

Half Year
Financial Report

2003



**Creating
international
markets**

ACHIEVEMENTS

PaperlinX achieved excellent results in the six months to 31 December 2002 in a highly competitive environment and subdued economic conditions. The results include the consolidation from 1 July 2002 of The Paper Company (formerly Bunzl Fine Paper) in the United Kingdom and Ireland.

The major highlights of the six months were:

Sales revenue of \$1.9 billion, up 23% over the six months to December 2001 ✓

Operating profit from ordinary activities before interest and tax of \$123.1 million, an increase of 9% on the six months to December 2001 ✓

Profit after income tax of \$71.5 million, 10% higher than the six months to December 2001 ✓

Earnings per share maintained at 20.0 cents on a higher capital base ✓

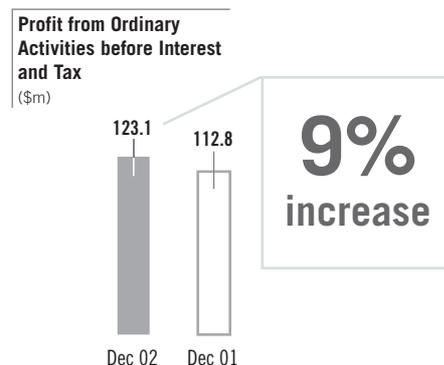
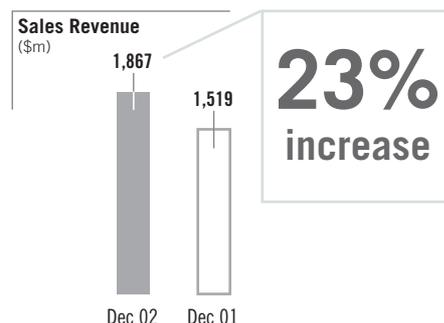
Earnings per share before goodwill amortisation increased to 22.3 cents per share ✓

The Paper Company successfully incorporated into PaperlinX group with excellent performance in line with our expectations ✓

Solid operating performance by Australian Paper ✓

Increased interim dividend of 13.5 cents per share, franked to 70% ✓

A sound balance sheet ✓



Note: All currency in this report is in Australian dollars.

REVIEW OF THE YEAR

Profit after income tax for the six months ended 31 December 2002 increased to \$71.5 million, an increase of 10% over the six months to December 2001. This excellent result was achieved in a highly competitive trading environment and variable economic conditions.

PAPERLINX LIMITED AND CONTROLLED ENTITIES

		6 months to Dec 2002	6 months to Dec 2001	Increase %
Sales revenue	\$m	1,866.7	1,518.5	23
Profit from ordinary activities before interest, income tax, amortisation and depreciation	\$m	164.1	149.7	10
Profit from ordinary activities before interest and income tax	\$m	123.1	112.8	9
Profit from ordinary activities before income tax	\$m	102.4	94.3	9
Profit from ordinary activities after income tax	\$m	71.5	64.8	10

KEY RATIOS

Profit from ordinary activities before interest and income tax to average funds employed	%	12.9	13.0	-
Return on average shareholders equity	%	10.2	10.6	-
Net interest cover (times)	x	5.9	6.1	-
Earnings per share before goodwill amortisation	cps	22.3	21.8	-
Earnings per share	cps	20.0	20.1	-
Dividend per share	cps	13.5	13.0	-

PaperlinX's results include the consolidation of The Paper Company (formerly Bunzl Fine Paper) in July 2002. The PaperlinX results for the six months to December 2001 included businesses that have since been divested, namely Australian Paper Plantations, Amtrade, Edwards Dunlop and Commonwealth Paper.

Profit before interest, income tax, depreciation and amortisation increased 10% to \$164.1 million. Profit before interest and income tax rose 9% to \$123.1 million.

The Paper Merchants business produced a commendable result given the economic conditions, with The Paper Company achieving our expectations, increased earnings in Australia and Asia and a satisfactory result in difficult conditions in North America. Australian Paper's Packaging Papers business increased earnings on lower sales volumes. The higher cost of imported pulp, lower selling prices for publication papers and lower Australian sales volumes adversely impacted the results of

Australian Paper's Communication Papers business. Paper manufacturing operations performed strongly.

