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STOCK EXCHANGE RELEASE

22 February 2007

PAPERLINX 2007 HALF YEAR FINANCIAL RESULTS

PaperlinX today announced profit after tax for the six months ended 31 December 2006 of $32.7 million on revenue of $3.95 billion. Results included a net $(10) million after tax of one-off costs associated with various strategic initiatives. Reported EBIT was $87.1 million, up 10% on the prior corresponding period. Underlying EBIT, adjusted for one-off items, of $96.0 million (up 24% on the prior corresponding period) reflects benefits that have begun to accrue from previously announced strategic initiatives, while strong cost and efficiency performance has helped to mitigate higher input costs. The interim dividend will be 5.0 cents per share, unfranked.

Commenting on the announcement today, PaperlinX CEO Tom Park said, “Over the past two years we have developed a range of strategic initiatives to improve our returns and to mitigate, as best we can, the effects of the difficult market conditions we have faced for some time now. These initiatives are now delivering and directly contributing to the positive direction in underlying operating earnings. Our returns are still well below target levels, but the lift in underlying return on average funds employed for both our merchanting and manufacturing businesses is encouraging.”

“Recently we announced that we are negotiating a potential acquisition in Italy and divestment of our business in France. Today we are announcing that we are proposing to issue between $250 and $300 million of hybrid equity in the form of Step-up Preference Securities (SPS). Both of these actions are consistent with our Core Operating Principles, with the proposed European changes strengthening our existing business platform by increasing focus where we have greater competitive advantage, while the SPS issue will reduce debt and enhance PaperlinX’s financial platform to take advantage of future opportunities.”

Summary of Result

- Sales revenue grew 10% to $3.95 billion.
- Profit after tax for the six months ended 31 December 2006 was $32.7 million and EBIT was $87.1 million.
- Underlying operating earnings (EBIT before the costs of strategic initiatives and profit on sale of non-core assets) of $96.0 million were the highest since the first half of 2005 despite market conditions, reflecting the benefits of internally generated initiatives.
- Strategic initiatives contributed a net $16 million to underlying earnings compared with the prior corresponding period, while cost and efficiency gains mitigated continued input cost increases.

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- The current return on funds employed of 6.6%, while below target, was an increase over both the prior corresponding period and the 2006 financial year overall. Underlying returns improved for both merchanting and manufacturing.
- The Paper Merchanting business achieved earnings before interest and tax of $99.1 million, up 9% on the prior corresponding period, helped by the inclusion of Spicers Canada for the full period. Underlying operating earnings were $98.4 million (after backing out a net $0.7 million in one-off benefits, with a number of gains more than off setting one-off costs). Paper selling prices in our key European market remained generally weak, though increases were recorded in all grades in the UK market towards the end of the period and in uncoated woodfree paper on the Continent in the first quarter. Working capital increased, but ROAFE still improved to 11.4% from 10.9%, supported by the improved working capital to sales ratio.
- Earnings before interest and tax for Australian Paper of $3.0 million included a net $(9.6) million of one-off costs associated with strategic initiatives. Underlying operating earnings of $12.6 million show an increase over the prior corresponding period despite Australian Paper being impacted significantly by higher input costs ($13 million more than in the prior corresponding period). Underlying earnings have benefited from production efficiencies and the benefits of the successful PaperlinX Office consolidation and closure of Shoalhaven paper machines 1 and 2.
- The effective tax rate for the period of 35.5% was high, impacted by low earnings in Australian businesses combined with Australian-based corporate costs, interest payments and one-off charges being recorded in Australia. This rate would be expected to reduce as these factors return to more normal levels.
- Net debt to net debt plus equity was 39.7%, which remains below the Group's target range of 40% to 50%. Despite average debt rising only 2%, net interest expense at $36.4 million increased by 10.6% reflecting an increase in floating interest rates and changes to the domicile of debt to better align with the geographical business mix. Interest cover was 2.4 times.
- Cash generated from operations excluding the working capital movement, was $102 million. Net operating cash outflow of $(142) million was largely as a result of higher working capital.
- Directors declared an unfranked interim dividend of 5.0 cents per share, reflecting a 70% payout ratio. The dividend reinvestment plan is available for this dividend.

Business Improvement Initiatives

Strategic initiatives are on track to exceed a net $100 million per annum benefit to operating earnings in 2009, and exceed a net positive contribution to operating earnings of $23 million in 2007. Net one-off costs associated with these initiatives of $(9) million pre-tax were incurred in this period.

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Commenting further on the Group strategic initiatives, Mr Park said, "Our performance against targets and retention of the benefits from our strategic initiatives is a highlight in these results. This effort is a credit to the energy and commitment of our people around the globe."

