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ASX RELEASE

21 August 2008

PAPERLINX 2008 FINAL RESULT

PaperlinX today announced profit after tax for the year ended 30 June 2008 of $72.2 million, down 10% on 2007. Reported EBIT was $160.4 million, down 14%. Underlying EBIT, adjusted for asset sales and the cost of implementation of strategic initiatives, was $154.4 million (down 22%). The final dividend for the year will be 3.5 cents per share, unfranked, bringing the total dividend for the year to 6.5 cents.

The key features of this result are:

- Rising input costs and currency continued to impact on Manufacturing earnings despite good work on brand growth, operational and supply chain efficiencies
- Merchant profits came under pressure in the second half, particularly in the weak US and UK markets, though improvements in working capital supported an 11.4% ROAFE
- Improved mix and growth in non-paper activities (sign and display, graphics and industrial packaging) to 17% of total gross profit despite competitive challenges in the UK
- Positive contribution from property sales to fund ongoing restructuring charges
- Continued positive contribution from strategic initiatives of $81 million 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)
- Timing for the pulp mill upgrade project has been further delayed by two months by weather and poor construction productivity, increasing costs to around $340 million, although it remains on track for $40-50 million annualised benefits and returns above 12%.

Commenting on the result, PaperlinX CEO Mr Tom Park said, “Clearly these results are not where we would like them to be, and they do not reflect the focus and hard work of our people. What they do reflect is the continuation of the challenges seen in the first half, and the further deterioration in the economic conditions seen particularly in the US and the UK. Our returns for the year have additionally been negatively impacted by the upfront investment made over the past three years against the pulp mill upgrade and associated projects that, on completion, will begin to provide substantial benefits. Though significant practical completion of the project has been realised, reducing commissioning risk and providing early throughput benefits, a further two month delay and 10% cost increase is expected. Strategic rationale, annualised benefits and project returns remain consistent with previous advice."

In response to these circumstances, PaperlinX is taking a series of additional actions to improve results, to strengthen the balance sheet, and to position the company well for future opportunities:

- The existing strategic initiatives are projected to deliver a benefit up to $125 million versus 2005, up from the $81 million achieved in 2008 (up over $40 million improvement from 2008), significantly benefiting from completion of the pulp mill upgrade and a seven month financial realisation following commissioning.

- An additional and specific Profit Protection Plan targeting expense saving and fuel cost recovery has been initiated with a potential full year benefit over $30 million to mitigate weak market conditions.

- The remainder of European property sales previously announced will be progressed through the first half of 2009 with a potential EBIT benefit over $20 million to fund restructuring costs within the year.

- PaperlinX is currently seeking potential investors for a share of or all of Australian Paper, who are interested and capable of pursuing the value of Australian Paper's strategic advantages over the long term to create more value than we are able to. Interested parties are currently performing due diligence. No decision has been made at present, with any offers which may be received to be evaluated in light of overall value and our alternative uses of funds in the near and medium term.

"Our industry has suffered consistently from negative externalities in recent years, but our focus on working capital and cost management, simplification, disposal of non-core assets and investments in product quality and brands have all helped make PaperlinX a more competitive business. The development and rollout of the PaperlinX Values and our positive environmental progress are further examples of how we are differentiating ourselves from our competitors."

"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. External conditions remained tough as expected, and are not assumed to provide any relief in the near term, though further industry consolidation and pricing in Europe now appear more likely as a result of escalating input costs and generally low industry returns."

“As we complete the pulp mill upgrade in the first half of 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. Additional profit protection measures and activities to strengthen our balance sheet will position the company well for the future.”

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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 YEAR ENDED 30 JUNE 2008

PaperlinX has reported operating earnings (EBIT) of $160.4 million and after tax earnings of $72.2 million for the year ended 30 June 2008.

PAPERLINX LIMITED AND CONTROLLED ENTITIES		Year ended 30 June		
		2008	2007	% change
Sales Revenue	$M	7,485.1	7,839.3	(4.5)
Earnings from Operating Activities before interest, income tax, amortisation and depreciation	$M	254.3	286.5	(11.2)
Earnings from Operating Activities before interest & income tax	$M	160.4	185.5	(13.5)
Underlying Earnings from Operating Activities before interest & income tax	$M	154.4	197.7	(21.9)
Profit before tax	$M	100.4	114.6	(12.4)
Profit after income tax	$M	72.2	80.1	(9.8)
Step-up Preference Security (SPS) distribution	$M	26.7	6.6	
Key Ratios				
Earnings before interest and income tax to average funds employed	%	5.7	7.0	(1.3)pts
Average Working Capital to Sales	%	18.0	18.3	0.3 pts
Operating Cash Flow	$M	113.0	142.9	(20.9)
Net interest cover (1)	x	2.0	2.5	(0.5) pts
Net debt/Net debt & Equity	%	28.7	24.3	(4.4) pts
Basic earnings per share post SPS distribution	cps	10.1	16.4	(6.3)¢
Dividend per share (Total annual)	cps	6.5	11.0	(4.5)¢

(1) Including capitalised interest in 2008 of $18.8 million and $4.2 million in 2007.

