

A green frog with brown spots is perched on a reed stem. The background is a natural, slightly blurred environment with other reeds and foliage.

PaperlinX

Sustainability Report

Highlights

- Established quantitative and qualitative targets for workplace, social and environment across the Group to be measured against in the 2006 Sustainability Report.
- PaperlinX Leadership Development Programme for the top 250 managers across the Group to be completed by end of calendar 2005.
- Appointed Group General Manager, Strategic Sourcing to engage with and enhance dialogue with our suppliers.
- Reduced medically treated injury frequency rate (MTIFR) by 26 per cent and lost time injury frequency rate (LTIFR) by 14 per cent across the Group.
- PaperlinX became a constituent member of the FTSE4Good Index Series.
- Outperformed 86 per cent of companies in the Institutional Shareholder Services (ISS) developed Universe Index (excluding US), 64.6 per cent of Australian companies and 84.4 per cent of the companies in the Materials group in the Corporate Governance Quotient™ ratings.
- Project to upgrade the pulp capacity and install a new elemental chlorine free ('ECF') bleach plant at Maryvale Mill in Victoria, Australia announced in August 2005.

Cover: *Litoria raniformis* – green and golden frog found in south-east Australia. Resides in stormwater drains at Australian Paper's Wesley Vale Mill.

Report Scope

This Sustainability Report covers the policies, practices and performance of PaperlinX Limited for the year ending 30 June 2005.

Chief Executive's Statement

During the year we made sound progress in a wide range of areas as we continually looked to improve our sustainable business model. For the first time we have externally published qualitative and quantitative targets to track and measure our performance and we have increased our disclosure to broadly report against the Global Reporting Initiative (GRI).

To enable us to achieve our sustainability goals it is important that all of our 9,500 employees are working towards continually improving our performance. With a dedicated Safety & Environment Committee it is also a part of the Board's mandate. Further information relating to our governance structure is published in the Directors' Report of our Concise Annual Report.

As a Company, we are committed to delivering long-term economic growth without wasting our natural resources and we are fortunate that the primary resource, for paper making, wood, is both renewable and recyclable. A number of our merchants have chain-of-custody certification and sustainable forest management systems. Within our manufacturing business, Australian Paper, 10 per cent of the fibre sourced comes from waste and 64 per cent of the fibre sourced for Maryvale, our largest mill, comes from Forest Stewardship Council (FSC) certified sources.

We are continually working towards minimising our environmental footprint in all of our operations and this is especially a focus for our manufacturing business. The three-year project to upgrade Australian Paper's pulp capacity at Maryvale Mill announced in August will have significant environmental benefits while at the same time improving product quality and reducing costs. This is a real example of business sustainability.

Our progress has been recognised externally and during the year we were independently assessed according to the FTSE4Good criteria and became a constituent member of the FTSE4Good Index Series. Created by the independent financial index company FTSE Group, FTSE4Good is a financial index series that is designed to identify and facilitate investment in companies that meet globally recognised corporate responsibility standards.

Our safety record continued to improve across the Group. We reduced our medically treated injury frequency rate (MTIFR) by 26 per cent and our lost time injury frequency rate (LTIFR) by 14 per cent. However, despite these results it is with sadness I report that Brett Carroll lost his life during a tragic accident at our Maryvale Mill while performing a routine maintenance procedure. An internal investigation was immediately instigated to determine how the incident occurred and what could be done to prevent a re-occurrence. A separate team consisting of employees from Australian Paper and PaperlinX, including production and maintenance union Occupational Health and Safety representatives (OHS), the joint union/industry OHS unit and an independent chairperson investigated. Nine recommendations were put forward that Australian Paper is currently acting upon. Furthermore, a joint problem solving taskforce has been initiated to work towards further strengthening the safety culture at Maryvale.

Over the next 12 months we will continue to make progress by adopting proactive measures to reduce our environmental impact, further strengthening our already strong ties with the local community and improving our workplace practices to attract and retain the best talent. As a Company we have set ourselves some bold targets and I look forward to reporting our progress in our Sustainability Report in 2006.

Thomas P Park
Managing Director and Chief Executive Officer



Our Business

PaperlinX is a young Company with a long history. Listed on the Australian Stock Exchange since April 2000, antecedents of PaperlinX have been making paper in Australia since 1939 and have distributed paper in Europe since the 1600s.

While retaining our manufacturing roots in Australia, we have followed a clear and simple strategy expanding our paper merchanting business to create a unique global platform. Today we operate 48 businesses in 30 countries and have the widest geographic distribution of any paper company in the world.

We are focused on manufacturing and distributing high-quality fine paper used as office paper, and specialty paper used in brochures, magazines, annual reports and other business papers, and in manufacturing packaging papers for converting into corrugated cartons, paper bags and other packaging materials.

Our Core Operating Principles

The PaperlinX Core Operating Principles provide a common direction for the Group, giving guidance to all employees and encouraging alignment across our businesses and people.

- Strengthen then build off existing business platforms.
- Productivity to provide funds for sustainability and growth.
- Simplification.
- Actively prioritise activities based on value creation for our customers, suppliers and for PaperlinX.
- Fully leverage our global opportunities.
- Invest in our people, brands and customer service capabilities.
- Compliance is mandatory.
- Results oriented teamwork.