PaperlinX's balance sheet and key financial ratios continue to be strong. In July/August 2002, PaperlinX issued 36 million shares to partially fund the acquisition of The Paper Company. In October 2002 a multi-currency debt facility was established.

DIVIDEND

The Directors have declared an increased interim dividend of 13.5 cents per share, 70% franked at the rate of 30 cents in the dollar.

The company will mail the interim dividend on 25 March 2003 to shareholders recorded on the record date of 4 March 2003 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 total assets by industry and geographic segments for the six months to 31 December 2002 and for the six months to 31 December 2001.

\$ million	Operating Profit before Income Tax		Sales Revenue		Total Assets	
	Dec 2002	Dec 2001	Dec 2002	Dec 2001	Dec 2002	Dec 2001
Industry Segments						
Merchanting and Paper Trading ^{(1) (3) (4) (6)}	47.1	27.7	1,548.4	1,098.2	1,479.9	1,059.3
Communication Papers ⁽¹⁾	60.0	70.3	403.9	420.0	886.2	887.6
Packaging Papers ⁽¹⁾	22.7	20.5	135.5	143.8	295.1	295.1
Corporate and Other ^{(1) (2) (4)}	(6.7)	(5.7)	61.3	203.6	159.6	92.2
Operating profit from ordinary activities before interest and income tax	123.1	112.8				
Net interest	(20.7)	(18.5)				
Inter-segment sales			(282.4)	(347.1)		
Unallocated assets (deferred tax assets)					37.0	42.1
Total	102.4	94.3	1,866.7	1,518.5	2,857.8	2,376.3
Geographic Segments ^{(2) (3) (4) (5) (6)}						
Australia ⁽¹⁾	86.7	94.5	782.3	877.8	1,709.8	1,749.5
New Zealand ⁽¹⁾	4.8	5.6	117.0	116.7	111.0	117.3
North America ^{(1) (3)}	10.2	10.3	464.1	446.8	404.4	384.2
Europe ^{(1) (6)}	17.7	(0.4)	456.2	14.6	533.2	5.3
Asia ⁽¹⁾	3.7	2.8	47.1	62.6	62.4	77.9
Operating profit from ordinary activities before interest and income tax	123.1	112.8				
Net interest	(20.7)	(18.5)				
Unallocated assets (deferred tax assets)					37.0	42.1
Total	102.4	94.3	1,866.7	1,518.5	2,857.8	2,376.3

(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, Edwards Dunlop and Commonwealth Paper for the period 1/7/01 to 13/9/01.

(3) Includes: Turgeon Papier acquired effective 1/4/02.

(4) December 2001 details have been reallocated as follows:

- Distribution costs – reallocated between Other and Merchanting – PBIT \$(0.9)m; and
- Goodwill reallocated between segments.

(5) The geographic segments reflect PaperlinX's management structure – sales, profits and assets are shown in the country where the business is based.

(6) The Paper Company – UK and Ireland consolidated from 1/7/02.

REVIEW OF OPERATIONS

MERCHANTING AND PAPER TRADING

		6 months to Dec 2002	6 months to Dec 2001	Increase/ (Decrease) %
Sales revenue	\$m	1,548	1,098	41
Operating profit before interest and tax	\$m	47	28	68
Sales volume	'000 tonnes	746	533	40

The Merchanting and Paper Trading business delivered a commendable result despite operating in depressed economic conditions with intense competition resulting in lower selling prices and lower margins in some regions.

Overall sales increased 41% to \$1.5 billion and profit before interest and tax of \$47 million was an increase of 68% over the prior period. Sales volumes increased 40% to 746,000 tonnes. The most significant influence on the results was the addition of The Paper Company (formerly Bunzl Fine Paper).

