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# STOCK EXCHANGE RELEASE

21 February 2008

## PLATFORM PROGRESSING FOR 2009 BENEFITS

PaperlinX today announced profit after tax for the six months ended 31 December 2007 of $35.3 million, up 8% on the prior corresponding period. Reported EBIT was $85.7 million, down 1.5%. Underlying EBIT, adjusted for asset sales and the implementation of strategic initiatives, was $92.1 million (down 4.1%). The interim dividend will be 3.0 cents per share, unfranked.

The key features of this result are:

- Rising input costs and currency continued to impact on Manufacturing earnings despite continued good work on mix and operational efficiencies
- Continued positive contribution from strategic initiatives with an annualised run rate of $65 million (net) delivered to date; on track to exceed initial 2009 targets of an incremental $100 million profit per annum (over 2005) by up to an additional $25 million per annum (following successful completion of the pulp mill upgrade)
- Strong contribution from recent merchant acquisitions, with above plan progress on integrations in Canada and Italy
- Improved mix and growth in sign and display, graphics and industrial packaging
- Merchanting return on average funds employed of 11.4% was in line with the prior corresponding period, benefiting from declines in working capital
- The pulp mill upgrade project is now expected to cost up to $310 million, but is on track for returns above 12% with increased output and improved EBIT benefits.

Commenting on the result, PaperlinX CEO Mr Tom Park said, "Though only modest versus our longer term expectations, these results are consistent with previous commentary regarding the difficult external environment PaperlinX faces in most markets during 2008. Our returns have been negatively impacted by the upfront investment made over the past two years against the pulp mill upgrade and associated projects that, on completion, will begin to provide substantial benefits in 2009 and beyond. It is pleasing that we are on-track and now less than six months away from the 2009 financial year in which we expect a step change in benefits from these positive initiatives and strategic investments."

"We are seeing a more integrated and competitive company emerge, as reflected in successful merchant acquisition integrations and on-going improvements in mix (value based selling), working capital management, IT integrations, expense management and safety performance."

Added Mr Park, "While the increased capital costs being incurred during the current financial year on the pulp mill upgrade is disappointing, the strategic rationale behind this project remains sound. The upgrade will deliver major benefits to quality, our environmental footprint, and the costs of our manufacturing business in the 2009 financial year."

"As we said at our full year results in August last year, 2008 was always going to be a platform year, building towards delivering on our strategic initiatives in fiscal 2009. And that is the way this year has progressed. External conditions have remained as tough as expected, and are not assumed to provide much second half benefit, though further industry consolidation and pricing in Europe are possible as a result of escalating input costs and generally low industry returns."

"But as we come out of this year, and complete the start-up of the pulp mill upgrade early in fiscal 2009, we will see a step change in the net benefits from our strategic initiatives during the 2009 financial year that will deliver improved returns to our shareholders."

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**Forward looking Statements:**

Certain statements in this release relate to the future, including forward looking statements relating to PaperlinX's financial position and strategy. These forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or achievements of PaperlinX to be materially different from future results, performance or achievements expressed or implied by such statements. Neither PaperlinX nor any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this document will actually occur and you are cautioned not to place undue reliance on such forward looking statements.

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# RESULTS FOR THE HALF YEAR ENDED 31 DECEMBER 2007

**PaperlinX has reported operating earnings (EBIT) of $85.7 million and after tax earnings of $35.3 million for the half year ended 31 December 2007.**

| PAPERLINX LIMITED AND CONTROLLED ENTITIES | | 6 months ended 31 December | | |
|---|---|---|---|---|
| | | 2007 | 2006 | % change |
| Sales Revenue | $M | 3,783.0 | 3,948.5 | (4.2) |
| Earnings from Operating Activities before interest, income tax, amortisation and depreciation | $M | 136.5 | 137.8 | (1.0) |
| Earnings from Operating Activities before interest & income tax | $M | 85.7 | 87.1 | (1.5) |
| Underlying Earnings from Operating Activities before interest & income tax | $M | 92.1 | 96.0 | (4.1) |
| Profit before tax | $M | 54.2 | 50.7 | 7.1 |
| Profit after income tax | $M | 35.3 | 32.7 | 7.9 |
| Step-up Preference Security (SPS) distribution | $M | (12.9) | 0.0 | |
| ***Key Ratios*** | | | | |
| Earnings before interest and income tax to average funds employed | % | 6.2 | 6.6 | |
| Average Working Capital to Sales | % | 18.0 | 18.3 | |
| Operating Cash Flow | $M | (110.4) | (142.0) | |
| Net interest cover (1) | x | 2.7 | 2.4 | |
| Net debt/Net debt & Equity | % | 32.7 | 39.7 | |
| Basic earnings per share post SPS distribution | cps | 5.0 | 7.3 | |
| Dividend per share | cps | 3.0 | 5.0 | |

(1) After capitalised interest in the first half of 2008 of $7.1 million compared with $1.2 million in the first half of 2007.

