

**WE
KNOW
PAPER!**

PaperlinX

HALF YEAR FINANCIAL REPORT 2007

WE KNOW PAPER

Today PaperlinX is a leading international fine paper merchant and Australia's principal manufacturer of quality communication and packaging paper, selling over four million tonnes of paper and packaging materials worldwide every year.

PaperlinX's main focus is on:

- manufacturing and distributing high quality fine paper used as office paper, and specialty paper used in brochures, magazines, and other business papers, and;
- manufacturing high quality packaging papers for converting into corrugated cartons, paper bags and other packaging materials.

PAPER MERCHANTING

The merchanting business has operations in Australia, Asia, Europe, New Zealand, North America and South Africa. Paper merchanting involves the sale and distribution of paper and related products to a wide range of customers in the commercial, print, office and graphics markets. PaperlinX's global network of 37 paper merchants in 29 countries provides superior local customer relationship management combined with expertise of a global leader.

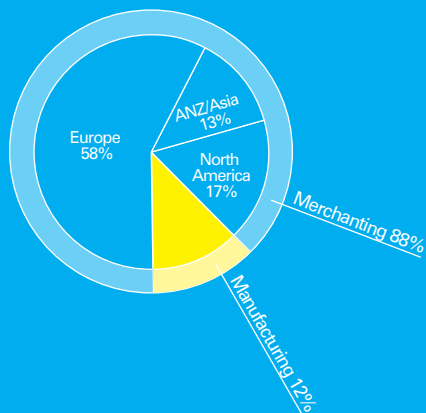
PAPER MANUFACTURING

Through its Australian Paper division, PaperlinX is Australia's only producer of high quality Communication Papers, and is a major Australian producer of high performance packaging and industrial papers.

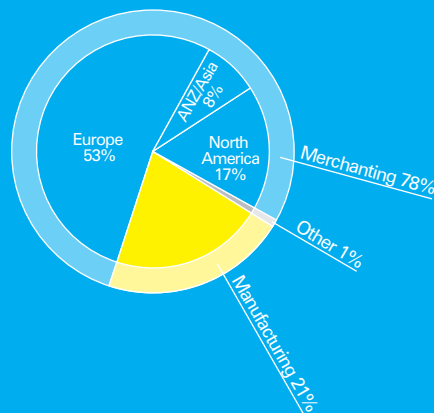
Australian Paper produces around 800,000 tonnes of product per year at four mills in Australia. All mills have ISO 14001 environmental accreditation.

Revenue (Dec 2006)

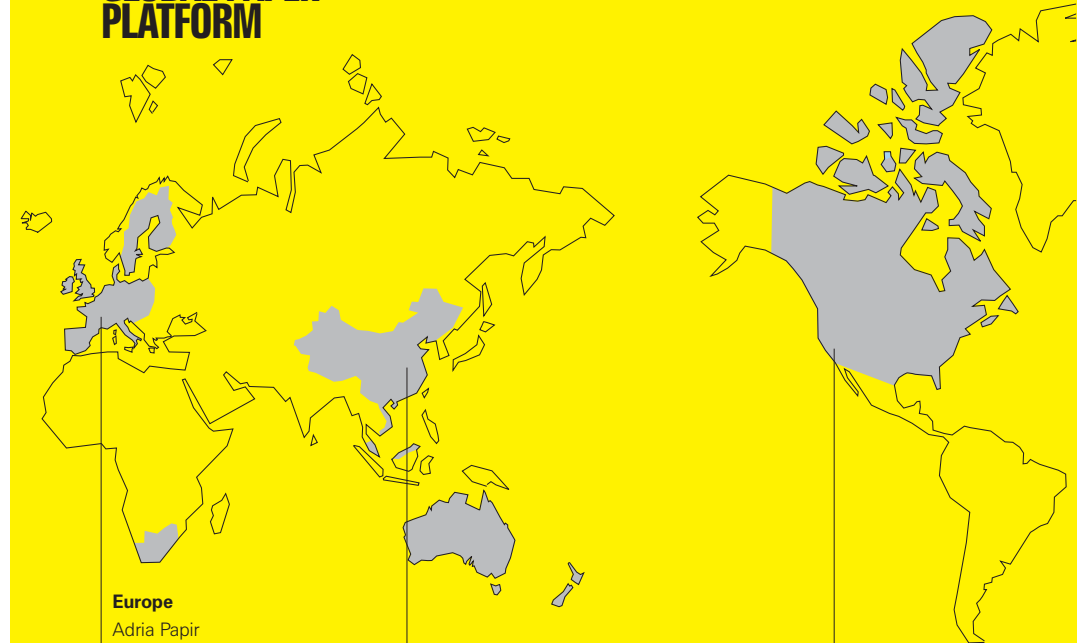
(Percentages calculated before intercompany sales elimination)