The Paper Company, which operates throughout the United Kingdom and Ireland, was acquired on 1 July 2002. For the six months, sales volumes increased 15% above the same period in the previous year. Earnings before interest and tax of \$18 million were 48% above the proforma result in the prior year. The Paper Company has achieved excellent results, expanding market share and margins during a very demanding period.

Despite reduced demand for printing and writing papers in Australia, resulting in intense competition amongst paper merchants, our merchants have maintained volumes and increased gross margin. Profit before interest and tax was ahead of the prior year also reflecting the benefits of the

restructuring program implemented in October 2001.

In New Zealand, while sales volume has been maintained, margins and overall profit were affected by economic conditions, customer consolidation and low cost imports which impacted selling prices and margins. In December 2002, our two New Zealand merchanting businesses were restructured under common management to improve operating performance.

In North America, demand fluctuated significantly from one month to the next. Print market volumes in the USA were 4% below the previous year. Selling prices declined 6% compared to the prior year. Despite the challenging conditions, our USA merchants increased sales volume by 15%, especially through their newer locations and ability to provide superior customer service. Economic conditions and demand for printing papers improved in Canada. Combined with the addition of Turgeon Papier in Montreal, which was acquired in April 2002, PaperlinX's Canadian merchants increased volume by 38%. This included achieving synergies through combining the strengths of Turgeon Papier with Coast Paper, creating a strong national merchant operation across Canada. Overall, PaperlinX's North American merchanting business maintained

profit before interest and tax at the same level as the prior year and is positioned to capitalise on an upturn in economic conditions.

In Asia, the initiatives previously implemented by our merchants to reduce costs and improve profitability have contributed to an improved profit result at a time of difficult and dull trading conditions.

Pacific Paper Marketing, our paper trading business, continued to perform well even though demand in Asia was subdued.

With the breadth of product, quality of service, customer focus and efficient cost structures, all PaperlinX's merchanting businesses are now well placed to benefit from any upturn in demand for printing papers.

Following the acquisition of The Paper Company, PaperlinX's paper merchants have the widest geographic spread across the world of any paper merchant with operations now covering Australia, New Zealand, USA, Canada, Singapore, Hong Kong, Malaysia, United Kingdom and Ireland. The paper trading business sells paper in over 40 countries.

AUSTRALIAN PAPER: COMMUNICATION PAPERS

		6 months to Dec 2002	6 months to Dec 2001	Increase/ (Decrease) %
Sales revenue	\$m	404	420	(4)
Operating profit before interest and tax	\$m	60	70	(14)
Sales volume	'000 tonnes	254	256	(1)
- Australia/New Zealand	%	86	88	

Australian Paper's Communication Papers business had a challenging six months, impacted predominantly by higher imported pulp costs and lower demand for Office Papers in Australia and New Zealand. Profit before interest and tax reduced to \$60 million from \$70 million in the corresponding prior period.

Due to increased levels of export, sales volumes were at a similar level to the prior year. In the Australian printing and publishing market, sales to the larger web printers remained strong, although competitive pressure resulted in lower selling prices, while in Office

Papers there were incremental increases in selling prices on lower sales volumes. In Office Papers, Australian Paper has maintained its Australian market share of approximately 60%, including the flagship brand REFLEX™.

Export sales were 14% of sales volume reflecting minimal downtime taken on the paper machines as excess volume was placed in the export markets at a positive cash contribution.

The major impact on profit was the higher cost of imported pulp used to supplement Australian Paper's own manufactured pulp.

The corresponding period last year benefited from opportunistic purchases of imported pulp at the low point of the price cycle compounding the impact when comparing these two periods. The manufacturing operations performed well, achieving lower production costs (excluding pulp) at all locations.

Communication papers are manufactured by Australian Paper at its four paper mills and are used in printing, office and home applications.

AUSTRALIAN PAPER: PACKAGING PAPERS

		6 months to Dec 2002	6 months to Dec 2001	Increase/ (Decrease) %
Sales revenue	\$m	136	144	(6)
Operating profit before interest and tax	\$m	23	21	10
Sales volume	'000 tonnes	165	179	(8)
- Australia/New Zealand	%	83	75	

Australian Paper's Packaging Papers business manufactures linerboards, sack and bag papers for the Australian, New Zealand and Asian markets.

