

IT'S ALL ON PAPER

PaperlinX

SUSTAINABILITY REPORT 2006



HIGHLIGHTS 2006

- By establishing environmental, safety and health requirements for our paper suppliers, we have enhanced the supply chain assurance for our customers.
- PaperlinX again satisfied the requirements of the FTSE4Good Index Series by meeting globally recognised corporate responsibility standards. FTSE4Good is a global equity index series that is designed to facilitate investment in companies that have met stringent social, ethical and environmental criteria.
- Shoalhaven Mill in Australia became our first paper mill to achieve Forest Stewardship Council chain-of-custody certification. In July, Maryvale Mill also achieved this certification.
- Our paper merchants, Spicers Paper in Australia, the US and Hong Kong and Robert Horne Group in the UK, maintained their Forestry Stewardship Council chain-of-custody certification, confirming their ability to trace paper back to an approved sustainable fibre source.
- The Robert Horne Group was the first paper merchant in the UK to be granted membership of the WWF-UK Forest and Trade Network, which recognised the group's commitment to the responsible sourcing of paper products.
- Our workplace safety programmes across the Group have helped to reduce the medically treated injury frequency rate by 26 per cent and the lost time injury frequency rate by 27 per cent.
- In the first year of our Leadership Development Programme, approximately 300 managers progressed through a range of training courses.

What Sustainability Means to PaperlinX

Sustainable development is most often defined as 'meeting the needs of the present without compromising the ability of future generations to meet their own needs'. For PaperlinX, this means achieving sustainable economic growth that is of benefit to present and future generations of employees, shareholders and customers without detrimentally affecting the resources or biological systems of the planet.

Report Scope

This Sustainability Report covers the operations of PaperlinX Limited's businesses and its social and environmental commitments for the period July 2005 to June 2006. We aim to broadly report against the Global Reporting Initiative (GRI), a set of guidelines for sustainability reporting that encourages tracking and measuring performance through disclosure.

CHIEF EXECUTIVE'S COMMENT

AN INTERVIEW WITH TOM PARK, MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

“We must invest in sustainability for the security of our own future and for the future of the resources we utilise, for the long-term benefit of our shareholders and other stakeholders.”



Why is sustainability critical for the success of PaperlinX businesses?

Paper is made from a renewable resource and is completely recyclable. Paper has been part of our lives for thousands of years and, if managed correctly, will continue to be.

It is our responsibility to deliver the products our customers want in ways that are sustainable. For us this means creating economic growth that benefits present and future generations without threatening the resources or biological systems of the world we live in.

What are the major sustainability challenges facing the paper industry and how is PaperlinX responding?

Environmental issues are becoming increasingly mainstream and the environmental credentials of paper products are becoming more important. So we are listening to our customers and the community and offering new environmentally certified grades and recycled products that reduce landfill waste.

We are fortunate that wood is the primary resource for paper making as it is both renewable and recyclable. Our responsibilities for managing this natural resource extend from sustainable manufacturing through to encouraging responsible, viable forest management practices from our suppliers. Every year, more of our merchants around the world are receiving chain-of-custody certification and have systems in place to audit their paper suppliers' forest management and manufacturing practices.

As one of Australia's leading pulp and paper manufacturers, we must manage our fibre supply carefully. We expect to significantly increase the amount of plantation fibre we use, and 64 per cent of the fibre used at our largest mill, Maryvale, is already from sources that are certified by the Forest Stewardship Council (FSC). We are seeking to certify all our mills to FSC standards.

What is PaperlinX doing to reduce its environmental footprint?

Every one of our businesses throughout the world has some impact on the environment and this is especially so for our manufacturing operations. As part of the Maryvale pulp mill upgrade, we will reduce odour emissions and energy use as a result of the new elemental chlorine free bleaching plant. Through this investment we are reducing our use of pulp logs and other residue from Victorian State managed forests and moving to use 100 per cent plantation sourced fibre for printing and communication papers produced at Maryvale by 2017. We have decreased our demand for water by 8 per cent over five years and are moving towards a greater reliance on using recycled water from the local water authority, aiming for a 10 per cent increase by 2008.

How does PaperlinX support communities near where its businesses operate?

Our business has grown to more than 400 sites and 9,600 people in 28 countries, and we recognise the need to create a consistent and meaningful approach to supporting communities where we operate. We are developing guidelines and a framework for employee volunteering, charitable donations and employee giving programmes that allow our businesses to design their responses according to the needs of their surrounding communities.

Why report on environmental and social commitments?

For us, community engagement and environmental awareness are part of the way we do business.

Our environmental and social performance is key to our success. It is not only about managing and reducing our risks and how our activities are measured; it is about the way we respond to our customers, our employees and the communities where

we operate. Improving in these areas is part of my own performance criteria and is reported to the Board every month. When we set targets these are taken very seriously. Take our commitment to improving our workplace practices and safety performance; this year we have again reduced our medically treated injury frequency rate by 25.7 per cent (26 per cent reduction in 2005) and our lost time injury frequency rate by 26.9 per cent (14 per cent reduction in 2005). Rather than just respond to codes of practice or other standards, we have established a culture of environmentally responsible behaviour and continuous improvement throughout the Company, which is supported by external measurements.

How does PaperlinX help to motivate employees in a period of rapid change and challenging external conditions?