What Sustainability means to PaperlinX

Based on the 1983 Bruntland definition, sustainable development means 'meeting the needs of the present without compromising the ability of future generations to meet their own needs'. At PaperlinX we interpret this to mean long-term and economic growth that benefits present and future generations of employees, shareholders and customers without detrimentally affecting the resources or biological systems of the planet.



PaperlinX Sustainability Charter

PaperlinX is a leading international paper distribution and manufacturing Company with a commitment to delivering long-term sustainable returns and environmental and social benefits for all our stakeholders.

In doing so, we seek to add value for our customers, employees, the communities in which we operate and for our shareholders.

In pursuit of these commitments, PaperlinX recognises that its products and operations have an impact on the environment and that we must continually improve our performance across a range of areas to deliver the sustainable returns to which we aspire.

Our fundamental commitment globally is to not only ensure that as a minimum we comply with the laws of all the regions in which we operate, but we also seek to go beyond just compliance with a range of positive initiatives. Our commitments in relation to the environment, our employees, our communities and our suppliers are explained below.

Environment

We will provide product options to satisfy the needs of our customers and will ensure that we provide information to allow our customers, neighbours and the public to make informed choices about our products and their environmental credentials.

At PaperlinX, we are committed to continuously reducing our environmental footprint in measurable ways. Our operations seek, wherever possible, to reduce resource use (such as energy, water, fibre and chemicals) efficiently by increasing recycling opportunities and reducing waste output.

We are committed to regularly monitoring these improvements.

Employees

Our objective is to be the 'employer of choice' in which all members of our workforce are treated with respect and employed within strong principles of equal opportunity, ethical behaviour and transparent management practices.

At PaperlinX, we are committed to providing our employees the opportunity to grow and develop within a safe workplace wherever they are located.

Communities

We will support the communities in which we operate in ways that make a positive difference and will maintain an open relationship with these communities, report on our performance and make this information readily available to the public as well as customers.

In addition, we will also recognise our corporate role in assisting our employees to make individual and collective contributions to improve aspects of the communities in which they participate.

Suppliers

We are committed to proactively encouraging our suppliers to improve their environmental performance and by insisting they act in a legal and sustainable fashion and are committed to continuous improvement.

Employees

Achievements

- Rolled out a five-day PaperlinX Leadership Development Programme for the 250 senior managers across the Group.
- Completed a global succession management review and plan for the 250 most senior managers and the high potential talent within the Group.
- Implemented a revised performance management system for 250 senior managers across the Group aligned to the succession management process and leadership behaviours.
- Reduced medically treated injury frequency rate (MTIFR) by 26 per cent and lost time injury frequency rate (LTIFR) by 14 per cent across the Group.
- Coast Paper in Canada ended the year with no lost time injuries across its seven locations.

Objectives and Targets for 2005/06

- Develop a future workforce management plan to address skills shortages and diversity requirements across the Group.
- Develop a global talent management strategy for the PaperlinX Leadership Group.
- Implement an employee engagement and cultural measurement process.
- Publish a Code of Conduct for roll-out across the Group.
- Reduce our medically treated injury frequency rate (MTIFR) by 10 per cent across the Group.
- Work together at Maryvale Mill and instigate cultural change to complement existing safety systems through the 'Search for the Future' project.

Strengthening our Leadership

During the year our focus was on introducing economic profitability and leadership effectiveness with the roll-out of the Group's Leadership Development Programme for our 250 most senior managers. The PaperlinX Leadership Group provides a consistent and coordinated approach to leadership across the Group and helps to build commonality and clarity for the business around our Core Operating Principles.

The Programme has helped senior employees to embrace being a part of the PaperlinX Group. This has resulted in enhanced support and faster execution of strategic and operational initiatives, resulting in greater employee engagement across the senior level.

Cultural Alignment

Since the acquisition of Buhmann's Paper Merchants Division (BPMD) in November 2003, one of our biggest challenges has been creating a common culture across the Group. Assimilating employees with different languages and cultures without infringing on the local management, entrepreneurial style and history of each operating company will continue to be a key target over the next 12 months.

The Group's Core Operating Principles have helped to provide a common direction for our employees. The principles have been rolled out through *conneXions*, our internal magazine and discussed in depth at employee briefing sessions cascaded through management to all employees three times a year. During the year an eighth principle was added. This principle is based on 'simplification' which will enable businesses to focus on their strengths resulting in improved efficiencies from their efforts.



The Company has reviewed and strengthened its internal communications systems and initiatives around the world. Key developments in this area include publishing our quarterly employee newsletter in five languages to reflect the diversity of the regions in which we now operate and initiating a global internal communications taskforce to drive effective communications across all business units and regions.

Our commitment is to ensure that all employees are provided with regular and timely information about the Company, and in particular, about matters directly relevant to them. We also ensure that there is an opportunity for employees to provide feedback and seek additional information.

Training and Development

Supporting our people and their skills through training and development initiatives at a local and global level is fundamental to the success of PaperlinX.

Over the past 18 months PaperlinX North America and ANZ Merchandising have implemented Profit Adventure, a major training initiative for managers, sales representatives, merchandising and customer service employees. Profit Adventure is a practical and engaging workshop to educate employees on how their daily decisions impact profitability, teamwork and Company goals. A key lesson employees have learnt is the profound multiplier effect daily decisions have on profitability and returns. Using business unit actual historic results, employees are able to see how seemingly small decisions such as increasing margins by 1 per cent or less, reducing costs by 1 per cent and reducing capital by 1 per cent or more will impact the business unit profitability. This is aimed at empowering employees and helping them understand that all positive decisions do make a meaningful contribution.

