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PAPERLINX 2010 INTERIM RESULTS

BUSINESS AND FINANCIAL RESTRUCTURING WELL ADVANCED

PaperlinX Limited (PaperlinX) today announced results for the six months ended 31 December 2009. Results for the period were substantially impacted by one-off costs primarily associated with the exit from the Tasmanian manufacturing operations. The result was a loss after tax for the Group of $(175.3) million, including $(148.8) million in significant items, compared with a loss of $(560.9) million, including $(567.5) million in significant items, for the prior corresponding period.

Group revenue for the period of $2.74 billion was down 28% on the prior corresponding period, while volume of 1.5 million tonnes was down 24%, both were mainly the result of the exit from paper manufacturing operations in Australia and the impact of weak markets. Operating earnings (EBIT) from continuing operations were $11.7 million compared with $33.2 million for the prior corresponding period, with revenue for continuing operations of $2.64 billion, down 21%. No interim dividend will be paid.

The key features of this result are:

- Significant progress on PaperlinX's key strategic activities:
    - The exit from paper manufacturing is progressing to plan. This result includes a number of one-off significant items relating to the exit from its remaining Tasmanian operations, which will be completed by the end of June 2010. A sale of the Burnie Mill remains a potential alternative to closure, so redundancy costs for the remaining part of the business are not included in this period. Following the Tasmanian exit, PaperlinX will be solely a global merchant.
    - Overall Group debt has been reduced substantially since December 2008, with net debt of $251.4 million ($1,062.1 million in the prior corresponding period) and gross debt of $525.8 million ($1,518.1 million in the prior corresponding period). Asset sales, reductions in working capital, currency movements and improved cash management over the past year have all contributed to this significant improvement.
    - Refinancing of the Group's debt with a number of regional asset based lending facilities is progressing well. A number of facilities were completed during the half, and a number of other facilities are targeted to be completed this fiscal year. This refinancing will reduce financing costs, increase flexibility and efficiency and remove restrictions currently in place on distributions.

- Benefits have continued to flow from the aggressive cost reduction programmes of the past year, with overall Group trading expenses down 24%, supported by the sale of Australian Paper (down over 18% in Merchanting).

- Weak global markets have continued to impact overall volumes, with any European recovery lagging other regions.

Commenting on the result, PaperlinX Chief Executive Officer, Mr Tom Park, said "While the underlying operating earnings remain weak, we have made good progress in reshaping the company to secure our future. We are actively restructuring our business out of manufacturing and structurally refinancing our debt, while at the same time significantly lowering our operating expenses, our working capital and our debt levels to improve our leverage to recovery."

"Our exit from the Tasmanian paper manufacturing operations is progressing to plan, with this result including a number of one-off significant items related to this activity. The total costs of closure are now expected to be lower than December 2009 estimates, depending upon the final outcomes for the Burnie Mill, as requirements have been reviewed in more detail. We have continued to receive excellent support from our key stakeholders in Tasmania, particularly our employees, and I would like to thank them for that. It has not been an easy period, but our employees have continued to show a professional and pragmatic approach."

"During the second half of this financial year a number of strategic activities are expected to be concluded," added Mr Park. "This will free up our time to focus more on the future and to rebuilding value and returns from our global merchanting platform. Further focus on incremental value enhancing activities off our core paper merchanting platform is a priority."

In terms of the outlook, Mr Park said "While we are continuing to focus on the areas under our control there are early signs of improvement in a number of leading economic indicators. The UK, our single largest market, remains weak, with difficult weather conditions in January impacting earnings as we start the second half."

"Going forward, our business will be a focussed merchanting business, with around 60% of our revenue generated in Europe and the balance split between North America, and Australia, New Zealand and Asia (ANZA). Our operational currency exposure will reduce and be primarily driven by translation of our offshore earnings, while our new borrowing facilities, being regionally based, will provide a natural hedge for the balance sheet."

RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

The following table shows, for PaperlinX Limited and controlled entities, earnings and sales revenue by region for the six months to 31 December in Australian dollars. Segment results exclude significant items, but include one-off costs and benefits, including restructuring costs to benefit future years. Historical comparisons have been adjusted to reflect PaperlinX's exit from its paper manufacturing operations which have been reclassified as Discontinued Operations.

	Earnings		Sales revenue	
	Dec 2009	Dec 2008	Dec 2009	Dec 2008
	$M	$M	$M	$M
Merchanting				
Europe	8.5	52.9	1,818	2,314
North America	9.4	9.9	522	670
Australia, NZ and Asia	10.8	11.7	306	354
Total Merchanting	28.7	74.5	2,646	3,338
Unallocated	(17.0)	(41.3)	(3)	(6)
Total Continuing Operations	**11.7**	**33.2**	**2,643**	**3,332**
Discontinued operations	(17.3)	18.0	135	543
Operating earnings before interest, income tax and significant items (EBIT pre significant items)	(5.6)	51.2		
Total significant items (pre tax)	(117.8)	(567.5)		
Operating earnings before interest and income tax (EBIT post significant items)	(123.4)	(516.3)		
Net interest	(16.3)	(35.6)		
Loss before tax	(139.7)	(551.9)		
Tax related to continuing operations	(4.6)	(8.9)		
Tax related to discontinued operations	0.0	(0.1)		
Tax significant item related to discontinued operations	(31.0)	0.0		
Group income tax expense	(35.6)	(9.0)		
Group eliminations			(40)	(93)
Total Group loss (post significant items)	**(175.3)**	**(560.9)**	**2,738**	**3,782**
Total Group (loss)/profit (pre significant items)	(26.5)	6.6		

Key Ratios		2009	2008
Earnings before interest, income tax and significant items to average funds employed	%	-	1.7
Net debt/Net debt & equity	%	19.6	40.4
Basic earnings per share post SPS distribution	cps	(29.0)	(111.9)
Dividend per ordinary share	cps	nil	nil

BALANCE SHEET

PAPERLINX LIMITED AND CONTROLLED ENTITIES		December 2009	June 2009	December 2008
Current assets	$M	2,082.9	2,335.9	3,232.8
Non current assets	$M	513.3	636.2	1,368.1
Total assets	$M	2,596.2	2,972.1	4,600.9
Current liabilities	$M	1,220.4	1,527.3	2,726.8
Non current liabilities	$M	341.2	173.8	306.8
Total liabilities	$M	1,561.6	1,701.1	3,033.6
Shareholders equity	$M	1,034.6	1,271.0	1,567.3
Key Balance Sheet Ratios				
Gross debt	$M	525.8	611.0	1518.1
Net debt	$M	251.4	216.8	1,062.1
Net tangible assets per share	$	0.60	0.88	1.34

Operating Performance

Earnings before interest, tax, depreciation, amortisation and significant items (EBITDA) was $8.2 million, down 92% over the prior corresponding period ($98.3 million). Net cash flow from operating activities was a net outflow of $(94.4) million, as compared with a net outflow of $(153.3) million in the prior corresponding period as a result of lower cash earnings offset by reduced working capital (driven by reduced inventory) and lower interest payments (driven by lower debt).

EBIT from continuing operations (before significant items) was a profit of $11.7 million compared with $33.2 million for the prior corresponding period. Discussion of these earnings is contained in the Divisional earnings commentary later in this release.

Group EBIT before significant items was a loss of $(5.6) million compared with a profit of $51.2 million in the prior corresponding period. Group EBIT before significant items was impacted by weak global markets which affected earnings from the paper merchanting businesses, while the contribution from discontinuing operations (paper manufacturing) included the double impact of the removal of a profit contribution from the sold Australian Paper business in the prior period and the negative impact of currency on earnings from the remaining Tasmanian paper manufacturing operations.

