

STOCK EXCHANGE RELEASE

23 February 2006

PAPERLINX 2006 HALF YEAR FINANCIAL RESULTS

PaperlinX today announced profit after tax for the six months ended 31 December 2005 of \$35.3 million compared with \$30.2 million for the six months ended 30 June 2005, and \$59.5 million (before the benefit of Australian Tax Consolidation (ATC)) for the same period last year. The current result and prior periods have been reported under AIFRS.

Commenting on the announcement today, PaperlinX CEO Tom Park said, "It was clear this would be a tough half for us, and it was. The result is as expected in a depressed market environment where the coincident factors of price, volume and the ability to recover input cost increases in manufacturing have all tracked negatively. We are continuing to make progress on those key areas under our control. Earnings from our global paper merchanting business have partially offset the significant decline in profitability at Australian Paper and helped maintain our position in the top quartile of global paper company returns."

"We are seeing signs that our strategy to strengthen existing businesses and leverage our global merchanting position is bearing fruit, with a range of recently announced initiatives expected to deliver a sustainable net benefit to operating profit of over \$100 million per annum in 2009, building from a net benefit of over \$35 million in 2007."

Mr Park added, "The merchanting business continues to be the growth engine for PaperlinX. It has partially insulated us from the downturn in our Australian manufacturing business, and we will look to expand this business further in markets where there are potential consolidation benefits."

Today, the company also announced the closure of the number 1 paper machine at its Shoalhaven Mill. The closure is part of a broader review of the Australian Paper business aimed at supporting returns in the business through the cycle. The closure will be finalised during the June quarter of 2006.

"We are making tough decisions to turn the corner on Australian Paper in this depressed environment. We have previously advised of our intention to reinvest in and refocus our manufacturing assets to maximise returns. We have upgraded the number 1 paper machine at Maryvale Mill, and have commenced a project to

upgrade the pulp mill at the same plant. We have reinvested in our Reflex[®] and Australian[®] brands of copy paper, and we have now announced changes at our Shoalhaven Mill. All of these initiatives will build value for the future despite the difficult economic environment.”

“PaperlinX will continue to focus on identifying opportunities to improve our existing businesses. We believe that PaperlinX is well placed to weather this downturn in the cycle, and is well positioned to benefit from the eventual upturn.”

Summary of Result

- Earnings after tax for the six months ended 31 December 2005 were \$35.3 million.
- The current return on funds employed maintains PaperlinX's position in the top quartile of global paper companies, and is the result of the company's unique market position, tight cost control in the paper merchanting business (trading expenses more than 3% lower versus prior period), and continued reduction in working capital (down \$123 million versus December 2004).
- The Paper Merchanting business achieved earnings before interest and tax of \$92 million, down \$14 million (13%) on the previous corresponding period. The decline in earnings was primarily due to lower average prices and lower volumes, particularly in the UK and Australia/New Zealand markets. Working capital was reduced in all geographic regions, expenses were well down, and the business returned 11.0% on funds employed despite weak trading conditions (exceeding our cost of capital).
- Earnings before interest and tax for Australian Paper declined to \$2.6 million from \$16.8 million in the previous corresponding period. This was primarily a result of the continued impact of depressed paper selling prices in Australia and the increased cost of manufacturing inputs, particularly chemicals and fuel oil, which were unable to be passed along in pricing. Australian Paper has clear plans underway to reverse the decline in profitability at both operational and structural levels.
- Net debt to net debt plus equity was 39.4%, which is lower than last December and the Group's target range of 40% to 50%. Interest cover was 2.4 times. Both of these ratios are in compliance with debt covenants.
- Directors declared an unfranked interim dividend of 5.5 cents per share, representing a 70% payout ratio.

Business Improvement Initiatives

Over the past year, PaperlinX has announced initiatives that are expected to produce at least \$100 million per annum in incremental operating earnings in 2009, with a net positive contribution to operating earnings of over \$35 million in 2007.

One off costs associated with these initiatives will be incurred in 2006, partially funded from one off benefits arising primarily from the profit on sale of non-core assets (primarily property). The net impact on 2006 full year pre tax earnings is expected to be a charge of \$10 – 20 million, including a \$15 million charge for the closure of the Shoalhaven number 1 paper machine. Working capital reductions and minor impacts on debt levels will also result.

Initiatives announced over the past year include:

- Upgrade to Maryvale kraft pulp capacity and bleach plant
 - to improve paper quality, reduce pulp costs and improve our environmental impact
- Closure of Shoalhaven number 1 paper machine and transfer of production to Maryvale
 - to improve overall production efficiency by replacing unprofitable products made for the export market at Maryvale with products that are currently manufactured on Shoalhaven number 1 paper machine. Overall capacity will reduce by 40,000 tonnes, and 98 positions will be lost.
- Netherlands Integration
 - integration of businesses to realise synergies in commercial print and packaging services. The changes will be phased in over the first half of calendar 2006 and are expected to result in a reduction of approximately 60 jobs.
- Establishment and roll-out of The Delivery Co in the UK
 - integration of the individual logistics operations of our UK paper merchants to optimise customer service, maximise efficiency and minimise the environmental impact of distribution activities.
- Roll-out of common European IT systems
 - creation of a common IT platform to improve inventory and warehouse control in order to improve working capital management, deliver a range of other synergy benefits and improve service to our customers.