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

- Sales revenue fell 4.5% to $7.49 billion from $7.84 billion primarily due to lower sales volumes and currency translation impacts.
- Reported EBIT fell 13.5% to $160.4 million and underlying EBIT fell 21.9% to $154.4 million.
- Operating profit includes net one-off benefits of $6.0 million before tax ($(12.2) million prior) arising from restructuring costs of $(30.8) million more than offset by net profit on asset and property transactions of $36.8 million.
- After tax profit was down 9.8% to $72.2 million.
- Earnings per share were 10.1 cents after the total annual distribution of $26.7 million for the PaperlinX Step-up Preference Securities (SPS) issued in March 2007.
- The final dividend of 3.5 cents per share, unfranked, compares with 6.0 cents per share last year. This brings the total for the year to 6.5 cents.
- Earnings before interest, tax, depreciation and amortisation (EBITDA) were $254.3 million, down 11%. Net cash flow from operating activities was $113.0 million, down $29.9 million primarily due to lower EBIT.

- PaperlinX overall return on average funds employed was 5.7%, down on last year reflecting up-front investments on the pulp mill upgrade and other strategic initiatives, with the pulp mill in particular yet to contribute to returns.

- Earnings before interest and tax for Paper Merchanting were $192.4 million, down 6% including a contribution from property sales in Europe. Underlying operating earnings were $172.9 million, down 16% on 2007, but in line with 2006. Paper demand in the UK and US markets was weak though continental Europe was healthier. Realised prices were generally higher due to a favourable sales mix and the improving capacity utilisation rates emerging. Earnings were significantly impacted by currency translation, most notably in the US and the UK. However, the gross profit percentage was up slightly due to mix, and trading expenses were down 3.5%. ROAFE was 11.4%, supported by a 7.7% reduction in average net working capital.

- Earnings before interest and tax for Paper Manufacturing of $(1.9) million with underlying operating earnings of $8.2 million, down $12.6 million, being impacted by higher input costs and the impact of currency, but benefiting from some pricing, a positive mix, improved mill efficiencies, share growth for domestic copy paper and supply chain management.

- The benefit from strategic initiatives in 2008 was $81 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 completion of the pulp mill upgrade).

- The Group's ongoing property sales contributed profit before tax of $36.8 million, compared with gains of $10.1 million in 2007.

- Year end working capital decreased by $59 million versus June 2007 and average working capital to sales fell to 18.0% versus 18.3%.

- Capital expenditure in the period was $326 million (including $250 million on the pulp mill upgrade and ancillary catch-up capital, with normal sustenance capital around 80% of depreciation). The fourth major shut for the pulp mill upgrade was successfully completed in June, though the project capital is now expected to be around $340 million (exceeding the $310 million indicated in February by 10%), as delays in completion continue to impact costs. Annualised 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. Completion is now scheduled to occur in the first half of the 2009 fiscal year for a 6 to 7 month financial benefit for the year.

- Benefits from the successful fourth shut are now being realised with record production weeks achieved in July. The wood yard was completed and has been handed over to the operator. These activities will substantially simplify the final commissioning process.

- In February 2008 the multi-currency borrowing facility was renewed at US$589 million in 1, 3 and 5 year tranches.
- PaperlinX is currently seeking potential investors for all or a share of its Australian manufacturing business, Australian Paper, who are interested and capable of pursuing the value of Australian Paper's strategic advantages over the long term to create more value than we are able to. Interested parties are currently performing due diligence, though no firm offers have been received and no decision to sell has been made. In the event that an offer is made and accepted, it is probable that the long term carrying value of the assets may not be achieved at this depressed point in the business cycle, though the current "through the cycle" valuations support the current carrying value. Ultimately we will evaluate any offers in light of the overall value and the alternative uses of funds in the near and the medium term.

RESULTS FOR THE YEAR ENDED 30 JUNE 2008

Commentary on the Group Final Results

Introduction

Reported profit after tax of $72.2 million for the year ended 30 June 2008 compared with $80.1 million for 2007. Results included a net $6.0 million in pre-tax one-off gains associated with various asset and property sales and restructuring costs ($(12.2) million net cost in the prior year). Reported EBIT was $160.4 million, down 14%.

A decline in underlying operating earnings ($154.4 million, down 22%) was seen. The key impacts were continued input cost pressures in an environment where currency movements have limited price increases, but were partly mitigated by positive margin management and realised benefits from strategic initiatives.

