

PaperlinX



Half Year Financial Report 2004

Message from the Chairman and the Managing Director



David Meiklejohn

Chairman

Welcome to the first PaperlinX Interim Report since Tom Park commenced as Chief Executive Officer on 1 February.

PaperlinX has developed a unique position in the international paper market, consistent with the company's vision statement. The balanced platform of businesses that management and the Board have created, provides both a positive geographical and earnings balance, as well as opportunities for improved shareholder returns and growth over time.

Despite the positive strategic moves and hard work of our employees around the world, the supply/demand imbalance and the sharp rise in the Australian dollar have contributed to a disappointing result.

The higher dollar has impacted export pricing and the translation of overseas earnings, as well as reducing the price of imported papers into Australia and we do not see these pressures easing in the short term.

However, a gradual improvement in global economic conditions should see demand for fine paper improve over the next year, although the immediate impact on lifting paper prices is uncertain until the supply and demand balance improves. We are well positioned to benefit from an upturn in the world economy, as well as for substantial integration and productivity initiatives to lift the overall returns.

The Board and Management, working with our employees around the world, look forward to realising the benefits of our global business platform and to provide our shareholders with the improved returns this unique company is capable of generating.



Tom Park

Managing Director and
Chief Executive Officer

Timeline and Growth

- 2000** **April** — Demerged from Amcor and listed on the Australian Stock Exchange
-
- 2001** **January** — Acquisition of Spicers Paper (International paper distributor)
- May** — Acquisition of Coast Paper (Canadian paper distributor)
 — Restructuring of New Zealand Paper Merchants
- June** — ISO14001 Environmental Accreditation at all paper mills
- August** — Australian Paper Plantations sold
- September** — Edwards Dunlop Paper and Commonwealth Paper sold
- October** — Restructuring of Australian Paper Merchants
 — Amtrade chemical trading business sold
-
- 2002** **February** — US\$100m long term bond issue in North America
- March** — Restructuring of Spicers stationery and envelope business
 — Australian Paper signs National Packaging Covenant
- April** — Acquisition of Turgeon Paper (Canadian paper distributor)
- July** — Acquisition of Bunzl Fine Paper (UK paper distributor)
 — 36 million shares issued through institutional placement
 and share purchase plan
- October** — US\$400m multi-currency debt facility established
- December** — Bunzl Fine Paper renamed The Paper Company
 — Restructuring of New Zealand Merchants
-
- 2003** **June** — 54 million shares issued through institutional placement
- August** — 34 million shares issued through share purchase plan
- November** — Acquisition of Buhmann Paper Merchanting Division –
 renamed PaperlinX Europe
-
- 2004** **February** — New CEO Tom Park commences