- Progression of enhanced alliances with strategic suppliers
 - working with strategic suppliers to build competitiveness and grow volumes together.
- Successful upgrade of the number 1 paper machine at Maryvale Mill
 - world class product quality to enhance our competitive position.
- Acquisition of Cascades Resources in Canada
 - build economies of scale and realise synergies by consolidating existing businesses in Canada.
- Closure of Portuguese paper merchant business, Tulipel (February 2006)
 - exiting a small poorly performing business.
- Successful integration of Hestbech in Denmark.
 - to leverage consolidation benefits with existing businesses.

For further information, please contact:

Mr David Shirer
Executive General Manager - Corporate Affairs
PaperlinX Limited
Ph: +61 (3) 8540 2302
Ph: +61 (407) 512 521

Editors Note:

PaperlinX is the world's leading fine paper merchant, with businesses in Australia, New Zealand, Asia, North America, South Africa and Europe. Through its Australian Paper division, it is also the only Australasian producer of high quality communication papers, and a major Australian producer of high performance packaging and industrial papers.

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.

Subject to any continuing obligations under applicable law or any relevant listing rules of the ASX, PaperlinX disclaims any obligation or undertaking to disseminate any updates or revisions to any forward looking statements in this document to reflect any change in expectations in relation thereto or any change in events, conditions or circumstances on which any such statement is based.

Release Time 8.30am Australian eastern summer time
Date 23 February 2006

**PAPERLINX RESULTS FOR THE
 HALF YEAR ENDED 31 DECEMBER 2005**

PaperlinX has reported operating earnings (EBIT) of \$79.2 million and after tax earnings of \$35.3 million for the first half of fiscal 2006. The current result and prior periods have been reported under AIFRS.

- These results reflect a continuation of the adverse trading conditions experienced in the January / June 2005 period which impacted volumes and selling prices. The after tax profit compares with \$30.2 million for the six months ended 30 June 2005, but is below the prior corresponding period.
- Despite reduced returns in the half year, PaperlinX return on funds employed has been maintained in the top quartile of global paper companies as a result of strategic diversification, tight expense management (merchant expenses more than 3% lower versus prior period) and continued reductions in working capital (down \$123 million from last December). The merchanting businesses returned 11% on funds employed, exceeding our cost of capital.
- Including today's announcement on the Shoalhaven Mill, strategic initiatives expected to contribute over \$100 million of sustainable incremental operating earnings in 2009 and over \$35 million to operating earnings in 2007 have been developed and announced over the past year.
- The interim dividend of 5.5 cents per share represents a 70% payout ratio.

PAPERLINX LIMITED AND CONTROLLED ENTITIES		6 months ended 31 December		
		2005	2004	% change
Sales Revenue	\$M	3,593	3,891	(8)
Earnings from Ordinary Activities before interest, income tax, amortisation and depreciation	\$M	129.4	161.7	(20)
Earnings from Ordinary Activities before interest & income tax	\$M	79.2	109.7	(28)
Profit from Ordinary Activities before tax	\$M	46.3	73.4	(37)
Profit from Ordinary Activities after income tax	\$M	35.3	59.5 ¹	(41)
Key Ratios				
Earnings from before interest and income tax to average funds employed	%	6.1	8.0	
Working Capital to Sales	%	18.9	19.0	
Net interest cover (times)	x	2.4	3.0	
Net debt/Net debt & Equity	%	39.4	40.4	
Earnings per share (excluding ATC)	cps	7.9	13.3 ¹	
Dividend per share	cps	5.5	13.5	
¹ Excludes benefit of entering Australian Tax consolidation regime of \$73 million				
Note: In this statement, currency is in Australian dollars unless otherwise indicated.				

RESULTS FOR THE HALF YEAR ENDED 31 DECEMBER 2005

Commentary on the Group Interim Results

Introduction

PaperlinX's financial results for the six months ended 31 December 2005 reflect a continuation of the difficult market conditions seen during fiscal 2005 and the adverse conditions particularly seen in the second half of that year. Reported profit after tax of \$35.3 million compared with \$30.2 million for the six months ended 30 June 2005, but was 41% below the prior corresponding period (excluding prior year benefits of Australian Tax Consolidation). These results have been impacted by static global paper demand, excess global supply of paper and a weak US\$ resulting in lower volumes and continued weak paper selling prices in Australia/New Zealand and Europe. Specific impacts in Europe also included reduced supply during an industry wide strike in Finland and flow-on impacts from a failed mill coated paper price increase in the 4th quarter of fiscal 2005. These negative factors have been mitigated to some extent by good progress on reducing working capital and lowering operating expenses (merchants down more than 3%). While returns are well below our target, they remain in the top quartile of global paper companies.