The external environment has remained difficult in most regions, with demand soft in some key markets; however there have been improvements in pricing realisations in continental Europe (mainly mix) and Asia (mainly price).

The average working capital to sales ratio showed improvement over last year, reducing from 18.3% to 18.0%, with average working capital down 6.2% for the year.

The return on average funds employed of 5.7% declined as investments on strategic initiatives precede major benefits to flow in 2009.

Paper Merchanting

The Paper Merchanting businesses achieved EBIT of $192.4 million, down 6% on the year, with underlying EBIT of $172.9 million, down 16%. Operating earnings (EBIT) in North America were down 28% in local currency with strong above market growth mitigated by the weak market's impact on US margins, Europe was up 1% in local currency and Australia, NZ and Asia were up 52%, off a low prior year. Volume was down 1.3% partly due to the prior year containing Cascades' western Canadian businesses which were 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 4.8%.

Overall, the Paper Merchanting businesses have continued to produce adequate 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%. Overall trading expenses were down 3.5%, while the average working capital to sales ratio reduced to 15.6% from 16.1%.

Paper Manufacturing

Operating earnings of $(1.9) million were behind the $10.2 million of the prior year. Underlying operating earnings from Paper Manufacturing in Australia were impacted by higher input costs and raw material costs ($(7.2) million) and the impact of the higher

Australian dollar on the translation of export earnings ($(21.6) million) resulting in underlying operating earnings of $8.2 million, down from $20.8 million.

For the first time in some years paper selling prices in Australia improved as good work on branding (including the launch of Reflex® Recycled 100) and a tighter regional supply situation has begun to be reflected. Domestic market share growth in office papers is a key platform for improved future profitability and was supported in 2008 by a 6.3% volume increase and market share gain on the Reflex® brand. Coated paper remained under pressure from low priced imports, but innovations like ENVI®, Australia's first carbon neutral paper, are beginning to build points of differentiation. Australian Paper's environmental credentials, supported by accreditation of all fibre supply (either FSC or PEFC) are providing improved recognition from the market.

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. Cost savings of $16 million were achieved in 2008.

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 year 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.

Delays in completion of the pulp mill project, mean costs are expected to be around $340 million compared with the February estimate of $310 million (up 10%). The largest shut was completed in June, while the wood yard and ancillary equipment required for increased rate have been successfully completed and are operational.

Project benefits will include over 90,000 tonnes of incremental pulp production replacing current external purchases. Per tonne costs will reduce, there will be product and marketing benefits and an improved environmental footprint. The projected annualised EBIT benefits are expected to be around $40-50 million per annum, with a 6 to 7 month benefit expected this financial year.

OPERATING EARNINGS

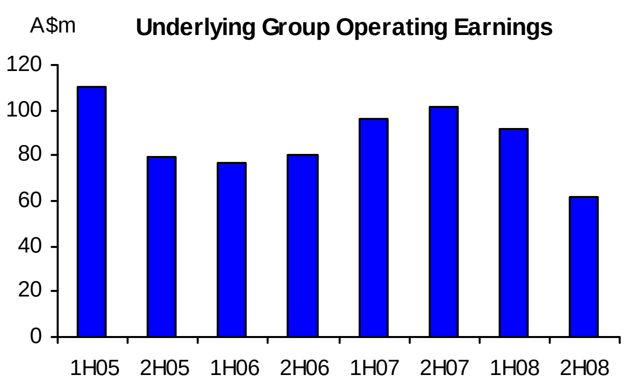
The following table shows, for PaperlinX Limited and controlled entities, Operating Earnings (EBIT), Sales Revenue and Total Assets by industry segment for the year to 30 June in Australian dollars.

	EBIT		Sales Revenue		Total Assets	
	June 2008 $M	June 2007 $M	June 2008 $M	June 2007 $M	June 2008 $M	June 2007 $M
Industry Segments						
Europe	139.0	139.9	4,573	4,780	2,020	2,148
North America	32.4	51.5	1,275	1,380	457	502
Australia, NZ and Asia (1)	21.0	13.8	1,005	1,033	444	462
Inter-merchant Sales	-	-	(37)	(34)	-	-
Total Paper Merchanting	192.4	205.2	6,816	7,159	2,921	3,112
Paper Manufacturing (1)	(1.9)	10.2	973	1,016	1,354	1,148
Corporate (1) (2)	(30.1)	(29.9)			35	129
Operating earnings before interest & income tax	160.4	185.5				
Net Interest (3)	(60.0)	(70.9)				
Income Tax Expense	(28.1)	(34.4)				
Outside Equity Interests	(0.1)	(0.1)				
Inter-segment Sales			(304)	(336)		
Unallocated Assets (deferred tax assets)					68	53
Total	72.2	80.1	7485	7,839	4,378	4,442

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) Excludes capitalised interest in 2008 of $18.8 million and $4.2 million in 2007.