Geographic Summary

PaperlinX Asia

Asia

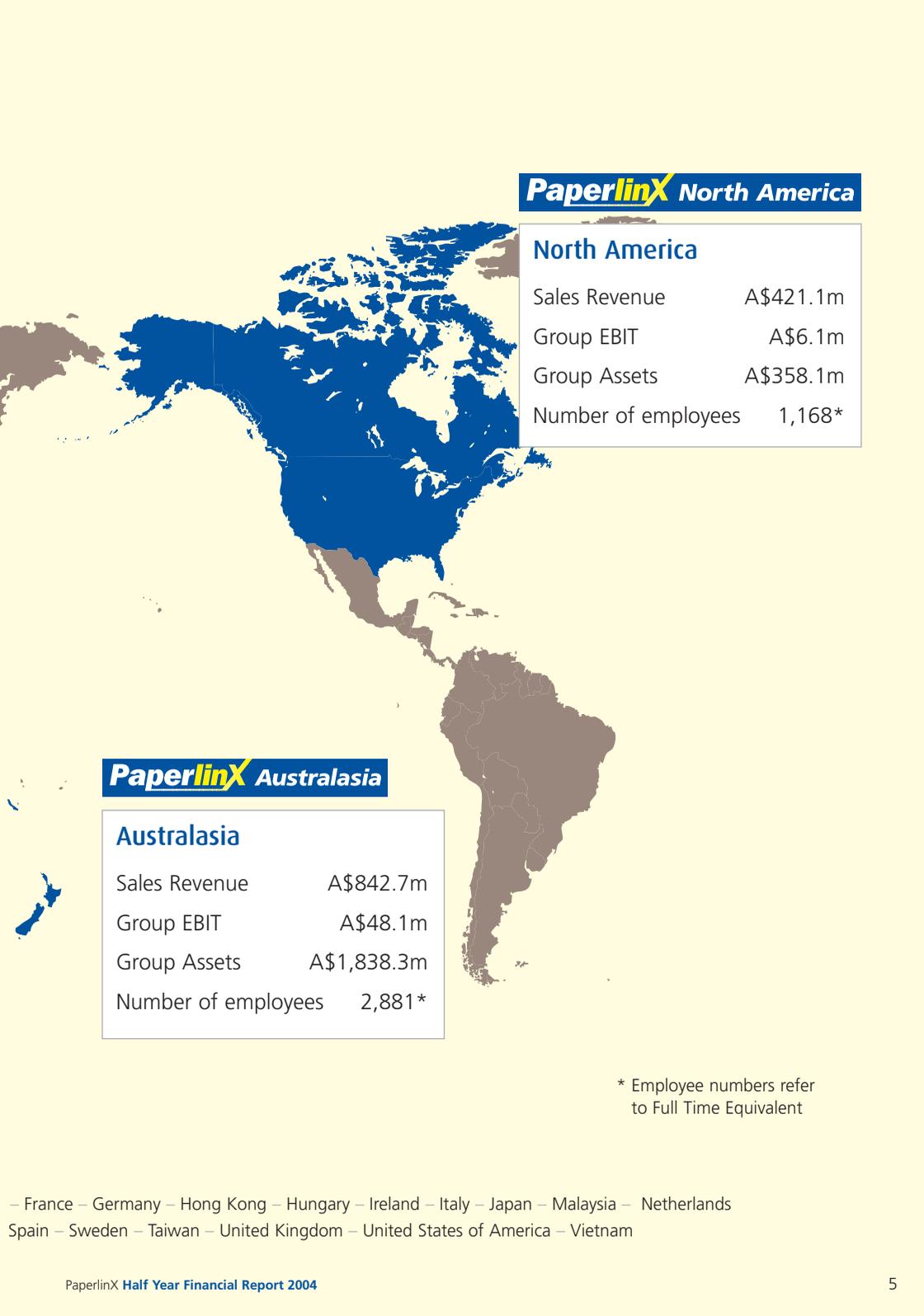
Sales Revenue	A\$39.9m
Group EBIT	A\$0.7m
Group Assets	A\$57.3m
Number of employees	119*

PaperlinX Europe

Europe and Africa

Sales Revenue	A\$1,077.8m
Group EBIT	A\$30.6m
Group Assets	A\$2,250.8m
Number of employees	5,719*