***Note**: In this statement, currency is in Australian dollars unless otherwise indicated.*

- Sales revenue fell 4.2% to $3.78 billion from $3.95 billion in the prior corresponding period partly due to the divestiture of western Canadian operations.
- Reported EBIT fell 1.5% to $85.7 million and underlying EBIT fell 4.1% to $92.1 million.
- Operating profit includes net one-off costs of $(6.4) million before tax arising from restructuring costs of $(14.1) million partially offset by net profit on property transactions of $7.7 million, compared to $(8.9) million in the prior corresponding period.
- After tax profit was up 7.9% to $35.3 million.
- Earnings per share were 5.0 cents after the distribution for PaperlinX Step-up Preference Securities (SPS) issued in March 2007. For the six months this was $4.5219 per security which totalled $12.9 million.
- The interim dividend of 3.0 cents per share, unfranked, compares with 5.0 cents per share in the prior corresponding period.

- Earnings before interest, tax, depreciation and amortisation (EBITDA) were $136.5 million, down 1% over the prior year but with an improved margin to sales. Net cash flow from operating activities was $(110) million, improved $32 million versus the prior corresponding period due to lower trade working capital.
- PaperlinX overall return on average funds employed was 6.2%, down on the prior corresponding period reflecting up-front investments on the pulp mill upgrade and other strategic initiatives.
- Paper Merchanting achieved earnings before interest and tax of $96.6 million, down 2.6% on the prior corresponding period though EBIT margins grew from 2.7% to 2.8%. Underlying operating earnings were $98.2 million (excluding a net $1.6 million in one-off costs), in line with the prior period. Paper demand in the UK and the US was weak though continental Europe was healthier. Realised prices were generally higher due to a favourable sales mix. Earnings were significantly impacted by currency translation, most notably in the US and the UK. However, the gross profit percentage was up 0.3% due to mix, and trading expenses were down 4.0%. ROAFE was steady at 11.4%, supported by a 6.8% improvement in average net working capital.
- Earnings before interest and tax for Paper Manufacturing of $3.9 million included a net $(4.8) million of one-off costs associated with strategic initiatives. Underlying operating earnings of $8.7 million were down $3.9 million on the prior corresponding period, being impacted by higher input costs ($4.4 million more than in the prior year) and the impact of currency, but benefiting from positive mix and efficiencies.
- The annualised run rate from strategic initiatives in the first half was a net $65 million over the base 2005 level. We remain on track to exceed the $100 million per annum net incremental target for 2009 by up to $25 million per annum (following successful completion of the pulp mill upgrade).
- As a part of the Group's ongoing property sales programme to release funds for growth, a process has begun to sell a pan-European portfolio of the remaining company owned properties in Europe with a book value of approximately $140 million and upside sales potential.
- Working capital decreased by $55 million versus December 2006 and average working capital to sales fell to 18.0% versus 18.3%.
- Capital expenditure in the period was $187 million (including $106 million on the pulp mill upgrade, $32 million on ancillary catch-up capital, with normal sustenance capital below depreciation). The second major shut for the pulp mill upgrade was completed on time, though the project capital is now expected to exceed the August estimate by up to $60 million. Returns remain on track to exceed 12% due to the higher expected EBIT benefit arising from increased output and greater cost savings than originally planned.
- In February the multi-currency borrowing facility was renewed at US$589 million in 1, 3 and 5 year tranches.

**RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2007**

**Commentary on the Group Interim Results**

## Introduction

Reported profit after tax of $35.3 million for the six months ended 31 December 2007 compared with $32.7 million for the prior corresponding period. Results included a net $(6.4) million in pre-tax one-off costs associated with various strategic initiatives ($(8.9) million in the prior corresponding period). Reported EBIT was $85.7 million, down 1.5% on the prior corresponding period.

A decline in underlying operating earnings ($92.1 million, down 4% versus the prior corresponding period) was seen. The key impacts were continued cost pressures particularly in Manufacturing in an environment where currency movements have limited pricing and volume impacts, partly mitigated by margin management and benefits from strategic initiatives.

The external demand environment has remained largely unchanged; however there have been improvements in pricing realisations mainly in continental Europe and Asia.

Working capital showed a normal seasonal increase from June, but was at lower levels than seen in the prior corresponding period. The average working capital to sales ratio showed a 2% improvement over the prior corresponding period, reducing from 18.3% to 18.0%.

The return on average funds employed of 6.2% declined slightly as investments on strategic initiatives precede major benefits to flow in 2009.

## Paper Merchanting

The Paper Merchanting businesses achieved EBIT of $96.6 million, down 3% on the prior corresponding period, though underlying EBIT of $98.2 million was flat versus prior corresponding period. Operating earnings in North America were down 6% in local currency with above market growth constrained by the soft demand conditions, Europe was flat on the prior corresponding period in local currency and Australia, NZ and Asia was up 71%, off an artificially low prior corresponding period. Volume was down 2.5% partly due to the prior corresponding period including the Cascades western Canadian businesses subsequently divested, and also reflecting the changed mix due to divestment in France and acquisition in Italy. This, along with currency translation, impacted revenue which was down 4.5%, although there was growth in North America and Central Europe

Overall, the Paper Merchanting businesses have continued to produce good returns in this difficult environment, with clear potential for upside from any improvements in the current market conditions. Total merchanting return on average funds employed was 11.4% (10.5% in 2004). Overall trading expenses were down 4% despite an improved stock to indent ratio, while the average working capital to sales ratio reduced to 15.7% from 16.1%.

## Paper Manufacturing

Underlying operating earnings from Paper Manufacturing in Australia were impacted by higher input costs and the impact of the higher Australian dollar on both paper selling prices in Australia and the translation of export earnings. Operating earnings of $3.9 million included a net $(4.8) million one-off charge and were ahead of the prior corresponding period. Underlying operating earnings of $8.7 million was down on the $12.6 million earned in the prior corresponding period.