Our People (Dec 2006)



PAPERLINX GLOBAL PAPER PLATFORM



Europe

- Adria Papir
- Alpe papir
- Axelium
- Bratislavská papierská spoločnosť
- Budapest Papir
- BühmannUbbens
- Caledonia
- CC&CO Group
- ContactHorne Paper
- Deutsche Papier
- DM Paper
- DRiem Papier
- Epacar
- Finwood Papers
- Howard Smith Paper Group
- Mercator Papier
- Ospap
- Paper Products Marketing
- PaperNet
- PaperNet Austria
- PaperNet Denmark
- Polyedra
- Proost en Brandt
- Robert Horne Group
- The M6 Paper Group
- The Paper Company
- Udesen
- Union Papelera

Australia, NZ and Asia

- Australian Paper
- Dalton Fine Paper
- Dalton Web Papers
- Paper Products Marketing
- PaperlinX Office
- Spicers Paper
- Winpac Paper

North America

- Coast Paper
- Kelly Paper Company
- Paper Products Marketing
- Papier Coast
- Spicers Canada
- Spicers Paper Inc

PAPERLINX RESULTS FOR THE HALF YEAR ENDED 31 DECEMBER 2006

PaperlinX has reported operating earnings (EBIT) of \$87.1 million and after tax earnings of \$32.7 million for the first half of fiscal 2007.

- Sales revenue grew 10% to \$3.95 billion from \$3.57 billion.
- These results reflect a 10% increase in reported EBIT and a 24% increase in underlying EBIT based on the benefits that are beginning to flow from a range of strategic initiatives generated within the company, rather than reflecting any easing of the challenging market conditions seen over recent years.
- The after tax profit of \$32.7 million compares with \$35.3 million for the prior corresponding period, with a high effective tax rate of 35.5% as a result of lower Australian earnings, as well as higher interest and one-off costs in Australia. Despite average debt increasing only 2%, net interest expense increased 10.6% reflecting an increase in floating interest rates and a change in the domicile of debt to align better with geographic business mix.
- Reported profit includes net one-off costs of \$(10) million after tax.

- PaperlinX overall return on average funds employed was 6.6%, below targeted levels, but improved on prior despite the difficult market conditions. The merchanting businesses improved to 11.4% return on average funds employed, above the cost of capital.
- Working capital increased, though working capital to sales of 18.7% was lower than the prior corresponding period.
- Cash generated from operations excluding working capital movement was \$102 million. Net operating cash outflow was \$(142) million largely as a result of higher working capital.
- Strategic initiatives expected to contribute over \$100 million of sustainable incremental operating earnings in 2009 and over \$23 million to operating earnings in 2007 have been developed, announced and are on track. These contributed a net \$16 million to underlying operating earnings in this period versus the prior corresponding period.
- The interim dividend of 5.0 cents per share (unfranked) represents a payout ratio of approximately 70%.

