Half Year Financial Report 2006

Building Strong Partnerships

International Growth Provides Balance

In 2000, PaperlinX was an Australian paper manufacturer with 2,500 employees. Over the past six years we have established a global position in paper merchanting to provide a balanced business platform for the future, and we have applied strict acquisition criteria to build this platform.

Today, we continue to be a unique Australian paper manufacturer and we are now the world's leading fine paper merchant with around 10,000 employees in 30 countries across Asia, Australasia, Europe, North America and South Africa.

Our well diversified earnings base has maintained our returns in the top quartile amongst our global peers, with a solid return of 11% in paper merchanting.

We are leveraging the benefits of our global position by building mutually beneficial partnerships with our suppliers, servicing pan-regional customers and strengthening our key markets through organic growth and bolt-on acquisitions.

Our most recent acquisition of Cascades Resources announced in November 2005 and awaiting competition approval, doubles the size of our operations in Canada and establishes PaperlinX as Canada's leading supplier of fine paper and graphic arts supplies and equipment.

While we will continue to acquire complementary businesses, there are significant opportunities for profitable growth from our existing platform. We are taking the best processes and initiatives and applying them across our operating companies. Our focus remains on the tight control of working capital and extracting costs from our businesses to provide the funds for growth.

In November, we disclosed plans to establish a new UK logistics company, 'The Delivery Co' to operate as a dedicated service provider to our four merchants. More recently we announced the integration of the back office services of our three merchants in the Netherlands.

In Australia, our manufacturing business Australian Paper is working towards delivering 12% returns across the cycle. We are investing in areas of opportunity such as improving the quality of our products, the pulp mill upgrade at Maryvale Mill and investing in the growth of our brands such as Reflex®. The recent announcement of the closure of the Shoalhaven number 1 paper machine will rebalance capacity and improve product returns whilst ensuring we meet our domestic customer requirements.

Across the Group we are focused on unlocking growth opportunities and delivering long-term sustainable returns for our shareholders.

In this result we have highlighted an expected $100 million in sustainable operating earnings from current management initiatives. Your Company will look to continue to build on this internally generated earnings growth, while also ensuring we maximise our already significant earnings upside leverage from any improvements in demand and prices for paper globally.

Vision

Our vision is to be recognised as the leading international paper company

We will realise this vision by creating value for our shareholders and stakeholders as follows:

Customers:	Strong value driven partnerships
Suppliers:	Superior strategic alliances
Employees:	High point of working life
Shareholders:	Consistent Earnings per Share (EPS) growth with improving returns

while rigorously pursuing our belief in employee safety, legal and regulatory compliance and positive environmental management.

Our Financial Targets

PaperlinX has established strategic financial targets to assist in delivering shareholder value

ROAFE* through the cycle:

– Australian Paper	12%
– Merchanting	15%

Increase EPS through profitable growth

**Return on Average Funds Employed (ROAFE) = earnings before interest and tax (EBIT)/average funds employed.*

PaperlinX Results for the Half Year ended 31 December 2005

PaperlinX has reported operating earnings (EBIT) of $79.2 million and after tax earnings of $35.3 million for the first half of fiscal 2006. The current result and prior periods have been reported under AIFRS.

- These results reflect a continuation of the adverse trading conditions experienced in the January/June 2005 period which impacted volumes and selling prices. The after tax profit compares with $30.2 million for the six months ended 30 June 2005, but is below the prior corresponding period.
- Despite reduced returns in the half year, PaperlinX return on funds employed has been maintained in the top quartile of global paper companies as a result of strategic diversification, tight expense management (merchant expenses more than 3% lower versus prior period) and continued reductions in working capital (down $123 million from last December). The merchanting businesses returned 11% on funds employed, exceeding our cost of capital.
- Including the announcement in February 2006 on the Shoalhaven Mill, strategic initiatives expected to contribute over $100 million of sustainable incremental operating earnings in 2009 and over $35 million to operating earnings in 2007 have been developed and announced over the past year.
- The interim dividend of 5.5 cents per share represents a 70% payout ratio.