Earnings have continued to be impacted by depressed Australian paper selling prices in the coated paper segment as a result of a strong Australian dollar relative to the US dollar. We have seen a high level of paper imports lowering paper selling prices in Australia, and reduced export returns when translated to Australian dollars.

Paper Manufacturing's strategy, to improve returns from the current depressed position, is to increase domestic margins and sales through product, environmental and logistics innovation while managing costs through efficiency and supply chain improvement. During 2008 new products have been launched including Reflex® Recycled 100 and ENVI® carbon neutral publication paper in addition to achieving environmental accreditations (FSC and PEFC) on key brands.

Completed strategic initiatives are already delivering significant benefits, including the upgrade of the Maryvale number 1 sack kraft machine, the closure of the Shoalhaven number 1 and 2 paper machines and the creation of PaperlinX Office and PaperlinX Printing and Publication Papers. Cost reduction programmes implemented during the period included the reduction of shifts on a number of paper machines and conversion of oil and coal fired power plants to natural gas. Future gains will come from continued improvements in operating efficiencies, cost reductions and product rationalisation, potentially supported by pricing as global capacity utilisation improves. The upgrade of the Maryvale pulp mill and its associated projects will provide additional benefits for 2009 and beyond on costs, quality and environmental measures.

<u>The pulp mill upgrade project has seen increases in total costs along with improved project benefits to remain on-track for targeted returns (over 12% ROAFE).</u>

Project costs have escalated and are now expected to exceed previous estimates by up to $60 million, bringing the total cost of the pulp mill upgrade project up to $310 million. Escalations have primarily been due to raw material, labour and overhead costs, previously indicated as key risk areas. The project is well progressed with more than 70% of the capital, 95% of materials and over 60% of labour complete. Contracts have now been awarded for remaining construction. The wood yard and ancillary equipment required for increased rate will be started up before the end of this financial year to reduce project complexity and commissioning risk.

Project benefits have also increased. Incremental output capacity has increased from 80,000 tonnes to over 90,000 tonnes through design improvements. Per tonne cost benefits have also improved from the increase in volume throughput and the widened differential between manufactured cost and pulp import costs, which will particularly benefit 2009 comparisons versus 2008 (initial ongoing estimate for imported pulp cost of US$520/mt, new ongoing estimate $US550/mt, current spot US$750/mt). The projected annualised EBIT benefits have increased from $30-35 million pa at project inception to $40-50 million pa today.

## OPERATING EARNINGS

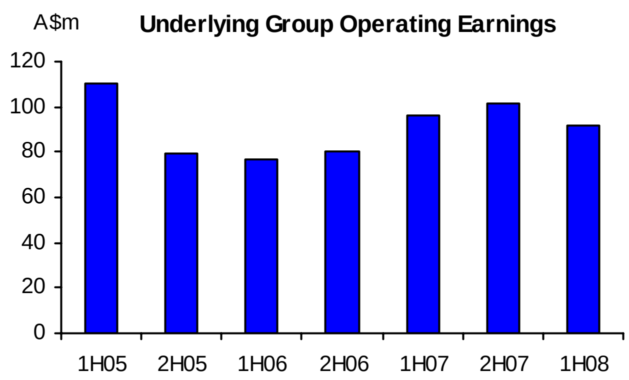
The following table shows, for PaperlinX Limited and controlled entities, Operating Earnings (EBIT), Sales Revenue and Total Assets by industry segment for the six months to 31 December in Australian dollars.

| | EBIT | | Sales Revenue | | Total Assets | |
|---|---|---|---|---|---|---|
| | Dec 2007 $M | Dec 2006 $M | Dec 2007 $M | Dec 2006 $M | Dec 2007 $M | Dec 2006 $M |
| **Industry Segments** | | | | | | |
| Europe | 63.9 | 66.2 | 2,308 | 2,388 | 2,127 | 2,101 |
| North America | 22.0 | 26.6 | 651 | 719 | 507 | 480 |
| Australia, NZ and Asia [1] | 10.7 | 6.3 | 518 | 531 | 449 | 470 |
| Inter-merchant Sales | - | - | (20) | (20) | - | - |
| Total Paper Merchanting | 96.6 | 99.1 | 3,457 | 3,618 | 3,083 | 3,051 |
| Paper Manufacturing [1] | 3.9 | 3.0 | 482 | 510 | 1,270 | 1,053 |
| Corporate [1] [2] | (14.8) | (15.0) | | | 52 | 25 |
| Operating earnings before interest & income tax | 85.7 | 87.1 | | | | |
| Net Interest [3] | (31.5) | (36.4) | | | | |
| Income Tax Expense | (18.9) | (18.0) | | | | |
| Outside Equity Interests | 0.0 | 0.0 | | | | |
| Inter-segment Sales | | | (156) | (179) | | |
| Unallocated Assets (deferred tax assets) | | | | | 51 | 64 |
| Total | 35.3 | 32.7 | 3,783 | 3,949 | 4,456 | 4,193 |

Notes – (1) Reported historic results adjusted to reflect the formation of PaperlinX Office.
(2) Corporate includes Group overheads, governance and compliance costs, financing costs, public company costs, Group wide long term incentive costs and applicable one-off items.
(3) After capitalised interest in the first half of 2008 of $7.1 million compared with $1.2 million in the first half of 2007.