PaperlinX Limited and controlled entities		6 months ended 31 December		
		2006	2005	% change
Sales Revenue	\$M	3,949	3,574	10
Earnings from Ordinary Activities before interest, income tax, amortisation and depreciation	\$M	137.8	129.4	6
Earnings from Ordinary Activities before interest and income tax	\$M	87.1	79.2	10
Underlying Earnings from Ordinary Activities before interest and income tax	\$M	96.0	77.7	24
Profit from Ordinary Activities before tax	\$M	50.7	46.3	10
Profit from Ordinary Activities after income tax	\$M	32.7	35.3	(7)
Key Ratios				
Earnings before interest and income tax to average funds employed	%	6.6	6.2	
Working Capital to Sales	%	18.7	19.0	
Operating Cash Flow	\$M	(142.0)	(32.4)	
Net interest cover (times)	x	2.4	2.4	
Net debt/Net debt and Equity	%	39.7	39.6	
Earnings per share	cps	7.3	7.9	
Dividend per share	cps	5.0	5.5	

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

COMMENTARY ON THE GROUP INTERIM RESULTS

Introduction

Reported profit after tax of \$32.7 million for the six months ended 31 December 2006 compared with +\$35.3 million for the prior corresponding period. Results included a net \$(10) million in after-tax one-off costs associated with various strategic initiatives. Reported EBIT was \$87.1 million, up 10% on the prior corresponding period.

These results reflect a continued improvement in underlying operating earnings (\$96.0 million, up 24% versus the prior corresponding period) that has now been seen over the past three 6-month periods. These gradual improvements have been due to internally generated strategic initiatives that have been developed over the past two years and are beginning to provide net benefits. These initiatives are expected to continue to gain momentum, producing at least \$23 million net benefit in the current fiscal year and at least \$100 million in 2009. EBIT has yet to see any substantial benefit from improving market conditions, which have remained difficult in Europe and Australia/New Zealand.

Reported profit for the six months has been impacted by a higher effective tax rate. This rate is the result of lower Australian based earnings as well as interest payments and one-off charges in Australia, resulting in the non-utilisation of Australian based tax losses. In addition, net interest expense increased by 10.6% reflecting higher variable interest rates and shifts in the domicile of the debt to better align with the geographic mix of the businesses.

Market conditions during the half have largely continued the situation of prior periods, with only modest improvement in paper demand or pricing overall. Regional variations have been driven by different levels of supplier discipline and exchange rates. This has meant a more supportive environment in North America and a continuation of the more challenging conditions across Europe, Australia and New Zealand. The significant capacity closures that have occurred in North America, resulting in improved capacity utilisation for paper manufacturers and higher paper selling prices, has yet to be fully replicated in Europe. A number of announcements of capacity closures have been made in Europe with the first of these closures being implemented at the start of the calendar year.

Working capital showed an increase, although the working capital to sales ratio improved to 18.7% from 19.0%. Average working capital, excluding currency and acquisition impacts, was lower than seen in the prior corresponding period, but the period end level was up as a result of the combined impacts of seasonal factors, increased sales revenue and an adverse movement in creditors in December.

While the return on average funds employed of 6.6% is well below target, it has begun to improve. Both merchanting and manufacturing saw increased returns on an underlying basis, benefiting from the combined impacts of strategic initiatives and a focus on reducing working capital.

Paper Merchating

The Paper Merchating businesses achieved earnings before interest and tax of \$99.1 million, up \$8 million (9%) on the prior corresponding period. North America had a further strong increase in earnings, while Europe saw a modest improvement. Earnings in Australia and New Zealand remained under significant pressure from lower priced paper imports. Operating earnings in North America were up 73% in local currency boosted by the inclusion of Spicers Canada, Europe was largely unchanged in local currency and ANZ/Asia was down 52%.

ANZ/Asia earnings were negatively impacted by property restructuring charges of \$(2.1) million and the non-cash accounting treatment of overseas paper purchases on balance date. This latter impact of around \$(3) million, seen in both the reported and underlying operating earnings, is expected to reverse during the second half as these purchases are settled. Merchating businesses have continued to produce good returns in this difficult environment, with clear potential for upside from any improvements in the current market conditions. Total merchating return on average funds employed increased to 11.4% (10.9% in the prior corresponding period), and remains well above the cost of capital. Overall expenses again reduced versus inflation as management made good progress against targets, and the overall working capital to sales ratio reduced to 16.5% from 16.8%.