To redress the marketplace issues and to improve our competitiveness, projects and other initiatives that are expected to result in at least \$100 million per annum of sustainable incremental contribution to operating earnings in 2009 have been developed over the past year and are currently under way. Payback of most initiatives is short, with positive net benefit to operating profit expected in 2007 of over \$35 million.

One off costs associated with these initiatives will be incurred in 2006, partially funded from one-off benefits arising primarily from the profit on sale of non-core assets (including property). The net negative impact on 2006 pre tax earning is expected to be \$10 – 20 million, including a \$15 million charge for the closure of the Shoalhaven number 1 paper machine. Working capital reductions and minor impacts on debt levels will also result.

Initiatives announced over the past year include:

- Upgrade to Maryvale kraft pulp capacity and bleach plant
 - to improve paper quality, reduce pulp costs and improve our environmental impact
- Closure of Shoalhaven number 1 paper machine and transfer of production to Maryvale
 - to improve overall operating efficiency by replacing unprofitable products made for the export market at Maryvale with products that are currently manufactured on Shoalhaven number 1 paper machine. Overall capacity will reduce by 40,000 tonnes, and 98 positions will be lost.
- Netherlands Integration
 - integration of businesses to realise synergies in commercial print and packaging services. The changes will be phased in over the first half of calendar 2006 and are expected to result in a reduction of approximately 60 jobs.
- Establishment and roll-out of The Delivery Co in the UK
 - integration of the individual logistics operations of our UK paper merchants to optimise customer service, maximise efficiency and minimise the environmental impact of distribution activities.
- Roll-out of common European IT systems
 - creation of a common IT platform to improve inventory and warehouse control in order to improve working capital management, deliver a range of other synergy benefits and improve service to our customers.
- Progression of enhanced alliances with strategic suppliers
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- Successful upgrade of the number 1 paper machine at Maryvale Mill
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- Closure of Portuguese paper merchant business, Tulipel (February 2006)
 - exiting a small poorly performing business.
- Successful integration of Hestbech in Denmark.
 - leverage consolidation benefits with existing businesses.

Paper Merchanting

The Paper Merchanting businesses achieved earnings before interest and tax of \$92 million, down \$14 million (13%). The decline in earnings was primarily due to lower average prices and lower volumes, particularly in the UK and Australia/New Zealand markets. 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. Return on average funds employed was 11.0%, above our cost of capital. Overall expenses reduced by more than 3% as management made good progress against targets. Working capital reductions have continued, with all businesses at lower levels than in the prior corresponding period. The overall working capital to sales ratio reduced to 16.1% from 16.5%. Operating earnings were impacted by lower earnings primarily in Europe (down 9% in local currency) and in Australia/New Zealand (down 29%). Strong improvements were seen in North America (up 16%) and Asia (up 26%).

Australian Paper

Earnings from Australian Paper have remained under significant pressure. Operating earnings of \$2.6 million reflect the continued impact of depressed Australian paper selling prices as a combined result of a strong Australian dollar and over supply in global paper markets. This has meant a continued high level of paper imports lowering paper selling prices in Australia. The strong Australian dollar has also resulted in lower returns from exports which are priced in US dollars.

In addition, Australian Paper has continued to face input cost increases, such as fuel oil and chemicals, that it is unable to pass on in the current price environment; these have also adversely impacted operating margins.

The upgrade of the number 1 paper machine at Maryvale Mill has been completed and the machine start up phase has gone to plan, with product tested successfully with customers. The pulp mill project is progressing as planned, with considerable progress made on negotiation and selection of major equipment packages. PaperlinX has also announced today the closure of the number 1 paper machine at the Shoalhaven Mill to rebalance capacity towards higher returning markets, with a charge against profits in the second half of around \$15 million.

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 2005.

	EBIT		Sales Revenue		Total Assets	
	Dec 2005	Dec 2004	Dec 2005	Dec 2004	Dec 2005	Dec 2004
	\$M	\$M	\$M	\$M	\$M	\$M
Industry Segments						
Merchanting and Trading						
Asia	2.0	1.6	51	45	55	50
Australia / New Zealand	12.1	17.2	512	531	423	477
Europe ⁽¹⁾	62.5	74.5	2,234	2,499	2,038	2,262
North America	15.8	14.0	471	459	400	350
Paper Trading and Other	(0.4)	(1.6)	69	84	34	42
Total Merchanting & Paper Trading ⁽¹⁾	92.0	105.7	3,337	3,618	2,950	3,181
Communication Papers	(0.2)	10.6	344	350	622	610
Packaging Papers	2.8	6.2	123	129	295	298
Corporate and Other	(15.4)	(12.8)	51	52	128	101
Operating earnings before interest & income tax	79.2	109.7				
Net Interest	(32.9)	(36.3)				
Income Tax Expense	(11.0)	(13.9) ⁽²⁾				
Outside Equity Interests						
Inter-segment Sales			(262)	(258)		
Unallocated Assets (deferred tax assets)					83	74
Total	35.3	59.5⁽²⁾	3,593	3,891	4,078	4,264