Performance and Evaluation

PaperlinX is committed to regularly providing employees with positive and helpful feedback on their performance and achievements. Performance and development planning is an integral part of each individual's annual review to help develop short and long-term career goals.

Performance and evaluation also extends to the satisfaction of employees with their work culture. In 2004, Robert Horne Group in the UK launched 'Have Your Say...', a three-year project to measure employee satisfaction and identify and address key areas for improvement. In May 2004, the survey reported a response rate of 78 per cent and an employee satisfaction of 62 per cent. Survey partners ETS benchmarked the outcome against the results from over 60 surveys covering more than 70,000 people and classified Robert Horne as within the upper quartile for employee engagement and satisfaction. In May 2005, Robert Horne repeated the survey with outstanding results. Employee engagement improved by 8 per cent to 86 per cent and employee satisfaction improved by 4 per cent to 66 per cent with ETS classifying the results as 'excellent'.

Benefiting from our Global Platform

Our global platform is helping to enrich the workplace experience of our employees. In the past year, a number of employees have benefited from international transfers to different regions and businesses, ranging from three months to permanent relocation and we intend to build on this initiative.



Employees continued

Occupational Health and Safety (OHS)

The safety and wellbeing of our employees and contractors is of paramount importance to PaperlinX and our goal is zero injuries and accidents. To achieve and maintain the safest practicable workplace at all our locations around the world requires a balanced approach to Occupational Health and Safety. At PaperlinX we focus equally on the physical work environment, our systems and processes and the culture of the business.

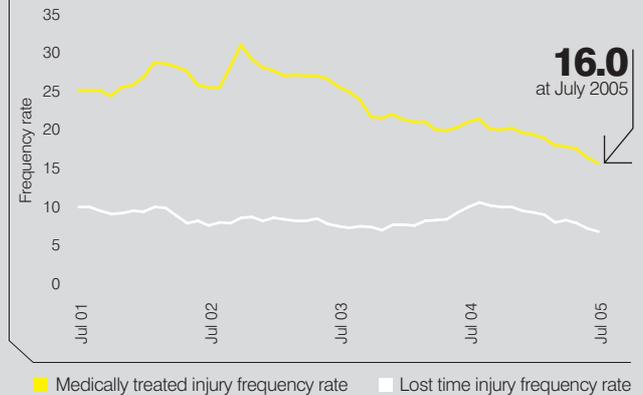
Across the Group our key measure, the medically treated injury frequency rate (MTIFR), reduced by 26 per cent and the lost time injury frequency rate (LTIFR) reduced by 14 per cent despite the inclusion of some European businesses which have not previously collected information on safety performance.

Across Australian Paper's four mills good progress was made reducing the MTIFR by 26 per cent and the LTIFR decreased by 4 per cent. However, the tragic death of Brett Carroll at our Maryvale Mill was a reminder that process alone is not enough and safety must be embedded into the workplace culture at each site. The investigation team put forward nine recommendations that the Company is currently acting upon.

To improve the safety performance at Maryvale, a significant shift in the culture is required with employees, unions, staff and management working together towards this common goal. To help bring about change, 'Search for the Future' has been launched to engage stakeholders in an interest-based problem solving process. Workshops will be conducted with employees representing all the groups across the mill to identify safety issues, the drivers for safety improvement, safety success indicators and common ground. This information will be fed into a Joint Steering Group and Priority Projects will be developed to address key priorities.

In Australia and New Zealand merchants, the MTIFR increased by 10 per cent and the LTIFR increased from 2.1 to 4.4. E-learning modules on the induction process, safety fundamentals, manual handling, hazard management, incident investigation and injury management were developed for merchanting employees in Australia to access via the internet. A Manual Handling and Stretching Programme was also developed to create awareness about the hazards and improve manual handling techniques.

Rolling Monthly Safety Progression



Across Europe, the MTIFR reduced by 17 per cent and LTIFR by 25 per cent despite the first-time reporting of some operating companies in January 2005. A dedicated Health, Safety and Environment (HSE) team has been established across the UK and Ireland and is working towards the implementation of a safety software system providing a single risk assessment approach and an accident management system.

During the year the MTIFR increased marginally by 3 per cent in North America and we continued to show positive improvements in the reduction of the LTIFR by 63 per cent. Coast Paper, our Canadian business, achieved zero lost time injuries (LTIs) during the period. A PaperlinX North America Health and Safety Program booklet outlining the health and safety expectations for all North American employees was distributed.



Social

Achievements

- Contributed approximately A\$630,000, including employee contributions, to community programmes and non-profit groups across our global operations.
- This contribution included A\$210,514, including employee contributions, to non-profit groups assisting Asian tsunami relief.
- Continued our sponsorship of Dr Bill Mulley, a doctorate student participating in organ transplant research at the Austin Research Institute in Melbourne, Australia.
- Completed the second year of our partnership in Australia with Conservation Volunteers Australia 'Making Tracks' programme.