We support our people by developing their skills, looking after their health and safety and providing regular communication to help them understand the strategy of the business and their involvement in its success. We encourage teams to identify best practice initiatives and continuously improve so we can be proud to say we are the best in the business. By recognising the individual styles of our different businesses and their relationships with customers, we encourage initiative and ideas that make a difference.

I am proud of the achievements that everyone at PaperlinX has contributed to in the last year and I am confident that, together, we can continue to deliver sustainable results for all our stakeholders.

Thomas P Park
Managing Director and
Chief Executive Officer

OUR BUSINESS

Paper is our Business

Around the world, it's our business to deliver the papers our customers want. We operate 47 businesses across 28 countries, giving us the widest geographic distribution of any paper company in the world.

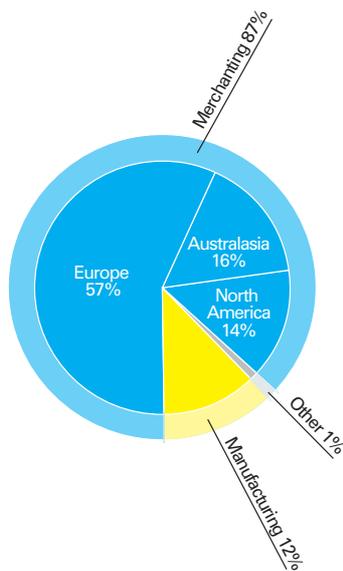
We distribute and manufacture high-quality fine paper used in offices as well as specialty papers used in brochures, magazines, annual reports and other business applications. We also manufacture packaging papers for converting into corrugated cartons, paper bags and other packaging materials. And we are expanding our offerings in sign and display and industrial packaging and graphics.

Our operations are based on solid knowledge of paper. The companies that today make up PaperlinX have been making paper in Australia since 1939 and have distributed paper in Europe since the 1600s.

Sustainability is central to the way we work and to the success of our business in the future. For us, sustainability means long-term economic growth that benefits present and future generations.

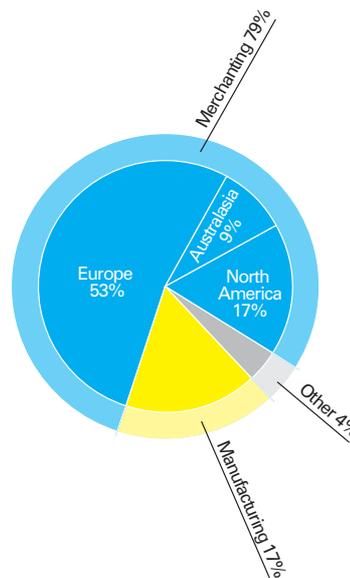
Revenue

Total Revenue \$7,413 million



Our People

Employees 9,672



Percentages calculated before intercompany sales elimination.

Operations

Countries	28
Sites	401
Manufacturing sites	4

Financial Profile

Total revenue (A\$m)	7,413
Earnings before interest and tax (A\$m)	152.4
Sales volume (before commission sales) ('000 tonnes)	4,248

MANAGING SUSTAINABILITY



Management and Policy

Good performance in health, safety and the environment are key strategic issues for PaperlinX. A Board Committee consisting of four Non-executive Directors convenes with the Managing Director on a quarterly basis to consider safety and environmental issues that may have strategic, business and reputation implications for the Group.

The PaperlinX Board's Safety and Environment Committee reviews policies and monitors compliance with those policies; assesses management systems, standards and practices; and reviews significant incident investigation reports. The Committee also regularly visits sites within the Group in order to gain first-hand knowledge of our operations and performance.

During the year the Committee visited the Maryvale Mill in Australia, reviewing the mill's Strategic Plan for 2004 to 2010, the pulp mill upgrade project, the 'Search for the Future' process and safety strategies. The Committee also visited our PaperlinX Europe headquarters in Amsterdam and looked specifically at environment, safety and health (ES&H) management in Europe and the integration of the Buhrmann group of companies into the PaperlinX ES&H programme.

A Global Approach

The Company has a multifaceted approach to environmental management that encompasses an Operations Management System (OMS) as well as identifying and implementing strategic priorities.

The OMS provides a framework for managing ES&H through performance requirements for all operational activities. These cover risk management, legal compliance, improvement, roles and responsibilities, training and compliance, communications, documentation, operational control, emergency response, contractor management, incident reporting, record keeping and auditing.

In addition, we have identified key strategic priorities for the coming three-year period that will add significant value to the Company's ES&H management. They include developing ES&H capabilities and proactive behaviours throughout the Group, improving the implementation of the Contractor Management System to ensure that defined standards are met globally, and implementing a global vehicle and traffic risk reduction initiative.

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

In pursuit of these commitments, we recognise that our products and operations have an impact on the environment and that we must continually improve our performances 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 by insisting they act in a legal and sustainable fashion and are committed to continuous improvement.

OUR STRENGTH – PEOPLE AND CULTURE

Achievements

- A global talent management strategy was developed to support the attraction and retention of key talent.
- Continued the focus on development initiatives across the Group and launched a global Strategic Selling Programme.
- Reduced the medically treated injury rate by 26 per cent and the lost time injury rate by 27 per cent across the Group.
- Our Wesley Vale Mill in Australia won the Tasmanian 2005 Workplace Safety Award for 'best solution for an identified workplace health and safety issue' and the National Safe Work Australia Award.
- Our Maryvale Mill in Australia won a New Apprenticeship Award in the 2005 Minister's Award for Excellence for Employers of New Apprentices.
- Launched a global PaperlinX extranet site to encourage online best practice sharing between our businesses in different countries.