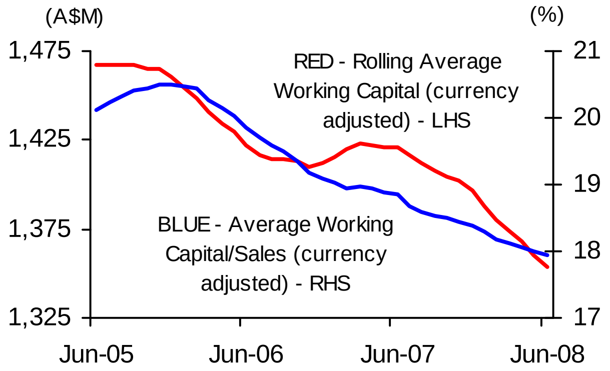
Underlying Operating Earnings

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 second 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 and export returns. Merchanting was down on last year due to translation ($12.1 million) and weaker US and UK markets.



Trade Working Capital

Trade working capital for the Group at June 2008 was $1,153 million. This was 5% lower than June 2007. Average trade working capital for the period was $1,345 million, which was also below the prior year. 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 17.9% versus 18.9% in 2007.



Financial Position

At 30 June 2008, PaperlinX had a gearing ratio of net debt to net debt plus equity of 28.7%. Interest cover (including the cost of capitalised interest) was 2.0 times (2.5 times for the prior year) reflecting 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 $254.3 million, down 11.2%. Net cash flow from operating activities was an inflow of $113 million, as compared with a net inflow of $142.9 million in 2007 with variances due to lower EBIT and higher non-cash adjustments partly offset by lower working capital. Net debt rose to $776.0 million compared to $611.8 million last year.

Capital expenditure was $326 million ($250 million on the pulp mill upgrade including 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 $140 million primarily due to the pulp mill project and ancillary catch-up capital expenditure ($250 million for the year, $377 million to date) which will begin to deliver a return in 2009.

The final distribution for PaperlinX Step-up Preference Securities (SPS) instrument for the 2008 financial year was $4.8442 per security, bringing the total to $9.3661 per security which totalled $26.7 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 15% to $60.0 million reflecting higher capitalised interest (capitalised interest was $18.8 million versus $4.2 million in 2007), 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.

As a part of the Group's ongoing property sales programme a number of properties have been sold in Europe, contributing a profit of $35 million before tax. Proceeds received as at 30 June 2008 totalled in excess of $50 million, with a further $50 million to be received in August 2008. Further properties are currently held for sale and are being actively marketed.

Potential future income tax benefits relating to accumulated tax losses of $104.7 million (tax affected) have not been recognised in the balance sheet.

Dividend

Directors have declared an unfranked final dividend of 3.5 cents per share compared with 6.0 cents per share last year. This brings the total dividend for 2008 to 6.5 cents per share compared with 11.0 cents last year.

The final dividend will be paid on 15th October 2008 to shareholders on record as of 19th September 2008 as being entitled to the dividend. The PaperlinX Dividend Reinvestment Plan (DRP) applies in respect of this final dividend.

SUSTAINABILITY

Employees

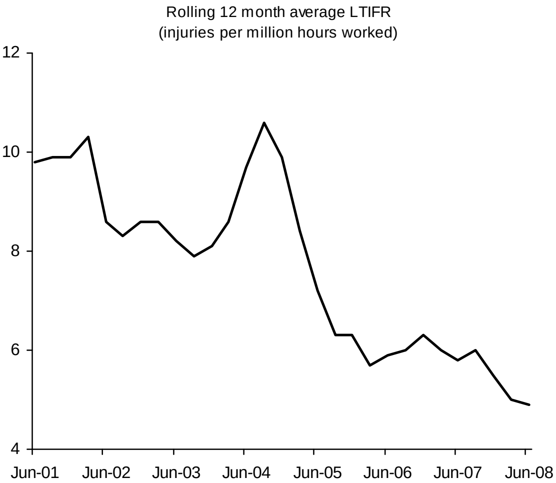
As at 30 June 2008, PaperlinX had 9,365 employees, down 1.5% on 2007 and 3.1% versus two years ago. Of our employees 29% are in Australia, New Zealand and Asia, 54% in Europe and 17% in North America.

Safety

Achieving our goal of no accidents and injuries is a continuous challenge. Over the past four years the overall Lost Time Injury Frequency Rate (LTIFR) has been reduced successfully by 55%, and in the last 12 months the Group's rolling LTIFR decreased from 5.8 to 4.9.

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.

Our current focus remains on these critical areas:

1. Our carbon footprint (greenhouse gas emissions) as it relates to energy use, transport and waste management.
2. The use of natural resources such as water and fibre.
3. Meeting the expectations of our customers and the community.

