

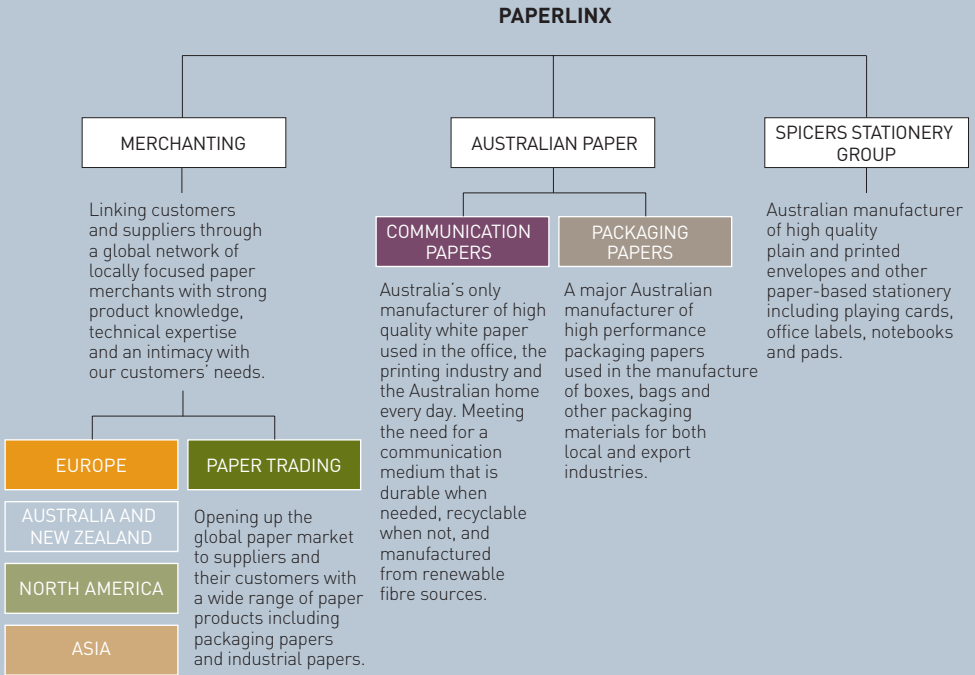


OUR PLATFORM FOR THE FUTURE

HALF YEAR FINANCIAL REPORT 2005

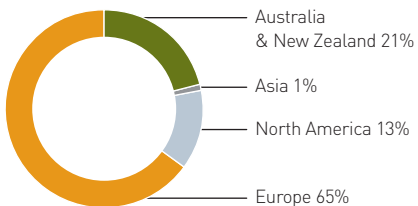
PaperlinX

OUR GROUP STRUCTURE

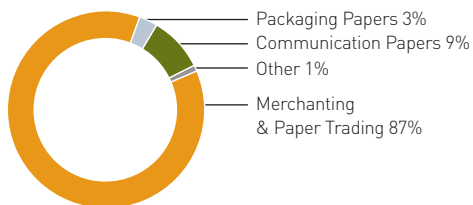


PAPERLINX IS THE WORLD'S LEADING INTERNATIONAL FINE PAPER MERCHANT AND DISTRIBUTOR, AND A UNIQUE AUSTRALIAN MANUFACTURER OF HIGH PERFORMANCE COMMUNICATION PAPER AND PACKAGING PAPER.