Goals

- Develop and launch a global health and wellness initiative.
- Continue the development and implementation of our Vehicle and Traffic Risk Reduction Programme to reduce accidents in warehouses, transport fleets and sales fleets.
- Obtain a further 10 per cent reduction of our medically treated and lost time injury rates across the Group.
- Roll out the Strategic Selling Programme to over 500 key sales staff.
- Implement the Future Workforce Management Plan.
- Develop organisational values through a consultative process involving all areas of the Company.

We are committed to providing opportunities for everyone to work effectively and develop their skills. We recognise that our people and our culture are key competitive advantages. By strengthening the overall culture of the Company and the performance of individuals we aim to maximise these strengths.

Developing our Culture

Our operations span 28 countries and incorporate many languages and backgrounds among our people. Creating a strong and cohesive culture across the Company is therefore a key priority for us. To encourage this we bring global teams together to address common best practice opportunities and provide opportunities for individuals to work in different countries on both short and long-term assignments.

In the coming year we will strengthen our culture through the development of organisational values. This will include input from all areas of the business and provide a shared set of values across the Group.

Our operating principles provide a directional framework for everyone at PaperlinX, while allowing local leadership

and entrepreneurial skills to flourish. These principles are brought to life every day as they guide decision-making. Business strategies and new initiatives are regularly communicated to our people in a range of different ways: *ConneXions* quarterly internal magazine is published in five languages; regular team briefings; video messages; and websites are made accessible for all employees.

We also regularly seek feedback from employees on all aspects of the employment cycle through internal surveys. At the Robert Horne Group in the UK, nearly 80 per cent of employees responded to the *Have Your Say* survey, which explores employee satisfaction. The results show a continuing trend of very high levels of satisfaction with the working environment.

FROM LITTLE THINGS BIG THINGS GROW

PaperlinX's culture is shaped by our global policies and practices, but it is also formed by the local activities initiated by our businesses. These activities contribute to the achievement of the Company's vision, making PaperlinX a great place to work.

As an organisation we are aiming to become more consistent in taking pockets of excellence across the broader Group.

Spicers/Dalton New Zealand again offered incentives to encourage employees to extend their commitment to environmentally responsible behaviour by adopting waste organisation initiatives at home.

At the Robert Horne Group in the UK, the Company has developed 'Above and Beyond', an incentive scheme to further enhance levels of customer service. Colleagues nominate fellow workers through the intranet or offline through the internal post system. Every person nominated receives a letter of encouragement from the Managing Director and a small gift recognising their achievement. All nominations are entered into an annual judging by the executive Board with prizes awarded to the best performers.

Spicers Paper in Australia runs 'Go MAD (Making a Difference) with Ideas', a national programme to encourage their people's creativity and innovation towards continuous improvement.



OUR STRENGTH – PEOPLE AND CULTURE

An online forum was launched on our global extranet site this year to facilitate sharing ideas and information among our businesses.

This year, research was undertaken with a sample of employees to review internal communication activities and their feedback will be used to refine Group-wide communications going forward. One of the greatest challenges is providing information that is relevant and meaningful for our diverse businesses in different countries.

Strengthening our Leadership

Our Leadership Development Programme, which was initiated in 2004/05 with senior managers, was extended during the year to include additional management levels within the Company. This five-and-a-half-day programme brings people together from different business areas and focuses on developing their leadership behaviours and their understanding of the drivers that maximise our business results.

We also implemented a global talent management strategy during the year. The strategy involves a comprehensive approach to the identification, development and retention of our organisational talent. As PaperlinX grows and changes to meet customer needs, we need to ensure we have the right blend of talent to build a long-term sustainable business and this means understanding and developing our people.

Learning and Development

The development of the people who work at PaperlinX is a key priority in maximising our performance. This is not just about training programmes, it also encompasses the way in which we recruit people; career planning, providing leadership, opportunity and challenge; the values and culture of the Company; managing diversity, policies that support people to work to their best; and effective communication.

We have developed a Future Workforce Management Plan that will be implemented throughout the businesses over the coming year. It identifies the Company's anticipated needs, market trends and the resources available within the Company as well as the development of our people.

Strategic Selling Skills

Our ability to compete effectively is dependent on the skills of our sales teams. During the year, a team of people drawn from all areas of our business developed a Strategic Selling Programme to create a value-added sales culture. This three-day programme was piloted with sales management teams from the US, Canada, Europe and Australia and will be further rolled out to over 500 sales people who manage major accounts during 2006/07.



ENCOURAGING DIVERSITY

Making paper is a traditional skill that many people at Australian Paper have learnt 'on the job'. However, that is not the only way that people start in this industry. Ruth Obendorf started at Australian Paper as a Machine Support Officer at the Burnie Mill in Tasmania in October 2002 after completing a science degree in chemistry and marine biology.

Prior to joining Australian Paper, she had worked in Melbourne for a change management research group and as an organic chemist specialising in marine organisms.

Her current position as Operations Support Superintendent at the mill involves leading a team that is responsible for 'all the ins and outs of Burnie Number 4 Paper Machine', which makes approximately 50,000 tonnes of paper each year across 14 grades.

Ruth says that the nature of the job is always changing and that it takes a reasonable amount of time to learn the technical aspects of making paper. For her, the most rewarding parts of her job are the people she works with, the management skills she has developed and the opportunity to rise to challenges she thought she would never be able to tackle.

