



Results at a glance

Profit from ordinary activities after income tax (\$ million)

Dec 2000

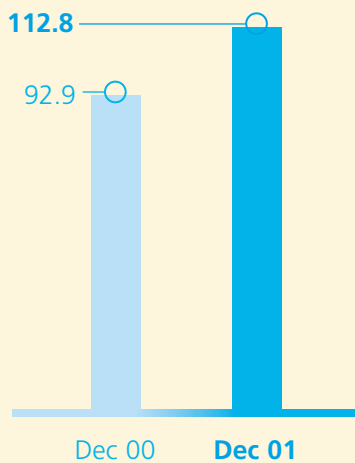
52.1

Dec 2001

64.8

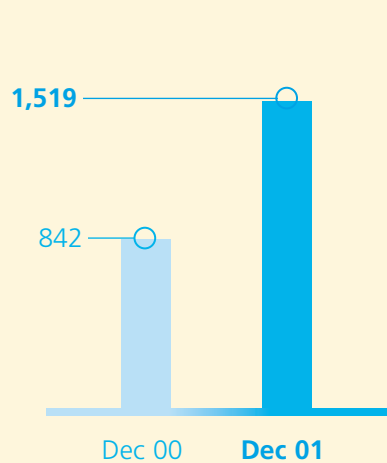
24% increase

Profit from ordinary activities
before interest and income tax
(\$ million)



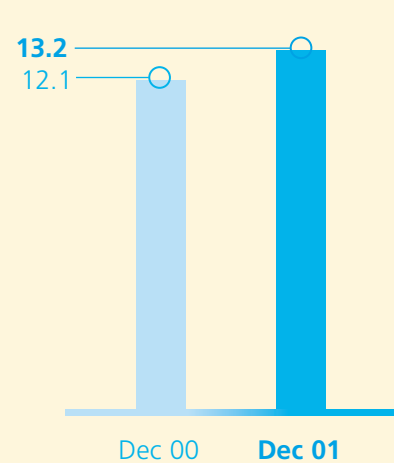
21% increase

Sales revenue
(\$ million)



80% increase

Return on average funds
employed
(%)





Achievements

In the six months to 31 December 2001 PaperlinX has delivered excellent results in a difficult trading environment. The results reflect the consolidation of Spicers Paper.

Record sales of \$1,519 million, up 80% over the six months to December 2000	✓
Operating profit from ordinary activities before interest and tax of \$112.8 million, up 21% over the six months to December 2000	✓
Operating profit after tax of \$64.8 million, up 24% over the six months to December 2000	✓
Earnings per share essentially maintained at 20.1 cents on a higher capital base	✓
Return on average funds employed increased to 13.2%	✓
Integration of Spicers Paper and Coast Paper completed	✓
The sale of Australian Paper Plantations, Amtrade, Edwards Dunlop and Commonwealth Paper	✓
A solid balance sheet	✓
Declared an interim dividend of 13 cents per share, fully franked	✓
The issue of long term debt bonds of CAN\$70 million and US\$56 million.	✓

Financial Results

PaperlinX achieved solid growth in the six months to December 2001 with profit after income tax of \$64.8 million, an increase of 24% over the six months to December 2000.

PaperlinX Limited and Controlled Entities

		6 months to Dec 2001	6 months to Dec 2000	Increase %
Sales	\$m	1,518.5	842.1	80
Profit from ordinary activities before interest, income tax, amortisation and depreciation	\$m	149.7	119.9	25
Profit from ordinary activities before interest and income tax	\$m	112.8	92.9	21
Profit from ordinary activities before income tax	\$m	94.3	74.8	26
Profit from ordinary activities after income tax	\$m	64.8	52.1	24

Key Ratios

Profit from ordinary activities before interest and income tax to average funds employed	%	13.2	12.1	–
Return on average shareholders equity	%	10.9	10.8	–
Net interest cover (times)	x	6.1	5.1	–
Earnings per share	cps	20.1	20.3	–

PaperlinX's results reflect the consolidation of Spicers Paper in January 2001 and Coast Paper in May 2001 and the divestment during the period of Australian Paper Plantations, Amtrade Australia and New Zealand, Edwards Dunlop and Commonwealth Paper.