Australian Paper

Underlying operating earnings from Australian Paper, while remaining at unsatisfactory levels, have begun to see the benefit of internal initiatives, cost control and efficiency programmes. Operating earnings of \$3.0 million included a net \$(9.6) million charge due primarily to the outsourcing of the Maryvale wood yard (which relates to the pulp mill upgrade). Underlying operating earnings of \$12.6 million was a sound improvement on the \$6.0 million earned in the prior corresponding period, especially considering the higher input costs and ongoing challenges in the marketplace. Earnings have continued to be impacted by depressed Australian paper selling prices as a combined result of a strong Australian dollar and over supply 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 pulp, fuel oil and chemicals that it is unable to pass on in the current price environment. The net impact of these items alone is around \$(13) million over the prior period.

Mitigating these negative impacts, plant operating efficiencies have improved and some mix improvements have been seen over the half. Strategic initiatives have also begun to deliver significant benefits to Australian Paper, including the upgrade of the Maryvale number 1 sack kraft machine, the closure of the Shoalhaven number 1 and 2 paper machines and the creation of PaperlinX Office. Future gains will come from continued improvements in operating efficiencies and the upgrade of the Maryvale pulp mill and its associated projects.

OPERATING EARNINGS

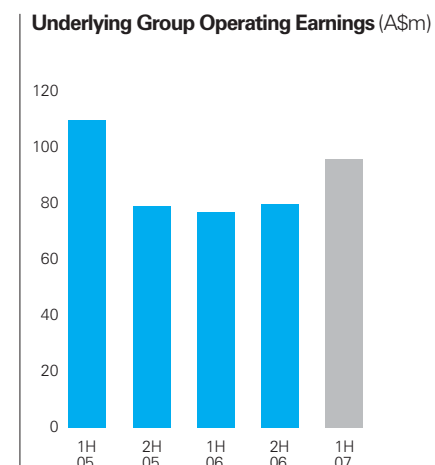
The following table shows, for PaperlinX Limited and controlled entities, Operating Earnings (EBIT), Sales Revenue and Total Assets by industry segment for the six months to 31 December 2006.

	EBIT		Sales Revenue		Total Assets	
	Dec 2006	Dec 2005	Dec 2006	Dec 2005	Dec 2006	Dec 2005
	\$M	\$M	\$M	\$M	\$M	\$M
Industry Segments						
Europe	66.2	62.5	2,388	2,221	2,101	2,038
North America	26.6	15.7	719	466	480	400
ANZ/Asia ⁽¹⁾	6.3	13.1	511	537	470	471
Total Paper Merchating	99.1	91.3	3,618	3,224	3,051	2,909
Communication Papers ⁽¹⁾	0.1	1.3	383	402	749	731
Packaging Papers	2.9	2.8	127	123	304	295
Total Australian Paper⁽¹⁾	3.0	4.1	510	525	1,053	1,026
Corporate ⁽¹⁾	(15.0)	(16.2)			25	60
Operating earnings before interest and income tax	87.1	79.2				
Net Interest	(36.4)	(32.9)				
Income Tax Expense	(18.0)	(11.0)				
Outside Equity Interests						
Inter-segment Sales			(179)	(175)		
Unallocated Assets (deferred tax assets)					64	83
Total	32.7	35.3	3,949	3,574	4,193	4,078

⁽¹⁾ Reported historic results adjusted to reflect the formation of PaperlinX Office.