Status of initiatives:

Completed

- Cascades Resources (now Spicers Canada) acquisition
- PaperlinX Office consolidation
- Upgrade of the number 1 paper machine at Maryvale Mill
- Closure of Shoalhaven number 1 and 2 paper machines and transfer of production to Maryvale

Underway

- Upgrade to Maryvale kraft pulp capacity and bleach plant
- Maryvale wood yard outsourcing
- Establishment and roll-out of The Delivery Co in the UK
- Roll-out of common European IT systems
- Netherlands Integration
- Strategic sourcing alignments

New

- Acquisition in Italy and divestment in France (conditional)
- Global Customer Solutions structure developed

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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.

PAPERLINX RESULTS FOR THE HALF YEAR ENDED 31 DECEMBER 2006

PaperlinX has reported operating earnings (EBIT) of $87.1 million and after tax earnings of $32.7 million for the first half of fiscal 2007.

- Sales revenue grew 10% to $3.95 billion from $3.57 billion.
- These results reflect a 10% increase in reported EBIT and a 24% increase in underlying EBIT based on the benefits that are beginning to flow from a range of strategic initiatives generated within the company, rather than reflecting any easing of the challenging market conditions seen over recent years.
- The after tax profit of $32.7 million compares with $35.3 million for the prior corresponding period, with a high effective tax rate of 35.5% as a result of lower Australian earnings, as well as higher interest and one-off costs in Australia. Despite average debt increasing only 2%, net interest expense increased 10.6% reflecting an increase in floating interest rates and a change in the domicile of debt to better align with geographic business mix.
- Reported profit includes net one-off costs of $(10) million after tax.
- PaperlinX overall return on average funds employed was 6.6%, below targeted levels, but improved on prior despite the difficult market conditions. The merchanting businesses improved to 11.4% return on average funds employed, above the cost of capital.
- Working capital increased, though working capital to sales of 18.7% was lower than the prior corresponding period.
- Cash generated from operations excluding working capital movement was $102 million. Net operating cash outflow was $(142) million largely as a result of the higher working capital.
- Strategic initiatives expected to contribute over $100 million of sustainable incremental operating earnings in 2009 and over $23 million to operating earnings in 2007 have been developed, announced and are on track. These contributed a net $16 million to underlying operating earnings in this period versus the prior corresponding period.
- The interim dividend of 5.0 cents per share (unfranked) represents a payout ratio of approximately 70%.

PAPERLINX LIMITED AND CONTROLLED ENTITIES		6 months ended 31 December		
		2006	2005	% change
Sales Revenue	$M	3,949	3,574	10
Earnings from Ordinary Activities before interest, income tax, amortisation and depreciation	$M	137.8	129.4	6
Earnings from Ordinary Activities before interest & income tax	$M	87.1	79.2	10
Underlying Earnings from Ordinary Activities before interest & income tax	$M	96.0	77.7	24
Profit from Ordinary Activities before tax	$M	50.7	46.3	10
Profit from Ordinary Activities after income tax	$M	32.7	35.3	(7)
Key Ratios				
Earnings before interest and income tax to average funds employed	%	6.6	6.2	
Working Capital to Sales	%	18.7	19.0	
Operating Cash Flow	$M	(142.0)	(32.4)	
Net interest cover (times)	x	2.4	2.4	
Net debt/Net debt & Equity	%	39.7	39.6	
Earnings per share	cps	7.3	7.9	
Dividend per share	cps	[5.0]	5.5	

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

RESULTS FOR THE HALF YEAR ENDED 31 DECEMBER 2006

Commentary on the Group Interim Results

Introduction

Reported profit after tax of $32.7 million for the six months ended 31 December 2006 compared with $35.3 million for the prior corresponding period. Results included a net $(10) million in after-tax one-off costs associated with various strategic initiatives. Reported EBIT was $87.1 million, up 10% on the prior corresponding period.

These results reflect a continued improvement in underlying operating earnings ($96.0 million, up 24% versus the prior corresponding period) that has now been seen over the past three 6 month periods. These gradual improvements have been due to internally generated strategic initiatives that have been developed over the past two years and are beginning to provide net benefits. These initiatives are expected to continue to gain momentum, producing at least $23 million net benefit in the current fiscal year and at least $100 million in 2009. EBIT has yet to see any substantial benefit from improving market conditions, which have remained difficult in Europe and Australia/New Zealand.

Reported profit for the six months has been impacted by a higher effective tax rate. This rate is the result of lower Australian based earnings as well as interest payments and one-off charges in Australia, resulting in the non-utilisation of Australian based tax losses. In addition, net interest expense increased by 10.6% reflecting higher variable interest rates and shifts in the domicile of the debt to better align with the geographic mix of the businesses.