Profit before interest, income tax, depreciation and amortisation increased 25% to \$149.7 million. Profit before interest and income tax rose 21% to \$112.8 million.

The overall result reflects a strong performance in the Communication Papers business through the lower cost of imported pulp, record production and sales volumes and stable selling prices. The Packaging Papers business was impacted by lower domestic demand and lower export selling prices. Although earnings in the Merchanting businesses were higher than in the prior period, the global economic downturn, low level of consumer confidence and the competitive trading environment led to reduced sales volumes and in turn squeezed margins.

PaperlinX has a strong balance sheet and strong key financial ratios as at 31 December 2001. In February 2002 PaperlinX further strengthened its balance sheet with the placement of long term bonds in the North American Private Placement Market for CAN\$70 million and US\$56 million.

Dividend

Directors have declared an interim dividend of 13 cents per share, fully franked at the rate of 30 cents in the dollar.

The company will mail the interim dividend on 26 March 2002 to shareholders recorded on the record date of 5 March 2002 as being entitled to the dividend.

Operations

The following table shows, for PaperlinX Limited and controlled entities, Operating Profit from ordinary activities before income tax, sales revenue, and assets by industry and geographic segments for the six months to 31 December 2001 and for the six months to 31 December 2000.

\$million	Operating Profit before Income Tax ⁽³⁾		Sales Revenue ⁽³⁾		Total Assets ⁽³⁾	
	Dec 2001	Dec 2000	Dec 2001	Dec 2000	Dec 2001	Dec 2000
Industry Segments						
Merchanting and Paper Trading ⁽¹⁾	28.6	13.8	1,098.2	408.3	944.9	284.7
Communication Papers ⁽¹⁾	70.3	44.4	420.0	404.3	887.6	940.0
Packaging Papers ⁽¹⁾	20.5	29.3	143.8	139.9	295.1	335.8
Investments and Other ⁽¹⁾⁽²⁾	(6.6)	5.4	203.6	136.0	206.6	427.6
Operating profit from ordinary activities before interest and income tax ⁽¹⁾	112.8	92.9				
Net interest	(18.5)	(18.1)				
Inter-segment sales			(347.1)	(246.4)		
Unallocated assets (deferred tax assets)					42.1	29.3
Total	94.3	74.8	1,518.5	842.1	2,376.3	2,017.4
Geographic Segments ⁽²⁾						
Australia ⁽¹⁾	92.6	90.3	877.8	739.8	1,819.0	1,931.7
New Zealand ⁽¹⁾	6.2	1.6	116.7	40.2	95.9	26.6
North America ⁽¹⁾	11.6	(0.3)	446.8	44.1	336.1	19.0
Europe ⁽¹⁾	(0.4)	0.3	14.6	17.5	5.3	8.4
Asia ⁽¹⁾	2.8	1.0	62.6	0.5	77.9	2.4
Operating profit from ordinary activities before interest & income tax	112.8	92.9				
Net Interest	(18.5)	(18.1)				
Unallocated assets (deferred tax assets)					42.1	29.3
Total	94.3	74.8	1,518.5	842.1	2,376.3	2,017.4

⁽¹⁾ Profit before interest and income tax.

⁽²⁾ Includes; Australian Paper Plantations for the period 1/7/01 to 31/8/01; Amtrade Australia and New Zealand for the period 1/7/01 to 15/10/01; and Edwards Dunlop and Commonwealth Paper for the period 1/7/01 to 13/9/01.

⁽³⁾ Spicers Paper consolidated from 1/1/01 and Coast Paper Canada from 1/5/01



Half Year Review

Merchanting and Paper Trading has experienced significant development, and is well placed to benefit from economic improvement, with an excellent platform for international growth.

Merchanting and Paper Trading

		6 months to Dec 2001	6 months to Dec 2000	Increase %
Sales Revenue	\$m	1,098	408	169
Operating Profit before interest and tax	\$m	29	14	107
Sales Volume	'000 tonnes	527	229	130

PaperlinX's paper merchants operate in Australia, New Zealand, Singapore, Hong Kong, Malaysia, the USA and Canada. The paper trading business sells paper in over 40 countries.