PaperlinX Limited and controlled entities		6 months ended 31 December 2005	2004	% change
Sales revenue	($M)	3,593	3,891	(8)
Earnings from ordinary activities before interest, income tax, amortisation and depreciation	($M)	129.4	161.7	(20)
Earnings from ordinary activities before interest and income tax	($M)	79.2	109.7	(28)
Earnings from ordinary activities before tax	($M)	46.3	73.4	(37)
Earnings from ordinary activities after income tax	($M)	35.3	59.5(1)	(41)
Key ratios				
Earnings from before interest and income tax to average funds employed	(%)	6.1	8.0	
Working capital to sales	(%)	18.9	19.0	
Net interest cover (times)	x	2.4	3.0	
Net debt/net debt and equity	(%)	39.4	40.4	
Earnings per share (excluding ATC)	(cps)	7.9	13.3(1)	
Dividend per share	(cps)	5.5	13.5	

(1) *Excludes benefit of entering Australian Tax Consolidation regime of $73 million.*

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

Commentary on the Group Interim Results

Introduction

PaperlinX's financial results for the six months ended 31 December 2005 reflect a continuation of the difficult market conditions seen during fiscal 2005 and the adverse conditions particularly seen in the second half of that year. Reported profit after tax of $35.3 million compared with $30.2 million for the six months ended 30 June 2005, but was 41% below the prior corresponding period (excluding prior year benefits of Australian Tax Consolidation).

These results have been impacted by static global paper demand, excess global supply of paper and a weak US$ resulting in lower volumes and continued weak paper selling prices in Australia/New Zealand and Europe.

Specific impacts in Europe also included reduced supply during an industry wide strike in Finland and flow-on impacts from a failed mill coated paper price increase in the fourth quarter of fiscal 2005. These negative factors have been mitigated to some extent by good progress on reducing working capital and lowering operating expenses (merchants down more than 3%). While returns are well below our target, they remain in the top quartile of global paper companies.

To redress the marketplace issues and to improve our competitiveness, projects and other initiatives that are expected to result in at least $100 million per annum of sustainable incremental contribution to operating earnings in 2009 have been developed over the past year and are currently under way. Payback of most initiatives is short, with positive net benefit to operating profit expected in 2007 of over $35 million.

One off costs associated with these initiatives will be incurred in 2006, partially funded from one off benefits arising primarily from the profit on sale of non-core assets (including property). The net negative impact on 2006 pre tax earning is expected to be $10–$20 million, including a $15 million charge for the closure of the Shoalhaven number 1 paper machine. Working capital reductions and minor impacts on debt levels will also result.

Initiatives announced over the past year include:

- Upgrade to Maryvale kraft pulp capacity and bleach plant
  - to improve paper quality, reduce pulp costs and improve our environmental impact.
- Closure of Shoalhaven number 1 paper machine and transfer of production to Maryvale
  - to improve overall operating efficiency by replacing unprofitable products made for the export market at Maryvale with products that are currently manufactured on Shoalhaven number 1 paper machine. Overall capacity will reduce by 40,000 tonnes, and 98 positions will be lost.
- Netherlands integration
  - integration of businesses to realise synergies in commercial print and packaging services. The changes will be phased in over the first half of calendar 2006 and are expected to result in a reduction of approximately 60 jobs.
- Establishment and roll-out of The Delivery Co in the UK
  - integration of the individual logistics operations of our UK paper merchants to optimise customer service, maximise efficiency and minimise the environmental impact of distribution activities.
- Roll-out of common European IT systems
  - creation of a common IT platform to improve inventory and warehouse control in order to improve working capital management, deliver a range of other synergy benefits and improve service to our customers.
- Progression of enhanced alliances with strategic suppliers
  - working with strategic suppliers to build competitiveness and grow volumes together.

Commentary on the Group Interim Results continued

- Successful upgrade of the number 1 paper machine at Maryvale Mill
  - world-class product quality to enhance our competitive position.
- Acquisition of Cascades Resources in Canada
  - build economies of scale and realise synergies by consolidating existing businesses in Canada.
- Closure of Portuguese paper merchant business, Tulipel (February 2006)
  - exiting a small, poorly performing business.
- Successful integration of Hestbech in Denmark
  - leverage consolidation benefits with existing businesses.