Underlying Operating Earnings

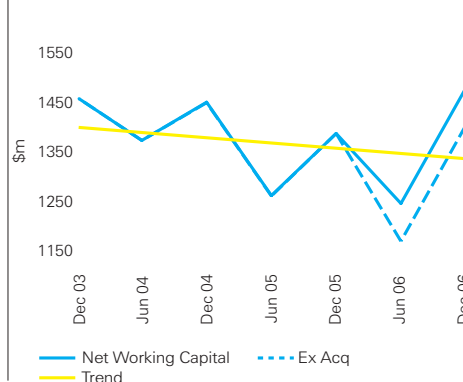
The reported operating earnings for 2005, 2006 and the first half of 2007 contain a number of one-off items. This chart helps provide clarity on the trend in underlying operating earnings (EBIT) after removing one-off costs and benefits relating to property transactions and costs associated with implementing strategic initiatives. On this basis, the first half EBIT for 2007 has continued the improvement seen in the second half of 2006.



Working Capital

Working capital for the Group at December 2006 was \$1.48 billion. This is largely in line with December 2005 after adjusting for the adverse impact of currency and the acquisition of Spicers Canada. Average working capital for the six month period was \$1.45 billion, down 2% on the prior corresponding period after adjusting for currency and acquisitions. The working capital to sales ratio continued to show improvement, reducing to 18.7% versus 19.0% in December 06 but up on 16.5% at June 06.

Working Capital – Currency Adjusted



Financial Position

At 31 December 2006, PaperlinX has a gearing ratio of net debt to net debt plus equity of 39.7%, which is in line with 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 \$102 million. Net cash flow from operations after working capital movements was \$(142) million impacted by the rise in working capital between June and December of \$(238) million. Despite inventory days improving by 2% over June 06 and December 05 levels and creditor and debt or days being in line with December 05, the rise in working capital is attributable to seasonal

factors, revenue growth and an adverse movement in creditors at period end. Net debt has increased to \$1.07 billion compared to \$1.02 billion at the same period last year.

During the period there were 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. In February 2007 the company reduced its multi currency borrowing facility from US\$815 to US\$700 million. Net interest expense increased 10.6% to \$36.4 million reflecting an increase in floating interest rates and changes to the domicile of debt.

Capital expenditure in the period was \$63.5 million (125% of depreciation) including \$33.2 million on the pulp mill project. In the last six months PaperlinX has committed to no new significant expenditure.

Step-up Preference Shares

PaperlinX is proposing to issue between \$250 and \$300 million of hybrid securities in the form of Step-up Preference Securities (SPS) to Australian investors. A Product Disclosure Statement (PDS) will be lodged with ASIC today, and will be available on the PaperlinX website. This issue will reduce debt, strengthen the Group's balance sheet, provide increased financial flexibility and enhance PaperlinX's financial platform to take advantage of future opportunities.

Dividend

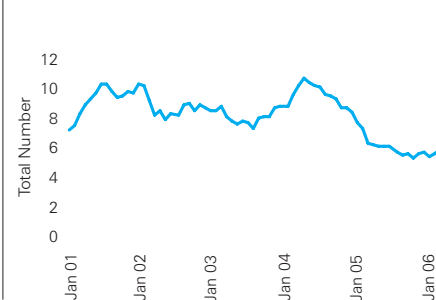
Directors have declared an unfranked interim dividend of 5.0 cents per share representing a payout ratio of approximately 70%.

The interim dividend will be mailed on 5th April 2007 to shareholders on record as of 16th March 2007 as being entitled to the dividend. The PaperlinX Dividend Reinvestment Plan (DRP) was activated for the final dividend of 2006, and will apply in respect of this interim dividend, with an election date of 16 March 2007.

Employees

As at 31 December 2006, PaperlinX had 9,448 employees, up 2.2% versus the prior corresponding period (down 2.4% excluding acquisitions) but down 1.3% versus two years ago. 29% of our employees are in ANZ/Asia, 54% in Europe and 17% in North America.