Objectives and Targets for 2005/06

- Publish a Community Involvement policy across the Group.
- Roll out a global community relations programme overseen by a Steering Committee consisting of the Chief Executive Officer, Executive General Manager, Corporate Affairs and Executive General Manager, Human Resources.
- Establish the PaperlinX Community Fund to allocate funds to a range of community groups and organisations fulfilling Fund criteria.
- Commit to funding local community programmes in areas where we have a strong local presence.
- Become a signatory to Global Compact, the United Nations voluntary corporate citizenship initiative adhering to the 10 principles relating to human rights, labour, anti-corruption and environmental issues.
- Become a signatory to the United Nations Declaration of Human Rights.

Community Relations

Australian Paper's mill sites have a long history of supporting and working with their local communities. At each of our four mills we have well-established and active consultative committees that include local residents, environmental agencies, local government and community groups. These committees hold frank and open discussions and provide valuable feedback on the potential impact of our operations, enabling PaperlinX to address matters of importance to the community.

Annually, Australian Paper supports in excess of 135 regional charities and community groups through gifts, donations, training and mentoring programmes.

Spicers Stationery Collaborates with Edward de Bono

Spicers Stationery Group continued its collaboration with the de Bono Institute through its support of the Mindsight education initiative held on 19 May 2005 at the Melbourne Town Hall in Victoria, Australia. Dr Edward de Bono, internationally recognised creative thinker, presented his thinking techniques to 4,000 primary school children to help inspire young Australians to think creatively and constructively. De Bono's messages were supported by a book on creative thinking techniques sponsored by Spicers Stationery's 'tudor' brand and given to each child.

In the second half of 2005, Spicers Stationery will launch the first workbook in a series of tudor publications for primary and secondary school students. The tudor Creative Thinking Tools Guide will further explore de Bono's creative thinking techniques and provide opportunities geared at different age groups to put his theory into practice. This workbook is a world first collaboration in the stationery industry and helps support the tudor brand's position of helping people to achieve their goals.



Social continued

Community Partnerships

PaperlinX has worked in partnership with a variety of organisations to develop community programmes that maximise benefits to both parties. This approach enables us to develop and foster long-term relationships.

Making Tracks

Since Australian Paper partnered with Conservation Volunteers Australia to establish the Making Tracks programme, hundreds of volunteers, including employees, have built or maintained walking tracks in areas of national significance around Australia. The programme, which recently completed its second year, enables local communities, national parks and local governments to work together to offer safe and enjoyable track recreational experiences. Maintaining the track facilities helps ensure that habitat for many endangered species of flora and fauna is protected. In the last two years the Making Tracks programme has constructed and repaired the equivalent length of 5,200 cricket pitches and revegetated an area the size of 14.3 Melbourne Cricket Grounds.

Leadership Victoria

PaperlinX has been a major sponsor of Leadership Victoria in Australia since 2002 supporting both the leadership programme and subsequent community involvement. The programme seeks to develop and enhance the quality of future leaders by providing a forum for the participants to exchange ideas, network and interact with established leaders from the public, community and private sectors. Every year approximately 36 people from the State of Victoria in Australia are chosen from nominations from a variety of backgrounds including corporate, arts, small business, government, welfare, sport and agriculture. While the overriding theme of leadership is central to the programme, the course content is diverse and explores the big issues of the coming decade. 'Australia in the Globalised World', 'Health and Welfare Challenges of the Coming Decade' and 'Influencing the Agenda' have been recent topics for discussion. Participants are exposed to a cross-section of views from influential leaders including the Chief Executive Officers of Australia's most successful companies and are expected to help shape the debate on each topic by contributing their own thoughts and beliefs.

Employee Involvement

Actively involving our employees is an important aspect in many of the community programmes we are involved in across the Group. During the year a number of PaperlinX employees contributed their time to assist a range of community and not-for-profit groups packing and sorting toys for the Smith Family in Australia, planting trees for Landcare in Australia or fundraising for research into leukaemia and other types of cancer.

Annual Coast Paper Christmas Gift Drive

Nine years ago, Coast Paper's Edmonton branch in Canada rallied to assist a mother and her children who had fled an abusive family situation. Household items, a Christmas tree, decorations, gifts and Christmas dinner were donated by employees and the experience of giving was so rewarding an annual programme evolved.

Now in its ninth year, the 'Annual Coast Paper Christmas Gift Drive' is coordinated by Coast Paper in Edmonton, Vancouver and Toronto. Every year in late November, employees promote the programme to the print and design community and collect donated boxes of gifts in December. Over the history of the Gift Drive, in excess of 1,000 printers have participated and each year the number of gifts increases. In 2004, with the help of numerous non-profit society partners, over 12,000 gifts were delivered to the homes of needy children.

Making Tracks

Since July 2003:

- 3,541 volunteer days completed.
- 1,639 bags of rubbish collected.
- 4,948 trees, grasses and shrubs planted.
- 260,003 square metres weeded and revegetated.



Environment

Achievements

- Board approval of the upgrade of pulp capacity and the installation of a new ECF bleach plant at Maryvale in Victoria, Australia which will have significant environmental benefits.
- No significant environmental breaches or non-compliance with environmental regulations.
- Zero fines or prosecutions.
- All manufacturing sites maintained ISO 14001 certification.
- Finalist in the 2004 Tasmanian Environmental Award for Excellence for the rehabilitation of the Tonganah clay mine near Burnie in north-west Tasmania, Australia.