Paper Merchanting

The Paper Merchanting businesses achieved earnings before interest and tax of $92 million, down $14 million (13%). The decline in earnings was primarily due to lower average prices and lower volumes, particularly in the UK and Australia/New Zealand markets. Merchanting businesses have continued to produce good returns in this difficult environment, with clear potential for upside from any improvements in the current market conditions. Return on average funds employed was 11%, above our cost of capital. Overall expenses reduced by more than 3% as management made good progress against targets. Working capital reductions have continued, with all businesses at lower levels than in the prior corresponding period. The overall working capital to sales ratio reduced to 16.1% from 16.5%. Operating earnings were impacted by lower earnings primarily in Europe (down 9% in local currency) and in Australia/New Zealand (down 29%). Strong improvements were seen in North America (up 16%) and Asia (up 26%).

Australian Paper

Earnings from Australian Paper have remained under significant pressure. Operating earnings of $2.6 million reflect the continued impact of depressed Australian paper selling prices as a combined result of a strong Australian dollar and oversupply in global paper markets. This has meant a continued high level of paper imports lowering paper selling prices in Australia. The strong Australian dollar has also resulted in lower returns from exports, which are priced in US dollars.

In addition, Australian Paper has continued to face input cost increases, such as fuel oil and chemicals, that it is unable to pass on in the current price environment; these have also adversely impacted operating margins.

The upgrade of the number 1 paper machine at Maryvale Mill has been completed and the machine start-up phase has gone to plan, with product tested successfully with customers. The pulp mill project is progressing as planned, with considerable progress made on negotiation and selection of major equipment packages. PaperlinX has also announced the closure of the number 1 paper machine at the Shoalhaven Mill to rebalance capacity towards higher returning markets, with a charge against profits in the second half of around $15 million.

Operating Earnings

The following table shows, for PaperlinX Limited and controlled entities, Operating Earnings (EBIT), Sales Revenue and Total Assets by industry segment for the six months to 31 December 2005.

	EBIT		Sales Revenue		Total Assets	
	Dec 2005 $M	Dec 2004 $M	Dec 2005 $M	Dec 2004 $M	Dec 2005 $M	Dec 2004 $M
Industry Segments						
Merchanting and Trading						
Asia	2.0	1.6	51	45	55	50
Australia/New Zealand	12.1	17.2	512	531	423	477
Europe[1]	62.5	74.5	2,234	2,499	2,038	2,262
North America	15.8	14.0	471	459	400	350
Paper Trading and Other	(0.4)	(1.6)	69	84	34	42
Total Merchanting and Paper Trading[1]	92.0	105.7	3,337	3,618	2,950	3,181
Communication Papers	(0.2)	10.6	344	350	622	610
Packaging Papers	2.8	6.2	123	129	295	298
Corporate and Other	(15.4)	(12.8)	51	52	128	101
Operating earnings before interest and income tax	79.2	109.7				
Net interest	(32.9)	(36.3)				
Income tax expense	(11.0)	(13.9)[2]				
Outside equity interests						
Inter-segment sales			(262)	(258)		
Unallocated assets (deferred tax assets)					83	74
Total	35.3	59.5[2]	3,593	3,891	4,078	4,264

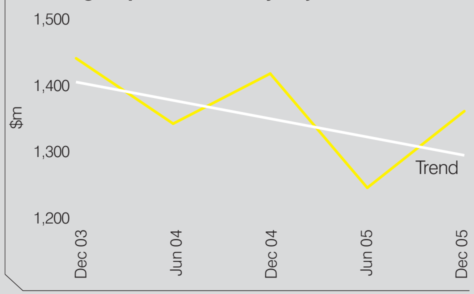
(1) Includes benefit of sale of property in Denmark of €3.5 million partially offset by one off costs of restructurings.
(2) Excludes benefit of entering Australian Tax Consolidation regime of $73 million.

Operating Earnings continued

Working Capital

Working capital for the Group at December 2005 of $1,359 million was $123 million (including currency benefits) or 8% lower than December 2004. Working capital in all major operating regions decreased as a result of our continued focus on this key area. The working capital to sales ratio was 18.9% compared to 19% in the prior corresponding period, with merchants reducing from 16.5% to 16.1%. All three components of working capital improved versus the prior period.

Working Capital – currency adjusted



Dividend

Directors have declared an unfranked interim dividend of 5.5 cents per share representing a 70% payout ratio.

The interim dividend will be mailed on 5th April 2006 to shareholders on record as of 15th March 2006 as being entitled to the dividend.