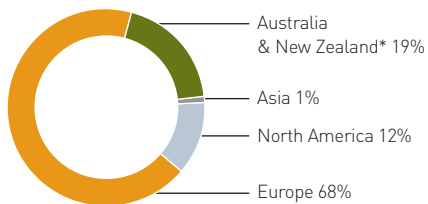
Sales by Region



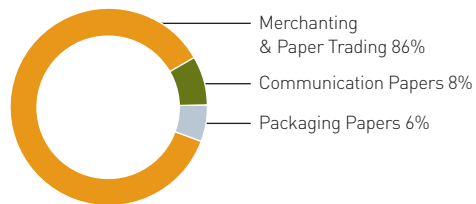
Sales by Business



Profit before interest and tax by Region

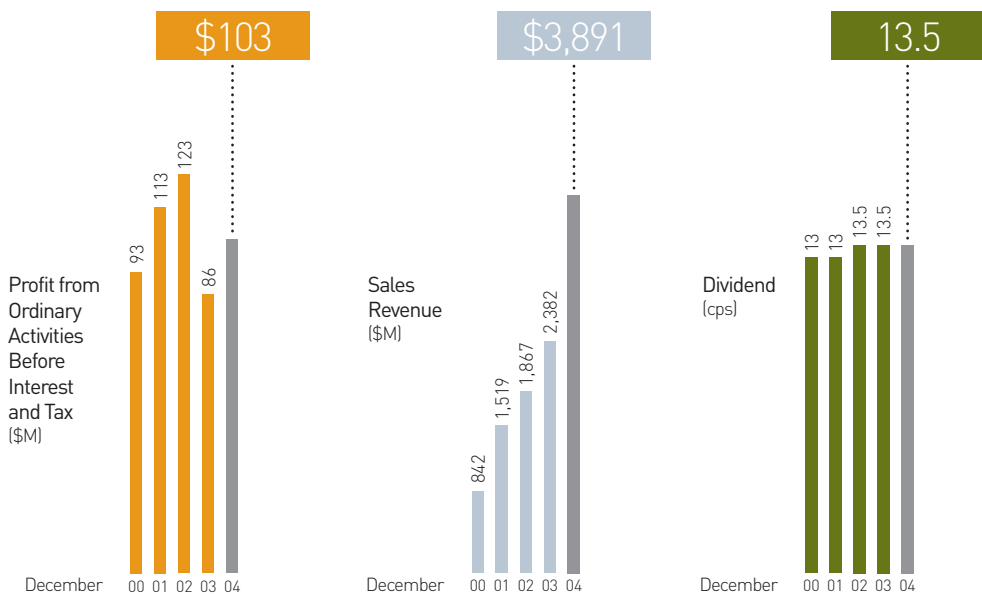


Profit before interest and tax by Business



*Includes Corporate Costs

FINANCIAL HIGHLIGHTS



• Sales volume (including commission sales)	2.3 million tonnes
• Sales revenue	\$3.9 billion
• Profit after tax from operating business	\$52.8 million
• Profit after tax	\$125.8 million
• EPS	28.2 cps
• EPS before tax consolidation benefit	11.8 cps
• EPS before tax consolidation benefit and goodwill amortisation	14.0 cps
• Dividend maintained at	13.5 cps

REVIEW OF THE SIX MONTHS

PaperlinX's profit after tax for the six months to December 2004 was A\$125.8 million, which included a A\$73 million once only benefit arising from the company's election to enter the Australian Tax Consolidation regime.

Profit before interest and tax increased 19% on the prior year.

Net profit excluding the Australian Tax Consolidation was A\$52.8 million, which is in line with the prior year.

The global fine paper merchanting businesses have contributed strongly to this result, while earnings from our Australian manufacturing business have continued at depressed levels. Total earnings volatility has been reduced as a result of the increase in size of our global paper merchanting business.

The major positive impacts on the six months were:

- Earnings in paper merchanting up 88%
- Achievement of synergy targets in PaperlinX Europe
- Return on funds employed increased in all paper merchanting regions
- Significant reductions in the cost base of all businesses
- An improving trend in performance through the six months
- Benefit of Australian Tax Consolidation

The above positive impacts were offset by:

- Compared to the prior period the continued impact of the strong Australian dollar (up to 0.78 USD/AUD) on Australian paper selling prices
- Paper price rises slow to gain momentum in Europe and Australia
- Continued high level of exports of Australian manufactured paper as a result of low priced imports to Australia
- On-going impact of semi-extensible sack kraft manufacturing issues until the upgrade is completed