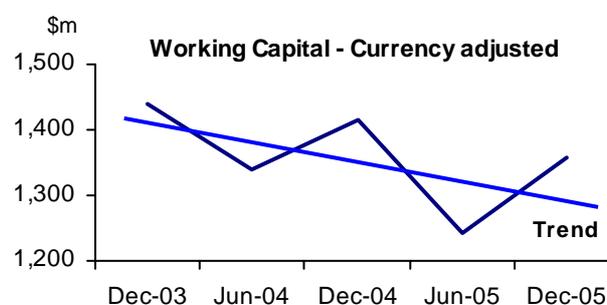
Notes

(1) Includes benefit of sale of property in Denmark of €3.5 million partially offset by one-off costs of restructurings

(2) Excludes benefit of entering Australian Tax consolidation regime of \$73 million

Working Capital

Working capital for the Group at December 2005 of \$1,359 million was \$123 million (including currency benefits) or 8% lower than December 2004. Working capital in all major operating regions decreased as a result of our continued focus on this key area. The working capital to sales ratio was 18.9% compared to 19.0% in the prior corresponding period, with merchants reducing from 16.5% to 16.1%. All three components of working capital improved versus prior period.



Dividend

Directors have declared an unfranked interim dividend of 5.5 cents per share representing a 70% payout ratio.

The interim dividend will be mailed on 5th April 2006 to shareholders on record as of 15th March 2006 as being entitled to the dividend.

Financial Position

At 31 December 2005, PaperlinX has a gearing ratio of net debt to net debt plus equity of 39.4%, which is lower than last December and the Group's target range of 40% to 50%. Interest cover was 2.4 times. Both of these ratios are in compliance with debt covenants.

Cash generated by operations excluding working capital movement was \$89 million. Net cash flow from operations after working capital movements was seasonally low at \$(32) million impacted by the seasonal rise in working capital between June and December. Net debt has reduced to \$1,017 million compared to \$1,123 million at the same period last year.

There have been no significant changes in funding arrangements. 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.

Capital expenditure in the period was \$46 million which was 91% of depreciation. In the last six months PaperlinX has committed to an upgrade of its pulping capacity and associated facilities at the Maryvale Mill at a cost of \$203 million over the next three years and announced the acquisition of Cascades Fine paper merchandising division for A\$97 million. PaperlinX has funding available for its current and planned projects.

Australian Tax Consolidation

In the first half of fiscal year 2005 (the prior corresponding period, from 1 July 2004 to 31 December 2004) PaperlinX recorded a one-off \$73 million gain from its election to form a tax consolidation group in Australia from 1 July 2003. Details have been previously reported.

Australian International Financial Reporting Standards (AIFRS)

These results are reported against the Australian equivalents to the International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The prior corresponding period results have also been restated.

Employees

As at 31 December 2005 PaperlinX had 9,239 employees, down 3.5% versus prior and down 4.7% versus two years ago. 30% of our employees are in Australia/New Zealand, 56% in Europe and 13% in North America.

Environmental

There have been some significant steps undertaken to improve overall environmental performance with the announcement of the Maryvale Pulp Mill upgrade and introduction of the ECF (elemental chlorine free) bleaching process. This will reduce air emissions, odour, greenhouse gas emissions and liquid waste as well as provide strong economic benefits. Key projects across the logistics activities will improve fleet utilisation and reduce overall greenhouse gas emissions.

During the period Spicers Paper in Australia, US and Hong Kong achieved Forest Stewardship Council (FSC) environmental chain of custody certification.

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

Safety

The Group's rolling 12 month LTIFR (lost time injury frequency rate) has declined by 42% to 5.7, with clear improvement by our European businesses since acquisition. The MTIFR (medically treated injury frequency rate) over the same period has reduced by 33%. Safety is a key focus for PaperlinX and receives significant attention by management and the Board.