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

- Preparation of a carbon strategy ahead of the Australian Government National Greenhouse & Energy Reporting Act, which included quantifying and seeking ways to improve our total carbon footprint in Australian manufacturing
- PaperlinX is a signatory of the 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 Government's Department of Climate Change
- Oil and coal-fired boilers have been replaced at Wesley Vale and Shoalhaven with gas-fired boilers reducing greenhouse gas emissions by some 25,000 tonnes.
- 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 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.
- Testing of electric powered trucks for deliveries in London, UK.
- Launch of yoyo™, a unique combined office paper delivery and waste collection service in the UK, to overwhelming customer interest.

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.

Over the past 26 years Australian Paper has reduced water consumption per tonne of paper produced at Maryvale Mill by 68%, and over the past seven years carbon emissions per tonne of paper produced have reduced by 23%. Around 45% of our mills energy use is from renewable sources.

PaperlinX regional manufacturing locations in Northern Tasmania, the Latrobe Valley and Shoalhaven are significantly trade exposed. Our environmental performance has been positive over the years and is a key differentiator versus imports. We are working with employer bodies, unions and governments at all levels to ensure this position is recognised, that a new pollution reduction scheme does not lead to forced leakage of carbon or jobs offshore, and that any future scheme recognises the ability to contribute or invest in mitigation activities through the cycle with a suggestion that this be relative to EBIT as a surrogate of pricing power.

Sites around the group are continuing to identify and implement 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		June 20(	June 2007
Current Assets	$M	2,677.7	2,874.0
Non Current Assets	$M	1,700.0	1,568.4
Total Assets	$M	4,377.7	4,442.4
Current Liabilities	$M	1,536.0	1,823.0
Non Current Liabilities	$M	917.1	714.3
Total Liabilities	$M	2,453.1	2,537.3
Shareholders Equity	$M	1,924.6	1,905.1
Key Balance Sheet Ratios			
Net Debt	$M	776.0	611.8
Net tangible assets per share	$	2.59	2.58

INCOME STATEMENT

PAPERLINX LIMITED AND CONTROLLED ENTITIES	Year ended 30 June 2008 $M	2007 $M
SALES REVENUE	7485.1	7,839.3
Operating Earnings before depreciation, amortisation, interest and income tax (EBITDA)	254.3	286.5
Depreciation and amortisation	(93.9)	(101.0)
Operating Earnings before interest and income tax (EBIT)	160.4	185.5
Net Interest Expense	(60.0)	(70.9)
Operating profit from Ordinary Activities before income tax	100.4	114.6
Income tax expense on Operating profit	(28.1)	(34.4)
Outside Equity Interests	(0.1)	(0.1)
NET PROFIT AFTER TAX	72.2	80.1

RETURN ON AVERAGE FUNDS EMPLOYED [(1)]

		Year June 2008	Year June 2007
Paper Merchanting*	%	11.4	11.9
Paper Manufacturing*	%	(0.2)	1.1
PaperlinX Group	%	5.7	7.0

* before allocation of corporate overheads

(1) EBIT / average funds employed

Summary and Outlook

Overseas fine paper manufacturing capacity reductions as a result of ongoing input cost increases are providing some balance to the weakening demand situation resulting in steady to improving global capacity utilisation rates. Despite weaker demand in the UK and in the US, prices are either holding, or in some markets increasing. Significant September paper selling price increases have been announced in Europe by manufacturers to try and recover major cost increases. Industry consolidation and/or further capacity closures could lead to further pricing announcements. Certainly the manufacturing sector of the paper industry is in an unsustainable position and structural change is necessary to return this sector to reasonable returns.

Unfortunately, industry momentum has been negative going into the 2009 fiscal year, which will put pressure on first half results. Variations to demand, input costs and currency relativities will all continue to influence results for 2009, with the current spot rate for the Australian dollar against the US dollar of around 0.87¢ positive should it hold compared to the average rate for the second half of 2008 of 0.92¢. Proactive cost management and fuel cost recovery programmes are in place across PaperlinX.

The primary contribution to future PaperlinX earnings growth outside of improvements in external conditions remains the successful delivery of the strategic initiatives expected to realise up to $125 million per annum (versus 2005) following successful completion of the pulp mill upgrade project. Delays to the pulp mill project mean that there will be less than a full year's contribution in fiscal 2009, though the $40-50 million annualised run rate remains.

Financing flexibility is provided by the renewal of the multi-currency borrowing facility, continued target reductions of working capital, and the sale of remaining properties in Europe.