Workplace Safety and Wellbeing

Workplace safety is a key priority for everyone at PaperlinX. Yet the Company recognises that safety at work goes beyond minimising the risk of injury. It includes taking action to promote personal wellbeing. As part of the Company's commitment to wellbeing, there are local programmes to increase awareness of the personal benefits of a balanced lifestyle. These include health checks, first aid training and a range of Employee Assistance Schemes that offer counselling, advice and practical support to employees in need. One of the priorities for the Company in the coming year is to provide structure and sustainability in this area through a global health and wellness initiative.

Achieving our goal of zero accidents and injuries requires not just a focus on the physical work environment, but also the systems and processes we use and the culture of the organisation. A global steering group provides overall direction on the Safety and Health Strategic Plan and members of the health and safety community proactively develop and promote safe workplace behaviours throughout the Company. Members of our Global Safety Audit team have visited 52 of our largest sites over the past 12 months as part of the audit process.

Safety training is now an intrinsic part of all of our businesses. This includes refresher training in forklift operation, training for manual handling and back care, first aid training, emergency response training and legal compliance training relating to Occupational Health and Safety (OHS) laws.

At present, the key measures used to assess workplace safety across the Group are the medically treated injury frequency rate (MTIFR) and lost time injury frequency rate (LTIFR).

Using these measures, our programme has achieved significant gains, with the Group MTIFR reducing by 25.7 per cent and Group LTIFR reducing by 26.9 per cent.

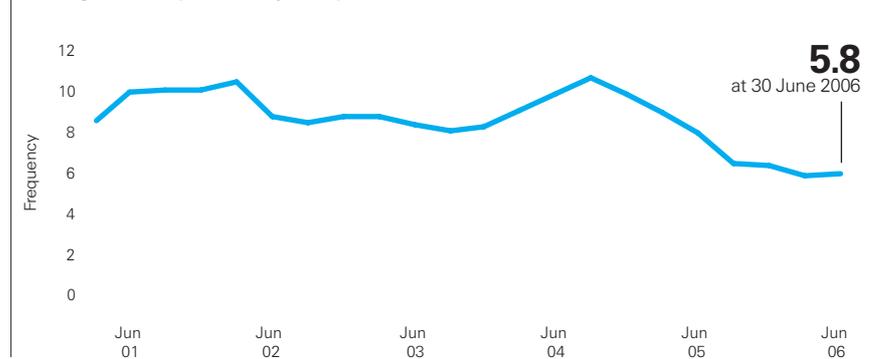
In our Australian Paper mills, progress continues to be good with a reduction in the MTIFR of 28.0 per cent and the LTIFR of 15.5 per cent.

In the Australasian Paper Merchanding group, the MTIFR was reduced by 22.7 per cent and the LTIFR by 26.9 per cent.

With another full year to integrate the European companies acquired from the Buhmann group, the European Paper Merchanding group achieved a reduction in the MTIFR of 23.0 per cent and the LTIFR by 24.5 per cent.

The Canadian and US Paper Merchanding businesses achieved reductions in their MTIFR of 17.7 per cent and LTIFR of 32.2 per cent. This includes results from the integration of the Kelly Paper business from 42 localities into the business, as well as the more recent acquisition of Cascades Merchanding, now named Spicers Canada.

Rolling Quarterly LTIFR (injuries per million hours worked)



Safety is a key focus for everyone working at our largest manufacturing facility, Maryvale Mill in Victoria's Latrobe Valley in Australia.

A serious safety incident prompted a renewed focus on making safety 'part of the way we all work'. A mill-wide consultation, issues identification and problem-solving programme commenced in July 2005, driven by an employee-led taskforce with representation from all areas of the mill's operations and unions.

The recommendations that the taskforce identified have now been implemented.

People from the operating areas of the mill were appointed to 12-month secondments as Health and Safety Assistants. They take on the challenge to work within the mill on day-to-day safety issues. This expanded team of 'safety champions' is expected to progressively build greater awareness of safety throughout the site.

"As Health and Safety Assistants we have a chance to help raise the level of awareness of safe work practices on the site. We'll not only have the ability to have input into the implementation of proactive systems and projects, but we'll be able to report on the effectiveness of these programmes to the decision-makers by observation and communication with all personnel on the site. This role gives every person at Maryvale an avenue to ensure our site's future," said Peter Freeman, Health and Safety Assistant

Left to right: Frank Murtagh, Michael Everett, Peter Dyke, Ian Moule, Bill Van Sambeek, Colin Peterson and Ben McLean. Members not present in photo: Greg Stewart, Leo Galea, Jenine Smith, Peter Berryman, Russell Donoghue.

OUR COMMITMENT – WORKING WITH COMMUNITIES

Achievements

- We contributed \$910,785, including employee contributions, to hundreds of community programmes and not-for-profit organisations around the world, including disaster relief for Hurricane Katrina in the US and Cyclone Larry in Australia.
- We developed a framework for a global community relations programme including scoping of an employee giving scheme.
- Robert Horne UK completed the second year of an ongoing partnership with the Marie Curie Cancer Care charity.
- A range of local programmes were ongoing in their support for communities around our sites.
- In 2005/06 our global community investment was equivalent to 1.37 per cent of our reported profits.