REVIEW OF THE SIX MONTHS continued

PAPERLINX LIMITED AND CONTROLLED ENTITIES

		6 months to Dec 2004	6 months to Dec 2003	% change
Sales Revenue	\$M	3,891.4	2,381.5	63
Profit from Ordinary Activities before interest, income tax, amortisation and depreciation	\$M	165.4	135.1	23
Profit from Ordinary Activities before interest & income tax	\$M	102.7	86.3	19
Profit from Ordinary Activities before income tax	\$M	66.4	71.2	(7)
Profit from Ordinary Activities after income tax	\$M	125.8 ⁽¹⁾	53.0	137
Key Ratios				
Profit from Ordinary Activities before interest and income tax to average funds employed	%	7.1	8.0	
Return on average shareholders' equity	%	6.0 ⁽²⁾	6.2	
Net operating cash flow	\$M	7.9	104.2	
Net interest cover (times)	x	2.8	5.7	
Earnings per share	cps	28.2 ⁽¹⁾	12.2	
Earnings per share before goodwill amortisation	cps	30.4 ⁽¹⁾	14.1	
Dividend per share	cps	13.5	13.5	

⁽¹⁾ Includes once only benefit of entering Australian Tax Consolidation regime of \$73 million.

⁽²⁾ Excluding Australian Tax Consolidation adjustment.

Note: In this statement, currency is in Australian dollars unless otherwise indicated.

PaperlinX's earnings for the six months to 31 December 2004 have been significantly influenced by a number of factors:

- The global supply/demand balance for paper has improved, however global paper selling prices have remained depressed in most regions. The notable exception is the USA, where paper selling prices strengthened.
- The high Australian dollar, relative to the US dollar, has continued to place significant pressure on earnings from our Australian Paper manufacturing business as prices have been reduced to match lower Australian dollar selling prices for imported paper.
- A continued positive earnings trend from PaperlinX merchanting businesses saw the December 2004 quarter for the group improve on both the September 2004 quarter and the December 2003 quarter. A major

contribution to this has been a strong internal focus on cost management and the achievement of targeted synergies.

Profit before interest and tax of \$102.7 million is 19% above the six months to December 2003. Profit after tax from operating businesses of \$52.8 million was in line with the prior year. Return on average funds employed for the six months was 7.1%, which reflects 10.6% in merchanting and 2.9% in Australian Paper. 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 dividend will be mailed on 4 April 2005 to shareholders on record as of 15 March 2005 as being entitled to the dividend.

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 2004 and for the six months to 31 December 2003.

	INDUSTRY SEGMENTS					
	Operating Profit		Sales Revenue		Total Assets	
	Dec 04	Dec 03	Dec 04	Dec 03	Dec 04	Dec 03
	\$M	\$M	\$M	\$M	\$M	\$M
Merchanting & Paper Trading ⁽¹⁾⁽²⁾	98.3	52.2	3,618.5	2,088.6	3,154.3	3,145.0
Communication Papers ⁽¹⁾	9.4	33.9	349.9	366.9	849.8	900.4
Packaging Papers ⁽¹⁾	6.3	12.7	129.3	124.7	298.5	283.8
Corporate and Other ⁽¹⁾	(11.3)	(12.5)	52.1	55.0	109.7	175.3
Operating profit from Ordinary Activities before interest & income tax	102.7	86.3				
Net Interest	(36.3)	(15.1)				
Income Tax Expense	(13.6)	(18.2)				
Income Tax Adjustment ⁽⁴⁾	73.0					
Outside Equity Interests	0.0	0.0				
Inter-segment Sales			(258.4)	(253.7)		
Unallocated Assets (deferred tax assets)					41.0	40.0
TOTAL	125.8	53.0	3,891.4	2,381.5	4,453.3	4,544.5
GEOGRAPHIC SEGMENTS ⁽³⁾						
Australia and New Zealand ⁽¹⁾	19.9	48.9	803.3	842.7	1,734.4	1,838.3
North America ⁽¹⁾⁽²⁾	11.8	6.1	520.6	421.1	378.9	358.1
Europe ⁽¹⁾⁽²⁾	69.7	30.6	2,519.7	1,077.8	2,245.9	2,250.8
Asia ⁽¹⁾⁽²⁾	1.3	0.7	47.8	39.9	53.1	57.3
Operating profit from Ordinary Activities before interest & income tax	102.7	86.3				
Net Interest	(36.3)	(15.1)				
Income Tax Expense	(13.6)	(18.2)				
Income Tax Adjustment ⁽⁴⁾	73.0					
Outside Equity Interests	0.0	0.0				
Unallocated Assets (deferred tax assets)					41.0	40.0
TOTAL	125.8	53.0	3,891.4	2,381.5	4,453.3	4,544.5