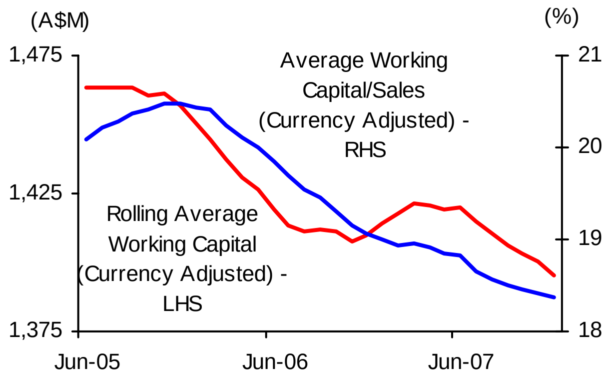
## Underlying Operating Earnings

Reported operating earnings for recent periods have contained a number of one-off items. This chart helps provide clarity on the trend in underlying operating earnings (EBIT) after removing one-off costs and benefits relating to property transactions and costs associated with implementing strategic initiatives. On this basis, the first half EBIT for 2008 has shown a negative performance relative to recent trends with Manufacturing impacted by ongoing input cost increases and currency impacts on pricing. Merchanting was flat on pcp.



## Trade Working Capital

Trade working capital for the Group at December 2007 was $1,420 million. This was 4% lower than December 2006. Average trade working capital for the period was $1,396 million, was also below the prior period after adjusting for currency and acquisitions. The average working capital to sales ratio continued to show improvement, reducing to 18.0% from 18.3%, while on a currency adjusted basis (as shown in the chart) it reduced to 18.4% versus 19.1% in the prior corresponding period.




## Financial Position

At 31 December 2007, PaperlinX had a gearing ratio of net debt to net debt plus equity of 32.7%, which is below both the prior corresponding period and the Group's target range of 40% to 50%. Interest cover was 2.7 times (2.4 times for the prior corresponding period) reflecting the benefits of the SPS issue against the increased capital investment in 2008 relating to the pulp mill upgrade project. Both of these ratios are in compliance with debt covenants.

Earnings before interest, tax, depreciation and amortisation (EBITDA) were $136.5 million, down 1% over the prior corresponding period. Net cash flow from operating activities was an outflow of $(110.4) million, as compared with a net outflow of $(142.0) million in the prior corresponding period due to an improved seasonal working capital shift. Net debt has reduced to $952 million compared to $1,067 million at the same period last year.

Capital expenditure in the period was $187 million (including $106 million on the pulp mill upgrade, $32 million on ancillary catch-up capital, with normal sustenance capital below depreciation). No significant new expenditures have been committed to over the past six months. Funding for all capital expenditure projects is available within existing credit lines.

Average funds employed were up $91 million primarily due to the pulp mill project expenditure ($106 million for the period, $188 million to date) which will begin to deliver a return in 2009.

The distribution for PaperlinX Step-up Preference Securities (SPS) instrument for the first half of the 2008 financial year was $4.5219 per security which totalled $12.9 million.

PaperlinX has an appropriate mix of long, medium and short term debt, and has undrawn lines of credit available to it beyond current foreseeable needs. In February 2008 the company renewed its multi currency borrowing facility with a cap of US$589 million, in 1, 3 and 5 year tranches. Net interest expense reduced 14% to $31.5 million reflecting the benefits of the equity raised through the SPS, against increases in floating interest rates, and higher debt levels associated with the pulp mill project (capitalised interest was $7.1 million versus $1.2 million in the prior corresponding period).

As a part of the Group's ongoing property sales programme to release funds for growth, a process has begun to sell a pan-European portfolio of the remaining company owned properties in Europe with a book value of approximately $140 million with upside sales potential.

Potential future income tax benefits relating to accumulated tax losses of $95 million (tax affected) have not been recognised in the balance sheet.

## Dividend

Directors have declared an unfranked interim dividend of 3.0 cents per share compared with 5.0 cents per share in the prior corresponding period.

The interim dividend will be paid on 4th April 2008 to shareholders on record as of 5th March 2007 as being entitled to the dividend. The PaperlinX Dividend Reinvestment Plan (DRP) applies in respect of this interim dividend.

## SUSTAINABILITY

### Employees

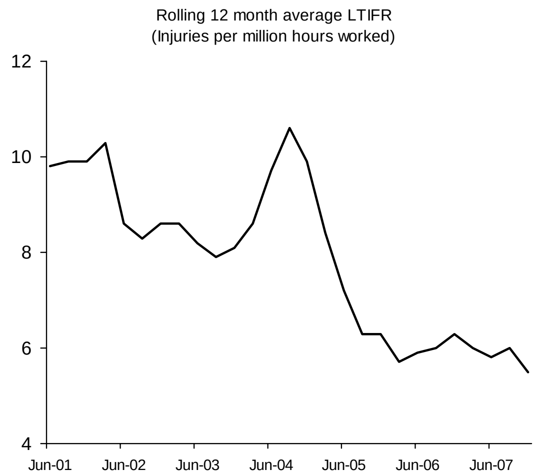
As at 31 December 2007, PaperlinX had 9,466 employees, up 0.2% versus the prior corresponding period and up 2.4% versus two years ago (as a result of acquisitions). Of our employees 29% are in Australia, New Zealand and Asia, 54% in Europe and 17% in North America.