12 month rolling LTIFR
(injuries per million hours worked)



Safety

The Group's rolling 12 month LTIFR (lost time injury frequency rate) was in line with a year ago at 6.3. The MTIFR (medically treated injury frequency rate) over the same period was similarly unchanged at 14.2. A number of programmes are underway to address the plateauing of the incident rates. Safety is a key focus for PaperlinX and receives significant attention by management and the Board.

Environment

PaperlinX has signed a Greenhouse Challenge agreement with the Australian Government committing to actions that will reduce greenhouse gas emissions at Australian Paper manufacturing sites.

The Maryvale Pulp Mill upgrade and introduction of the ECF (elemental chlorine free) bleaching process will result in significant improvements in the Company's overall environmental footprint. This will reduce air emissions, odour, greenhouse gas emissions and liquid waste as well as provide strong economic benefits.

Key projects across the Group's logistics activities will improve fleet utilisation and reduce overall greenhouse gas emissions. Greenhouse gas emissions at Wesley Vale Mill in Tasmania will also be reduced by the replacement of oil fired with gas fired boilers in a project committed to in December 2006.

Continued progress has been made on further reducing water utilisation in our paper manufacturing business. Already a global paper industry leader in water efficiency, projects currently underway in Victoria are reducing raw water inflows by around 10% through additional recycling and efficiency activities. Ongoing involvement in a water recycling factory close to the Maryvale Mill in Victoria will further reduce raw water requirements by 12% through using recycled industrial and household waste water. The site's raw water supply is not related to supply to Melbourne.

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

BALANCE SHEET

PaperlinX Limited and controlled entities		December 2006	December 2005
Current Assets	\$M	2,698.8	2,593.7
Non Current Assets	\$M	1,494.5	1,484.7
Total Assets	\$M	4,193.3	4,078.4
Current Liabilities	\$M	1,355.2	1,291.3
Non Current Liabilities	\$M	1,216.5	1,237.0
Total Liabilities	\$M	2,571.7	2,528.3
Shareholders Equity	\$M	1,621.6	1,550.1
Key Balance Sheet Ratios			
Net Debt	\$M	1,067.1	1,017.1
Net debt to net debt and shareholders equity	%	39.7	39.6
Net debt to shareholders equity	%	65.9	65.6
Net tangible assets per share	\$	2.55	2.38

INCOME STATEMENT

PaperlinX Limited and controlled entities		6 months ended 31 December 2006	2005
		\$M	\$M
SALES REVENUE		3,948.5	3,573.7
Operating Earnings before depreciation, amortisation, interest and income tax (EBITDA)		137.8	129.4
Depreciation and amortisation		(50.7)	(50.2)
Operating Earnings before interest and income tax (EBIT)		87.1	79.2
Net Interest Expense		(36.4)	(32.9)
Operating profit from Ordinary Activities before income tax		50.7	46.3
Income tax expense on Operating profit		(18.0)	(11.0)
Outside Equity Interests		0.0	0.0
Net profit after tax		32.7	35.3

RETURN ON AVERAGE FUNDS EMPLOYED (1)

		6 months Dec 06	6 months Dec 05
Merchanting*	%	11.4	10.9
Australian Paper*	%	0.6	0.9
PaperlinX Group	%	6.6	6.2

* before allocation of corporate overheads.

(1) EBIT/average funds employed.

SUMMARY

PaperlinX has continued to aggressively pursue its strategy of strengthening and building on its existing business platform and improving the business in areas that it can control. Good progress has been made on key projects including the Delivery Company in the UK, the integration of the Netherlands paper merchanting businesses, and the Maryvale pulp mill and bleach plant upgrade. As already indicated, completed projects are already contributing to results, while new initiatives are being pursued, including the potential acquisition of Antalis S.p.A in Italy and the sale of Axelium in France.

Growth of brands and higher margin businesses further benefited mix. The company targets an improvement in working capital and operating cash flow in the second half. This is now in an environment of modest increases in revenue.