Objectives and Targets for 2005/06

- Develop two-year Target Plan across the Group to reduce our impact on the environment.
- Develop, implement and promote a plan in relation to suppliers and management of purchasing with focus on safety and environmental performance.
- Reduce energy consumption by 2 per cent, reduce waste by 2 per cent and implement a recycling programme at all our sites across the Group.

PaperlinX Board Safety and Environment Committee

Good performance in health, safety and environment comes from a genuine commitment and involvement at every level of the Group. A Safety & Environment Committee consisting of four non-executive Directors and the Managing Director convenes quarterly. Their role is to review key issues that may have strategic, business or reputation implications for the Group, monitor compliance and present strategic recommendations to the Board.

During the year the Board visited the Central Victorian Highlands in Australia to gain an increased understanding of the harvesting of timber and the process of using residual wood from Victorian Government managed forests for the manufacture of paper. This Committee also undertakes regular site visits to PaperlinX operations around the Group in association with other Board obligations to explore issues such as the OHS strategic approach, environmental issues at our mills and contractor management across the Group.

Operations Management System

Our Operations Management System (OMS) provides a framework for the management of Health, Safety and Environment (HSE) issues and the optimisation of quality effectiveness for all operating companies within the PaperlinX Group.

The system does not mandate the approach to managing HSE and quality but provides a single set of 20 performance requirements outlining the objectives and expected outcomes in all operational activities. The OMS covers risk management, legal compliance, improvement, roles and responsibilities, training and competence, communications, documentation, operational control, emergency response, contractor management, incident reporting, record keeping and auditing.

To support this system the Company maintains and develops tools such as employee handbooks, inductions and operating procedures. To provide assurance to the Board and senior management that PaperlinX is complying with legislation, an internal audit programme is conducted by employees from within the business.



Environment continued

Certification

As a diverse global manufacturing and merchanting Company there are a range of third-party independent environmental certification systems that may be used. These can include:

- certification of the sources of recycled fibre;
- the sustainability of the forest management system used for the sources of new or virgin fibre;
- the environmental system used at the manufacturing plant;
- the environmental footprint of the product; and
- the chain-of-custody used to guarantee the source of the product.

PaperlinX does not support one system, but looks for well-recognised systems that may be either from the country of origin or pan-continental. They must include adequate performance-based provisions and be certified by recognised independent third-party organisations that require sound environmental management practices such as energy efficiency, waste reduction, pollution control and continuous improvement.

Some of the significant systems acceptable to our Company for environmentally responsible manufacturing processes include ISO14001 and the Eco-Management and Audit Scheme (EMAS). For responsible sustainable forest management, systems such as Forest Stewardship Council (FSC), Program for the Endorsement of Forest Certification (PEFC) and Sustainable Forest Initiative (SFI) may be used, and for chain-of-custody FSC is supported.

Merchandising

Environmental issues are progressively becoming more mainstream and educating our customers on certification and the environmental credentials of products is becoming increasingly important. Across PaperlinX's merchandising businesses we operate 43 companies in 27 countries. Each operating company is responsible for establishing and implementing communication plans that provide sufficient environmental information for customers to make an informed decision about the products they purchase.

In October, over 60 leading printers and print buyers joined Robert Horne in the UK at the Institute of Directors in London to learn more about the environmental issues affecting their business. The event was a part of Robert Horne's 'Know-how Academy' which aims to address pertinent industry topics. Delegates heard about Robert Horne's commitment to the environment, the challenges facing the paper industry and the Company's latest product developments – including recycled and FSC certified grades. Guest speakers Gareth Ward, editor of *Printing World* magazine, and environmental consultant Clare Taylor focused on the considerations for printers wanting to do more to protect the environment. The seminars are proving so successful that they are being repeated in other UK locations and at individual customer premises.

Certification

During the year several merchants received accreditation with FSC chain-of-custody certification. Spicers Paper in North America was accredited by the Smartwood Programme of the Rainforest Alliance. To satisfy Smartwood's FSC chain-of-custody standards, Spicers was assessed on a number of standards for quality system requirements, purchasing and receiving, processing, shipping and sales, labelling, logo use and public information. To retain certification Spicers will be required to undergo annual audits. The certification ensures Spicers can provide certified papers to the commercial print and end user markets across the west and midwest of the United States.

The Paper Company (PaperCo) in the UK received FSC and PEFC accreditation following successful completion of a rigorous systems audit conducted by BM Trada. In Asia, SGS Hong Kong has awarded preliminary chain-of-custody certification to Spicers Hong Kong through the SGS timber tracking programme.

Spicers Paper in Australia was also awarded FSC chain-of-custody certification.

Green Paper Products

All of our operating companies stock a variety of recycled products or environmentally certified grades to meet varying customer requirements.

The Paper Company in the UK launched 9lives™ in January, a range of 'born again' coated woodfree papers and boards. With 80 per cent recovered fibre content, 9lives™ 80 is produced from 10 per cent packaging waste, 10 per cent best white waste, 60 per cent de-inked waste fibre and 20 per cent virgin Totally Chlorine Free (TCF) fibre sourced from sustainable forests. 9lives™ 80 was also launched in Australia by Spicers Paper. 9lives™ 55 is manufactured from 25 per cent post-consumer waste, 30 per cent pre-consumer waste and 45 per cent virgin elemental chlorine free fibre sourced from sustainable forests. Since launching the brand, 9lives™ has gone from strength to strength with many corporate specifications and sales growth ahead of expectations. PaperCo is looking to build on this success by extending the 9lives™ family to include uncoated recovered fibre containing products specifically in the copier, cover and text sectors.