Goals

- Develop community involvement guidelines to guide our businesses.
- Set up a steering committee to oversee a global community investment programme.
- Review our practices of allocating funds to a range of non-profit community groups and organisations.
- Develop a process to value our contributions to community investments across the Group.
- Develop a framework/management tool to measure our community commitments.
- Explore participation in the Global Compact, the United Nations voluntary corporate citizenship initiative adhering to 10 principles relating to human rights, labour, anti-corruption and environmental issues.

PaperlinX has a strong commitment to working with the communities we operate in. With operations in 28 countries, many of our businesses support a wide range of local community groups, schools, charities and voluntary organisations by providing financial support and in-kind paper donations. We support our employees' involvement in fundraising and volunteering in the community.

Each year the Committees develop an Environmental Improvement Plan that forms part of the site's overall Environmental Management Plan. These plans have addressed issues such as odour reduction and improvements in water and energy usage at the mills and the Committees are a valued part of the overall communications between the Company and the communities we are part of.

a budget to implement and develop their ideas. A judging panel then selects the overall winner, who receives a cash prize, paid work experience with a reputable Australian graphic design studio and a tour of a paper making mill.

Leadership Victoria

Since 2002, as part of the Company's commitment to enhancing leadership within communities and supporting our people to make a contribution to their community, PaperlinX has been a major sponsor of Leadership Victoria in Australia. This not-for-profit organisation promotes leadership skills for community benefit through an annual programme that enhances the leadership capacity of participants from the public, community and private sectors, while supporting over 150 community organisations by placing volunteers in community projects.

Employee Involvement

Our businesses are actively involved in raising funds for local events and good causes. Whether it is supporting the Leukaemia Foundation by taking part in the World's Greatest Shave, holding a charity BBQ to raise funds for a local children's charity or walking the 320 kilometres from Seattle to Portland in the US for charity, PaperlinX and our people are proud to support the communities we are part of.

Coast Paper in Canada continued its tradition of supporting local organisations by supporting the United Way campaign for the first time and matching employee donations. Their annual Coast Paper Christmas Drive involved collecting over 4,000 donated gifts to benefit 9,000 people in need.

At each of our mill sites in Australia we work with nearby communities on continuously improving our environmental performance, and we host regular public tours and open days.

In 2005/06 the Company set a number of targets for our work in the social area. As we progressed in these areas, it became evident that additional work needed to be done to collect information on our existing activities and ensure that our strategies were properly aligned to the needs of the business and our stakeholders. As a result of this need for further planning, we did not achieve all of the targets we set for ourselves in 2005/06. We have now established targets for the year ahead that we believe are aligned to our business.

Community Relations

Community Consultative Committees

To better understand the needs of the communities we are part of and to obtain feedback on our operations, there is a Community Consultative Committee at each of the Company's four manufacturing mills. These long-standing Committees are made up of people representing diverse organisations who have an interest in the mills' operations.

Community Partnerships

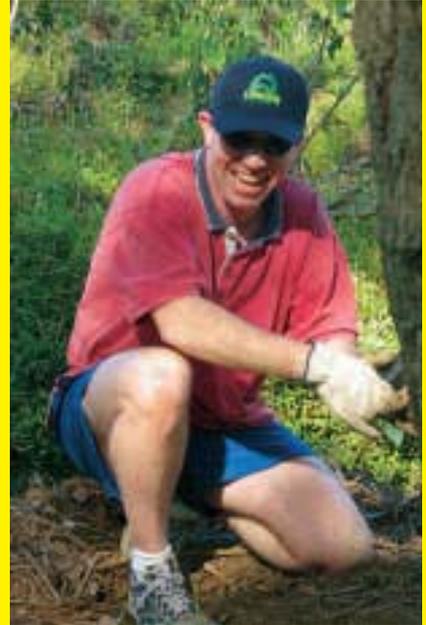
Spicers Paper US Provides Hurricane Support

After forming a distribution partnership in September 2005, Spicers Paper in the US and Boise Paper teamed up again to raise funds for the victims of Hurricane Katrina that struck the south east coast of the US in August 2005. Spicers Paper contributed US\$25,000 to the American Red Cross with Boise Paper agreeing to match the funds. Their support assisted the millions of people who lost homes, belongings and family members in this devastating hurricane.

Paper Education

Many of our businesses are actively involved in providing paper education and supporting the professional development of the design and printing communities. Spicers 'Paper Knowledge Workshop' and Robert Horne's 'Know How Academy' are two such examples.

Saxton Scholars is Australian Paper's annual competition that supports communication design education across Australia. Tertiary students are invited to conceptualise and develop a graphic design or visual communication project where creativity is the key and there are no limits to how students can respond. The top three finalists are each awarded



SPICERS PAPER HELPS RECREATE LANDFILL SITES

Since 2003, Spicers Paper in Australia has 'put its money where its mouth is' in caring for the environment. Partnering with Landcare Australia, the Spicers Paper Recreate Programme aims to rehabilitate ex-landfill sites through cleaning up and planting. Through funding supported by a percentage of sales of *tudor*® *RP 100% Recycled* paper, several restoration projects around Australia have been undertaken. Rehabilitated areas include Imaroo Street

at Merri Creek, Victoria; Wirranendi Parklands in Adelaide; Marks Park, Tamarama, NSW; Belmont, near the Swan River, in WA; and the Demonstration Catchment in QLD.

tudor® *RP 100% Recycled* is made from materials that might otherwise end up as landfill, namely office papers, offcuts from printing and envelope manufacturing processes and collected milk and juice cartons.