With the inclusion of Spicers Paper and Coast Paper, sales increased 169% to \$1.1 billion with operating profit before interest and tax, more than doubling to \$29 million. Sales volume increased 130% to 527,000 tonnes.

Business conditions over the last six months have reflected the worst global economic recession since 1994. There has been a significant fall in demand for printing papers, reflecting lower levels of advertising and promotion which is symptomatic of the economic downturn, not only in the North American region, but also in Asia and Australia. A combination of slowing demand and increased competitive pressure has resulted in a shift by many customers to paper purchases yielding lower margin paper sales. Depressed demand in the Australian printing market was exacerbated by the collapse of corporations who were major paper consumers.

The period also saw a substantial transformation of our Australian merchants as we restructured the business to better serve our customers through market focused businesses of Spicers Paper, Dalton Fine Paper, Spicers Office Papers and Dalton Web Papers. These businesses were established on 1 October 2001 and are now operating well with substantial cost reductions and synergy benefits expected to flow through to improved results in the second half.

In New Zealand, the businesses were restructured from May 2001 and have performed well and are soundly positioned to meet market needs.

Despite weaker general demand, our North American businesses have been able to continue to maintain volumes, assisted by the new greenfield operation in Kansas City and good results from the newer locations in Minnesota, Denver and Hawaii. The major impact in North America has been a fall in volumes and margins – which has occurred generally throughout the Merchanting industry. Profitability has been assisted by disciplined cost management, including staff and expense reductions.

In Asia, our Merchanting businesses have weathered conditions well, mainly through cost control. Trading conditions have improved over recent months.

Pacific Paper Marketing, our paper trading business, had a record result driven by the availability of paper from its various suppliers including Australian Paper.

Following the restructure of the Australian and New Zealand merchants, PaperlinX is now achieving the annualised synergy benefits projected to be achieved in the bidders statement for Spicers Paper, although, given the timing of the restructure of the Australian merchants, this will only be fully recognised in the next period.

The restructure of PaperlinX's Merchanting business, combined with the cost initiatives implemented and planned, provide a solid base to capitalise on an upturn in economic conditions.

Communication Papers

		6 months to Dec 2001	6 months to Dec 2000	Increase %
Sales revenue	\$m	420	404	4
Operating profit before interest and tax	\$m	70	44	59
Sales volume	'000 tonnes	256	249	3
– Australia/New Zealand	%	88	97	

Australian Paper's Communication Papers business had an excellent six months with sales revenue increasing 4% to \$420 million and operating profit before interest and tax up 59% to \$70 million.

Communication Papers manufactured by Australian Paper are used in printing, publishing, office and home.

This business achieved solid gains from the reduced cost of imported pulp as world pulp prices fell. Paper selling prices were able to be maintained, partially assisted by the devaluation in the Australian dollar. Record paper production volume was achieved, with sales volume up 3%, driven by another record production period from Maryvale 5 – the company's newest paper machine.

Export sales were 12% of sales volume, representing the highest ever level of export sales.

Packaging Papers

		6 months to Dec 2001	6 months to Dec 2000	Increase/ (Decrease) %
Sales revenue	\$m	144	140	3
Operating profit before interest and tax	\$m	21	29	(28)
Sales volume	'000 tonnes	179	171	5
– Australia/New Zealand	%	75	87	

Communication Papers achieved strong earnings. Benefits came from stable prices, a strong operational performance and lower pulp costs, offset by weaker Australian demand.

Half Year **Review** (continued)

Earnings for Packaging Papers were impacted by lower Australian demand, and an adverse product mix. A return to more normal levels is expected.

The Packaging Papers business, undertaken by Australian Paper, had a difficult six months. Despite sales revenue being up 3% to \$144 million on volume, 5% higher than the previous period, operating profit before interest and tax reduced to \$21 million due to lower Australian sales, an unfavourable product mix and significantly lower export selling prices.

Demand in Australia, predominantly from the major customer, Amcor, was lower, reflecting the impact of Amcor's plant stoppages in July 2001 and general economic demand. Excess production was exported, predominantly into Asia, where selling prices had fallen significantly compared to the same period in the prior year, due to an abundance of available product and uncertainty over the strength and future trend of the US economy. Product mix was less favourable during the period, although customers have indicated a return to more normal levels in the period ahead.