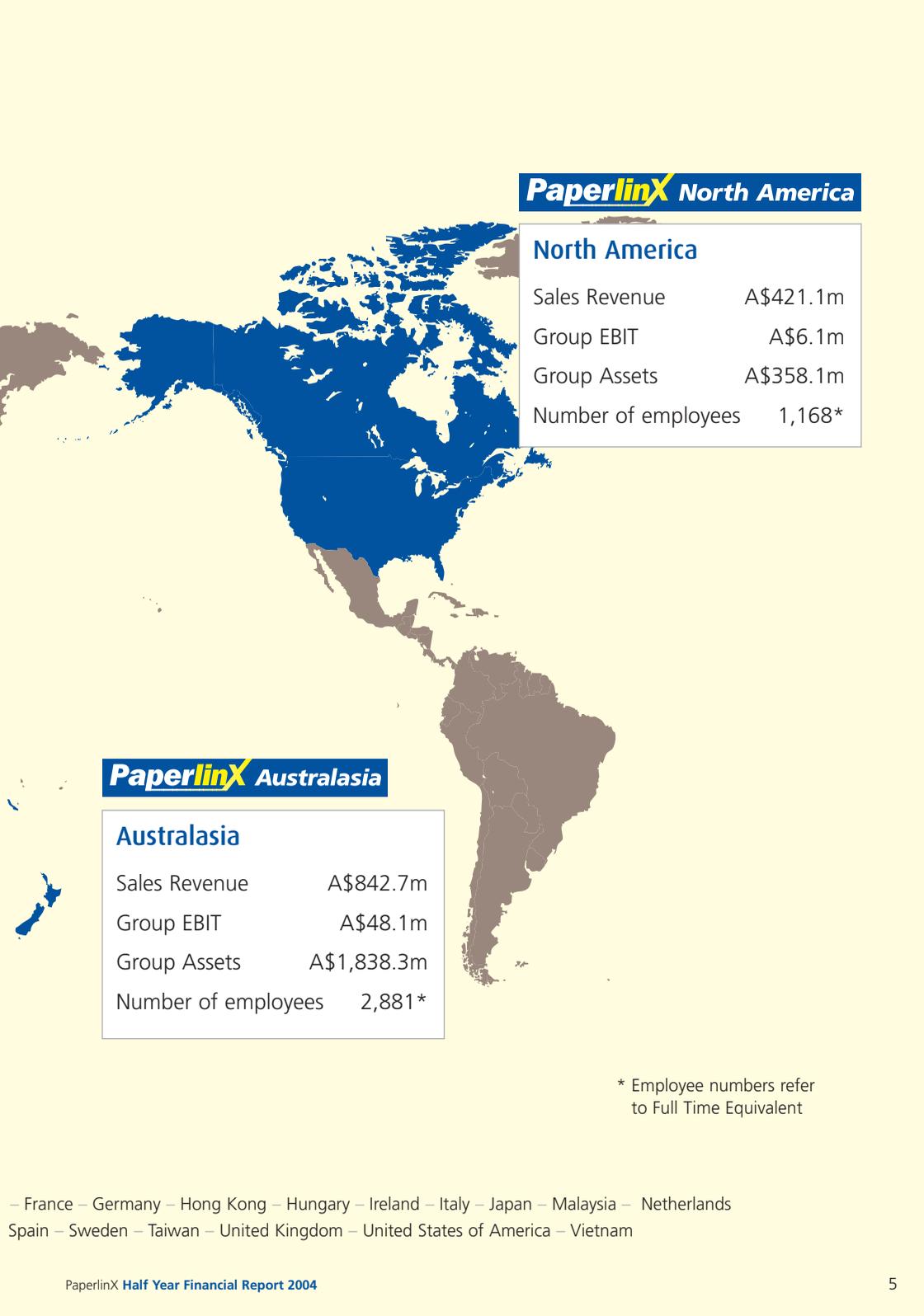
Australia – Austria – Belgium – Canada – China – Croatia – Czech Republic – Denmark – Finland – France – Germany – Greece – Hong Kong – India – Italy – Japan – Korea – Luxembourg – Malaysia – Mexico – New Zealand – Poland – Portugal – Singapore – Slovakia – Slovenia – South Africa – Spain – Sweden – Switzerland – Taiwan – Thailand – United Kingdom – United States



PaperlinX North America

North America

Sales Revenue	A\$421.1m
Group EBIT	A\$6.1m
Group Assets	A\$358.1m
Number of employees	1,168*



PaperlinX Australasia

Australasia

Sales Revenue	A\$842.7m
Group EBIT	A\$48.1m
Group Assets	A\$1,838.3m
Number of employees	2,881*

* Employee numbers refer to Full Time Equivalent

– France – Germany – Hong Kong – Hungary – Ireland – Italy – Japan – Malaysia – Netherlands
Spain – Sweden – Taiwan – United Kingdom – United States of America – Vietnam

Review of the Six Months

Key influences on the result

- Currency volatility and rapid rise in the Australian dollar
- Lower average paper selling prices
- Difficulties in the commissioning of the semi-extensible kraft paper unit
- Two months contribution from Buhrmann paper merchandising division
- Maintained or grew market positions in Merchandising
- Lower imported pulp costs



The six months to 31 December 2003 has been a significant period in the development of PaperlinX. On 1 November 2003 PaperlinX completed the acquisition of the largest paper merchant in Europe, thereby establishing PaperlinX as the world's leading fine paper merchant. This key step in PaperlinX's strategy has resulted in further diversification of the Company's earnings base both geographically and by business segment.

PaperlinX's earnings for the six months to 31 December 2003 have been significantly affected by four main factors:

- The 24% increase in the average rates for the six months to December 2003 compared to the prior period of the Australian dollar relative to the United States dollar, has significantly reduced profitability in the Australian Paper business and reduced earnings translated from overseas businesses. A positive impact has been the reduced cost of imported pulp.
- Lower average international fine paper selling prices in all major markets due to the paper supply and demand imbalance.
- Start-up commissioning difficulties in the production of the new semi-extensible sack kraft.
- The positive contribution from 1 November 2003 of the acquisition of Buhrmann paper merchanting division.