ROBERT HORNE SUPPORTS UK CANCER CARE

Traditionally, the Robert Horne Group of paper merchants has supported many different charitable organisations in the UK. It was felt that focusing on one single charity that was relevant to the majority of employees would be a more appropriate approach. Employees were surveyed and they chose to support the Marie Curie Cancer Care charity to make a difference to the lives of people with cancer.

Marie Curie Cancer Care provides high-quality nursing totally free, to give terminally ill patients the choice of dying at home supported by their families. Marie Curie nurses provide almost 800,000 hours of practical nursing care at people's homes every year, made possible only through charitable donations.

Robert Horne is supporting Marie Curie with funding of £10,000 per year over three years and employees are encouraged to get involved in a range of additional fund-raising events at a local level to support the charity. So far, employees have raised over £5,700. The company also makes its premises in Northampton available to the charity for meetings and events, saving them significant costs over the year, and donates paper as required. For more information see www.mariecurie.org.uk.



OUR SHARED FUTURE — THE ENVIRONMENT

Achievements

- Completed the first stage of the two-year Sustainability Action Plan to quantify the Group's environmental impact.
- Established environmental, safety and health requirements for PaperlinX paper suppliers to enhance supply chain assurance for customers.
- No significant environmental breaches or non-compliance with environmental regulations.
- All manufacturing sites maintained ISO 14001 certification.
- Shoalhaven Mill in New South Wales and Maryvale Mill in Victoria both achieved FSC chain-of-custody certification.
- Australian Paper achieved preferred supplier status with a number of government and corporate customers on the basis of environmental performance.
- Maryvale's pulp mill and bleach plant upgrade was granted works approval and is progressing on track.
- Built constructive relationships with environmental groups such as World Wildlife Fund (WWF) in Australia and the UK.

Goals

- Complete stage two of the Sustainability Action Plan; and from our baseline, improve on our performance across the Group:
 - by reducing energy consumption by 2 per cent; and
 - reducing waste production by 2 per cent.
- Continue the focus on further improving recycling of waste at each of our major sites around the world.
- Achieve FSC certification for our Tasmanian mills.
- Show environmental leadership by achieving FSC certification for Australian Paper's key products.
- Continue progress on the Maryvale pulp mill upgrade in Victoria, Australia.
- Identify opportunities to collaborate with key environmental groups on sustainability issues.

Through our Sustainability Charter, we are committed to providing our customers with product options that have strong environmental credentials, while also reducing the environmental footprint of our operations, wherever possible. This is not an add-on to our business because it is expected of us. Our environmental approach is part of our sustainable business model.

Spreading the Word

Each of our businesses works closely with customers to communicate the high environmental standards of our products.

Across our Merchenting businesses, we regularly provide environmental information to our customers about the products they purchase, and have secured a number of government and corporate customers as a result.

Australian Paper has produced *Environs*, a comprehensive report covering our position and performance on all aspects of the environmental and social credentials of our paper manufacturing operations.

In the UK, staff at the Robert Horne Group also found there was a need to explain more about our efforts towards sustainability. A regular bulletin, *The Leaflet*, updates customers, employees and other stakeholders on specific environmental initiatives in our Paper Merchenting operations.

Working with Suppliers

Of course, with a business that spans 28 countries and hundreds of paper products, no one certification system will be appropriate for all products. To ensure that we can provide the certainty customers are looking for across our full range of products, PaperlinX has documented environmental, health and safety requirements that our paper suppliers must conform with. The requirements include:

- compliance with all regulatory requirements in the countries in which the supplier operates;
- established environmental management systems (EMS) and independent third-party certification of these systems;
- independent third-party certification of appropriate sustainable forest management standards. This could include Forest Stewardship Council (FSC) or the Program for Endorsement of Forest Certification (PEFC) as well as a range of other certification systems; and
- annual reporting from the supplier to PaperlinX against these areas.

PAPER IS A WONDERFUL MATERIAL MADE FROM A NATURAL RESOURCE THAT IS RENEWABLE. PRODUCED IN A SUSTAINABLE PROCESS, IT REMAINS A UNIQUE RECYCLABLE PRODUCT.

RENEWABLE



SUSTAINABLE



RECYCLABLE



ENVIRONMENT – PAPER MERCHANTING

Environmental and sustainability issues are high on the global agenda, especially when it comes to the use of paper. Our customers, governments and the broader community all have an active interest in these areas.

As paper merchants we are the link in the chain that takes products from mills to commercial printers, envelope converters, stationers and resellers, corporate printers, publishers and end users.

We believe that it is important to be able to demonstrate that the wood fibre used in the papers sold by our merchants is sourced from sustainably managed forests. Certifications systems, such as the FSC's accreditation process and the PEFC provide assurance to customers.

The FSC is one of the leading global certification systems and is supported by the World Wildlife Fund and Greenpeace. We support this and other independent certification systems.

A number of our businesses have been actively involved with the FSC and have achieved chain-of-custody certification. During the period, the Robert Horne Group in the UK and Spicers Paper in Australia, the US and Hong Kong retained this level of certification. This is recognised as a global standard in forest certification and the chain-of-custody component ensures that the final product can be traced back to its original source.

In the UK, the Robert Horne Group was the first UK paper merchant to be granted membership of the World Wildlife Fund's Forest and Trade Network. This provides a framework that enables companies to identify and move towards products from credibly certified forests. They have also published a Responsible Paper Purchasing Policy and agreed to work towards targets set in collaboration with the environmental group.