Market conditions during the half have largely continued the situation of prior periods, with only modest improvement in paper demand or pricing overall. Regional variations have been driven by different levels of supplier discipline and exchange rates. This has meant a more supportive environment in North America and a continuation of the more challenging conditions across Europe, Australia and New Zealand. The significant capacity closures that have occurred in North America, resulting in improved capacity utilisation for paper manufacturers and higher paper selling prices, has yet to be fully replicated in Europe. A number of announcements of capacity closures have been made in Europe with the first of these closures being implemented at the start of this calendar year.

Working capital showed an increase, although the working capital to sales ratio improved to 18.7% from 19.0%. Average working capital, excluding currency and acquisition impacts, was lower than seen in the prior corresponding period, but the period end level was up as a result of the combined impacts of seasonal factors, increased sales revenue and an adverse movement in creditors in December.

While the return on average funds employed of 6.6% is well below target, it has begun to improve. Both merchanting and manufacturing saw increased returns on an underlying basis, benefiting from the combined impacts of strategic initiatives and a focus on reducing working capital.

Paper Merchanting

The Paper Merchanting businesses achieved earnings before interest and tax of $99.1 million, up $8 million (9%) on the prior corresponding period. North America had a further strong increase in earnings, while Europe saw a modest improvement. Earnings in Australia and New Zealand remained under significant pressure from lower priced paper imports. Operating earnings in North America were up 73% in local currency boosted by the inclusion of Spicers Canada, Europe was largely unchanged in local currency and ANZ/Asia was down 52%.

ANZ/Asia earnings were negatively impacted by property restructuring charges of $(2.1) million and the non-cash accounting treatment of overseas paper purchases on balance date. This latter impact of around $(3) million, seen in both the reported and underlying operating earnings, is expected to reverse during the second half as these purchases are settled. Merchanting businesses have continued to produce good returns in this difficult environment, with clear potential for upside from any improvements in the current market conditions. Total merchanting return on average funds employed increased to 11.4% (10.9% in the prior corresponding period), and remains well above the cost of capital. Overall expenses again reduced versus inflation as management made good progress against targets, and the overall working capital to sales ratio reduced to 16.5% from 16.8%.

Australian Paper

Underlying operating earnings from Australian Paper, while remaining at unsatisfactory levels, have begun to see the benefit of internal initiatives, cost control and efficiency programmes. Operating earnings of $3.0 million included a net $(9.6) million charge due primarily to the out sourcing of the Maryvale wood yard (which relates to the pulp mill upgrade). Underlying operating earnings of $12.6 million was a sound improvement on the $6.0 million earned in the prior corresponding period, especially considering the higher input costs and ongoing challenges in the marketplace. Earnings have continued to be impacted by 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 pulp, fuel oil and chemicals that it is unable to pass on in the current price environment. The net impact of these items alone is around $(13) million over the prior period.

Mitigating against these negative impacts, plant operating efficiencies have improved and some mix improvements have been seen over the half. Strategic initiatives have also begun to deliver significant benefits to Australian Paper, 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. Future gains will come from continued improvements in operating efficiencies and the upgrade of the Maryvale pulp mill and its associated projects.

OPERATING EARNINGS

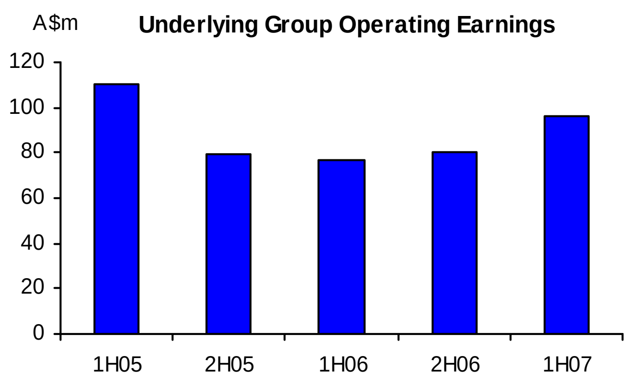
The following table shows, for PaperlinX Limited and controlled entities, Operating Earnings (EBIT), Sales Revenue and Total Assets by industry segment for the six months to 31 December 2006.

	EBIT		Sales Revenue		Total Assets	
	Dec 2006 $M	Dec 2005 $M	Dec 2006 $M	Dec 2005 $M	Dec 2006 $M	Dec 2005 $M
Industry Segments						
Europe	66.2	62.5	2,388	2,221	2,101	2,038
North America	26.6	15.7	719	466	480	400
ANZ/Asia [1]	6.3	13.1	511	537	470	471
Total Paper Merchanting	99.1	91.3	3,618	3,224	3,051	2,909
Communication Papers [1]	0.1	1.3	383	402	749	731
Packaging Papers	2.9	2.8	127	123	304	295
Total Australian Paper [1]	3.0	4.1	510	525	1,053	1,026
Corporate [1]	(15.0)	(16.2)			25	60
Operating earnings before interest & income tax	87.1	79.2				
Net Interest	(36.4)	(32.9)				
Income Tax Expense	(18.0)	(11.0)				
Outside Equity Interests						
Inter-segment Sales			(179)	(175)		
Unallocated Assets (deferred tax assets)					64	83
Total	32.7	35.3	3,949	3,574	4,193	4,078

