

CROSS RELEASE PXUPA

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MARKET UPDATE

PaperlinX previously advised that in December 2009 it purchased a currency option to hedge the downside foreign exchange exposure of an intercompany loan. The option costing A\$18m (pre tax) and covering the period to June 2012 was entered into following the closure of a cross currency swap. After deducting the A\$18m cost of the option, A\$56m in cash was released and used to fund the closure of the Company's loss making Tasmanian operations.

Replacing the swap with an option allowed the benefit of the large gain on the swap to be locked in at a fixed cost whilst appropriately mitigating the foreign exchange risk on the loan.

As advised in December 2009, to comply with accounting standards, the option is treated differently to the cross currency swap, in that any variations in the time value portion of its mark to market valuation are included in reported earnings potentially creating additional volatility in earnings, although the cash cost of the option is fixed at A\$18m.

PaperlinX commenced accounting for the option in December 2009 and recorded a valuation gain of A\$3.7m in the July/December 2009 result and a valuation loss of A\$3.7m in January/June 2010.

However, as a result of the strength of the \$A at December 2010 the non cash impact of the option at December 2010 is expected to be a valuation loss of approximately A\$23m pre tax (A\$17m post tax). As a result of this valuation loss the statutory reported result for the 6 months to 31 December 2010 is expected to be a loss. However underlying earnings (which will exclude the valuation loss of the option) are expected to be positive and meaningfully ahead of underlying earnings for the prior corresponding period.

The accounting valuation of the option will continue to fluctuate during the period to June 2012.

PaperlinX will release its half year results to the ASX on 24 February 2011.

For further information, please contact:

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