Providing Green Products for Our Customers

Throughout the world there is growing demand for recycled and environmentally certified paper stocks and our Merchanting businesses are well positioned to meet our customers' requirements.

As part of our commitment to providing the products our customers want, many of our businesses now sell papers bearing the FSC logo, which traces back to the FSC certified wood used in their production.

One of the first UK products offered with FSC chain-of-custody certification is 9lives™ 80. This is made from 80 per cent recycled fibre and 20 per cent totally chlorine-free pulp and is available in gloss and silk finishes.

In Australia, Spicers Paper's flagship brand of 26 years, Monza® Recycled, received FSC certification as a mixed source product in April 2006. Monza® Recycled is produced from recycled fibre, pre-consumer and post-consumer waste and FSC certified pulp.

The revive™ brand range offers printers and end users a comprehensive choice of different finishes and recycled fibre content, with many of the options also being FSC certified. revive™ has emerged as the strongest recycled paper range in the UK. It is also proving to be a successful international brand, with demand growing in Australia, the US and Asia. In the US, our businesses have created Sustainable Advantage Grades of paper for customers who want to make socially and environmentally responsible choices about the products they use.

Reduce, Reuse, Recycle

Over the past 12 months our merchanting operations have been working towards reducing their environmental impact, particularly in the areas of waste recycling and reducing energy usage. In our offices, there is a greater emphasis on recycling office paper, glass bottles and cans. Our warehouses are increasing the recycling of wooden pallets, the plastic stretch wrapping that protects paper and paper offcut waste.

For example, at Robert Horne's national distribution centre in Northampton, UK, over 1,000 tonnes of rubbish are created every year. By implementing new recycling and waste management procedures they are aiming to increase their recycling rate from 30 per cent to 50 per cent in the next year.



ENVIRONMENT – PAPER MANUFACTURING

Australian Paper manufactures paper in three states in Australia, producing approximately 1,000 grades and weights of paper that are used every day in Australian homes and businesses. These products include coated papers, coloured papers, security papers, watermark papers, packaging papers, copy papers, offset printing papers, bag papers and recycled paper in both sheet and roll forms.

Australian Paper recognises that in the production of paper products there are impacts and that customers have a choice about the products they use. We are committed to meeting customers' needs by producing paper products in a sustainable manner, utilising raw materials and processes that achieve continuous improvement in environmental, safety and social performance.

Sound Environmental Management

Each of our four mills has a site-specific environmental management system (EMS) that provides the processes and procedures for compliance with environmental requirements. These include site-specific licences that are issued by Australian Federal and State Governments as well as standards and codes of practice.

Each site's EMS complies with the International Standard ISO 14001 for Environmental Management, which is the leading standard for manufacturing sites. Performance against the EMS is assessed by external auditors SAI Global and Det Norske Veritas (DNV).

In August 2005, we committed \$203 million to a new elemental chlorine free bleaching plant and pulp mill upgrade at the Maryvale Mill. The project includes upgrading the kraft pulping operations and will cut emissions of sulphur oxide by 80 per cent. It is expected to be completed during 2008.

Sustainable Fibre Sources

Australian Paper purchases wood fibre from independent sustainable forest suppliers. This fibre is sourced from sawmill residue, sustainably managed hardwood forests, managed hardwood and softwood plantations, imported pulp and waste paper. No wood fibre is sourced, either as timber or pulp, from old growth forests. We acknowledge the importance of plantation fibre and as this resource becomes increasingly available in Australia, we expect to significantly increase the amount we use. As part of Maryvale's pulp mill upgrade, the use of native State Forest timber will be phased out by 2017.

Following independent verification for adherence to FSC chain-of-custody processes, Australian Shoalhaven Mill and Maryvale Mill operations were recently certified to FSC standard. Accordingly, all wood fibre utilised in the manufacture of the Company's speciality papers meet all FSC criteria, as either FSC certified or FSC 'Controlled Wood' from well managed forests. Chain-of-custody is the path taken by raw materials from the forest to the consumer, including all successive stages of processing, transformation, manufacturing and distribution.

*We are committed to preserving the natural habitat surrounding our mills. The Giant Freshwater lobster, *Astacopsis gouldi*, is a rare species that lives in the water catchment areas around our Burnie Mill in Tasmania.*



Using Energy Efficiently

The generation of energy from fossil fuels results in the emission of greenhouse gases including CO₂. We are committed to reducing our reliance on fossil fuels to reduce our greenhouse gas emissions and are continually refining methods to maximise our on site power generation capabilities.

Our Tasmanian mills use renewable energy sourced from hydroelectric and wind farm power for 92 per cent of their energy requirements, thus reducing carbon emissions. This is one of the few paper operations in the world with negligible carbon emissions. The Burnie Mill uses poppy seed waste and wood waste, which would otherwise go to landfill, to fuel part of its operations. More than 40 per cent of Maryvale Mill’s power supplies are produced on site from waste materials such as wood waste.

Over the past 25 years, our mills have reduced their consumption of fossil fuels by more than 50 per cent per tonne of paper produced. Over 65 per cent of energy used at Australian Paper’s operations is from renewable sources.