⁽¹⁾ Profit before interest and income tax.

⁽²⁾ Former Buhmann 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⁾ Adjustment arising on entering Australian Tax Consolidation regime.

MERCHANTING

		6 months Dec 03	6 months Dec 04
Sales Volume	'000 tonnes	1,143	1,932
Sales Revenue	A\$M	2,089	3,619
Operating Profit before interest & tax	A\$M	52.2	98.3
Return on Average Funds Employed	%	9.3	10.6

The PaperlinX Merchenting results include the former Buhrmann Paper Merchenting Division (BPMD) for the full period, as compared to its inclusion for two months from 1 November 2003 in the prior year. Where reference is made to 'pro forma basis' in this document, it is comparing the current period actuals against the prior year adjusted to include BPMD for the full six months from 1 July 2003 to 31 December 2003 (in lieu of the two months actually included in the prior period).

Largely due to the inclusion of BPMD, sales revenue was up 73% to \$3.6 billion on an increase in volume sold of 69%. Profit before interest and tax improved 88% compared to the prior year with an increase in operating profit margin. On a pro forma basis, profit before interest and tax increased at healthy double digit levels.

Improvements in the international supply/demand balance have resulted in selling price increases in some regions in some grades, albeit at a slower pace than initially expected.

All regions have improved return on funds employed as a result of our strong focus on productivity, cost reduction, working capital management and growth of our core brands. This has resulted in the return on average funds employed rising to 10.6% from 9.3% last year. Sales volumes have been maintained or improved in all major regions. The ability to increase profit and returns despite difficult market conditions highlights the relatively lower volatility of paper merchenting earnings.

PaperlinX's merchenting business has and will continue to derive cost efficiencies and working capital benefits from its structure and is well placed to benefit from improved economic conditions and increased demand for printing papers.

Australia and New Zealand		6 months Dec 03	6 months Dec 04
Sales Volume	'000 tonnes	309	311
Sales Revenue	A\$M	549.8	530.5
Operating Profit before interest & tax	A\$M	15.0	15.1

Trading conditions during the six months continued to be very competitive, with the high level of the Australian dollar relative to the US dollar resulting in ongoing pressure on paper selling prices.

Our focus on costs has resulted in improved operating margins and return on funds employed. Both the Australian and New Zealand businesses have held their solid market positions and delivered good returns.

North America		6 months Dec 03	6 months Dec 04
Sales Volume	'000 tonnes	181	216
Sales Revenue	US\$M	260.8	332.4
Operating Profit before interest & tax	US\$M	4.2	8.3

PaperlinX North America achieved an impressive growth in profit, as increased sales volumes were supported by higher paper selling prices, and the inclusion of Kelly Paper for the full period versus two months in the prior period.

In the USA, Spicers Paper increased volume by 13%. The Kelly Paper business performed well, with volume up 20% on a pro forma basis.

In Canada, the market has continued to be impacted by the strong Canadian currency against the US dollar, adversely affecting selling prices. Despite the selling price pressure, volume increased 5%.