Internal momentum continues to be positive as reflected in the launch of the PaperlinX Values to employees, successful acquisition integrations, broad-based delivery of strategic initiatives, improved mill efficiency and run rates, strengthening brand propositions, 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)

		Year June 2008	Year June 2007
Sales Volume	'000 tonnes	3,716	3,764
Sales Revenue	A$M	6,816	7,159
Earnings before Interest & Tax	A$M	192.4	205.2
EBIT/Sales Ratio	%	2.8	2.9
Return on Average Funds Employed	%	11.4	11.9

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

- Overall sales volume for Paper Merchanting was down 1% due mainly to lower volumes in the UK and NW Europe (mostly indent and commodity uncoated) and the divestment of Western Canadian business.
- The EBIT/Sales ratio declined slightly (2.8% versus 2.9%) largely due to the weaker US market.
- Growth in Sign and Display, Graphics and Industrial Packaging revenue was around 3% in source currency, with these non-paper businesses now accounting for 17% of gross profit.
- Sales revenue for the total Paper Merchanting business was down 5% (flat in constant currency) and EBIT was down 6% but up 1.9% versus 2006.
- Average working capital was $88 million below prior and the average working capital to sales ratio declined from 16.1% to 15.6%.
- The return on average funds employed was 11.4%, above the cost of capital.

Europe

		Year June 2008	Year June 2007
NW Europe	'000 tonnes	690	738
UK & Ireland (1)	'000 tonnes	1,147	1,180
Central & Southern Europe	'000 tonnes	528	525
Total European Sales Volume	'000 tonnes	2,365	2,443
Sales Revenue	€M	2,743	2,828
Earnings before Interest & Tax	€M	83.3	82.8
EBIT/Sales Ratio	%	3.0	2.9

Note (1) Also includes volume from South Africa

- Sales volumes were down 3%. Our key markets in the UK and the Netherlands both suffered market driven volume declines, with reduced stock volumes and office products sales.
- The average price realisation across the European merchanting platform was in line with last year, with the benefits to mix of the acquisition in Italy, continued growth in Sign and Display and Industrial Packaging in a number of markets, and branded sales of key coated and environmental papers balancing lower stock volumes.
- Reported EBIT was in line with the prior year despite the lower volume, supported by gains on asset sales. Underlying EBIT was down 15% (although in line with 2006), with

the weaker UK result exacerbated by a weaker £ versus the €. The reported EBIT/sales ratio was 3.0%.

- Progress on the rollout of the UK integrated logistics solution, The Delivery Company, has progressed well with 12 sites now operational (9 sites exited).
- The consolidation of warehouses in Barcelona and Ireland were 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.
- yoyo™, a unique combined office paper delivery and waste collection service has been launched to enthusiastic support in the UK and is now rolling out in The Netherlands and across the Continent.
- 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.
- Average working capital improved as did the average working capital to sales ratio, which improved to 17.4% from 17.8% in 2007.
- Printers in the UK are facing a challenging market, raising the need for continued tight management of debtors. The major exposure in 2008 was to the Butler and Tanner Group which contributed to the level of bad debts being €2.7 million higher than in 2007.
- The level of superannuation defined benefit adjustments achieved in 2007 did not repeat resulting in an adverse movement year on year of €8.8 million.

North America

		Year June 2008	Year June 2007
Sales Volume	'000 tonnes	645	623
Sales Revenue	US$M	1,138	1,078
Earnings before Interest & Tax	US$M	28.9	40.2
EBIT/Sales Ratio	%	2.5	3.7

- Total sales volume growth for North America of 3.5% (5.5% adjusted for sale of Western Canada) was well ahead of a declining market, supported by a 6.5% growth in proprietary brands and various top line growth initiatives. Market share growth was strongly positive.
- 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 and a further 3.2% for the six months to June).
- US paper selling prices continued to be supported by mill capacity reductions (some 2.1 million short tonnes of woodfree capacity alone in North America in calendar 2007), with realised prices up 2% on last year, despite ongoing weakness in market demand. Canadian prices remained under pressure from the weak US dollar.
- Recently announced (August 2008) coated woodfree capacity closures will further support pricing in the US.
- The total operating earnings result was sharply lower reflecting the impact of the weak US market on EBIT margins, down to 2.5%.
- Kelly Paper was under particular pressure as a result of the sharp weakening of US retail and residential housing sectors on the West Coast. Both volumes and prices fell, with margins depressed.
- Canadian prices were down over 5% as a result of the weak US dollar but due to disciplined margin management gross profit percentage was up almost 1 full percentage

point. Overall EBIT was lower as the business absorbed one-time costs relating to the new Toronto warehouse.

- The Toronto warehouse integration (4 locations into 1) was completed successfully in January 2008 with benefits beginning to accrue during the second half.
- IT integrations across Canada and within Kelly Paper are now completed, providing additional opportunities for business benefits although contributing to cost increases during implementation.
- Operating expenses, up 10%, were impacted by business improvement initiatives underway which will provide growth platforms into the future (US converting capacity, strategic sales training, graphics, and regional and global customer solutions).
- Average working capital to sales at 12.7% was an improvement over the prior years 13.0%.