Market conditions in North America and Asia appear to be stable, and at reasonable levels. The Australian and New Zealand markets remain difficult as the strong Australian dollar continues to put pressure on paper selling prices through low priced paper imports, and high input costs continue to impact Australian Paper. European markets have seen only modest demand growth (weaker in the U.K.) and are yet to see sustained benefits from announced capacity closures by European paper manufacturers.

Announced closures are beginning to be implemented at the start of calendar 2007 and should begin to positively influence the supply/demand balance, and ultimately provide a better pricing environment during this calendar year.

We expect minimal benefits from these prospective market improvements in the second half. Benefits in PaperlinX results will continue to be largely self generated. Important variables to monitor going forward include UK demand, capacity closures in Europe, exchange rates, manufacturing input costs and sustaining prices in non-European markets.

SECTOR COMMENTARY

Note: June 06 six-month results are provided to assist historical analysis. All comparisons for this result (6 months, Dec 2006) are against the prior corresponding period (6 months, Dec 2005).

Paper Merchanting

Paper Merchanting ⁽¹⁾ Total

		6 months Dec 06	6 months Jun 06	6 months Dec 05
Sales Volume	'000 tonnes	1,910	1,872	1,823
Sales Revenue	A\$M	3,618	3,470	3,224
Earnings before Interest and Tax	A\$M	99.1	97.6	91.3
EBIT/Sales Ratio	%	2.7	2.8	2.8
Return on Average Funds Employed	%	11.4	11.0	10.9

⁽¹⁾ Reported historic results adjusted to reflect the formation of PaperlinX Office.

The Paper Merchanting business achieved earnings before tax of \$99.1 million, up 9% on the prior corresponding period. Overall sales volumes were up around 5% with the inclusion of Spicers Canada, acquired in the prior year, however sales volumes reduced in the UK, France, Netherlands and New Zealand. Operating expenses continued to track below inflation.

The return on average funds employed (ROAFE) was 11.4%, well above the cost of capital and ahead of the prior corresponding period of 10.9%.

Europe – Paper Merchenting				
		6 months Dec 06	6 months Jun 06	6 months Dec 05
NW Europe	'000 tonnes	382	369	383
UK & Ireland ⁽¹⁾	'000 tonnes	601	600	602
Central and Southern Europe	'000 tonnes	258	264	241
Total European Sales Volume	'000 tonnes	1,241	1,233	1,226
Sales Revenue	€M	1,399	1,369	1,363
Earnings before Interest and Tax	€M	38.8	36.1	38.4
EBIT/Sales Ratio	%	2.8	2.6	2.8

⁽¹⁾ Also includes volume from South Africa.

The European paper market remained challenging through the period, particularly in France and Germany, while demand in the UK has yet to show any recovery. Despite the generally soft markets, sales volumes of proprietary branded products continued to grow, increasing 16% on the prior corresponding period. There was an improvement in the overall proportion of paper sold from company-owned warehouse stock as compared to direct mill delivery (stock to indent ratio), which supports margins as this is a higher value added activity for printer customers.

Paper mill and paper machine closures announced by manufacturers in Europe are only now beginning to occur and are yet to reflect in reduced market supply. The implementation of these closures should help the supply/demand balance in Europe.

Uncoated woodfree paper selling prices increased in the first quarter, and UK paper selling price increases were implemented towards the end of the period for coated woodfree paper.

Total net operating costs benefited from the continued management focus on expenses and from restructuring initiatives undertaken in a number of operating companies.

The proposed sale of Axelium in France and the proposed purchase of Italian paper merchant, Antalis S.p.A in Italy, will strengthen and build on the existing PaperlinX Merchenting platform in Europe, improving the scale of activities in Italy and exiting a sub-scale position in France. The transactions are expected to settle in two to three months, if all necessary conditions are met.

North America – Paper Merchenting				
		6 months Dec 06	6 months Jun 06	6 months Dec 05
Sales Volume	'000 tonnes	315	291	218
Sales Revenue	US\$M	547	493	347
Earnings before Interest and Tax	US\$M	20.2	17.9	11.7
EBIT/Sales Ratio	%	3.7	3.6	3.4

North American paper selling prices continued to be supported by capacity reductions, with prices up 3–4% on the prior period, despite only a modest increase in market demand. Proprietary branded volumes were up 19% across North America, with good growth in these products in all operating companies.