Significant Items

The key strategic decision to exit paper manufacturing has resulted in after tax one-off significant items of $(148.8) million in the interim result (see note 8 in the Interim Financial Report). On a pre-tax basis, significant items total $(117.8) million. Of this amount $(103.0) million relates to the closure of discontinued Tasmanian operations, with the balance relating to final adjustments on the sale of Australian Paper. As a sale of the Burnie Mill remains a potential alternative to closure, remaining redundancy costs associated with the closure of the remaining part of these operations are not included in the 31 December 2009 half year accounts. Should the Burnie Mill be closed, then additional redundancy and other charges for the remainder of the Mill will be included in the second half.

Financial Position

Over the past 12 months, average funds employed have been reduced by $1,515 million primarily due to the sale of Australian Paper, reduced working capital and currency movements. Net working capital at 31 December 2009 was $947 million, a 36% improvement on the 31 December 2008 level of $1,484 million.

Net debt was $251.4 million compared to $1,062.1 million at the same date last year, and $216.8 million at 30 June 2009. Gross debt showed a continued reduction, and was $525.8 million compared to $1,518.1 million at the same date last year, and $611.0 million at 30 June 2009.

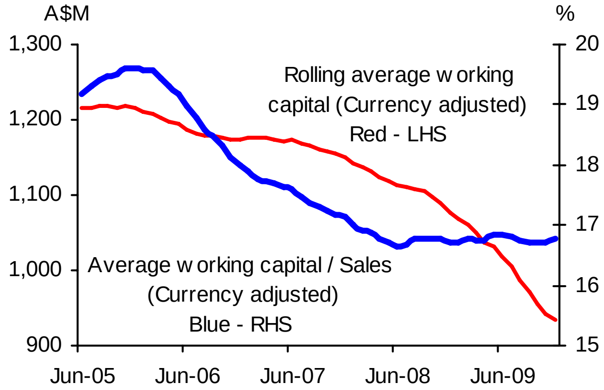
At 31 December 2009, PaperlinX had a gearing ratio of net debt to net debt plus equity of 19.6% compared with 40.4% a year ago.

As a part of the debt reduction programme, borrowings from PaperlinX bank syndicate and US PP noteholders has reduced by 64% since December 2008 to $414 million at December 2009, and has reduced further since that time. The establishment of new asset based borrowings is progressing well with refinancing expected to be completed by the end of the current fiscal year. The net asset adjustment relating to the sale of Australian Paper has now been agreed with Nippon Paper, payment of which will trigger a payment of $70 million to the Group's bank syndicate and USPP noteholders which will be funded from the net asset adjustment payment, cash reserves and undrawn facilities currently available.

Capital expenditure was significantly reduced in the period to $13.0 million compared with $133.1 million in the prior corresponding period. Depreciation and amortisation was $13.8 million compared with $47.1 million previously.

Merchant Working Capital

The moving annual average working capital (at constant currency) for the Merchants at December 2009 was $934 million (shown in graph). This was 13% lower than December 2008 due to underlying reductions in working capital. The average working capital to sales ratio for Merchants remained largely unchanged over the past year (16.8% in December 09 versus 16.7% in the prior corresponding period) as working capital was well managed against a weak market. Merchanting inventory days have been reduced from 79.1 days to 62.0 over the same period.



Dividend and Distributions

There will be no interim dividend on the Ordinary shares of PaperlinX Limited for the period ended 31 December 2009.

As the Company was not able to secure approval from its lenders for the 31 December 2009 distribution on the PaperlinX Step-up Preference Securities (SPS), a dividend block on the Ordinary shares remains in place until such time as PaperlinX has paid two consecutive distributions on the SPS. While SPS distributions are non-cumulative, the Company has the option of making up missed payments, subject to lender approval. The Company remains in discussion with lenders over SPS distributions, but there is no certainty that this approval will either be given, or withheld. Lenders retain the right of approval until such time as they choose to waive the right, or lending facilities mature or are refinanced.