Increased North American sales volumes, including an increased percentage of sales in core brands, combined with a strong focus on working capital management and cost control, has resulted in a solid improvement in operating profit and return on funds employed across the region.

MERCHANTING continued

Europe		6 months Dec 03	6 months Dec 04
Sales Volume	'000 tonnes	553	1,276
Sales Revenue	€M	629.7	1,423.4
Operating Profit before interest & tax	€M	17.7	40.2

PaperlinX Europe operates across 19 European countries and in South Africa.

On a pro forma basis, PaperlinX Europe's profit before interest and tax increased at double digit levels. Trading conditions across Europe were mixed, with limited price increases successfully implemented during the period. Trading conditions have been soft in France, Germany and Holland, though most countries are now showing signs of strengthening. A focus on efficiency improvements, achievement of synergy benefits and cost reductions has resulted in improved margins and returns. The 'Hello' brand was again confirmed as the number one brand of coated paper in Europe.

The French business has been restructured during the period, reducing stock keeping units, employee numbers and total sales, but improving margins. This will position the business for improved results going forward.

Synergy benefits have progressed well and are running at target levels on an annualised basis, while further expense control within units and across Europe has further strengthened the results. There have been a range of additional synergy opportunities identified to pursue in the current financial year and over coming years.

In Denmark, a small 'bolt on' packaging merchant acquired in October 2004, is being integrated into our existing structure and will deliver solid returns. During the period, our small Portuguese business was down-sized and realigned, we undertook action to strengthen our Irish operations and, as of 1 February 2005, we have also exited a small business in Sweden.

PaperlinX Europe has continued to meet our expectations and we are confident the region will deliver improved results. Return on funds employed has improved versus the prior year and we continue to exceed earnings per share targets for the BPMD acquisition.

Asia		6 months Dec 03	6 months Dec 04
Sales Volume	'000 tonnes	34	37
Sales Revenue	S\$M	46.0	54.9
Operating Profit before interest & tax	S\$M	0.8	1.7

PaperlinX Merchants in Asia have achieved a solid improvement over the prior year. Restructuring initiatives undertaken earlier this year, reduced costs and improved margins have all contributed to stronger earnings and returns. Demand and pricing levels have remained solid.

Paper Trading		6 months Dec 03	6 months Dec 04
Sales Volume	'000 tonnes	65	91
Commission Volume	'000 tonnes	113	131
Sales Revenue	A\$M	52.5	84.7
Operating Profit before interest & tax	A\$M	1.3	0.8

Paper Products Marketing is PaperlinX's paper trading business that sells paper products in over 65 countries. The business links paper manufacturers and customers, predominantly on a commission basis. The performance of the business was adversely impacted by restructuring costs as a result of integrating new businesses gained as part of the acquisition of BPMD.

AUSTRALIAN PAPER

		6 months Dec 03	6 months Dec 04
Sales Volume	'000 tonnes	404	426
Sales Revenue	A\$M	491.6	479.2
Operating Profit before interest & tax	A\$M	46.6	15.7
Return on Average Funds Employed	%	8.2	2.9

Australian Paper is the trading name for PaperlinX's Communication Papers and Packaging Papers businesses, which produce printing and writing papers and high performance packaging papers predominantly for the Australian and New Zealand markets.

Internationally, paper is priced in US dollars. With the high Australian dollar, relative to the US dollar, paper imported into Australia becomes cheaper. Australian Paper manufactures its products in Australia and these products compete with these papers in the Australian market. The resulting lower selling prices have had a significant adverse effect on the profitability of the Australian Paper business. Also as a result of the increased volume of low priced imports and lower sales volumes of Australian Paper product in Australia & New Zealand, there has been an increase in the quantity of paper that has been exported at lower margins. The impact of these exports on profitability has been compounded by the higher freight rates associated with exports.

The upgrade of the sack kraft machine at Maryvale is now expected to be completed in the first quarter of fiscal 2006 and to considerably improve the profitability from this machine.