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

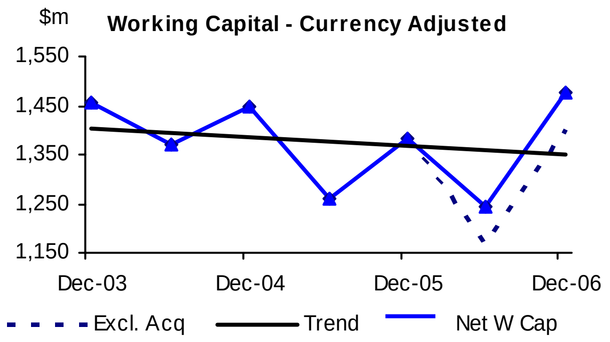
Underlying Operating Earnings

The reported operating earnings for 2005, 2006 and the first half of 2007 contain a number of one-off items. This chart helps provide clarity on the trend in underlying operating earnings (EBIT) after removing one-off costs and benefits relating to property transactions and costs associated with implementing strategic initiatives. On this basis, the first half EBIT for 2007 has continued the improvement seen in the second half of 2006.



Working Capital

Working capital for the Group at December 2006 was $1,475 million. This is largely in line with December 2005 after adjusting for the adverse impact of currency and the acquisition of Spicers Canada. Average working capital for the six month period was $1,445 million, down 2% on the prior corresponding period after adjusting for currency and acquisitions. The working capital to sales ratio continued to show improvement, reducing to 18.7% versus 19.0% in December 06 but up on 16.5% at June 06.



Financial Position

At 31 December 2006, PaperlinX has a gearing ratio of net debt to net debt plus equity of 39.7%, which is in line with 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 $101.7 million. Net cash flow from operations after working capital movements was $(142.0) million impacted by the rise in working capital between June and December of $(238) million. Despite inventory days improving by 2% over June 06 and December 05 levels and creditor and debtor days being in line with December 05, the rise in working capital is attributable to seasonal factors, revenue growth and an adverse movement in creditors at period end. Net debt has increased to $1,067 million compared to $1,017 million at the same period last year.

During the period there were 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. In February 2007 the company reduced its multi currency borrowing facility from US$815 to US$700 million. Net interest expense increased 10.6% to $36.4 million reflecting an increase in floating interest rates and changes to the domicile of debt.

Capital expenditure in the period was $63.5 million (125% of depreciation) including $33.2 million on the pulp mill project. In the last six months PaperlinX has committed to no new significant expenditure.

Step-up Preference Shares

PaperlinX is proposing to issue between $250 and $300 million of hybrid securities in the form of Step-up Preference Securities (SPS) to Australian investors. A Product Disclosure Statement (PDS) will be lodged with ASIC today, and will be available on the PaperlinX website. This issue will reduce debt, strengthen the Group's balance sheet, provide increased financial flexibility and enhance PaperlinX's financial platform to take advantage of future opportunities.

Dividend

Directors have declared an unfranked interim dividend of 5.0 cents per share representing a payout ratio of approximately 70%.

The interim dividend will be mailed on 5th April 2007 to shareholders on record as of 16th March 2007 as being entitled to the dividend. The PaperlinX Dividend Reinvestment Plan (DRP) was activated for the final dividend of 2006, and will apply in respect of this interim dividend, with an election date of 16th March 2007.

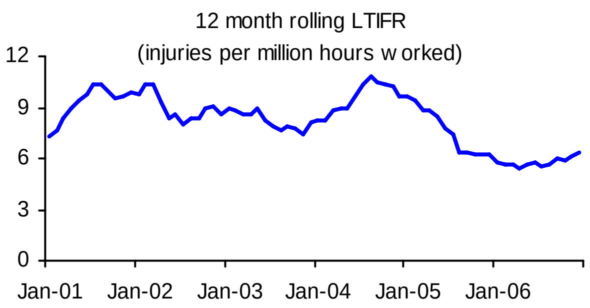
SUSTAINABILITY

Employees

As at 31 December 2006, PaperlinX had 9,448 employees, up 2.2% versus the prior corresponding period (down 2.4% excluding acquisitions) but down 1.3% versus two years ago. 29% of our employees are in ANZ/Asia, 54% in Europe and 17% in North America.

Safety

The Group's rolling 12 month LTIFR (lost time injury frequency rate) was in line with a year ago at 6.3. The MTIFR (medically treated injury frequency rate) over the same period was similarly unchanged at 14.2. A number of programmes are underway to address the plateauing of the incident rates. Safety is a key focus for PaperlinX and receives significant attention by management and the Board.