Financial Position

At 31 December 2005, PaperlinX has a gearing ratio of net debt to net debt plus equity of 39.4%, which is lower than last December and the Group's target range of 40% to 50%. Interest cover was 2.4 times. Both of these ratios are in compliance with debt covenants.

Cash generated by operations excluding working capital movement was $89 million. Net cash flow from operations after working capital movements was seasonally low at $(32) million, impacted by the seasonal rise in working capital between June and December. Net debt has reduced to $1,017 million compared to $1,123 million at the same period last year.

There have been no significant changes in funding arrangements. PaperlinX has an appropriate mix of long, medium and short-term debt, and has undrawn lines of credit available to it beyond current foreseeable needs.

Capital expenditure in the period was $46 million which was 91% of depreciation. In the last six months PaperlinX has committed to an upgrade of its pulping capacity and associated facilities at the Maryvale Mill at a cost of $203 million over the next three years, and announced the acquisition of Cascades Fine paper merchanting division for A$97 million. PaperlinX has funding available for its current and planned projects.

Australian Tax Consolidation

In the first half of fiscal year 2005 (the prior corresponding period from 1 July 2004 to 31 December 2004) PaperlinX recorded a one off $73 million gain from its election to form a tax consolidation group in Australia from 1 July 2003. Details have been previously reported.

Australian International Financial Reporting Standards (AIFRS)

These results are reported against the Australian equivalents to the International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The prior corresponding period results have also been restated.

Employees

As at 31 December 2005 PaperlinX had 9,239 employees, down 3.5% versus prior year and down 4.7% versus two years ago. 30% of our employees are in Australia, 56% in Europe and 13% in North America.

Environmental

There have been some significant steps undertaken to improve overall environmental performance with the announcement of the Maryvale Pulp Mill upgrade and introduction of the ECF (elemental chlorine free) bleaching process. This will reduce air emissions, odour, greenhouse gas emissions and liquid waste as well as provide strong economic benefits. Key projects across the logistics activities will improve fleet utilisation and reduce overall greenhouse gas emissions.

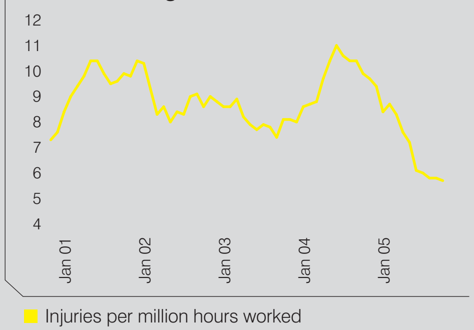
During the period Spicers Paper in Australia, the US and Hong Kong achieved Forest Stewardship Council (FSC) environmental chain of custody certification.

PaperlinX had no significant environmental breaches or non-compliance with environmental regulations during the period.

Safety

The Group's rolling 12 month LTIFR (lost time injury frequency rate) has declined by 42% to 5.7, with clear improvement by our European businesses since acquisition. The MTIFR (medically treated injury frequency rate) over the same period has reduced by 33%. Safety is a key focus for PaperlinX and receives significant attention by management and the Board.

12 month rolling LTIFR



Balance Sheet

PaperlinX Limited and controlled entities		December 2005	June 2005
Current assets	($M)	2,593.7	2,673.9
Non current assets	($M)	1,484.7	1,492.8
Total assets	($M)	4,078.4	4,166.7
Current liabilities	($M)	1,291.3	1,373.0
Non current liabilities	($M)	1,223.0	1,217.0
Total liabilities	($M)	2,514.3	2,590.0
Shareholders' equity	($M)	1,564.1	1,576.7
Key Balance sheet ratios			
Net debt	($M)	1,017.1	873.5
Net debt to net debt and shareholders' equity	(%)	39.4	35.7
Net debt to shareholders equity	(%)	65.0	55.4
Net tangible assets per share	($)	2.41	2.44

Income Statement

	6 months ended 31 December	
PaperlinX Limited and controlled entities	2005 $M	2004 $M
SALES REVENUE	3,593.0	3,891.4
Operating earnings before depreciation, amortisation, interest and income tax (EBITDA)	129.4	161.7
Depreciation and amortisation	(50.2)	(52.0)
Operating earnings before interest and income tax (EBIT)	79.2	109.7
Net interest expense	(32.9)	(36.3)
Operating profit from ordinary activities before income tax	46.3	73.4
Income tax expense on operating profit	(11.0)	(13.9)
Outside equity interests	0.0	0.0
Net profit after tax	35.3	59.5[1]

(1) Excludes benefit of entering Australian Tax Consolidation regime of $73 million.