Profit before interest and tax of \$86.3 million is 30% below the six months to December 2002. Profit after tax reduced 26% to \$53.0 million.

PaperlinX continues to produce good returns relative to the global paper industry which has faced extremely challenging economic conditions. Returns and earnings per share have been impacted by the combination of lower earnings and the issuing of shares some months ahead of the acquisition of the Buhrmann paper merchanting business.

PaperlinX announced on 12 February 2004 that it had finalised a United States Private Placement for the equivalent to USD250 million of long term loans with maturities of 10 and 15 years to replace interim bridging finance. The interest rates are fixed for the term of the loans. Completion of the funding provides the Company with an appropriate mix of long term, medium term and short term funding.

PaperlinX's balance sheet and key financial ratios remain strong.

Dividend

Directors have declared an unfranked interim dividend of 13.5 cents per share.

The Board decided to maintain the level of dividend after taking into consideration the cash flow and the outlook for the business.

The significant reduction in the earnings of the Australian based business, combined with the increasing proportion of earnings being generated by the overseas businesses, significantly affected the level of franking.

The dividend will be mailed on 7 April 2004 to shareholders on record as of 18 March 2004 as being entitled to the dividend.

Review of the Six Months (continued)

PaperlinX Limited and Controlled Entities				
		6 months to Dec 2003	6 months to Dec 2002	% Change
Sales Revenue	A\$m	2,381.5	1,866.7	28
Profit from Ordinary Activities before interest, income tax, amortisation and depreciation	A\$m	135.1	164.1	(18)
Profit from Ordinary Activities before interest & income tax	A\$m	86.3	123.1	(30)
Profit from Ordinary Activities before income tax	A\$m	71.2	102.4	(30)
Profit from Ordinary Activities after income tax	A\$m	53.0	71.5	(26)
Key Ratios				
Profit from Ordinary Activities before interest and income tax to average funds employed	%	8.0	12.9	
Return on average shareholders equity	%	6.2	10.2	
Net operating cash flow	A\$m	104.2	126.6	
Net interest cover (times)	x	5.7	5.9	
Earnings per share before goodwill amortisation	cps	14.1	22.3	
Earnings per share	cps	12.2	20.0	
Dividend per share	cps	13.5	13.5	

Operations

The following table shows, for PaperlinX Limited and Controlled Entities, Operating Profit from Ordinary Activities, 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 2003.

	Operating Profit		Sales Revenue		Total Assets	
	Dec 2003	Dec 2002	Dec 2003	Dec 2002	Dec 2003	Dec 2002
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Merchanting & Paper Trading ⁽¹⁾⁽²⁾⁽⁴⁾	52.2	47.1	2,088.6	1,551.1	3,145.0	1,486.7
Communication Papers ⁽¹⁾	33.9	60.0	366.9	403.9	900.4	886.2
Packaging Papers ⁽¹⁾	12.7	22.7	124.7	135.5	283.8	295.1
Corporate and Other ⁽¹⁾⁽⁴⁾	(12.5)	(6.7)	55.0	56.7	175.3	152.8
Operating profit from Ordinary Activities before interest & income tax	86.3	123.1				
Net Interest	(15.1)	(20.7)				
Income Tax Expense	(18.2)	(30.9)				
Inter-segment Sales ⁽⁴⁾			(253.7)	(280.5)		
Unallocated Assets (deferred tax assets)					40.0	37.0
Total	53.0	71.5	2,381.5	1,866.7	4,544.5	2,857.8

Geographic Segments ⁽²⁾⁽³⁾						
Australia ⁽¹⁾	43.2	89.1	738.6	782.3	1,743.8	1,709.8
New Zealand ⁽¹⁾	5.7	4.8	104.1	117.0	94.5	111.0
North America ⁽¹⁾⁽²⁾⁽³⁾	6.1	10.2	421.1	464.1	358.1	404.4
Europe ⁽¹⁾⁽²⁾	30.6	17.7	1,077.8	456.2	2,250.8	533.2
Asia ⁽¹⁾⁽²⁾	0.7	1.3	39.9	47.1	57.3	62.4
Operating profit from Ordinary Activities before interest & income tax	86.3	123.1				
Net Interest	(15.1)	(20.7)				
Income Tax Expense	(18.2)	(30.9)				
Unallocated Assets (deferred tax assets)					40.0	37.0
Total	53.0	71.5	2,381.5	1,866.7	4,544.5	2,857.8

(1) Profit before interest and income tax.