Packaging Papers achieved a good result with profit before interest and tax of \$23 million, an increase of 10% over the corresponding period to December 2001. Higher average selling prices were achieved, including the increases arising from the long term linerboard supply agreement. Sales volumes in Australia and New Zealand

increased in the period, whilst the overall lower sales level reflected a higher demand for pulp rich linerboards, a planned increase in inventory levels and the prolonged drought which is impacting demand for sack and bag papers.

Production was impacted by an electrical fire at the Maryvale 2 paper machine in October 2002, closing production for three weeks. Sales were met from inventory.

In the period, 17% of sales volume was outside Australia, compared to

25% in the prior year. The reduced volume was due to higher Australian linerboard sales and an increase in inventory levels.

As announced in March 2002, Maryvale 1 machine, which makes bag and sack papers, is being modified to make a semi-extensible ('elastic') sack kraft paper to meet current and projected market demand. All necessary equipment has been received with installation scheduled for March 2003.

CORPORATE AND OTHER

		6 months to Dec 2002	6 months to Dec 2001	Increase/ (Decrease) %
Sales revenue	\$m	61	204	(70)
Operating profit before interest and tax	\$m	(7)	(6)	(20)

Corporate and Other includes the stationery and envelopes business as well as the corporate expenses of PaperlinX. In the six months to December 2001 the results also include sales of \$134 million and profit before interest and tax of \$4 million for the businesses that have now been divested, namely Australian Paper Plantations, Amtrade, Edwards Dunlop and Commonwealth Paper.

The stationery and envelopes business increased earnings as a result of its restructure program which saw the closure of the Queensland envelope manufacturing plant. Sales are now focussed on value adding business, supported by a lower overhead structure.

Corporate overhead costs are at a similar level to the prior period.

Over the past two years, PaperlinX has been developing a replacement Enterprise Resource Planning ('ERP') system in conjunction with SAP. In October 2002 the first site went live in a very smooth implementation. Subsequent implementations have continued this trend. By December 2003, PaperlinX will be operating this state-of-the-art system in all its Australian and New Zealand businesses.

FINANCIAL POSITION

In July/August 2002, PaperlinX issued 36 million shares to institutional and existing shareholders to partially fund the acquisition of The Paper Company (formerly Bunzl Fine Paper). The balance of the acquisition price was met from existing debt facilities.

In October 2002, PaperlinX established a syndicated US\$400 million multi currency bank debt facility with nine financial institutions. The term ranges from three to five years. The facility replaces the National Australia Bank AU\$600 million facility.

To utilise cash that is being generated in excess of our current needs, PaperlinX announced in December 2002

an on market share buyback of up to 10 million of the Company's shares. To date, approximately 240,000 shares have been purchased.

As a result of its excellent business performance and cash flow and the initiatives outlined above, PaperlinX's balance sheet is in a strong position. All ratios are within prudent levels reflecting the financial strength of the Company.

The PaperlinX group statements of Financial Position and Financial Performance are as follows:

STATEMENT OF FINANCIAL POSITION

		PAPERLINX LIMITED AND CONTROLLED ENTITIES	
		Dec 2002	June 2002
Current assets	\$m	1,438.8	1,001.9
Non current assets	\$m	1,419.0	1,286.8
Total assets	\$m	2,857.8	2,288.7
Current liabilities	\$m	626.5	501.9
Non current liabilities	\$m	756.1	573.7
Total liabilities	\$m	1,382.6	1,075.6
Shareholders equity	\$m	1,475.2	1,213.1
Key Balance Sheet Ratios			
Net debt	\$m	417.9	331.5
Net debt to net debt and shareholders equity	%	22.1	21.5
Net debt to shareholders equity	%	28.3	27.3
Net tangible assets per share	\$	3.22	3.11

THE BIG PICTURE



 PaperlinX operations

EUROPE



ASIA



NORTH AMERICA



AUSTRALIA & NEW ZEALAND





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