### Safety

Achieving our goal of no accidents and injuries is a continuous challenge. Over the past six years the overall Lost Time Injury Frequency Rate (LTIFR) has been reduced successfully by 40%, and in the last 12 months the Group's rolling LTIFR decreased from 6.3 to 5.4.

A number of programmes are underway to lead further improvement such as vehicle and traffic risk management and manual handling training, while a new health and wellness programme for employees is being rolled out this year.

Safety and health will continue to be a key focus for PaperlinX at all levels of management and operations.




### Environment

PaperlinX has a long-term commitment to the environment and is focusing on areas where sustainability can deliver real and credible benefits at many levels.

We believe there are three critical areas our organisation should focus on:

1. Energy use and carbon footprint (greenhouse gas emissions)
2. Resource use and water management
3. Waste reduction and recycling

Manufacturing is an energy intensive business and storing and distributing paper also uses energy. Given that our manufacturing operations account for around 90% of our energy use much of the effort is focused here. Key projects include:

- Preparing a carbon strategy ahead of the Australian Government National Greenhouse & Energy Reporting Act, which has included quantifying and then seeking ways to improve our total carbon footprint in Australian manufacturing
- PaperlinX has signed a Greenhouse Challenge Plus agreement with the Australian Government and is identifying and implementing further opportunities to reduce greenhouse gas emissions (GGE) at Australian Paper's manufacturing sites
- Launch of ENVI®, Australia's first carbon neutral printing and publishing paper accredited by the Australian Greenhouse Office
- Oil and coal-fired boilers have been replaced at Wesley Vale and Shoalhaven with gas-fired boilers which will significantly reduce greenhouse gas emissions.
- Warehouse consolidations reducing logistics emissions.
- The Maryvale Pulp Mill upgrade will provide strong economic benefits and reduce GGE, other air emissions, odour and liquid waste.
- Australian Paper recently qualified as a member of The WWF Australia Forest and Trade Network. This is an initiative to promote responsible forest management and credible forest certification.

Other projects across the Group include:
- Formation of a Sustainability Affinity Group to co-ordinate an overall group sustainability position and facilitate the sharing of global best practice in this area, along with the appointment of a Sustainability Director in Europe.
- The Group is rationalising its logistics operations in Europe to improve fleet utilisation and reduce greenhouse gas emissions.

Sites around the group are identifying and implementing recycling opportunities for waste such as fibre, plastic, paper, wood and metals.

PaperlinX had no significant environmental breaches or non-compliance with environmental regulations during the period.

## BALANCE SHEET

| PAPERLINX LIMITED AND CONTROLLED ENTITIES | | December 2007 | December 2006 |
|---|---|---|---|
| Current Assets | $M | 2,742.1 | 2,698.8 |
| Non Current Assets | $M | 1,713.8 | 1,494.5 |
| Total Assets | $M | 4,455.9 | 4,193.3 |
| Current Liabilities | $M | 1,720.9 | 1,355.2 |
| Non Current Liabilities | $M | 778.3 | 1,216.5 |
| Total Liabilities | $M | 2,499.2 | 2,571.7 |
| Shareholders Equity | $M | 1,956.7 | 1,621.6 |
| **Key Balance Sheet Ratios** | | | |
| Net Debt | $M | 951.9 | 1,067.1 |
| Net tangible assets per share | $ | 2.67 | 2.55 |

## INCOME STATEMENT

| **PAPERLINX LIMITED AND CONTROLLED ENTITIES** | 6 months ended 31 December 2007 $M | 2006 $M |
|---|---|---|
| **SALES REVENUE** | 3,783.0 | 3,948.5 |
| Operating Earnings before depreciation, amortisation, interest and income tax (EBITDA) | 136.5 | 137.8 |
| Depreciation and amortisation | (50.8) | (50.7) |
| Operating Earnings before interest and income tax (EBIT) | 85.7 | 87.1 |
| Net Interest Expense | (31.5) | (36.4) |
| Operating profit from Ordinary Activities before income tax | 54.2 | 50.7 |
| Income tax expense on Operating profit | (18.9) | (18.0) |
| Outside Equity Interests | 0.0 | 0.0 |
| **NET PROFIT AFTER TAX** | 35.3 | 32.7 |

## RETURN ON AVERAGE FUNDS EMPLOYED (1)

| | | 6 months Dec 2007 | 6 months Dec 2006 |
|---|---|---|---|
| Merchanting* | % | 11.4 | 11.4 |
| Australian Paper* | % | 0.7 | 0.6 |
| PaperlinX Group | % | 6.2 | 6.6 |

* before allocation of corporate overheads

(1) EBIT / average funds employed

## Summary and Outlook

Fine paper manufacturing capacity reductions continue to balance weakening demand to see global capacity utilisation rates hold or improve. Thus, despite generally soft demand in the UK and the US, prices are holding with some potential for increases in Europe (including the UK) and Asia. Industry consolidation could lead to further capacity reductions and thus influence future pricing.

PaperlinX does not expect substantial assistance from the above in the second half, but does note the potential for improved industry dynamics in the medium term. Variations to demand, input costs and currency relativities will all continue to influence results as has been seen in the first half of 2008.