BALANCE SHEET

PAPERLINX LIMITED AND CONTROLLED ENTITIES	December 2005		June 2005
Current Assets	\$m	2,593.7	2,673.9
Non Current Assets	\$m	1,484.7	1,492.8
Total Assets	\$m	4,078.4	4,166.7
Current Liabilities	\$m	1,291.3	1,373.0
Non Current Liabilities	\$m	1,223.0	1,217.0
Total Liabilities	\$m	2,514.3	2,590.0
Shareholders Equity	\$m	1,564.1	1,576.7
Key Balance Sheet Ratios			
Net Debt	\$m	1,017.1	873.5
Net debt to net debt and shareholders equity	%	39.4	35.7
Net debt to shareholders equity	%	65.0	55.4
Net tangible assets per share	\$	2.41	2.44

INCOME STATEMENT

PAPERLINX LIMITED AND CONTROLLED ENTITIES	6 months ended 31 December	
	2005	2004
	\$M	\$M
SALES REVENUE	3,593.0	3,891.4
Operating Earnings before depreciation, amortisation, interest and income tax (EBITDA)	129.4	161.7
Depreciation and amortisation	(50.2)	(52.0)
Operating Earnings before interest and income tax (EBIT)	79.2	109.7
Net Interest Expense	(32.9)	(36.3)
Operating profit from Ordinary Activities before income tax	46.3	73.4
Income tax expense on Operating profit	(11.0)	(13.9)
Outside Equity Interests	0.0	0.0
NET PROFIT AFTER TAX	35.3	59.5 ⁽¹⁾

(1) Excludes benefit of entering Australian Tax consolidation regime of \$73 million

RETURN ON AVERAGE FUNDS EMPLOYED ⁽¹⁾

		6 months Dec 05	6 months Dec 04
Merchanting*	%	11.0	11.4
Australian Paper*	%	0.8	3.7
PaperlinX Group	%	6.1	8.0

* before allocation of corporate overheads
⁽¹⁾ EBIT / average funds employed

Summary

Market conditions in the six months to 31 December 2005 reflected a continuation of the adverse trading conditions of the immediately preceding six months. The negative movement in the paper cycle over recent years has been magnified in Australia by the weakening of the US dollar. Globally we are now seeing announced strategic capacity reductions which are positive to the industry environment, and in time could underpin pricing as is occurring following capacity reductions in North America.

We expect that one off costs associated with initiatives already announced will be partially offset by one off gains in areas such as profit on the sale of non-core assets (including property). The expected net negative impact in the 2006 financial year pre tax earnings is \$10 - \$20 million in total, including the \$15 million charge for the closure of the number 1 paper machine at Shoalhaven. Pay back of most of the initiatives underway is short with expected positive contribution to earnings of over \$35 million in 2007 and over \$100 million per annum in 2009.

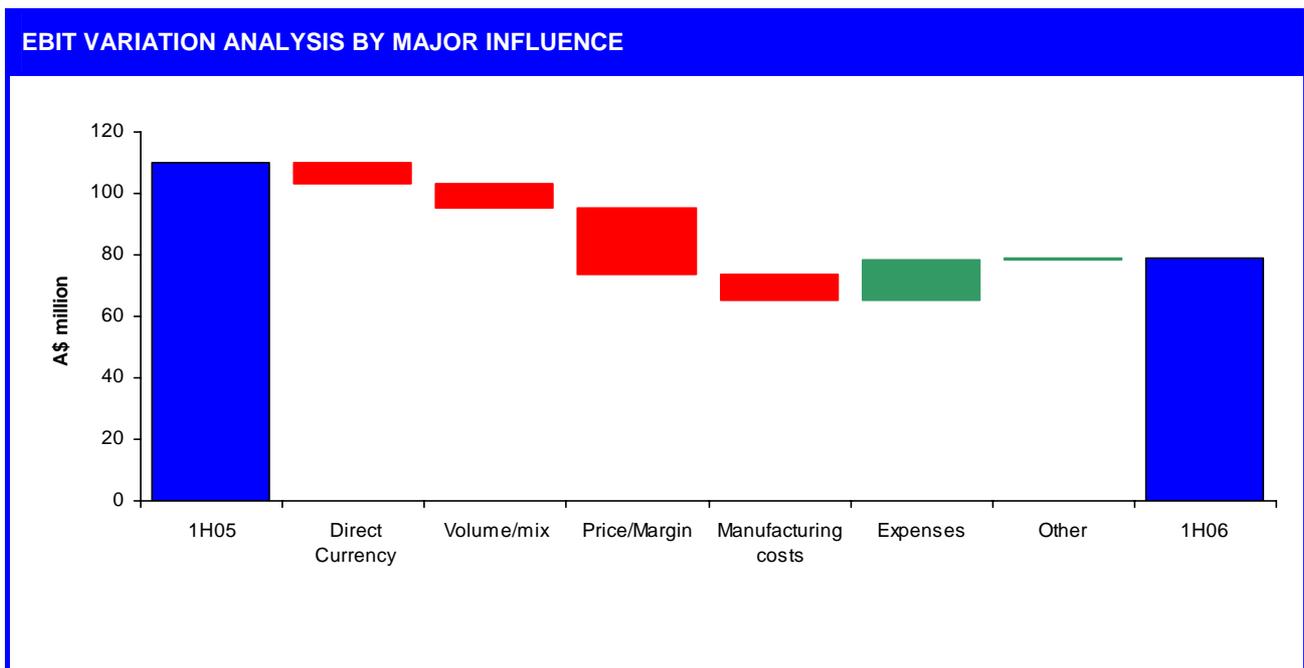
The results for the 2006 financial year will be heavily influenced by the direction of the key external variables: paper demand and selling prices, global currency relativities and movements in key input costs. However, the Group has made significant progress on the key areas within its control, and has a range of initiatives under way to improve profitability along with plans for continued reduction in working capital and seasonal improvement in operating cash flow through June 2006.