Using Water Responsibly

Water is an essential component of paper making and we are acutely aware of the need to responsibly manage our water usage through water recycling and re-treatment. In the last 12 months our water usage has decreased by a further 0.2 per cent across our four mills. We operate at levels well under our current licence limits and our Tasmanian mills only use 22 per cent of their allocated water supplies. At Shoalhaven Mill, a natural biological treatment system constructed in 1996 has since led to a 94.1 per cent reduction in pollutant loads in discharged water. At Maryvale Mill, water usage per tonne of paper produced has reduced by 66 per cent in the last 20 years, making it one of the most efficient users of water in the worldwide paper industry.

Emissions

Australian Paper has strict parameters and continuous monitoring for all major emissions into the atmosphere. All of our mills seek to maintain their operations well within their licence limits, however, there have been times when these limits have not been met. The Company has therefore implemented a programme of further reduction and elimination of emission sources working closely with

environmental regulators to obtain our best possible performance. Over the past 12 months, there were no additional improvements in carbon dioxide emissions across our four mills. Since 1999, Maryvale Mill has shown an 85 per cent reduction in odour emissions as a result of continual improvement of operating procedures supported by an investment of \$10 million. Further improvements at Maryvale are expected from the pulp mill upgrade due to be completed in 2008.

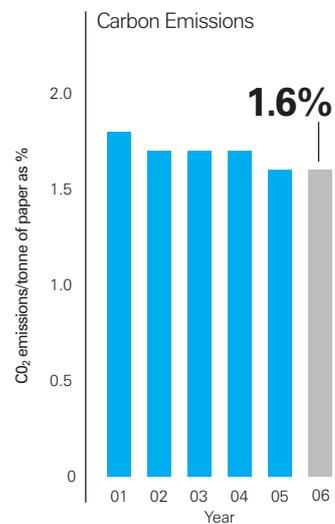
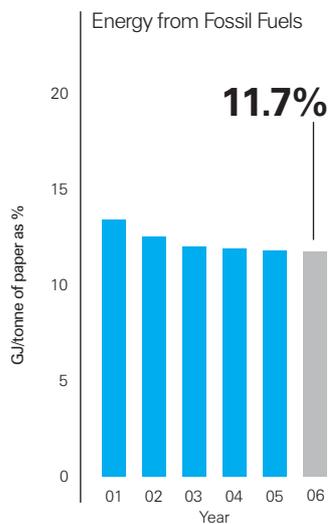
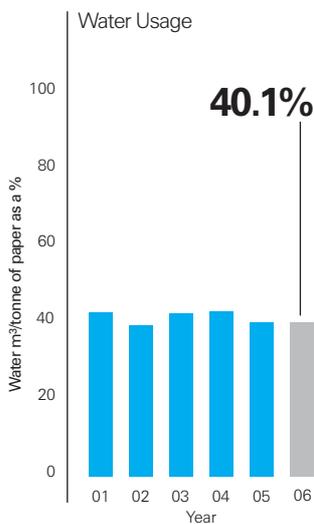
Recycling for the Future

Australian Paper is committed to the ‘reduce, reuse, recycle’ principle.

In fact, we use approximately 70,000–80,000 tonnes of recycled packaging and paper materials from homes, offices and industrial sources in Australia that would otherwise go to landfill.

Recycled paper products form a significant part of our total product range, with recycled content making up between 10 per cent and 100 per cent depending on the intended use of the paper.

Other recycling activities within our operations include office papers, batteries, ink cartridges, reel cores, non-hazardous waste products, ferrous metals, hydrocarbons and raw material containers.



Optimising the Use of Waste Paper

Australian Paper is a signatory to the National Packaging Covenant, which is an Australian Government initiative designed to minimise the environmental impacts of packaging waste and support Australia's voluntary recycling system.

An action plan has been developed to address our responsibilities under the Covenant. The plan encompasses support for recycling, education, product development and research, resource utilisation and support systems. These plans are implemented by our staff as part of their normal operations.

While all of our mills have recycling programmes in place, they are extending their commitment through environmental improvement plans – programmes that actively investigate and trial better methods of resource utilisation.

Providing the Products our Customers Want

Australian Paper produces the largest range of fine papers with recycled content in the Asia Pacific region. All of our products are manufactured to high environmental standards that are independently audited. We have always offered a range of papers with recycled content, but with growing demand from consumers, our range has expanded to include Australian™ 80% Recycled and Reflex™ 50% Recycled. Reflex™ is the only Australian-made FSC accredited office paper.

We are also the market leader in high-performance envelope paper. The Postspeed™ range provides quality envelopes for a wide range of business applications, all produced from sustainable natural resources.



Australian™ 80% Recycled is the highest recycled content Australian-made paper available. This paper was introduced during 2005 and has become one of the fastest moving brands on the market. Australian™ 80% Recycled diverts waste from Australian landfill and contains new fibre from plantations and sustainably managed forest reserves.



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 and 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 and 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.

Sustainability

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.

GLOSSARY

CO₂

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 that may be used for certifying the management of forest holdings, and a system of tracing, verifying and labelling timber and wood products that 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 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.



SUSTAINABILITY REPORT 2006

The high quality recycled paper used in this Report is distributed exclusively by PaperlinX and its merchandising businesses.

The cover stock is 9lives™ silk 250gsm, a certified FSC mixed source paper which is derived from well managed forests. It contains 80 per cent recycled fibre and 20 per cent totally chlorine free pulp.

The text stock is revive™ silk 130gsm, a 35 per cent recycled paper produced in Australia with ISO 14001 environmental certification.

When you have finished with this publication, PaperlinX encourages you to recycle it to avoid landfill.

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