The primary contribution to future PaperlinX earnings growth outside of improvements in external conditions remains the successful delivery of the strategic initiatives, now expected to exceed the original 2009 target of $100 million per annum by up to $25 million per annum following successful completion of the pulp mill upgrade project. Changes already mentioned to the pulp mill project are not expected to materially impact 2008 earnings projections though upside exists to benefits that are expected in fiscal 2009.

Financing flexibility is provided by the renewal of the multi-currency borrowing facility, continued target reductions of working capital, and the planned sale of a pan-European portfolio of properties with a book value of approximately $140 million.

Internal momentum continues to be positive as reflected in successful acquisition integrations, broad-based delivery of strategic initiatives, improving working capital to sales ratios, successful roll-out of common IT systems, an improving environmental footprint and continued reductions in injury frequency rates.

## APPENDIX 1 - SECTOR COMMENTARY

## PAPER MERCHANTING - TOTAL [(1)]

| | | 6 months Dec 07 | 6 months Dec 06 |
|---|---|---|---|
| Sales Volume | '000 tonnes | 1,863 | 1,910 |
| Sales Revenue | A$M | 3,457 | 3,618 |
| Earnings before Interest & Tax | A$M | 96.6 | 99.1 |
| EBIT/Sales Ratio | % | 2.8 | 2.7 |
| Return on Average Funds Employed | % | 11.4 | 11.4 |

(1) Reported historic results adjusted to reflect the formation of PaperlinX Office

- Overall sales volume for Paper Merchanting was down around 2.5% due mainly to lower volumes in the UK and NW Europe (mostly indent and commodity uncoated) and the divestiture of Western Canadian operations.
- The EBIT/Sales ratio improved marginally (2.8% versus 2.7%) as a result of actions taken to improve mix.
- The stock to indent ratio (the ratio of product sold from our warehouse stock compared to the product sold directly from suppliers) improved.
- Growth in Sign and Display, Graphics and Industrial Packaging revenue was around 5% in source currency.
- Sales revenue for the total Paper Merchanting business was 4.5% behind the prior corresponding period and EBIT was 3% behind, though underlying EBIT was flat.
- Average working capital was 6.8% below prior and the average working capital to sales ratio declined from 16.1% to 15.7%.
- The return on average funds employed was 11.4%, well above the cost of capital and in line with the prior corresponding period.

### Europe

| | | 6 months Dec 07 | 6 months Dec 06 |
|---|---|---|---|
| NW Europe | '000 tonnes | 352 | 382 |
| UK & Ireland [(1)] | '000 tonnes | 572 | 601 |
| Central & Southern Europe | '000 tonnes | 258 | 258 |
| Total European Sales Volume | '000 tonnes | 1,182 | 1,241 |
| Sales Revenue | €M | 1,396 | 1,399 |
| Earnings before Interest & Tax | €M | 38.6 | 38.8 |
| EBIT/Sales Ratio | % | 2.8 | 2.8 |

Note (1) Also includes volume from South Africa

- Sales volumes were down 5%. Our key markets in the UK and the Netherlands both suffered market driven volume declines, although this was largely confined to lower margin indent and office products sales, with December particularly weak for what appear to be seasonal reasons.
- The average price realisation across the European merchanting platform was 5% ahead of the prior corresponding period, supported by continued improvements in mix including the acquisition in Italy, ongoing improvements in the stock to indent ratio, continued

growth in Sign and Display and Industrial Packaging, and branded sales of key coated and environmental papers.

- Reported EBIT was largely in line with the prior corresponding period despite volume declines seen in a small number of key markets. Underlying EBIT was up 3% on the prior corresponding period, and the EBIT/sales ratio held at 2.8%.
- Progress on the rollout of the UK integrated logistics solution, The Delivery Company, has progressed well with 11 sites now operational (7 sites exited).
- The consolidation of two warehouses in Barcelona onto one site was successfully completed.
- In the Netherlands the successful consolidation of our envelope manufacturing business Velpa and our industrial packaging business onto one site was completed.
- The integration of the two business papers activities in the Netherlands was completed and they are now operating as Living Office.
- Average working capital improved on the prior corresponding period as did the average working capital to sales ratio, which improved to 17.6% from 18.0% in the prior correspond period.
- Printers in the UK are facing a challenging market, raising the need for continued tight management of creditors.
- Operating expenses were in line with the prior corresponding period with cost savings balancing higher labour costs.
- The integration and results for the acquisition in Italy are progressing ahead of plan.
- The rollout of a common European IT system is progressing to plan with implementation in Ireland and progressed rollouts in Germany and the UK.

## North America

| | | 6 months Dec 07 | 6 months Dec 06 |
|---|---|---|---|
| Sales Volume | '000 tonnes | 320 | 315 |
| Sales Revenue | US$M | 561 | 547 |
| Earnings before Interest & Tax | US$M | 19.0 | 20.2 |
| EBIT/Sales Ratio | % | 3.4 | 3.7 |

- Total sales volume growth for North America of 1% was impacted by the sale of businesses in Western Canada as a result of the Cascades acquisition in Canada. Excluding this impact, underlying volume growth of 5% was ahead of the market, supported by a 9% growth in proprietary brands and various top line growth initiatives.
- Overall market conditions were soft, with the US showing reduced market volumes (total US printing and writing paper volumes down 4.7% in calendar 2007). Despite US mill capacity utilisation rates being consistently above 94%, all North American producers are struggling to cover increased input and operational costs.
- North American paper selling prices continued to be supported by mill capacity reductions (some 2.1 million short tonnes of woodfree capacity alone in calendar 2007), with realised prices up 1% on the prior corresponding period, despite ongoing weakness in market demand.
- The total operating earnings result eased reflecting the impact of the weak US market on EBIT margins.
- Canadian prices were down over 6% as a result of the weak US dollar but due to good margin management gross profit percentage was up 1%.
- The Toronto warehouse integration (4 locations into 1) was completed successfully in January 2008.