Options for sourcing our pulp needs or manufacturing the pulp we currently purchase are well progressed. Further strategic projects to meet current and future customer requirements for our various paper grades are being analysed. These projects are reviewed against criteria of strategic importance and the ability to generate returns in line with our targets, and, if approved, would be implemented over the next three to five years.

Communication Papers		6 months Dec 03	6 months Dec 04
Sales Volume	'000 tonnes	247	256
- Australia/New Zealand	%	85	75
Sales Revenue	A\$M	367	350
Operating Profit before interest & tax	A\$M	33.9	9.4

Australian Paper's Communication Papers business has continued to be impacted by the same factors highlighted in the 2004 results. Intense competition from imported products entering the Australian market has kept prices depressed and resulted in increased sales to low returning export markets.

Paper price rises announced early in the period were largely eroded by the strengthening in the Australian dollar up to the 78¢ level against the US dollar.

While total volume sold by the Communication Papers business was up on the prior year, sales in Australia and New Zealand were down 18,000 tonnes. The changed market mix and increases in freight costs both locally and internationally due to oil prices and shipping availability, all adversely impacted margins.

There has been a positive response to the relaunch of Reflex® copy paper in October 2004, with sales volume in the three months ending January 2005 up 17% compared with the same period a year ago.

Manufacturing costs were again reduced during the period and this focus is continuing, along with ensuring that Australian customers are provided with quality Australian produced paper backed by a superior local supply package. The securing of the Corporate Express copy paper contract from the second half of 2005 reflects these benefits in practice.

AUSTRALIAN PAPER continued

Packaging Papers		6 months Dec 03	6 months Dec 04
Sales Volume	'000 tonnes	157	169
- Australia/New Zealand	%	88	78
Sales Revenue	A\$M	125	129
Operating Profit before interest & tax	A\$M	12.7	6.3

The Packaging Papers segment of Australian Paper comprises two main segments: linerboard, used in the manufacture of corrugated boxes; and sack and bag papers, used to make paper sacks, carry bags and wrapping paper.

Overall profitability continued to be hampered by poor performance in the sack and bag sector. This sector has been impacted by a combination of depressed selling prices and ongoing production issues. As in the Communication Papers sector, prices are benchmarked against imports which are transacted in US dollars. As previously indicated, the semi-extensible sack kraft production capability will be addressed by the upgrade of the sack kraft paper machine at Maryvale, now scheduled to be completed at the start of fiscal 2006.

Demand for linerboard in Australia was strong, however the Maryvale 4 machine production was adversely impacted by some operating difficulties which have now been addressed.

CORPORATE & OTHER

		6 months Dec 03	6 months Dec 04
Sales Revenue	\$M	55	52
Operating Profit before interest & tax	\$M	(12.5)	(11.3)

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

The stationery and envelope business faced a highly competitive market, with low cost imports of stationery products keeping prices low. Earnings were down as lower selling prices reduced revenue, however this was mitigated to some extent by reduced costs and improved manufacturing productivity. The business continues to operate profitably and has improved its return on average funds employed versus the prior corresponding period.

Corporate costs were in line with the prior period.

FINANCIAL POSITION

PaperlinX has a strong financial position with net debt to net debt plus equity of 38%. Interest cover, while down, remains at acceptable levels, well in excess of debt covenants. PaperlinX has an appropriate mix of long, medium and short term debt.

Capital expenditure of \$37 million in the half year remains below the depreciation expense of \$53 million as we have concentrated on developing strategically important projects to support our long-term competitive advantages. Expenditure on smaller, less strategic projects has been reduced accordingly. If approved, these strategic projects are planned to be phased in over the next three to five years, with total capital expenditure expected to exceed the depreciation expense over that period.

Minimising working capital is a key management focus. Efficiency ratios such as debtors days and inventory turns are either stable or have improved.