In the UK, the Robert Horne Group is supporting the Tree Council's National Tree Week. For every ream of recycled or Forest Stewardship Council (FSC) certified product sold until 22 November, Robert Horne Business Papers will donate 1 pence, with £20,000 expected to be raised. The funds donated will pay for 4,000 trees to be planted during this year's National Tree Week from 22 November to 4 December 2005.

Spicers Paper in Australia continued its partnership with Landcare Australia donating \$100 for every tonne of Tudor RP 100 per cent recycled stock sold. Funding obtained through the Spicers Paper Recreate Programme goes towards the rehabilitation of landfill sites.



9lives™

Merchandising continued

Reduce, Reuse, Recycle

Over the next 12 months our operating companies across the Group will be working towards reducing their environmental impact particularly in the areas of waste, through the introduction of a recycling programme, and reducing energy usage. Not only do these environmental initiatives benefit the environment with recycling helping to reduce landfill, but they translate into cost savings.

As part of The Paper Company's continuing compliance to BS 8555:2003, in July 2003 it embarked on a campaign to increase recycling across its seven companies in 26 locations. Plastic stretch wrap, office waste paper, toner cartridges and the broken pallets and top boards were all recycled with outstanding results. From July 2003 to June 2004 employees recycled 50 per cent of all waste produced saving £40,800. Over the last 12 months the results continued with 52 per cent of waste produced recycled resulting in further cost savings of £65,000.

To emphasise the importance of sustainable business and encourage environmentally responsible behavioural change, Spicers Paper and Dalton Fine Paper in New Zealand introduced personal sustainability rewards. Employees were encouraged to save electricity or reduce landfill at their homes and were rewarded with grocery vouchers to the value of their saving or a fuel voucher for waste minimisation projects. Employees responded well to the programme with many families reducing their electricity savings by 15 per cent compared to the period in the prior year, and several vouchers were distributed for compost projects to reduce the impact of individual families on landfill.

Australian Paper

Sustainability Charter

Paper products continue to perform an essential role in our day-to-day lives. In a world where our lifestyle depends on so many things made from non-renewable resources, it remains a unique fully recyclable product. Australian Paper recognises that in the production of paper products there are impacts and our customers have a choice about the products they use. Australian Paper is proud of its performance and always seeks opportunities to improve.

We are committed to meeting our customers' needs by producing paper products in a sustainable manner, utilising raw materials processes that achieve continuous improvement in our environmental, safety and social performance. We are also committed to reporting on our environmental performance as we seek out opportunities to continually improve.

Environment

Australian Paper's environmental commitment applies to all levels of our organisation and will be maintained within ISO 14001 certification and associated management systems. Key areas for future success will be:

Minimising resource usage (energy, fibre, chemicals).

Minimising waste production (air, land and water).

Maximising recycling capabilities in both our operations and our products. Each of our operational areas is responsible for implementing these environmental commitments.

People

Three groups of people guide our operation's success: our customers, our employees, and the communities in which we operate.

Customers: we will provide product options and information for our customers to support them to make informed decisions about purchasing the products we manufacture.

Employees: our objective is to be the 'employer of choice' in which all members of our workforce are treated with respect and employed within strong principles of equal employment opportunity, ethical behaviour and in a safe workplace.

Community: our commitment is to provide environmental leadership, economic support and open relationships.

Suppliers

We will insist that our suppliers act in a legal and sustainable manner and are committed to continuous improvement. In particular, we will ensure that fibre and forest product suppliers implement sustainable practices.

We will consistently review supplier performance against our standards.

Australian Paper continued

Fibre Supply

The fibre used to manufacture pulp for Australian Paper's products comes from a variety of sources but we do not source any fibre, either as timber or pulp, from old growth forest. All imported fibre is elemental chlorine free (ECF) and comes from suppliers in Brazil, Chile, Canada and New Zealand certified to either ISO 14001 or Forest Stewardship Council (FSC).

At Maryvale, our largest mill located in Gippsland, Victoria, we operate three pulp mills and a waste paper processing plant. Sixty-four per cent of fibre comes from sources certified by the FSC and approximately 10 per cent from wastepaper. The remainder is sawmill residue or reject logs from harvesting for saw logs from hardwood forests owned and managed by the Victorian State Government in Australia.

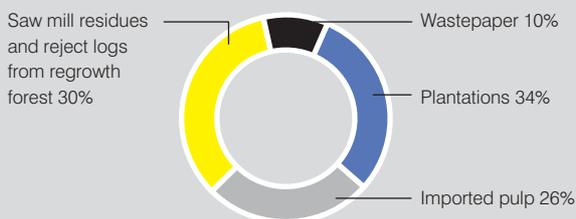
Regional Forest Agreements formally accredit these areas as part of Victoria's Ecologically Sustainable Forest Management System. The areas being harvested operate in accordance with the Code of Forest Practice, local management prescriptions and associated State and Federal Acts and Regulations which limit yields to sustainable levels. By June 2006, Victorian State-owned timber will be certified under the Australian Forest Standard (AFS). The AFS was developed in October 2002 through a multi-stakeholder process involving scientific, government, conservation, industry, retailer and consumer interests. For further information please visit www.foreststandard.org.au.