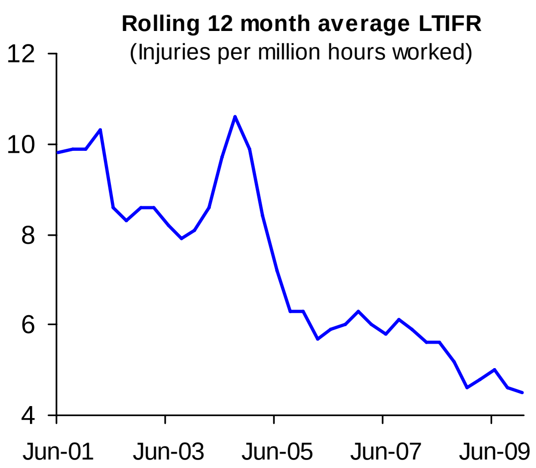
Employees

As at 31 December 2009, PaperlinX had 6,931 employees compared with 7,199 at June 2009 (down 4%) and 9,040 at December 2008 (down 23%) partly due to the sale of Australian Paper and partly due to restructuring activities. Of our employees 15% are in Australia, New Zealand and Asia (around 40% of those in the Tasmanian manufacturing operations that will either be closed or sold by the end of fiscal 2010), 65% in Europe and 20% in North America.

Safety

Achieving our goal of no accidents and injuries is a continuous challenge. Over the past eight years the overall Lost Time Injury Frequency Rate (LTIFR) has been reduced successfully by 55%, with the Group's rolling LTIFR decreasing from 5.0 to 4.5 in the last 6 months (down 10%). The December quarter safety results were the best in the company's history

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



Sustainability

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 merchants seek to be leaders in providing environmental information and product options in their markets and environmental solutions for their customers.

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

DIVISIONAL COMMENTARY

MERCHANTING - TOTAL

		6 months Dec 09	6 months Dec 08
Sales volume	'000 tonnes	1,414	1,609
Sales revenue	A$M	2,643	3,332
Trading earnings before interest & tax	A$M	30.1	69.6
Reported earnings before interest, tax and significant items	A$M	28.7	74.5
Trading EBIT/sales ratio	%	1.1	2.1
Return on average funds employed	%	4.4	8.4

- The strength of the Australian dollar impacted on the translation of offshore earnings, with the average exchange rate for the Australian dollar for the period compared with the prior corresponding period up 8.3% against the US dollar, up 7.7% against the Euro and up 15.7% against the Pound
- Overall Merchant trading expenses were down 18% on the prior corresponding period
- Non Paper total gross margin contribution was down a similar amount to that of paper, leaving the percentage contribution to Merchanting flat at 17% of Merchanting total gross margin. Sign and display activities in the UK were the most impacted by the weak underlying economy.

Europe

		6 months Dec 09	6 months Dec 08
NW Europe	'000 tonnes	290	333
UK & Ireland [1]	'000 tonnes	475	523
Central & Southern Europe	'000 tonnes	221	250
Total European sales volume	'000 tonnes	986	1,106
Sales revenue	€M	1,064	1,258
Trading earnings before interest & tax	€M	5.4	26.1
Reported earnings before interest, tax and significant items	€M	5.0	28.7
Trading EBIT/sales ratio	%	0.5	2.1

Note (1) Also includes volume from South Africa

- Total volume was down 10.8% on the prior corresponding period in line with falls in the market. Our key markets in the UK, The Netherlands and Italy suffered market driven declines, with reduced indent volumes and office product sales.

- The average price realisation declined 5.1% on the prior corresponding period with around 3% from negative translation impact while the underlying average prices were down around 2%.
- Gross margin percentage was down around 80bp on the prior corresponding period, however there was a positive trend compared to June 2009 and improvement at the end of the quarter.
- Revenue was down 15.4% on the prior corresponding period.
- Non paper sales were also impacted by the weak advertising market.
- Expenses for the half were down 11.8% on the prior corresponding period. The reduction is mainly driven by lower employee numbers and lower variable costs as a result of the lower volumes. Property lease costs however have increased on the prior corresponding period as a result of property sales.
- Working capital was down 10.2% on the prior corresponding period. The average working capital to sales ratio improved to 17.3% from 18.2% in the prior corresponding period.