Australia, NZ and Asia [1]

		Year June 2008	Year June 2007
Sales Volume	'000 tonnes	731	725
Sales Revenue	A$M	1,005	1,033
Earnings before Interest & Tax	A$M	21.0	13.8
EBIT/Sales Ratio	%	2.1	1.3

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

- Reported EBIT was up 52% with underlying EBIT up 34%. The prior year included negative currency impacts that were not repeated. Revenue was down 3% with lower revenues in paper trading (AP plant shuts reducing export tonnage) having a considerable impact. Excluding paper trading, revenues were down only 1%.
- Asian EBIT was up 37% on the back of volume growth and tight control of operating expenses. Realised prices were up 1%, helping margins. Continued growth in Asia is being seen through the supply of paper for global customer print requirements that are being carried out in this region.
- Pricing in Australia and New Zealand remained under pressure from a weak US dollar. Overall price realisations for the region were down around 3.5% with regional and mix variations. This trend is reversing, with increases being realised in early fiscal 2009.
- 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.
- A new warehouse and distribution centre in Auckland, New Zealand was successfully completed.
- Entry into the Australian sign and display market with acquisition of iMedia.
- Paper Trading earnings were impacted by volume restrictions from Paper Manufacturing due to shuts related to the pulp mill upgrade.
- Average working capital was reduced 15% as a result of ongoing good performance on inventory management and warehouse consolidations leading to a continued improvement in the average working capital to sales ratio (11.6% to 10.2%).
- Earnings benefited from good performance on operating expenses which were down 4%.

PAPER MANUFACTURING

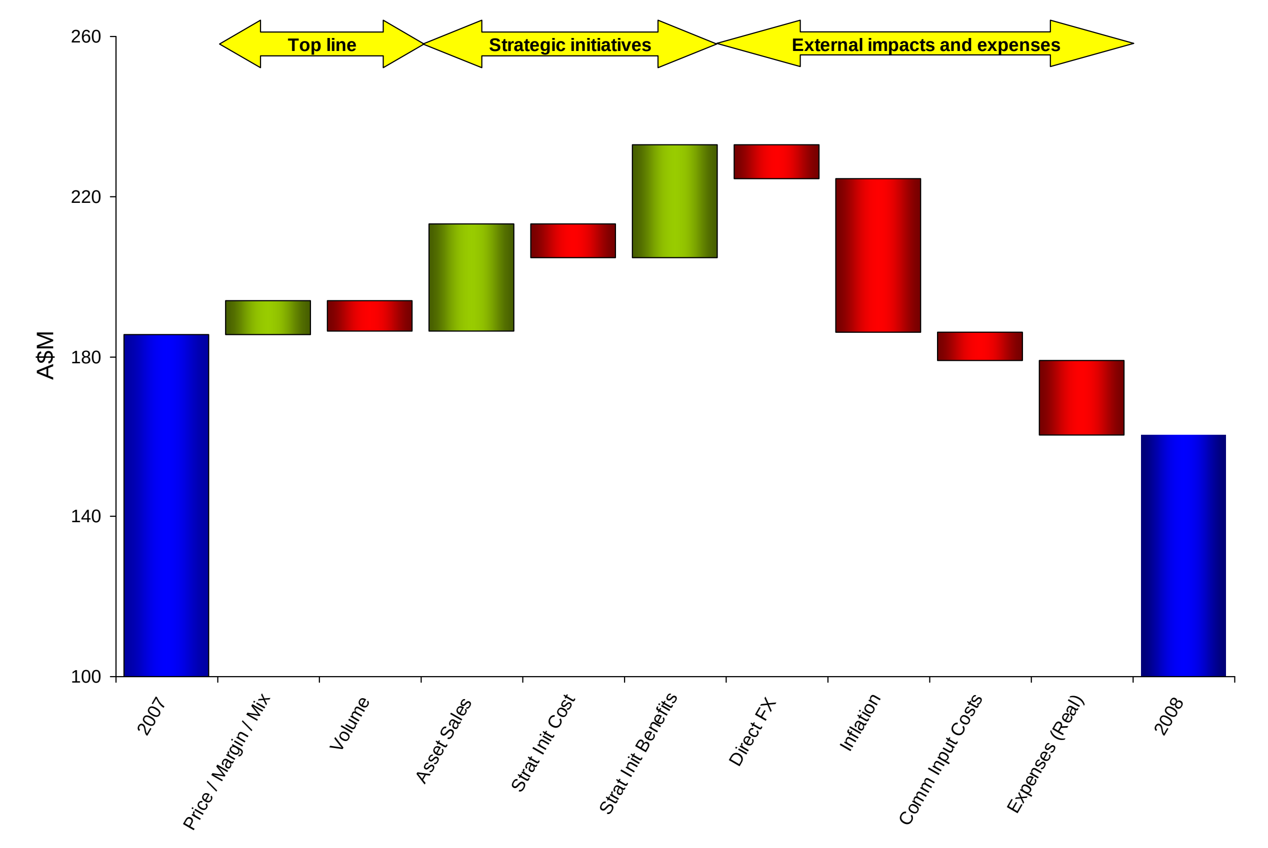
		Year June 2008	Year June 2007
Communication paper Sales Volume	'000 tonnes	485	499
Packaging paper Sales Volume	'000 tonnes	300	319
Total Sales Volume	'000 tonnes	785	818
Sales Revenue	A$M	973	1016
Underlying Earnings before Int & Tax	A$M	8.2	20.8
Reported Earnings before Int & Tax	A$M	(1.9)	10.2
Return on Average Funds Employed	%	(0.2)	1.1