For further information, please contact:

Mr David Shirer
Executive General Manager
Corporate Affairs
PaperlinX Limited
Ph: +61 (3) 8540 2302
Ph: +61 (407) 512 521

APPENDIX 1 – VARIATION ANALYSIS

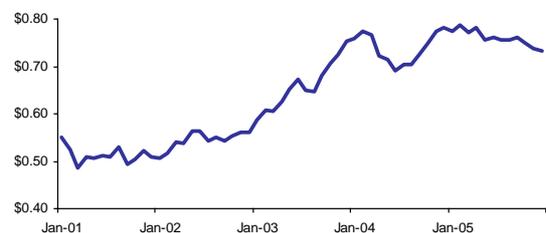
Sales revenue was \$3.6 billion, a decrease of 8% from \$3.9 billion in the prior corresponding period. The decrease primarily reflects the combined impact of currency translation, lower paper selling prices in Australia and New Zealand and lower sales volumes in Europe (primarily the UK). EBIT was \$79 million, including a range of one-off gains and losses. This decrease of 28% compared with the prior year period mainly reflects reduced prices and margins realised. Continued progress on reducing expenses has helped earnings. External cost pressures have remained, with impact most significant in our Australian manufacturing businesses. The high level of the Australian dollar has continued to depress Australian paper selling prices and volumes and receipts on exports from Australia.



Direct Currency

The currency variation includes the impact on translation of overseas earnings and the impact on receipts for exports from Australia. The average level of the Australian dollar was higher than in the prior corresponding period (see chart) although the absolute period on period impact was modest.

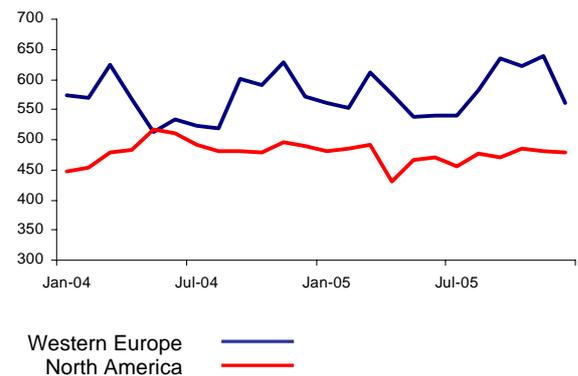
USD/AUD Exchange Rate



Volume/Mix

Lower volumes in paper merchanting were primarily a result of restructurings and weaker volumes in the UK as demand eased during the period, as well as the negative impacts of the Finnish strike restricting supply and failed mill coated woodfree paper price increase in Europe in Q4 F'05. Overall industry volumes in the US and Europe have shown little growth (see chart). Overall mix provided a positive variance, but was overshadowed by the negative volume impact. Mix refers to changes in paper grades sold, variations in indent and stock sales in paper merchanting, domestic versus export sales in manufacturing, and branded versus non-branded products.

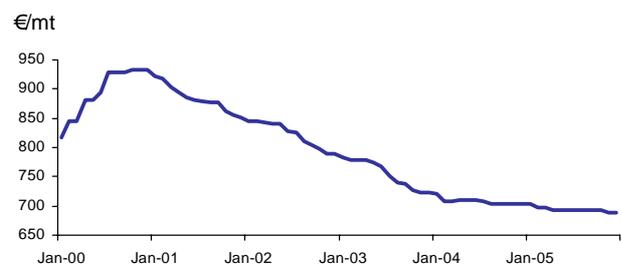
Woodfree Coated Consumption ('000 tonnes)



Pricing/Margins

Paper selling prices have remained weak in Europe and Australia/New Zealand, impacted by currency, while there were some positive movements in North America and Asia. Prices for coated paper in Europe and Australia were down around 2%, while in North America they rose 2.6%. Since the peak in 2000, prices for 100gsm reels in Germany have fallen 26%. The impact of lower prices puts pressure on margins and has been the largest impact on profitability.

Price of Woodfree Coated Reels in Germany



Costs and Expenses

The company has had significant success in the control of expenses. In Manufacturing, savings have only been able to partially mitigate the increasing cost of manufacturing inputs, particularly chemicals and fuel oil. In Paper Merchanting, expense reductions against prior period of 3.3% and of 3.7% over the past two years have been a positive factor. Increases in North America relate to increased commissions on the increased sales.