(2) Buhrmann's paper merchanting division included from 1/11/03.

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

(4) 2002 reallocation of converting business from Corporate to Merchanting & Paper Trading, sales \$4m, PBIT \$0, assets \$7m

Merchanting

		6 months to Dec 03	6 months to Dec 02	Increase %
Sales Volume	'000 tonnes	1,141	746	53
Sales Revenue	A\$m	2,089	1,551	35
Operating Profit before Interest & Tax	A\$m	52.2	47.1	11

PaperlinX's Merchanting business results include the acquisition of Buhrmann's paper merchanting division for the two months from 1 November 2003.

Sales revenue for merchanting increased 35% to \$2.1 billion, and profit before interest and tax was \$52.2 million, an increase of 11% over the prior period. The impact of translation of overseas earnings reduced reported merchanting profit by \$4 million compared to the prior period.

Internationally, the paper industry has continued to experience difficult trading conditions with reduced selling prices in most

regions and demand for printing and writing papers remaining subdued. Considering these challenging conditions, PaperlinX's merchanting business has performed well. In all regions, market position has been either maintained or strengthened.

PaperlinX's merchanting business is well placed to benefit from improvements in the general economic conditions which lead to an increase in demand for paper. As demand increases it is expected that improved paper prices and margins will follow.

Australia		6 months to Dec 03	6 months to Dec 02
Sales Volume	'000 tonnes	244	239
Sales Revenue	A\$m	446	467
Operating Profit before Interest & Tax	A\$m	9.2	13.0

In Australia, demand remained subdued through most of the period, with an improvement in recent months. The appreciating Australian dollar resulted in lower average selling prices and increased competition as overseas suppliers

sought to strengthen their market positions. PaperlinX increased its market share and sales volumes, however the lower average selling prices resulted in lower operating earnings.

New Zealand

		6 months to Dec 03	6 months to Dec 02
Sales Volume	'000 tonnes	65	63
Sales Revenue	NZ\$m	118	134
Operating Profit before Interest & Tax	NZ\$m	6.4	5.5

In New Zealand, PaperlinX capitalised on its strong market position and finalised the rationalisation of the number of business units which resulted in improved operating efficiency.

The business achieved growth in both volume and market share and, despite lower average selling prices, improved margins and operating earnings.

Asia

		6 months to Dec 03	6 months to Dec 02
Sales Volume	'000 tonnes	36	33
Sales Revenue	S\$m	48	46
Operating Profit before Interest & Tax	S\$m	0.8	1.3

Asia continues to be a challenging market, with weak demand and highly competitive trading conditions. Selling prices and margins

remained under pressure leading to lower operating earnings.

North America

		6 months to Dec 03	6 months to Dec 02
Sales Volume	'000 tonnes	236	221
Sales Revenue	US\$m	289	257
Operating Profit before Interest & Tax	US\$m	4.2	5.7

In North America, paper demand is yet to respond to the apparent gradually improving economic condition. The trading environment is exacerbated by excess paper supply, resulting

in continuous pressure on selling prices and profit margins. While PaperlinX North America benefited from changes in the mix of product sold, lower selling prices did impact on margin

and operating profits. PaperlinX saw a small decrease in the merchanting volume sold but this represented a significant out-performance compared to the industry, and hence an increase in market share.

In particular, Canada was impacted by the sharp appreciation of their currency, reducing the competitiveness of Canadian printers compared to their USA neighbours. PaperlinX's performance in Canada was also impacted by the activities associated with the Canadian

Competition Authority investigation and associated legal costs. We believe the major effect of this investigation has passed for our Canadian business and its recent performance has significantly improved.

The United States business includes from 1 November 2003 the 'cash & carry' paper business acquired as part of the Buhrmann acquisition. This business continues to perform well.

Europe

		6 months to Dec 03	6 months to Dec 02
Sales Volume	'000 tonnes	560	191
Sales Revenue	€m	636	255
Operating Profit before Interest & Tax	€m	18.0	9.9

The Paper Company, which operates in the UK & Ireland, continued to perform very well, with operating earnings (in local currency) increasing. This improvement is despite tough overall trading conditions, including lower average selling prices.