Net cash flow from operations was positive at \$8 million. While cash flow generated from earnings was strong, there was an increase in working capital of \$102 million. Receivables and inventory efficiency improved which was offset by a reduction in trade payables. The reduction in trade payables was a combination of optimising discounts received for prompt payments for purchases, seasonality and the timing of payments for pulp and paper shipments. Management's objective is to continue to focus on working capital delivering a significant reduction by financial year end.

Australian Tax Consolidation

The Australian Federal Government enacted legislation in 2003 to allow companies comprising a parent entity and Australian wholly owned subsidiary entities to elect to consolidate and be treated as a single entity for Australian income tax purposes.

PaperlinX Limited has elected to form a tax consolidated group effective from 1 July 2003. Under the consolidation rules, the PaperlinX Group has chosen to reset the tax cost base of certain depreciable assets which will result in additional tax depreciation over the lives of the assets. This has required a restatement of deferred tax balances with a consequential tax benefit of \$73 million being recorded in the statement of financial performance for the six months to 31 December 2004 in accordance with UIG52 – Income Tax Accounting under the Tax Consolidation System.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRS')

For reporting periods beginning on or after 1 January 2005, PaperlinX must comply with IFRS as issued by the Australian Accounting Standards Board. PaperlinX's first financial year reporting in accordance with IFRS will be 1 July 2005 to 30 June 2006.

The PaperlinX Limited Board has established a formal project, monitored by a steering committee, to achieve transition to IFRS reporting.

To date, the company has identified the following potential impacts arising from the adoption of IFRS:

- Non amortisation of goodwill which will increase reported earnings. For the six months to December 2004, goodwill amortisation was \$9.6 million;
- Impairment testing for certain non-current assets based on identified cash generating units (including property, plant, equipment, goodwill and brand names) which potentially could decrease reported earnings in certain circumstances [see comments below];
- Financial instruments, in certain circumstances, are required to be marked to market at fair value and recorded in the profit and loss, which potentially could increase or decrease reported earnings;
- Equity based compensation arrangements that are required to be valued and included in the profit and loss will decrease reported earnings;
- Defined benefit superannuation plan's surplus/deficits are required to be incorporated into company accounts. The plan's surplus or deficit at 30 June 2004 will be taken to retained earnings. Each subsequent balance date any movement in the plan's surplus or deficit will be taken to (i) retained earnings for the component arising from changes in actuarial assumptions and (ii) the component relating to the past and future earnings performance of the fund will be charged to profit and loss.

The two areas that potentially have the most impact on PaperlinX in the transition to IFRS are:

Employee benefits – defined benefit retirement plans

As disclosed in the June 2004 accounts, note 35, there was a deficit of \$48.4 million of fund assets at 30 June 2004 compared to accrued benefits at the last actuarial review. The dates of the last actuarial reviews differ by plan, as shown in the June 2004 accounts. PaperlinX has accrued \$21.3 million of the shortfall. The net deficit (or surplus) calculated at 30 June 2004 and based on actuarial review at 30 June 2004 will be accounted for at transition as an adjustment to retained earnings. Each year thereafter, any movement in the surplus/deficit of the funds will be included in retained earnings to the extent it relates to changes in the actuarial assumptions, and with past and future earnings performance of the fund charged to profit and loss.

Valuation of non-current assets

Current Australian Accounting Standards require a 'recoverable amount' test for non-current assets. IFRS requires 'impairment' testing for certain non-current assets, including discounting future cash flows and determining cash flows at a cash generating unit level. The tests for 'recoverable amount' as applied under current Australian Accounting Standards and 'impairment' as applied under IFRS are significantly different.

PaperlinX's main non-current assets, apart from goodwill, are the Australian manufacturing business's paper mills. While the cash generating units all currently generate a positive operating earnings before depreciation, interest and tax, the current and projected level of cash generation by unit of these assets under the IFRS impairment testing rules will most likely result in a transitional impairment loss which is taken against retained earnings at 1 July 2004, and a consequential reduction in the balance sheet non-current asset value. Each subsequent balance date an impairment test is undertaken, with any resultant impairment loss taken to earnings.