- IT integrations across Canada and within Kelly Paper are now completed, providing additional opportunities for business benefits.
- Operating expenses were impacted by business improvement initiatives underway which will provide growth platforms into the future (graphics, global customer solutions).
- Average working capital to sales at 12.6% was a slight improvement over the prior corresponding period at 12.9%.

## Australia, NZ and Asia (1)

| | | 6 months Dec 07 | 6 months Dec 06 |
|---|---|---|---|
| Sales Volume | '000 tonnes | 375 | 370 |
| Sales Revenue | A$M | 518 | 532 |
| Earnings before Interest & Tax | A$M | 10.7 | 6.3 |
| EBIT/Sales Ratio | % | 2.1 | 1.2 |

(1) Includes the Group's paper trading activities.

- Reported EBIT was up 71% with underlying EBIT up 40%. The prior corresponding period included negative currency impacts that were not repeated. Revenue was 3% below the prior corresponding period with lower revenues in paper trading having a considerable impact. Excluding this, revenues were down only 0.5%.
- Pricing in Australia and New Zealand remained under pressure from a weak US dollar. Overall price realisations for the region were down around 4% with regional and mix variations.
- Australian earnings remained under pressure from the competitive market conditions. New Zealand earnings saw the benefit against prior of the non-repeating FX impacts, but underlying earnings were largely flat in a very competitive market.
- Customer consolidation remains a feature of both the Australian and New Zealand markets.
- Entry into the Australian sign and display market with acquisition of iMedia.
- Asian EBIT was 23% above the prior corresponding period on the back of volume growth and tight control of operating expenses. Overall pricing was up on the prior corresponding period, helping margins.
- Paper Trading earnings remained unchanged despite volume restrictions from Paper Manufacturing due to shuts related to the pulp mill upgrade.
- Average working capital was reduced 12% as a result of ongoing good performance on inventory management and warehouse consolidations leading to a continued improvement in the working capital to sales ratio.
- Earnings benefited from good performance on trading expenses which were down 10%.

## PAPER MANUFACTURING

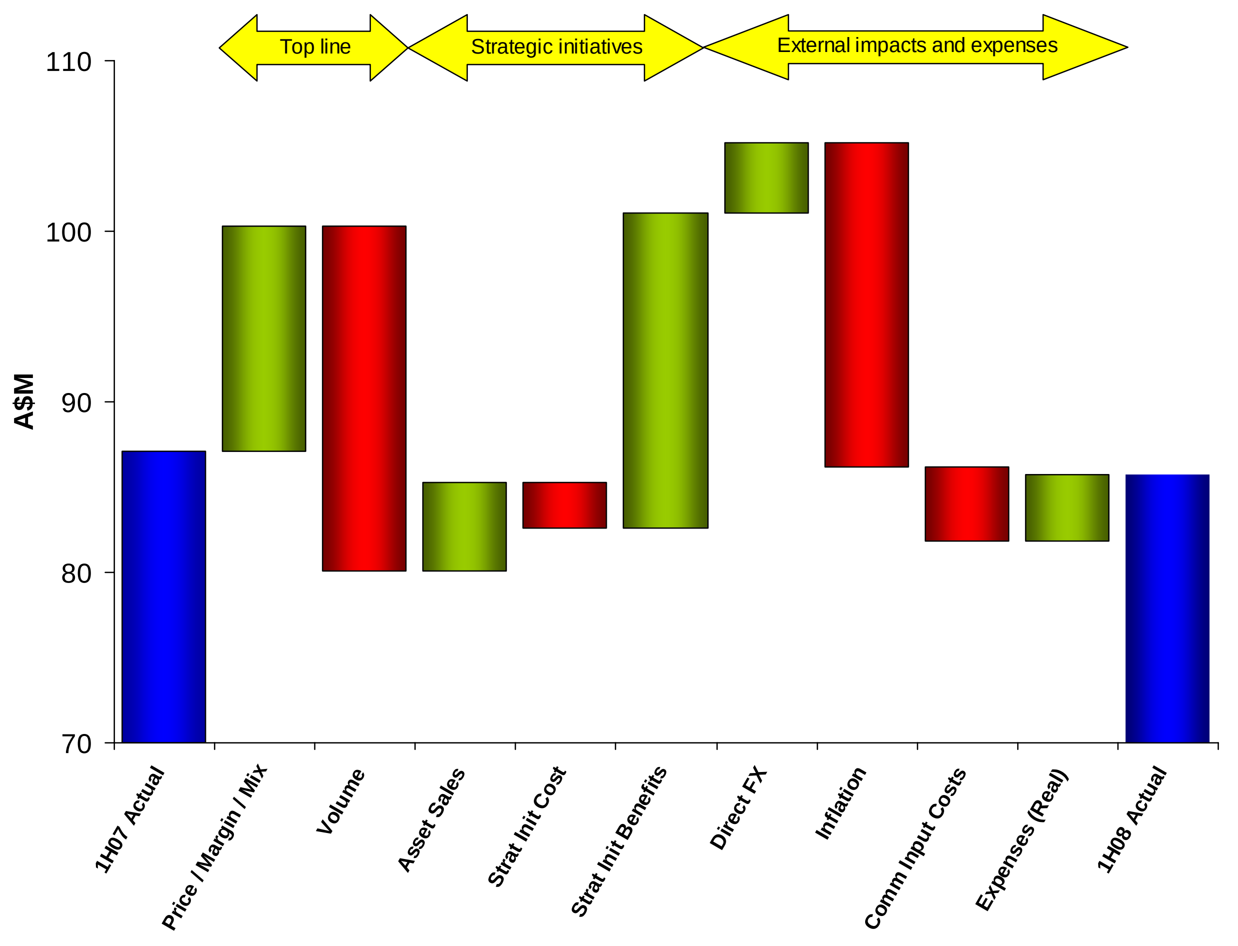
| | | 6 months Dec 07 | 6 months Dec 06 |
|---|---|---|---|
| Communication paper Sales Volume | '000 tonnes | 232 | 254 |
| Packaging paper Sales Volume | '000 tonnes | 149 | 159 |
| Total Sales Volume | '000 tonnes | 381 | 413 |
| Sales Revenue | A$M | 482 | 510 |
| Underlying Earnings before Int & Tax | A$M | 8.7 | 12.6 |
| Reported Earnings before Int & Tax | A$M | 3.9 | 3.0 |
| Return on Average Funds Employed | % | 0.7 | 0.6 |