- Overall sales volumes were impacted by the four shuts relating to the pulp mill upgrade and a corresponding reduction in export volumes. Domestic communication papers volumes were up although overall volume declined due to reduced exports. Copy paper market share in Australia has shown encouraging growth, despite price differentials as customers recognise our superior value proposition.
- The Reflex® brand of copy paper recorded a 6.3% volume growth and market share growth supported by recycled offerings, advertising and delivery against the overall "reliability" positioning.
- In the face of cost and currency impacts, good progress has been made on operating efficiencies, supply chain management and positive mix management to contain the downward impact on underlying EBIT to only $12.6 million. Record production weeks from the Maryvale Mill were recorded post the May-June pulp mill shut.
- Higher pulp costs have continued to impact operating earnings, with the average price of hardwood pulp up 25 % in US dollars. Cost increases in US dollars have been mitigated to some extent by the stronger Australian dollar (up 16% in Australian dollars). Pulp prices have remained high with further increases announced. Commodity input costs for all raw materials resulted in an increase of $7.2 million.
- Reported EBIT declined to $(1.9) million from $10.2 million. Underlying EBIT of $8.2 million was lower due to the combined impact of the stronger Australian dollar, higher pulp costs and weaker coated paper prices.
- Insurance proceeds of $3.6 million were received during the period.
- The high Australian dollar continued 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 $(21.6) million.
- Ongoing work on product and customer rationalisation saw shift reductions on 3 manufacturing units taking effect in the second half of the year. Restructuring charges associated with the shift reductions were booked in the first half.
- The ENVI® range of carbon neutral papers has received strong support since its launch earlier this year offering Australian customers and corporates the first Australian made carbon neutral paper with accreditation from the Australian Greenhouse Office and certified by the Australian Government's Department of Climate Change.
- Average working capital was 1% lower than last year however the period end position for working capital to sales was adverse due to the timing of plant shuts.
- Four major shuts have now been completed for the Maryvale pulp mill project with benefits being seen from the work completed. This will substantially simplify the final commissioning activities.

APPENDIX 2 – VARIATION ANALYSIS

Reported EBIT for the year ended June 2008 was $160.4 million, down 14% on the $185.5 million reported for the prior year. The chart below highlights the key items of variance between these two years, with commentary relating to the three key areas.

EBIT VARIATION ANALYSIS BY MAJOR INFLUENCE



Top Line Growth

- A positive mix occurred in Merchanting. Despite the stock to indent ratio remaining constant, good growth was experienced in the commercial print market whilst the office market volumes continued to decline.
- Realised prices in Merchanting in AUD were down 3.6% largely due to currency translation but the gross profit margin was slightly better at 19.3%.
- Continued good growth in the sign and display, industrial packaging and graphics business areas contributed to the results.
- With Australian Paper, production volumes were down 2.6%. Due to the extent of scheduled plant shuts, export sales were lower contributing to the favourable mix.
- Merchant volumes were down 1.3% in total, most notably European volumes were down 3.2% mainly due to soft market conditions in the UK and the Netherlands.

Strategic Initiatives

- Incremental profit on asset sales over 2007 of $26.7 million resulted mainly from the planned European asset sales programme. This will remain a key activity aimed at offsetting the implementation costs of the initiatives which for 2008 were $8.5 million higher than 2007. A further $20 million of profit is expected in 2009.

- The gross delivered benefits of all the initiatives over 2005 now total $81 million an increase of over $28 million in the year.

External Impacts and Expense Management

- The direct impact of the stronger AUD year on year was negative $8.5 million. The negative impacts on AP export earnings and the translation of the overseas earnings were partly offset by FX gains linked to funding arrangements.
- Commodity input costs remain challenging with the year on year impacts over $7 million.
- Real expense levels were negative by over $18 million primarily due to the impacts of defined benefit adjustments ($14.6 million) and higher level of bad debts ($6.7 million).