North America

		6 months Dec 09	6 months Dec 08
Sales volume	'000 tonnes	249	298
Sales revenue	US$M	447	530
Trading earnings before interest & tax	US$M	8.4	7.8
Reported earnings before interest, tax and significant items	US$M	8.1	7.8
Trading EBIT/sales ratio	%	1.9	1.5

- Total volume was down 16.4% on the prior corresponding period with market conditions fragile, but improving somewhat in the second quarter.
- Overall margin performance increased by 40 bps over the prior corresponding period.
- The average price realisation reduced by close to 3% in source currencies (both US and Canadian dollars). In the second half, a number of strategies to provide revenue growth will increase their contribution.
- Expenses for North America for the half were down 15.3% on the prior corresponding period and down around 17% in source currencies.
- Working capital was down 20.5% on the prior corresponding period in local currency.

Australia, NZ and Asia [(1)]

		6 months Dec 09	6 months Dec 08
Sales volume	'000 tonnes	181	208
Sales revenue	A$M	306	354
Trading earnings before interest & tax	A$M	11.1	12.2
Reported earnings before interest, tax and significant items	A$M	10.8	11.7
Trading EBIT/sales ratio	%	3.6	3.4

(1) Numbers have been restated to reflect the sale of Australian Paper

- Total volumes were down 13.0% on the prior corresponding period, with NZ falling further, but improved volumes in Asia.
- While gross profit was down, gross profit percentage improved slightly.
- The average price realisation declined 0.7% on the prior corresponding period.
- Expenses for the half were down 12.0% on the prior corresponding period.
- While still small relatively, non-paper sales grew against the prior corresponding period, although gross margin was under pressure from the general market conditions.
- Working capital was down 0.8% on the prior corresponding period.

DISCONTINUED OPERATIONS

		6 months Dec 09	6 months Dec 08
Sales volume	'000 tonnes	118	423.8
Sales revenue	A$M	134.8	543.3
Trading earnings before interest, tax and significant items	A$M	(19.3)	20.6
Reported earnings before interest and tax (including significant items)	A$M	(135.1)	(549.5)

- The prior corresponding period included Australian Paper, sold in May 2009.
- Significant items of $(117.8) million includes $(103.0) million relating to the closure of discontinued Tasmanian operations.
- The high Australian dollar has put pressure on prices and negatively impacted earnings from exports, reducing margins and overall profitability, despite cost reductions and good machine performance.
- In December 2009 it was announced that PaperlinX would be exiting from its Tasmanian paper manufacturing operations. This process is expected to be completed by the end of the 2010 fiscal year. A sale process is continuing for the Burnie Mill with this expected to conclude in either its sale or closure in the same time frame. Should the Burnie Mill be closed, then additional redundancy and other charges for the remainder of the Mill will be included in the second half.

UNALLOCATED

		6 months Dec 09	6 months Dec 08
Corporate overhead	A$M	(7.5)	(12.8)
Net gain on loan/currency option	A$M	3.7	0.0
Net other financing charges	A$M	(13.2)	(3.1)
FX gains and losses	A$M	0.0	(25.4)
Total unallocated	A$M	(17.0)	(41.3)

- The corporate overhead for the period includes a one-off gain on the sale of an asset of $4.6 million.
- Unallocated costs also contains a positive $3.7 million which is the net impact of foreign exchange exposure on an intercompany loan and amortisation of a currency option related to the closure of the cross currency swap previously announced in December 2009. These non-cash items will be marked to market at each half year which may result in some volatility in reported Unallocated costs.
- Net other financing charges for the period includes $(6.6) million of advisor costs and $(2.6) million of waiver fees.
- Underlying corporate costs have benefited from a reduced headcount, although this occurred during the period so the full benefit will be seen in subsequent results.
- Foreign exchange losses seen in prior periods have not repeated, with improved processes well embedded.
- Ongoing Unallocated costs are expected to be around $35 million per annum.

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