Merchant Expenses

% Change vs prior

Asia	-4.6%
Australia/NZ	-6.6%
Europe	-3.4%
North America	1.7%
Total	-3.3%

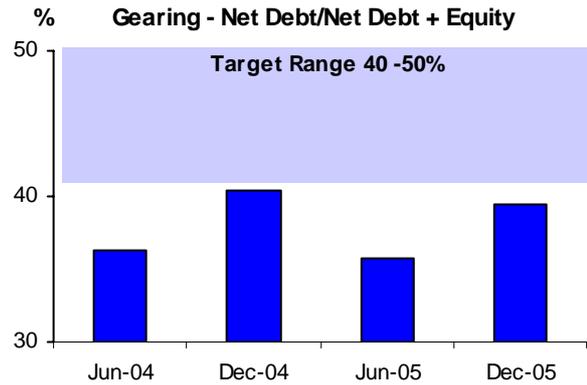
Other

Positive gains on the sale of a property in Denmark have largely been offset by a number of one off costs associated with other profit initiatives.

Net Interest Expense

Net interest expense was \$32.9 million compared with \$36.3 million in the prior period. Average debt levels for the period were lower, as a result of reduced working capital levels and currency translations.

Gearing of 39.4% remains below the company's target range of 40-50%.



Taxation Expense

The tax charge on earnings was \$11.0 million compared with \$13.9 million in the prior period.

Exceptional Items

There were no exceptional items in the current period compared with a \$73 million benefit from entering Australian Tax Consolidation recorded in the corresponding period.

Earnings Per Share

Basic earnings per share were 7.9 cents per share compared to 13.3 cents per share in the previous corresponding period excluding Australian Tax Consolidation benefits.

APPENDIX 2 - SECTOR COMMENTARY

MERCHANTING

		6 months Dec 05	6 months Dec 04
Sales Volume	'000 tonnes	1,885	1,931
Sales Revenue	A\$M	3,337	3,618
Earnings before Interest & Tax	A\$M	92.0	105.7
Return on Average Funds Employed	%	11.0	11.4

- Overall volume was down 2% with reduced volumes in the UK and Australia/New Zealand, and as a result of restructurings in France and Germany. Volume in the first quarter in Europe was also affected by supply issues from the Finnish strike and flow-on impacts from the failed mill coated pricing increase in Q4 F'05.
- Return on funds employed was 11%, well above the cost of capital.
- Operating expenses were down more than 3% overall.
- Working capital to sales ratio was down from 16.5% to 16.1%, with working capital down in all regions.

Australia and New Zealand

		6 months Dec 05	6 months Dec 04
Sales Volume	'000 tonnes	307	311
Sales Revenue	A\$M	512	531
Earnings before Interest & Tax	A\$M	12.1	17.2

- Strong competition and the strong Australian dollar have resulted in selling prices in Australia being down 2% on the prior period and in New Zealand selling prices were 8% below last year.
- Overall volume was down only 1% due to weakness in sheet fed sales, but sales of Australian Paper product remained at expected levels.
- Gross margins were reduced by the combined impact of volume/mix and lower selling prices (global supply/demand and currency).
- Expenses were over 6% lower than the prior period. Savings have come from prior year warehouse consolidation and improved debtor control.
- Working capital was reduced versus prior year.
- December was a weaker month than expected impacting on overall performance.

North America

		6 months Dec 05	6 months Dec 04
Sales Volume	'000 tonnes	218	216
Sales Revenue	US\$M	351	332
Earnings before Interest & Tax	US\$M	11.7	10.1

- North American markets were reasonable, with overall selling prices higher largely on the back of producer discipline with significant amounts of high cost production being shut.
- Overall volumes were in line with the prior year, with improvements in warehouse volumes largely offset by lower indent/direct ex-mill volumes.
- Gross margins were maintained.

- Coast Paper benefited from a range of internal management initiatives to be well ahead of the prior period, with improved working capital and expenses.
- Kelly Paper also had a strong rise in profit with improved margins as this business continues to compliment Spicers in terms of market penetration in the US.
- Spicers increased warehouse volumes by 5% on the back of improved proprietary brand sales growth of 12%.
- Reduced working capital combined with improved operating earnings resulted in a healthy improvement in returns.
- The acquisition of Cascades Fine Paper merchanting division was announced in November with completion expected by March 2006, pending regulatory approval.
- Sales of converted and proprietary branded papers across North America rose 17% on the previous period, with the continued development of differentiated PaperlinX brands and sheeted products.