Environment

PaperlinX has signed a Greenhouse Challenge agreement with the Australian Government committing to actions that will reduce greenhouse gas emissions at Australian Paper manufacturing sites.

The Maryvale Pulp Mill upgrade and introduction of the ECF (elemental chlorine free) bleaching process will result in significant improvements in the Company's overall environmental footprint. This will reduce air emissions, odour, greenhouse gas emissions and liquid waste as well as provide strong economic benefits.

Key projects across the Group's logistics activities will improve fleet utilisation and reduce overall greenhouse gas emissions. Greenhouse gas emissions at Wesley Vale Mill in Tasmania will also be reduced by the replacement of oil fired with gas fired boilers in a project committed to in December 2006.

Continued progress has been made on further reducing water utilisation in our paper manufacturing business. Already a global paper industry leader in water efficiency, projects currently underway in Victoria are reducing raw water inflows by around 10% through additional recycling and efficiency activities. Ongoing involvement in a water recycling factory close to the Maryvale Mill in Victoria will further reduce raw water requirements by 12% through using recycled industrial and household waste water. The site's raw water supply is not related to supply to Melbourne.

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

BALANCE SHEET

PAPERLINX LIMITED AND CONTROLLED ENTITIES		December 2006	December 2005
Current Assets	$m	2,698.8	2,593.7
Non Current Assets	$m	1,494.5	1,484.7
Total Assets	$m	4,193.3	4,078.4
Current Liabilities	$m	1,355.2	1,291.3
Non Current Liabilities	$m	1,216.5	1,237.0
Total Liabilities	$m	2,517.7	2,528.3
Shareholders Equity	$m	1,621.6	1,550.1
Key Balance Sheet Ratios			
Net Debt	$m	1,067.1	1,017.1
Net debt to net debt and shareholders equity	%	39.7	39.6
Net debt to shareholders equity	%	65.9	65.6
Net tangible assets per share	$	2.55	2.38

INCOME STATEMENT

PAPERLINX LIMITED AND CONTROLLED ENTITIES	6 months ended 31 December	
	2006	2005
	$M	$M
SALES REVENUE	3,948.5	3,573.7
Operating Earnings before depreciation, amortisation, interest and income tax (EBITDA)	137.8	129.4
Depreciation and amortisation	(50.7)	(50.2)
Operating Earnings before interest and income tax (EBIT)	87.1	79.2
Net Interest Expense	(36.4)	(32.9)
Operating profit from Ordinary Activities before income tax	50.7	46.3
Income tax expense on Operating profit	(18.0)	(11.0)
Outside Equity Interests	0.0	0.0
NET PROFIT AFTER TAX	32.7	35.3

RETURN ON AVERAGE FUNDS EMPLOYED (1)

		6 months Dec 06	6 months Dec 05
Merchanting*	%	11.4	10.9
Australian Paper*	%	0.6	0.9
PaperlinX Group	%	6.6	6.2

* before allocation of corporate overheads

(1) EBIT / average funds employed

Summary

PaperlinX has continued to aggressively pursue its strategy of strengthening and building on its existing business platform and improving the business in areas that it can control. Good progress has been made on key projects including the Delivery Company in the UK, the integration of the Netherlands paper merchanting businesses, and the Maryvale pulp mill and bleach plant upgrade. As already indicated, completed projects are already contributing to results, while new initiatives are being pursued, including the potential acquisition of Antalis S.p.A in Italy and the sale of Axelium in France.

Growth of brands and higher margin businesses further benefited mix. The company targets an improvement in working capital and operating cash flow in the second half. This is now in an environment of modest increases in revenue.

Market conditions in North America and Asia appear to be stable, and at reasonable levels. The Australian and New Zealand markets remain difficult as the strong Australian dollar continues to put pressure on paper selling prices through low priced paper imports, and high input costs continue to impact Australian Paper. European markets have seen only modest demand growth (weaker in the U.K.) and are yet to see sustained benefits from announced capacity closures by European paper manufacturers. Announced closures are beginning to be implemented at the start of calendar 2007 and should begin to positively influence the supply/demand balance, and ultimately provide a better pricing environment during this calendar year.

We expect minimal benefits from these prospective market improvements in the second half. Benefits in PaperlinX results will continue to be largely self-generated. Important variables to monitor going forward include UK demand, capacity closures in Europe, exchange rates, input costs and sustaining prices in non-European markets.

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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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APPENDIX 1 - SECTOR COMMENTARY

Note: June 06 six month results are provided to assist historical analysis. All comparisons for this result (6 months Dec 06) are against the prior corresponding period (6 months Dec 05).