In the period, 25% of sales volume was outside of Australia/New Zealand, compared to 13% in the prior year.

Maryvale 2 machine, which makes bag and sack papers, performed exceptionally well during the period despite a major mechanical failure in June 2001.

Investments and Other

		6 months to Dec 2001	6 months to Dec 2000	Increase/ Decrease
Sales revenue	\$m	204	136	50
Operating profit before interest and tax	\$m	(7)	5	–

During the period the following businesses which are included under 'Investments and Other' were divested:

- Australian Paper Plantations, effective 31/8/01;
- The businesses of Edwards Dunlop and Commonwealth Paper, effective 13/9/01; and
- Amtrade Australia and New Zealand, effective 15/10/01.

Total funds released from these divestments were \$255 million.

The other businesses included in this segment are Stationery, Envelopes and Corporate Overheads.

PaperlinX's Australian Stationery business trades as Spicers Stationery, manufacturing and supplying a wide range of stationery products including envelopes to stationery stores, government, schools and businesses. The stationery business faced strong competition from imported products and domestic manufacturers.



Financial Details

As a result of the proceeds from divestments, PaperlinX's balance sheet has been further strengthened. All financial ratios are within prudent levels and indicate the financial strength of the company. To optimise the mix of debt funding PaperlinX has, in February 2002, issued CAN\$21 million of 10 year unsecured bonds, CAN\$49 million of 15 year unsecured bonds and US\$56 million of 15 year unsecured bonds in North America, at competitive fixed interest rates.

A summarised PaperlinX group balance sheet is as follows:

		6 months to Dec 2001	6 months to June 2001
Current assets	\$m	1,085.8	1,206.5
Non current assets	\$m	1,290.5	1,502.7
Total assets	\$m	2,376.3	2,709.2
Current liabilities	\$m	692.0	808.1
Non current liabilities	\$m	480.5	723.4
Total liabilities	\$m	1,172.5	1,531.5
Shareholders' equity	\$m	1,203.8	1,177.7

Key Balance Sheet Ratios

Net debt	\$m	404.4	690.7
Net debt to net debt and shareholders equity	%	25.2	37.0
Net debt to shareholders equity	%	33.6	58.6
Net tangible assets per share	\$	3.07	2.99



Summary of Results

PaperlinX Limited and Controlled Entities

\$million	6 months to Dec 2001	6 months to Dec 2000
Sales Revenue	1,518.5	842.1
Operating profit from ordinary activities before depreciation, amortisation, interest, significant items and income tax	149.7	119.9
Depreciation and amortisation	(36.9)	(27.0)
Net interest expense	(18.5)	(18.1)
Operating profit from ordinary activities before significant items and income tax	94.3	74.8
Income tax expense on operating profit	(29.5)	(22.7)
Operating profit after tax and before significant items and including outside equity interests	64.8	52.1
Significant items before income tax	0	0
Income tax benefit on significant items	0	0
Operating Profit/(Loss) after significant items	64.8	52.1



Outlook

PaperlinX has continued to deliver solid growth in the last six months, albeit in difficult worldwide economic and business conditions. With the initiatives undertaken in restructuring the business following the acquisitions of Spicers Paper and Coast Paper, and the focus on cost reductions, PaperlinX is well positioned to capitalise on a turnaround in economic conditions. Further gains in productivity are also being pursued by PaperlinX's Australian Paper manufacturing operations.

Following the divestments made over the last six months, PaperlinX is well placed strategically to pursue the international expansion of its Merchanting business as appropriate opportunities arise. The results for the six months have been impacted by these divestments, with lower debt levels and the consequent lower interest bill, which at this stage only partially compensate for the loss of operating earnings.

The results for the next six months will continue to be materially influenced by international economic conditions, especially those in North America. PaperlinX is well positioned to benefit from any growth in the consumption of paper. The company has strong positions in its respective markets and is focused on the extraction of synergy benefits from recent acquisitions and the achievement of operational cost reductions. In addition, PaperlinX has the financial capacity to take advantage of acquisition opportunities which are consistent with its overall strategic direction.



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