The European result also includes the businesses acquired from Buhrmann. These businesses operate in 19 countries throughout Europe and in South Africa. The business is performing slightly ahead of expectations. In particular, benefits are being delivered from restructuring

undertaken in Germany and the United Kingdom.

While selling prices in Europe remain under pressure, demand in recent months has been strengthening. We are confident the European business will continue to deliver results at least in line with our expectations.

Australian Paper – Communication Papers

		6 months to Dec 03	6 months to Dec 02	Increase (Decrease) %
Sales Volume	'000 tonnes	247	253	(2)
- Australia/New Zealand	%	85	88	
Sales Revenue	A\$m	367	404	(9)
Operating Profit before Interest & Tax	A\$m	33.9	60.0	(44)

Australian Paper's Communication Papers earnings were significantly affected during the period by the sharply higher Australian dollar, which increased, on an average basis, 24% against the US dollar compared to the prior period. The stronger currency affected the Communication Papers business in three ways:

- Imports which account for over 60% of the communication paper sold in Australia, were cheaper and hence to remain competitive, selling prices of our Australian manufactured product were reduced.
- Revenue from exports, which were approximately 15% of PaperlinX's sales volumes of communication papers, reduced as sales are predominantly made in US dollars.
- On a positive note, imported pulp, a major raw material, was cheaper as it is purchased in US dollars.

Australian selling prices reflected both the currency impact and a weak international paper selling price environment. International paper manufacturers sought additional markets to sell their surplus product, including Australia, as international markets remained over supplied. This exacerbated the competitive pressure in Australia, resulting in lower sales volumes and selling prices for PaperlinX. The benefits of the lower cost of imported pulp and productivity improvement programs implemented during the period only partially mitigated the lower average selling prices, resulting in the sharply lower operating profit.

Improving economic indicators in both the US and Europe have yet to result in sufficient demand growth to absorb the surplus paper supply and see increases in international selling prices.

Australian Paper – Packaging Papers

		6 months to Dec 03	6 months to Dec 02	Increase (Decrease) %
Sales Volume	'000 tonnes	157	165	(5)
- Australia/New Zealand	%	88	86	
Sales Revenue	A\$m	125	136	(8)
Operating Profit before Interest & Tax	A\$m	12.7	22.7	(44)

Australian Paper's Packaging Papers business operating profit for the six months to 31 December 2003 reduced to A\$13 million, down 44% on the prior corresponding period.

The sack and bag segment of the Packaging Papers business was adversely affected by:

- The strengthened Australian dollar which resulted in reduced Australian selling prices necessary to meet competitive prices from imports.
- Reduced sales revenue from exports which are generally sold in United States dollars.

- Production and quality issues with the new semi-extensible sack kraft unit at Maryvale Mill resulted in loss of production volume and market share. Steps are underway to rectify the quality issues, produce a suitable product for our customers and to regain market share.

The linerboard segment of the Packaging Papers business performed well with strong Australian demand, although it was also impacted by lower export revenue due to the strength of the Australian dollar.

Corporate and Other

		6 months to Dec 03	6 months to Dec 02	Increase (Decrease) %
Sales Revenue	A\$m	55	57	(3)
Operating Profit before Interest & Tax	A\$m	(12.5)	(6.7)	(87)

Corporate and other includes the stationery and envelopes business as well as the corporate expenses of PaperlinX.

The stationery and envelopes business faced extremely tough competition, particularly from imports. Operating results benefited from the restructure completed in the prior year, although overall profit was slightly below the previous period.

Corporate costs were in line with the prior period, however a number of non-recurring benefits (such as insurance proceeds and divestment proceeds) were recorded in the prior period.

Financial Position

As previously reported, PaperlinX acquired the paper merchandising division of Buhrmann NV on 1 November 2003 for €655 million, including costs. As part of the funding for the acquisition, the Company issued 53.6 million shares in June 2003 through an institutional placement and 33.5 million shares in September 2003 through a Share Purchase Plan to existing shareholders. In total, these share issues raised A\$389 million.

In December 2003, PaperlinX increased its multicurrency bank debt facility from USD400 million to USD700 million. This facility is for between 3 and 5 years.

In February 2004, a United States Private Placement of USD250 million of 10 and 15 year notes were issued at fixed interest rates, which were used to repay short term bridging finance.

Following these placements, PaperlinX's Balance Sheet ratio's are within the long term target range.