Return on Average Funds Employed[1]

		6 months December 2005	6 months December 2004
Merchanting*	(%)	11.0	11.4
Australian Paper*	(%)	0.8	3.7
PaperlinX Group	(%)	6.1	8.0

** before allocation of corporate overheads.*

(1) EBIT/average funds employed.

Summary

Market conditions in the six months to 31 December 2005 reflected a continuation of the adverse trading conditions of the immediately preceding six months. The negative movement in the paper cycle over recent years has been magnified in Australia by the weakening of the US dollar. Globally we are now seeing announced strategic capacity reductions which are positive to the industry environment, and in time could underpin pricing as is occurring following capacity reductions in North America.

We expect that one off costs associated with initiatives already announced will be partially offset by one off gains in areas such as profit on the sale of non-core assets (including property). The expected net negative impact in the 2006 financial year pre tax earnings is $10–$20 million in total, including the $15 million charge for the closure of the number 1 paper machine at Shoalhaven. Payback of most of the initiatives underway is short with expected positive contribution to earnings of over $35 million in 2007 and over $100 million per annum in 2009.

The results for the 2006 financial year will be heavily influenced by the direction of the key external variables: paper demand and selling prices, global currency relativities and movements in key input costs. However, the Group has made significant progress on the key areas within its control, and has a range of initiatives under way to improve profitability along with plans for continued reduction in working capital and seasonal improvement in operating cash flow through June 2006.

Sector Commentary

Merchanting

		6 months Dec 2005	6 months Dec 2004
Sales volume	('000 tonnes)	1,885	1,931
Sales revenue	(A$M)	3,337	3,618
Earnings before interest and tax	(A$M)	92.0	105.7
Return on Average Funds Employed	(%)	11.0	11.4

Paper Merchanting operating earnings were negatively impacted by soft markets in Europe, particularly in the UK. Volumes were additionally negatively impacted by some restructuring activities in France and Germany, and the effects of supply constraints following a strike in Finland and a failed European mill price rise announcement in the last quarter of fiscal 2005.

Continued focus on costs and the benefits from prior restructuring initiatives saw overall operating expenses down 3% versus the prior corresponding period.

Australia and New Zealand		6 months Dec 2005	6 months Dec 2004
Sales volume	('000 tonnes)	307	311
Sales revenue	(A$M)	512	531
Earnings before interest and tax	(A$M)	12.1	17.2

The major impacts on results for our Australia/New Zealand merchants were reductions in selling prices of 2% in Australia and 8% in New Zealand as a result of competitive market pressures and the strong Australian dollar. This impacted gross margins, despite a strong 6% reduction in operating expenses.

Sector Commentary continued

North America		6 months Dec 2005	6 months Dec 2004
Sales volume	('000 tonnes)	218	216
Sales revenue	(US$M)	351	332
Earnings before interest and tax	(US$M)	11.7	10.1

While North American volumes were stable, overall selling prices benefited from producer discipline with significant amounts of high-cost capacity being closed. Earnings also benefited from an improved product mix with a 17% lift in converted and proprietary branded papers and improved warehouse to direct/ex-mill sales mix.

Coast Paper in Canada saw a strong lift in earnings, benefiting from a range of management initiatives over the past two years, while Kelly Paper in the US continued to perform well. All units improved working capital which, in combination with the improved earnings, saw a strong lift in returns. The $97 million acquisition of Cascades Resources in Canada announced in November 2005 is expected to complete in March 2006 following the appropriate approvals.

Europe		6 months Dec 2005	6 months Dec 2004
Sales volume	('000 tonnes)	1,231	1,276
Sales revenue	(M)	1,371	1,423
Earnings before interest and tax	(€M)	38.4	42.4

The European market has remained challenging, with the UK economy softening throughout the period. UK advertising spending was down over 2% in the September quarter reflecting a particularly soft retail market. Average pricing was down marginally, as improved product mix countered lower prices in key woodfree grades. Overall volumes were impacted by issues already mentioned.