As fibre from hardwood plantations becomes increasingly available in the region around the Maryvale Mill, Australian Paper will significantly increase the amount of plantation fibre used.

At the Shoalhaven Mill in southern New South Wales, 40 per cent of its fibre requirements is derived from waste. Pulp produced from recycled milk and juice cartons, magazines and waste paper is sourced from various suppliers within Australia. The remaining 60 per cent is imported from Brazil, Chile, New Zealand and Canada and a small amount of specialty pulp is sourced from the US.

In Tasmania, the Wesley Vale and Burnie Mills operate two

Fibre Source



mechanical pulp mills and the fibre is sourced from ISO 14001 certified suppliers or plantations. The remaining fibre is imported from New Zealand, Canada, Thailand, Chile and Brazil.

Recycling

Every year Australian Paper diverts around 80,000 tonnes of wastepaper, the equivalent of 21 Olympic-sized swimming pools, from Australian landfill. This wastepaper is mixed with virgin fibre to manufacture packaging products and Australian Paper's leading recycled grades Reflex™ Recycled and Australian™.

Australian™ 80% was launched in November to complement the existing range of Australian™ 10% which is available in A4 or A3 sizes. Australian™ 80% is manufactured at the Shoalhaven Mill using fibre from milk and juice cartons and wastepaper from office, printer converters and industrial sources.

Reflex™ Recycled contains 35 per cent recycled content sourced from Amcor's Recycling Facility in Fairfield in Victoria. Amcor sources this wastepaper from home, office and industrial sites, printers and paper converting plants which would otherwise be dumped into Australian landfill. The ratio of 35 per cent recycled to 65 per cent virgin fibre results in clean bright paper with the same whiteness as market leading Reflex™.

Water

Water is a major component in the manufacture of paper and we are committed to continually reducing our use of water through water recycling and re-treatment. In the last 12 months our water usage has decreased by 7 per cent across our four mills.

At Maryvale, the M5 paper machine has been specifically designed to recycle and reuse water up to 12 times in the production process and the machine is one of the most efficient users of water in the worldwide paper industry.

We operate at levels well under our current licence limits and this will remain the case following the upgrade of our Maryvale pulp capacity even after increasing the total tonnes of pulp manufactured.

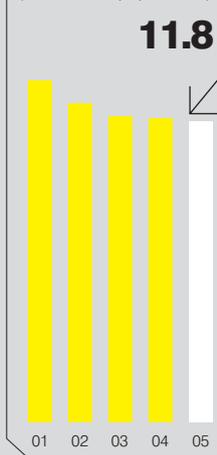


Energy

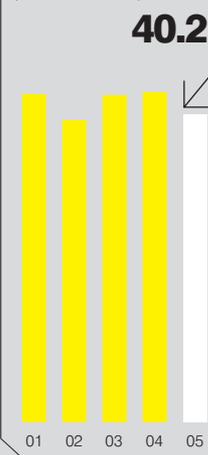
A variety of energy sources, including renewable energy from hydro or wind power and electricity produced from fossil fuels, are used across our mills. We continually seek to maximise our on site power generation capabilities using power recovered from our own manufacturing processes. At Maryvale, 60 per cent of the power supply is produced on site using waste material including wood waste/biomaterial and our Tasmanian mills use hydroelectric and wind farm power for 92 per cent of their energy requirements.

At our Maryvale Mill we have reduced our energy use from fossil fuels per tonne of paper produced by 46 per cent over a 10-year period and a further 1 per cent improvement across our four mills over the past 12 months.

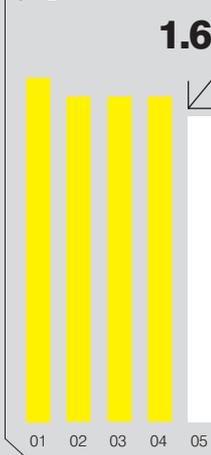
Energy Use From Fossil Fuels
(GJ/tonne of paper as %)



Water Consumption
(Water m³/tonne)



Emissions
(CO₂ emissions/tonne of paper as %)



Environment Management System

Each of our four mill sites has a site-specific environmental management system (EMS) with the processes and procedures to control activity and enable compliance with legal requirements. Over 30 Australian Standards and 11 Codes of Practice covering environmental issues relating to the manufacture of paper are addressed within each EMS.

In addition, all sites operate under detailed environmental licences issued by State or Federal Government environmental protection agencies and the EMS is consistent with the International Standard ISO14001 for Environmental Management. Performance against the EMS is assessed by external auditors undertaken by SAI Global and Det Norske Veritas (DNV), recognised world leaders in environmental auditing.

Emissions

Australian Paper has strict parameters and continuous monitoring for all major emissions into the atmosphere. At all times our mills seek to maintain their operations within their licence limits and are working towards reducing and eliminating emission sources. Since 1999, Maryvale Mill has reduced odour emissions by 60 per cent as a result of continual improvement of our operating procedures. Over the past 12 months carbon dioxide emissions were reduced by 6 per cent across our four mills.

Environs

During the year Australian Paper launched an environmental programme called Environs, outlining its ongoing commitment to continuous improvement in the manufacture of quality paper products. The sales and marketing team visited customers, merchants and end users to discuss evolving environmental issues and brief them about the environmental credentials of Australian Paper's products. For further information please visit www.australianpaper.com.au.