Any transitional phase impairment loss will impact retained earnings and, in the absence of any subsequent impairment reversal, would result in a lower annual depreciation expense to profit, hence an increase in reported earnings in future years.

To date, the company has not completed quantification of the financial impact of the items discussed above.

The company's implementation project consists of three phases as described in detail in the ASX Appendix 4D – December 2004 Half Year Report, and in the June 2004 Annual Report.

STATEMENT OF FINANCIAL POSITION

The PaperlinX group Statement of Financial Position is as follows:

PAPERLINX LIMITED AND CONTROLLED ENTITIES			
		December 2004	June 2004
Current Assets	\$M	2,727.4	2,999.6
Non-current Assets	\$M	1,725.9	1,780.5
Total Assets	\$M	4,453.3	4,780.1
Current Liabilities	\$M	1,191.3	1,341.1
Non-current Liabilities	\$M	1,416.9	1,625.7
Total Liabilities	\$M	2,608.2	2,966.8
Shareholders' Equity	\$M	1,845.1	1,813.3
Key Balance Sheet Ratios			
Net Debt	\$M	1,123.1	1,033.1
Net debt to net debt and shareholders' equity	%	37.8	36.3
Net debt to shareholders' equity	%	60.9	57.0
Net tangible assets per share	\$	3.29	3.15

STATEMENT OF FINANCIAL PERFORMANCE

The PaperlinX group Statement of Financial Performance is as follows:

	PAPERLINX LIMITED AND CONTROLLED ENTITIES	
	6 months ended 31 December	
	2004	2003
	\$M	\$M
Sales Revenue	3,891.4	2,381.5
Operating Profit from Ordinary Activities before depreciation, amortisation, interest and income tax	165.4	135.1
Depreciation and amortisation	(62.7)	(48.8)
Operating Profit from Ordinary Activities before interest and income tax	102.7	86.3
Net Interest Expense	(36.3)	(15.1)
Operating profit from Ordinary Activities before income tax	66.4	71.2
Income tax expense on Operating profit	59.4	(18.2)
Outside Equity Interests	0.0	0.0
Operating Profit	125.8	53.0

RETURN ON AVERAGE FUNDS EMPLOYED ⁽¹⁾

	6 months Dec 04	6 months Dec 03
Merchanting*	10.6%	9.3%
Australian Paper*	2.9%	8.2%
PaperlinX Group	7.1%	8.0%

* before allocation of corporate overheads.

⁽¹⁾ EBIT / funds employed.

OUTLOOK

Underlying global demand for paper continues to improve and in particular across key coated woodfree grades.

In North America, improved demand in the US market has resulted in higher selling prices and the outlook appears solid for the balance of the year. The Canadian market is continuing to see selling price pressure as a result of the currency differential with the US.

In Europe, the UK market continues to look solid, while other markets are now seeing improvements in demand. With mill capacity utilisation continuing to improve gradually, this should further support the pricing outlook on coated papers particularly.

In Australia, we remain adversely affected by the pressure from lower priced imports. Our focus on costs will mitigate some of the impact on Australian Paper and on our paper merchants over time.

We continue to see the prospect for improved returns in Australian Paper and the ability to deliver positive economic value over time as a result of focusing resources on strategic projects, improving product performance and continued productivity initiatives. This year, the flow-on effects from increasing global capacity utilisation (though delayed from our initial expectations) along with higher sales volumes into the Australian market, will benefit Australian Paper, which is expected to exceed the prior year second-half operating earnings.

The Group has made good progress in integrating our businesses, and is actively pursuing further opportunities arising from our global business platform. Overall we expect to see a stronger second half of fiscal 2005 versus both January-June 2004 and the first six months of the current year excluding the benefit of the Australian Tax Consolidation. This will be underpinned by continued gains in paper merchandising, and gradually improving competitiveness in our Australian Paper manufacturing business.

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