Total operating expenses and working capital were down versus the prior corresponding period. Key initiatives announced during the period include the establishment of The Delivery Co in the UK, the Netherlands integration project and the commencement of the implementation of a common European IT platform. Results also included a €3.5 million gain on the sale of a building in Denmark, restructuring costs in the UK and a small sign and display acquisition in Italy. We have also exited our small position in the Portuguese market in February 2006.

Asia		6 months Dec 2005	6 months Dec 2004
Sales volume	('000 tonnes)	43	37
Sales revenue	(S$M)	63	55
Earnings before interest and tax	(S$M)	2.5	2.0

The overall Asian market has seen healthy demand, however, new Chinese capacity has kept prices under pressure. Market share gains, reduced expenses resulting from back office consolidations and reduced working capital all combined to produce a solid earnings increase.

Paper Trading and Other		6 months Dec 2005	6 months Dec 2004
Sales volume	('000 tonnes)	84	91
Commission volume	('000 tonnes)	140	131
Sales revenue	(A$M)	69	84
Earnings before interest and tax	(A$M)	(0.4)	(1.6)

Paper Trading is a largely commission based business, so as Australian Paper reduced export sales, trading results were impacted. The major impact in the half year was a restructuring charge following closure of a loss making European trading business.

Australian Paper

		6 months Dec 2005	6 months Dec 2004
Sales volume	('000 tonnes)	414	426
Sales revenue	(A$M)	467	479
Earnings before interest and tax	(A$M)	2.6	16.8
Return on average funds employed	(%)	0.8	3.7

Lower earnings continued to reflect the impact of depressed selling prices in Australia as a result of a strong Australian dollar and oversupply in global paper markets. We have not been able to pass on rising input costs, such as oil and chemicals, in this environment and margins have therefore continued to erode.

The upgrade of the Maryvale Mill pulp capacity to improve paper quality, reduce pulp costs and improve our environmental impact, announced in August 2005, is on track. In February 2006, the closure of the number 1 paper machine at the Shoalhaven Mill was announced with a reduction of 40,000 tonnes of capacity and a loss of 98 positions.

Price increases of 2.5% have been announced on several grades in January 2006 to begin to recover increased costs.

Australian Paper: Communication Papers		6 months Dec 2005	6 months Dec 2004
Sales volume	('000 tonnes)	255	256
– Australia/New Zealand	(%)	80	75
Sales revenue	(A$M)	344	350
Earnings before interest and tax	(A$M)	(0.2)	10.6

The impact of the strong Australian dollar has persisted, causing paper selling prices in Australia to decline and to reduce returns from exports. There has been an active drive to increase domestic sales volumes, which saw an improved mix. The key Reflex® brand of copy paper launched a range of new products including Reflex® Platinum and papers containing increased recycled content.

Australian Paper: Packaging Papers		6 months Dec 2005	6 months Dec 2004
Sales volume	('000 tonnes)	159	169
– Australia/New Zealand	(%)	79	78
Sales revenue	(A$M)	123	129
Earnings before interest and tax	(A$M)	2.8	6.2

Overall volumes decreased due to lower demand from key linerboard customers and reduced exports due to market softness. The second half should see the benefit of the upgrade to the Maryvale number 1 semi-extensible sack kraft machine, which has now been completed.

Corporate and Other

		6 months Dec 2005	6 months Dec 2004
Sales revenue	(A$M)	51	52
Earnings before interest and tax	(A$M)	(15.4)	(12.8)

While underlying corporate costs were at a similar level to the prior corresponding period, one-off benefits were not repeated. Tudor Group made a positive contribution, but earnings were impacted by low priced imports, with reduced pricing affecting margins.

Our Key Brands

AUSTRALIA

Office Paper

Reflex
Australian
Optix – see the difference

Specialty

Impress.
Saxton
Optix – see the difference
Tablex.
Glopaque – A Great Australian Runner
Acclaim
Revive Silk
9lives 80

Packaging and Industrial

APMIL
Postspeed

Stationery

achieve with tudor
Olympic
Queen's Slipper

EUROPE

Hello – The answer.
Core
On
motif
9lives

NORTH AMERICA

Discovery
Endeavour – Gloss & Velvet
Pacesetter – Gloss & Matte
tango – always performing
Kelly Copy
NewPage

ASIA

Springleaf
BonArt

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