- Overall sales volumes were impacted by the second shut related to the pulp mill upgrade and a corresponding reduction in export volumes. Domestic communication papers volumes were up from the prior corresponding period although overall volume declined due to reduced exports.
- Higher pulp costs have continued to impact operating earnings, with the average price of pulp up 15% on the prior corresponding period in US dollars. Cost increases in US dollars have been mitigated to some extent by the stronger Australian dollar (up 2.5% in Australian dollars). Pulp prices have remained high with further increases announced.
- Reported EBIT contained less one-off charges than in the prior corresponding period resulting in a small increase from $3.0 million to $3.9 million. Underlying EBIT of A$8.7 million was less than the prior corresponding period due to the combined impact of the stronger Australian dollar, higher pulp costs and weaker coated paper prices.
- In the face of cost and currency impacts, good progress has been made on efficiencies and positive mix management to contain the downward impact on EBIT to only $3.9 million.
- The high Australian dollar continues to hold down pricing across most segments, though more particularly in coated woodfree and publication papers markets, with a net direct impact on EBIT from export earnings of A$(8.7) million versus the prior corresponding period.
- Ongoing work on product and customer rationalisation saw shift reductions on 3 manufacturing units to take effect in the second half of the year. Restructuring charges associated with the shift reductions were booked in the first half.
- The GO GREEN WITH ENVI® range of carbon neutral papers was launched during the period offering the first Australian made carbon neutral paper with Australian Greenhouse Office certification.
- Average working capital was at a similar level to the prior corresponding period however the period end position for working capital to sales was adverse due to the timing of plant shuts.
- Two major shuts have now been completed for the Maryvale pulp mill project with benefits being seen from the work completed.
- Insurance proceeds of $3.6 million were received during the period.

## APPENDIX 2 – VARIATION ANALYSIS

Reported EBIT for the 6 months ended December 2007 was $85.7 million, down 1.5% on the $87.1 million reported for the prior corresponding period. The chart below highlights the key items of variance between these two periods, with commentary relating to the three key areas.

**EBIT VARIATION ANALYSIS BY MAJOR INFLUENCE**




### Top Line Growth

- While sales volumes were down 3%, stock volumes remained relatively constant versus the prior corresponding period, despite a 24% decline in office paper papers volumes sold through our Merchanting platform.
- The stock to indent ratio trend continued its positive development, with stock sales (higher margin) representing 55.8% of Merchant volumes (54.9% in the previous corresponding period).
- Within Manufacturing, Australian communication paper volumes improved by over 4% reflecting the strength of our brands and recent product launches. Packaging volumes were down by 6%.
- Gross margin percentage improved in all key regions highlighting the benefit of mix management activities and further growth in Sign and Display, Industrial Packaging and branded products.

## Strategic Initiatives

- Asset sales were higher in the half by $5.4 million as compared with the prior corresponding period and reflect our ongoing review of our property portfolio and capital management.
- Strategic initiatives continue to be a key driver of profitability. In the six months to December 2007, the $14.1 million investment in restructuring costs was an increase of $2.5 million over the prior corresponding period.
- All projects are on track to deliver targeted returns and a further $18 million of gross benefits was delivered in the half.

## External Impacts and Expense Management

- Despite negative impacts of translation of overseas and export earnings, net direct FX movement was positive versus the prior corresponding period due to no losses recorded in New Zealand on settlement of overseas purchases (experienced in the prior corresponding period) and gains on funding related transactions ($7 million unrealised) in the half.
- Commodity input costs continue to put pressure on our Manufacturing business, but have eased in magnitude when compared to the impact seen in prior periods.
- Real expenses improved around $4 million and reflect the ongoing programme of expense management. The prior year benefit of $4.2 million due to defined benefit superannuation plan gains recorded under AIFRS did not repeat in this half.