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

	PaperlinX Limited and Controlled Entities		
	December 2003	June 2003	
Current Assets	A\$m	2,796.7	1,606.9
Non current assets	A\$m	1,747.8	1,371.9
Total Assets	A\$m	4,544.5	2,978.8
Current Liabilities	A\$m	1,212.2	566.6
Non Current Liabilities	A\$m	1,570.5	766.0
Total Liabilities	A\$m	2,782.7	1,332.6
Shareholders Equity	A\$m	1,761.8	1,646.2
Key Balance Sheet Ratios			
Net Debt	A\$m	1,130.6	144.4
Net debt to net debt and shareholders equity	%	39.1	8.1
Net debt to shareholders equity	%	64.2	8.8
Net tangible assets per share	A\$	3.11	3.30

Statement of Financial Performance

PaperlinX Limited and Controlled Entities
6 months ended 31 December

	2003	2002
	A\$m	A\$m
Sales Revenue	2,381.5	1,866.7
Operating Profit from Ordinary Activities before depreciation, amortisation, interest and income tax	135.1	164.1
Depreciation and amortisation	(48.8)	(41.0)
Operating Profit from Ordinary Activities before interest and income tax	86.3	123.1
Net Interest Expense	(15.1)	(20.7)
Operating profit from Ordinary Activities before income tax	71.2	102.4
Income tax expense on Operating profit	(18.2)	(30.9)
Operating Profit	53.0	71.5

Return on Average Funds Employed ⁽²⁾

	6 months to Dec 03	6 months to Dec 02
Merchanting* ⁽¹⁾	9.8%	10.7%
Australian Paper*	8.2%	15.6%
PaperlinX Group	8.0%	12.9%

* before allocation of corporate overheads

(1) before Buhrmann paper merchanting division 10.2%

(2) EBIT / funds employed

Outlook

There are indications that should lead to improving demand for fine paper in the major markets in Europe and North America through the balance of the calendar year. In Australia, the key factor impacting our results continues to be the currency exchange rate. At the end of December 2003, compared to December 2002, the Australian dollar had strengthened against the US dollar by 32%. In the near term, we do not expect a lessening of the currency related pressure on the profitability of both Communication Papers and Packaging Papers.

In addition to the cost reductions and restructuring actions taken to date, the Company continues to examine all opportunities to ensure that our Communication Papers business can achieve and sustain adequate returns at these higher currency levels. Our Australian manufacturing business is continuing to work on operational efficiencies

and cost structures to mitigate the currency impact and strengthen the business for the future. Additionally, the Packaging Papers business is examining further market development opportunities.

With the addition of the enlarged European merchanting business and the improved geographic diversity of the overall business, PaperlinX benefits from the positive balance between our two business streams.

Integration of the acquired businesses, achieving maximum synergies and securing targeted productivity benefits and continued support of our customer base are the prime focus in the near term. PaperlinX is confident it can capitalise on the strengths of its people, products, businesses, and unique position to deliver improved returns on average funds employed and increasing shareholder value over time.

PaperlinX Europe

Adria Papir
Alpe papir
Bratislavská papierenská spoločnosť
Budapest Papír
Buhmann France Image SAS
Bühmann-Ubbens
Caledonia
CC&CO
Deutsche Papier
DM Paper (Ireland)
DRiem Papier
Epacar
Finwood Papers
Fröhlen-Reddemann
Grafiskt Papper
Howard Smith Paper Group
Mercator Papier
Ospap
PaperNet Denmark
PaperNet Austria
PaperNet
Polyedra
Proost en Brandt
Robert Horne Group
Robert Horne Paper (Ireland)
The M6 Paper Group
The Paper Company
TRICOM Paper International
Tulipel
Udesen
Union Papelera
VRG Asia Pacific
Winpac Paper

PaperlinX Asia

Pacific Paper Marketing
Spicers Paper

PaperlinX Australasia

Australian Paper
Dalton Fine Paper
Dalton Web Papers
Paperpoint
Southern Cross Converting
Spicers Office Papers
Spicers Paper
Spicers Stationery

PaperlinX North America

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Spicers Paper (US)

**Registered Office
and Head Office**

PaperlinX Limited
ABN 70 005 146 350
307 Ferntree Gully Road
Mount Waverley
Victoria 3149 Australia

Telephone +61 3 8540 2211
www.paperlinx.com.au

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