Maryvale Pulp Mill Upgrade

At the end of August 2005, the PaperlinX Board approved the upgrade of the pulp capacity at Maryvale Mill and the installation of a new 210,000 tonne elemental chlorine free (ECF) bleach plant. This project is due to be completed by 2008 and will provide benefits on several levels: economic, social and environmental.

Economic Benefits

On an economic level, this plant will help Australian Paper improve returns, while producing a significant economic dividend for Australia. It will add value in Australia to a resource that is otherwise exported and will reduce Australia's pulp and paper balance of payments deficit.

Social Benefits

On a social level, Maryvale Mill is a major employer and contributor to the regional economy of Gippsland. This upgrade will help underpin the long-term position of this key employer and is expected to generate 200 new full time jobs in the region.

Environmental Benefits

Environmentally, this mill will have significant positive impacts. ECF pulping removes chlorine from the bleaching process and the new bleaching plant will achieve world-class environmental performance. The overall environmental impacts of the site will reduce, with improvements in air, land and water management.

This \$192 million investment plus capitalised interest of \$11 million is a key element in moving Maryvale forward. Additional fibre requirements will ultimately be met by plantations. In the case of softwood plantations we will immediately be able to supply the additional 200,000m³ of fibre needed. In the case of hardwood, the additional 200,000m³ will initially come from diverting woodchips currently being exported. These are by-products of the harvest of saw logs for the local sawmilling industry out of sustainably managed, state owned forests. New hardwood plantations will be established in the region by a third party to supply this fibre by 2017.

Furthermore, as part of this development, Australian Paper is committed to using eight to 10 Ml/day of 100 per cent recycled water from the local water authority once its new water recycling facility becomes operational. Use of this recycled water would be a direct substitute for fresh water input to the mill.

Glossary

CO ₂	Carbon dioxide is the main greenhouse gas that results from burning petrol, coal, oil and natural gas.
Coated paper	Paper with a uniform application of a coating to provide maximum smoothness and ink holdout in the printing process. The coating (a mix of clay or carbonates and latex) is applied in separate coaters or in the paper machine.
Corporate sustainability	A business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments and maintaining global competitiveness and brand reputation.
Fibre	The raw material for the manufacture of paper is cellulose fibre which can be obtained from trees and recovered paper.
Fine paper	Both coated and uncoated woodfree (white) papers used for writing, printing and other graphic purposes.
Forest Stewardship Council (FSC)	An international organisation promoting responsible forest management. FSC has developed principles for forest management which may be used for certifying the management of forest holdings, and a system of tracing, verifying and labelling timber and wood products which originate from FSC certified forests.
Furnish	The specific mixture of raw materials, including pulp and chemicals, that is used to manufacture a particular grade of paper.
FTSE4Good	Created by the independent financial index company FTSE Group, FTSE4Good is a financial index series that is designed to identify and facilitate investment in companies that meet globally recognised corporate responsibility standards. Companies in the FTSE4Good Index Series are doing more to manage their social, ethical and environmental impacts, and are better positioned to capitalise on the benefits of responsible business practice.
Global Reporting Initiative (GRI)	The GRI is an independent institution that has produced voluntary guidelines for use by organisations for reporting on the economic, environmental, and social dimensions of their activities, products and services.
ISO 14001	A voluntary independently certified international standard for environmental management systems used, developed and maintained by the International Organisation for Standardisation.
Kraft linerboard	This board is used in the manufacture of cardboard boxes and is engineered to withstand varying atmospheric conditions such as extreme heat, humidity or the freezing temperatures of a coolroom.
Landfill	A disposal point for society's waste. They may be old excavations such as quarries or newly constructed sites.
Old growth forest	Forest that is ecologically mature and has been subjected to very little, if any, unnatural disturbance such as timber harvesting, roading and clearing or natural disturbance such as bush fire.
Operating company	A business owned by PaperlinX.
Paper merchant	A distributor of paper that buys large quantities of paper, board and stock from different mills from around the world and stores them in warehouses until they are required by customers. The stock is then broken down into smaller quantities to meet customer requirements.
Plantation	A forest stand established by the planting of trees of either native or exotic species, selected for their wood producing properties and managed intensely for timber production.
Pulp	The raw material used for paper production. It can be softwood or hardwood and depending on the process used may be chemical, mechanical and bleached or unbleached.
Regrowth forest	A forest that has regrown after an area has been burnt by fire or harvested for timber.
Recycled fibre	Paper and board that has been collected for re-use as raw fibre material in paper and board manufacture.
Sack kraft paper	A high strength paper used in the manufacture of multiwall paper sacks to hold products such as cement, minerals, flour, milk powder and potatoes.
Sawmilling residue	Reject logs or cuttings from the harvesting of timber for use by sawmills.
Sustainable development	Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.
Woodfree paper	Paper manufactured entirely from chemically pulped wood, (e.g. kraft pulps) as distinct from papers incorporating mechanically pulped wood or groundwood. Usually applied to fine papers.

The logo for PaperlinX is centered in a blue horizontal bar. The word "Paper" is in white, "lin" is in yellow, and the "X" is in white with a yellow diagonal slash through it.

PaperlinX

Sustainability Report

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