PAPER MERCHANTING (1)

		6 months Dec 06	6 months Jun 06	6 months Dec 05
Sales Volume	'000 tonnes	1,910	1,872	1,823
Sales Revenue	A$M	3,618	3,470	3,224
Earnings before Interest & Tax	A$M	99.1	97.6	91.3
EBIT/Sales Ratio	%	2.7	2.8	2.8
Return on Average Funds Employed	%	11.4	11.0	10.9

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

- Overall sales volume was up around 5% with the inclusion of Spicers Canada, however sales volumes reduced in the UK, France, Netherlands and New Zealand.
- The return on average funds employed was 11.4%, well above the cost of capital and ahead of the prior corresponding period of 10.9%.
- Operating expenses continued to track below inflation.
- Working capital to sales ratio was down from 16.8% to 16.5%.

Europe

		6 months Dec 06	6 months Jun 06	6 months Dec 05
NW Europe	'000 tonnes	382	369	383
UK & Ireland (1)	'000 tonnes	601	600	602
Central & Southern Europe	'000 tonnes	258	264	241
Total European Sales Volume	'000 tonnes	1,241	1,233	1,226
Sales Revenue	€M	1,399	1,369	1,363
Earnings before Interest & Tax	€M	38.8	36.1	38.4
EBIT/Sales Ratio	%	2.8	2.6	2.8

Note (1) Also includes volume from South Africa

- The European market remained challenging through the half, particularly in France and Germany, while demand in the UK has yet to show any recovery.
- Reported EBIT for Europe was in line with the prior corresponding period, while underlying EBIT was up 6%.
- Despite the generally soft markets, sales volumes of proprietary branded products continued to grow, increasing 16% on the prior corresponding period.
- The overall proportion of paper sold from warehouse stock as compared to direct mill delivery (stock to indent ratio) improved which supports margins as this is a higher value added activity for printer customers.
- Total net operating costs benefited from the continued management focus on expenses and from restructuring initiatives undertaken in a number of operating companies.
- While working capital showed an increase, the working capital to sales ratio was relatively unchanged.

- The proposed sale of Axelium in France and the purchase of Italian paper merchant, Antalis S.p.A in Italy, will strengthen and build on the existing PaperlinX Merchanting platform in Europe, improving the scale of activities in Italy and exiting a sub-scale position in France. The transactions are expected to settle in two to three months, if all necessary conditions are met.
- The paper mill closures announced in Europe are only now beginning to happen and are yet to be fully reflected in reduced market supply. The implementation of these closures should help the supply/demand balance in Europe.
- Uncoated woodfree paper selling prices increased in Q1, and paper selling price increases were implemented towards the end of the period in the UK for coated woodfree paper as well.
- Announcements from various manufacturers of Continental coated paper selling price increases are in the marketplace. Buyer resistance is to be expected until increases are fully supported by supply/demand pressures rather than the inherently less stable current mix of supply/demand and necessary recovery of input cost increases. Merchant margin recovery is aligned with similar forces.
- A mill driven increase in indent paper selling prices must underpin stock price increases as a prerequisite.

North America

		6 months Dec 06	6 months Jun 06	6 months Dec 05
Sales Volume	‘000 tonnes	315	291	218
Sales Revenue	US$M	547	493	347
Earnings before Interest & Tax	US$M	20.2	17.9	11.7
EBIT/Sales Ratio	%	3.7	3.6	3.4

- North American paper selling prices continued to be supported by capacity reductions, with prices up 3-4% on the prior period, despite only a modest increase in market demand.
- Proprietary branded volumes were up 19% across North America, with good growth in these products in all operating companies.
- Expenses were contained (excluding the impact of higher sales commissions).
- Spicers Canada was included for the full period.
- The EBIT to sales ratio increased further from 3.4% to 3.7%.
- Total operating earnings were up 73%, and have doubled over the past two years reflecting the earnings leverage to improvements in the operational environment.
- There was a solid improvement in returns for all businesses, with Spicers Canada exceeding year 3 return targets in the first full half year since acquisition due to healthy earnings and strong working capital management.

ANZ/Asia [1]

		6 months Dec 06	6 months Jun 06	6 months Dec 05
Sales Volume	'000 tonnes	355	345	379
Sales Revenue	A$M	511	493	537
Earnings before Interest & Tax	A$M	6.3	12.4	13.1
EBIT/Sales Ratio	%	1.2	2.5	2.4

Australia and New Zealand [1]

		6 months Dec 06	6 months Jun 06	6 months Dec 05
Sales Volume	'000 tonnes	245	229	255
Sales Revenue	A$M	400	375	421
Earnings before Interest & Tax	A$M	2.2	8.1	11.1
EBIT/Sales Ratio	%	0.6	2.2	2.6

Asia

		6 months Dec 06	6 months Jun 06	6 months Dec 05
Sales Volume	'000 tonnes	49	40	43
Sales Revenue	S$M	66	60	63
Earnings before Interest & Tax	S$M	2.7	2.5	2.5
EBIT/Sales Ratio	%	4.0	4.3	4.0