Europe

		6 months Dec 05	6 months Dec 04
Sales Volume	'000 tonnes	1,231	1,276
Sales Revenue	€M	1,371	1,423
Earnings before Interest & Tax	€M	38.4	42.4

- The European market remained challenging, with the UK economy softening throughout the period. UK advertising spend was down over 2% in the September quarter reflecting a particularly soft retail market.
- Average pricing was down marginally, though this is composed of an improved stock/indent mix countered by declines in key woodfree grades.
- Total expenses were down 3.4% driven by a strong performance in operating expenses and restructuring benefits.
- Strong performance from Denmark as the business benefited from the earlier acquisition and completed integration of Hestbech.
- Working capital continued to reduce, with improved performance on all measures.
- Some positive signs are emerging in Continental Europe, with cut size price increases appearing to hold.
- Lower volume primarily driven by the UK slowdown and restructurings in France and Germany, as well as first quarter supply restrictions due to the Finnish strike and the impact of a failed mill coated paper price increase in Q4 of fiscal 2005.
- Key projects underway include:
 - The Delivery Co (integrated UK logistics)
 - Netherlands integration
 - European IT rollout.
- Results include the €3.5m profit on the sale of a building in Denmark, and restructuring costs in the UK and Ireland.
- Small acquisition made in Italy (Sign and Display).
- We have exited Portugal (in February 2006).

Asia

		6 months Dec 05	6 months Dec 04
Sales Volume	'000 tonnes	43	37
Sales Revenue	S\$M	63	55
Earnings before Interest & Tax	S\$M	2.5	2.0

- Healthy overall demand, however new Chinese capacity has kept prices under pressure.
- Market share gains as businesses have benefited from refocussing.
- Expense savings resulting from back office consolidation.
- Working capital reduced and returns increased.

Paper Trading and Other

		6 months Dec 05	6 months Dec 04
Sales Volume	'000 tonnes	84	91
Commission Volume	'000 tonnes	140	131
Sales Revenue	A\$M	69	84
Earnings before Interest & Tax	A\$M	(0.4)	(1.6)

- Lower volumes and earnings as a result of Australian Paper reducing export tonnage availability due to Australian Paper's focus on more profitable domestic tonnage.
- Start up of new capacity in China negatively impacted the regional supply/demand balance.
- A restructuring charge was taken as a European trading business was closed.

AUSTRALIAN PAPER

		6 months Dec 05	6 months Dec 04
Sales Volume	'000 tonnes	414	426
Sales Revenue	A\$M	467	479
Earnings before Interest & Tax	A\$M	2.6	16.8
Return on Average Funds Employed	%	0.8	3.7

- Overall earnings have been severely impacted by lower pricing and the inability to recover cost increases over three years. Thus the period on period variation as a result of these factors is smaller than in prior years in dollar terms. This remains the overarching issue for this business.
- The global issues have not eased, and input costs have continued to rise, eroding margins.
- Overall volumes were lower as export sales have been reduced where cash contributions were negative. Domestic volumes increased 2% overall, while exports were down over 17%.
- The pulp and bleach plant upgrade at Maryvale to improve paper quality, reduce pulp costs, and improve our environmental impact was announced in August and is on track.
- We have announced the closure of the number 1 paper machine at the Shoalhaven Mill post the period close, with volume transferring to Maryvale, resulting in reduced exports.
- Price increases have been announced for Australia in February of 2 - 5%.

Australian Paper: Communication Papers

		6 months Dec 05	6 months Dec 04
Sales Volume	'000 tonnes	255	256
- Australia/New Zealand	%	80	75
Sales Revenue	A\$M	344	350
Earnings before Interest & Tax	A\$M	(0.2)	10.6

- The impact of the strong Australian dollar has persisted, causing lower domestic selling prices and reduced export receipts.
- Domestic sales volumes have begun to recover with volumes up 6% versus prior largely due to improved sales of office papers. The key Reflex[®] brand of copy paper launched a range of new products including Reflex[®] Platinum and papers containing increased recycled content. Total office paper volumes were up 4% and domestic office papers sales were up 24%.
- The overall Australian market demand has been stable with the key issue continuing to be low priced imported paper. Average prices were 1.5% lower versus prior period.
- New advertising supporting the core "Rely on Reflex" message commenced in February 2006.

Australian Paper: Packaging Papers

		6 months Dec 05	6 months Dec 04
Sales Volume	'000 tonnes	159	169
- Australia/New Zealand	%	79	78
Sales Revenue	A\$M	123	129
Earnings before Interest & Tax	A\$M	2.8	6.2

- The Australian linerboard segment was impacted by lower demand by key customers due to increasing competition.
- Export receipts have been negatively impacted and volumes into export markets reduced.
- There has been a continued negative impact from the sack and bag segment for the half with lower domestic volumes and reduced export receipts.
- The upgrade of the Maryvale number 1 semi-extensible sack kraft paper machine has been completed with start-up and trials running to plan. Benefits from this are expected to begin to accrue in the second half with volumes beginning to recover as customer trials of the improved product are completed.
- Efficiencies on Maryvale number 4 have improved from F'05 levels through the period.

CORPORATE & OTHER

		6 months Dec 05	6 months Dec 04
Sales Revenue	A\$M	51	52
Earnings before Interest & Tax	A\$M	(15.4)	(12.8)

- Underlying corporate costs were at similar levels to the prior period.
- While Tudor Group made a positive contribution, earnings were impacted by low priced imports, with reduced pricing affecting margins.
- Prior period one-off benefits were not repeated.