expected adjustments to the consolidated entity upon adoption of AIFRS as at 30 June 2005. The adjustments are the accumulated adjustments for both the transition at 1 July 2004 and the year 30 June 2005.

	30 JUNE 2005 CONSOLIDATED				
	A\$M				
	Contributed Equity	Reserves	Retained Profits	Outside Equity Interest	Total Equity
Net assets as at 30 June 2005 under AGAAP	1,694.2	(63.8)	181.1	0.9	1,812.4
• Defined benefit plans	-	9.6	(62.2)	-	(52.6)
• Share based payments	-	-	-	-	-
• Employee Share Plan loans	(2.7)	-	-	-	(2.7)
• Shares held in trust	-	-	2.4	-	2.4
• Shares held in trust reclassification as a "negative" reserve	-	(9.7)	-	-	(9.7)
• Impairment of non-current assets	-	-	(181.3)	-	(181.3)
• Income tax	-	-	(0.5)	-	(0.5)
• Non amortisation of goodwill	-	-	20.1	-	20.1
• Non depreciation of non-current assets impaired as at 1 July 2004	-	-	7.1	-	7.1
• Disposal of foreign subsidiary	-	1.7	(1.7)	-	-
• Business combinations / acquisitions	-	0.6	(8.8)	-	(8.2)
Net assets as at 30 June 2005 under AIFRS	1,691.5	(61.6)	(43.8)	0.9	1,587.0

	30 JUNE 2005 CONSOLIDATED		
	A\$M		
	AGAAP	Adjustments	AIFRS
Current Assets	2,683.8	(4.9)	2,678.9
Non-current Assets			
- Property, plant & Equipment	1,298.2	(320.4)	977.8
- Intangibles	332.2	83.5	415.7
- Other	69.3	23.6	92.9
Total Non-current Assets	1,699.7	(213.3)	1,486.4
Total Assets	4,383.5	(218.2)	4,165.3
Current Liabilities	1,390.5	-	1,390.5
Non-current Liabilities	1,180.6	7.2	1,187.8
Total Liabilities	2,571.1	7.2	2,578.3
Net Assets	1,812.4	(225.4)	1,587.0