Paper Trading

		6 months Dec 06	6 months Jun 06	6 months Dec 05
Sales Volume	'000 tonnes	61	76	82
Commission Volume	'000 tonnes	156	171	140
Sales Revenue	A$M	56	68	65
Earnings before Interest & Tax	A$M	1.5	2.1	(0.2)

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

- Overall volumes were down 6% with lower volumes in New Zealand and in Paper Trading (lower allocation from Australian Paper partially due to Shoalhaven shuts).
- Australia continued to see pricing pressure, with average paper selling prices down 1.5%, impacting on both profit margins and returns.
- Other markets in the region saw increases in paper selling prices.
- New Zealand EBIT was negatively impacted by $(3) million of non-cash adjustments resulting from the accounting treatment of overseas paper purchases on balance date which is expected to reverse in the second half of this financial year.
- Australia was also negatively impacted by a net $(2.1) million in property transactions related to restructuring activities.
- Expenses have been reduced in all businesses.
- Further progress was made on working capital, down 7%.

Australian Paper (1)

		6 months Dec 06	6 months Jun 06	6 months Dec 05
Sales Volume	'000 tonnes	413	417	429
Sales Revenue	A$M	510	496	525
Underlying Earnings before Int & Tax	A$M	12.6	4.2	6.0
Reported Earnings before Int & Tax	A$M	3.0	(7.5)	4.1
Return on Average Funds Employed	%	0.6	(1.6)	0.9

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

Australian Paper: Communication Papers (1)

		6 months Dec 06	6 months Jun 06	6 months Dec 05
Sales Volume	'000 tonnes	254	260	270
- Australia/New Zealand	%	83	78	81
Sales Revenue	A$M	383	377	402
Earnings before Interest & Tax	A$M	0.1	(9.9)	1.3

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

Australian Paper: Packaging Papers

		6 months Dec 06	6 months Jun 06	6 months Dec 05
Sales Volume	'000 tonnes	159	157	159
- Australia/New Zealand	%	74	67	79
Sales Revenue	A$M	127	119	123
Earnings before Interest & Tax	A$M	2.9	2.4	2.8

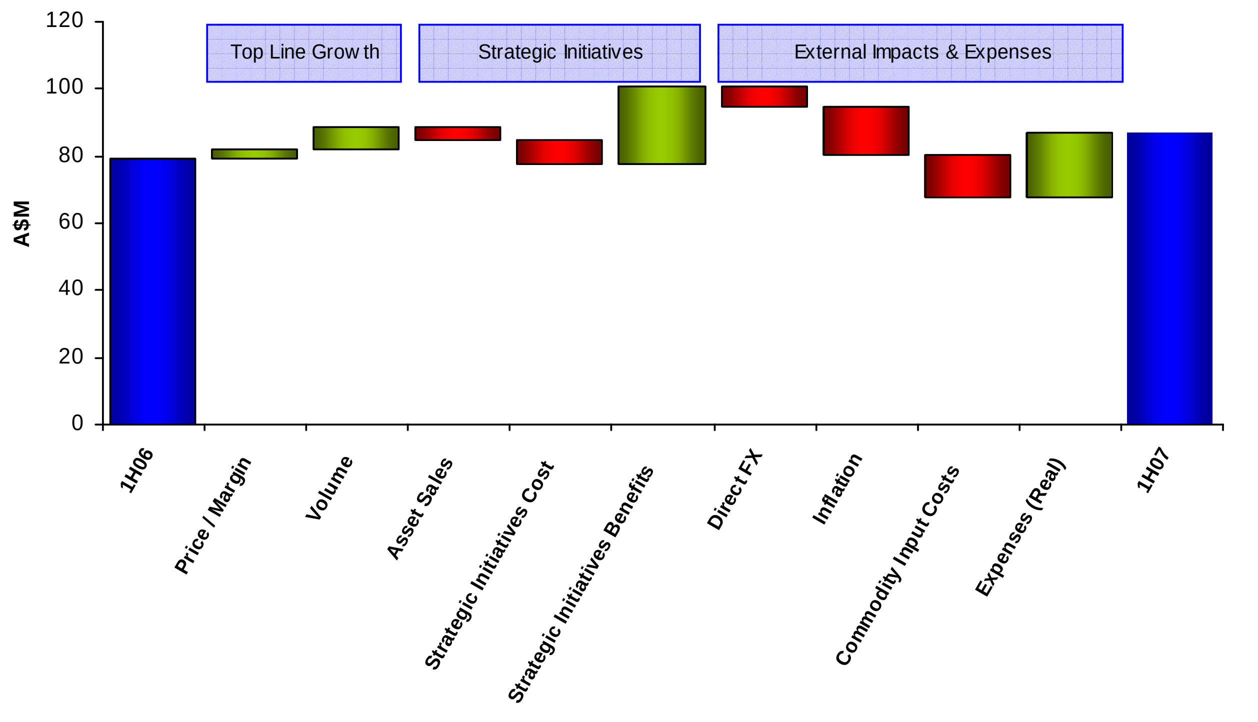
- Overall operating earnings remained under significant pressure due to lower paper selling prices and the inability to recover input cost increases. This has been a key issue for Australian Paper for some time and remains the case.
- Underlying operating earnings, however, were up 110% on the prior corresponding period, albeit off a low base. Underlying operating earnings benefited from internal efficiency programmes, cost control and the benefits of completed strategic initiatives including the closure of Shoalhaven Mill PM1 and the Maryvale PM1 upgrade.
- Operating earnings include a net one-off charge of $(9.6) million primarily relating to the outsourcing of the Maryvale wood yard and the consolidation of PaperlinX Office.
- Australian Paper operating earnings now include PaperlinX Office results with adjustments to the historic segmental reporting.
- Overall sales volumes were 4% lower due to the closure of Shoalhaven paper machines 1 and 2.
- Commodity input costs (primarily pulp, up $11 million) have negatively impacted earnings by $13 million.
- Improved mill operating efficiencies have contributed positively to earnings.
- Overall average price realisation was flat on the prior period, made up of a range of different impacts including mix.
- Paper selling prices in the Australian and New Zealand markets generally remained under pressure, with imported paper prices supported by the strong Australian dollar.
- Sack Kraft paper markets have been strong, with good gains in export prices in US$, negated to some extent by currency translation.

- The drought in Australia has had an impact on some linerboard market areas which have been balanced to some extent by robust demand in industrial markets. Overall sales volumes were lower.
- Overall sales volumes of communication papers were lower due to reduced exports and the closure of two Shoalhaven paper machines. These activities were, however, positive to earnings.
- There has been good support by Australian corporations for Reflex, Australia's only FSC environmental certified office paper.
- Paper selling prices for communication papers in Australia and New Zealand have remained under pressure, though some increases have occurred in some grades as endeavours are made to recover higher input costs.
- The pulp and bleach plant upgrade at Maryvale to improve paper quality, reduce pulp costs and improve environmental performance announced in August 2005, remains on track for targeted returns. This reflects the risk to steel and labour costs mitigated by expected higher savings on pulp than originally projected.
- The wood yard outsourcing contract at the Maryvale Mill is signed, and one-off costs have been included in the six months just completed. Project completion will match the pulp mill upgrade.
- During the period, production at the Shoalhaven Mill was concentrated onto the number 3 paper machine with the resultant closure of the number 2 machine. Despite the closure, the mill continues to produce the same range and volumes of paper, but with improved productivity and asset utilisation.
- The integration of PaperlinX Office was completed successfully and has contributed positively during these six months. All one-off costs associated with the integration have been included.
- Australian Paper has built on its long-term commitment to improve water efficiency. Already a global paper industry leader in water efficiency, projects completed in recent months have improved water efficiency by around 10% and projects are underway to replace raw water inflows with recycled industrial and household waste, targeting to reduce inflows by a further 12%.

APPENDIX 2 – VARIATION ANALYSIS

Reported EBIT for the six months ended December 2006 was $87.1 million, up 10% on the $79.2 million reported for the prior corresponding period. The chart below highlights the key items of variance between these two periods, with commentary relating to the three key areas.

EBIT VARIATION ANALYSIS BY MAJOR INFLUENCE



Top Line Growth

- The overall trend in pricing from previous periods has stabilised, with a slight improvement being reflected.
- Market conditions remain challenging with gross margin percentage in merchanting remaining flat on the prior corresponding period.
- Pricing improvements reflect input cost pressures experienced by paper manufacturers and have to date not reflected in significant margin gain for PaperlinX.
- Product volumes before acquisitions are flat overall in Merchanting and down 4% in Australian Paper, however, due to a favourable mix (i.e. more stock sales versus indent sales, growth in higher margin products and a shift away from export sales of white paper in Australian Paper) a slight improvement occurred over the prior corresponding period.

Strategic Initiatives

- As previously advised, we continue to look at the divestment of non-core assets. The prior period included profit on the sale of a property in Denmark of $5.7 million which was greater than gains made in the period being reported, resulting in a net negative comparison.

- Strategic initiatives continue to deliver significant results with a benefit of gross $23 million and a net benefit of $16 million over the prior corresponding period. All projects remain on track.
- Net one-off costs incurred were $(9) million ($(10) million after tax) in the period compared with $2 million in the prior corresponding period.

External Impacts and Expense Management

- Foreign currency direct impact on the business has again been negative by around $(6) million.
- Commodity input costs continue to impact Australian Paper, with the most notable being pulp, with total input costs up $(13) million as compared with the prior corresponding period.
- Against this backdrop and the normal inflationary cost pressures, the business has continued to focus on cost management with expenses in real terms some $20 million better than in the prior corresponding period.