Total operating earnings were up 73%, and have doubled over the past two years reflecting the earnings leverage to improvements in the operational environment, and the inclusion of Spicers Canada for the full period. There was a solid improvement in returns for all businesses, with Spicers Canada exceeding year 3 return targets in the first full half-year since acquisition due to healthy earnings and strong working capital management.

ANZ/Asia ⁽¹⁾ – Paper Merchancing				
		6 months Dec 06	6 months Jun 06	6 months Dec 05
Sales Volume	'000 tonnes	355	345	379
Sales Revenue	A\$M	511	493	537
Earnings before Interest and Tax	A\$M	6.3	12.4	13.1
EBIT/Sales Ratio	%	1.2	2.5	2.4

Australia and New Zealand ⁽¹⁾				
		6 months Dec 06	6 months Jun 06	6 months Dec 05
Sales Volume	'000 tonnes	245	229	255
Sales Revenue	A\$M	400	375	421
Earnings before Interest and Tax	A\$M	2.2	8.1	11.1
EBIT/Sales Ratio	%	0.6	2.2	2.6

Asia				
		6 months Dec 06	6 months Jun 06	6 months Dec 05
Sales Volume	'000 tonnes	49	40	43
Sales Revenue	S\$M	66	60	63
Earnings before Interest and Tax	S\$M	2.7	2.5	2.5
EBIT/Sales Ratio	%	4.0	4.3	4.0

Paper Trading				
		6 months Dec 06	6 months Jun 06	6 months Dec 05
Sales Volume	'000 tonnes	61	76	82
Commission Volume	'000 tonnes	156	171	140
Sales Revenue	A\$M	56	68	65
Earnings before Interest and Tax	A\$M	1.5	2.1	(0.2)

⁽¹⁾ Reported historic results adjusted to reflect the formation of PaperlinX Office.

Overall sales volumes were down 6% with lower volumes in the New Zealand business and in Paper Trading (Paper Trading received a lower allocation from Australian Paper partially due to the closure of two paper machines at the Shoalhaven mill).

Australia continued to see pressure on paper selling prices, with average prices down 1.5%, impacting on both profit margins and returns. Other markets in the region saw increases in paper selling prices. Operating earnings in New Zealand were negatively impacted by \$(3) million of non-cash adjustments resulting from the accounting treatment of overseas paper purchases on the December balance date which is expected to reverse in the second half of this financial year. Australia was also negatively impacted by a net \$(2.1) million in property transactions related to restructuring activities.

Total operating expenses have been reduced in all businesses and further progress was made on working capital.

Paper Manufacturing

Australian Paper ⁽¹⁾ – Paper Manufacturing

		6 months Dec 06	6 months Jun 06	6 months Dec 05
Sales Volume	'000 tonnes	413	417	429
Sales Revenue	A\$M	510	496	525
Underlying Earnings before Int and Tax	A\$M	12.6	4.2	6.0
Reported Earnings before Int and Tax	A\$M	3.0	(7.5)	4.1
Return on Average Funds Employed	%	0.6	(1.6)	0.9

⁽¹⁾ Reported historic results adjusted to reflect the formation of PaperlinX Office.

Overall operating earnings remained under significant pressure due to lower paper selling prices and the inability to recover input cost increases. This has been a key issue for Australian Paper for some time and remains the case. However, underlying operating earnings were up 110% on the prior corresponding period, although off a low base. Underlying operating earnings benefited from internal efficiency programmes, cost control and the benefits of completed strategic initiatives including the closure of Shoalhaven Mill number 1 paper machine and the upgrade of the Maryvale number 1 paper machine. Improved mill operating efficiencies have contributed positively to earnings.

Operating earnings include a net one-off charge of \$(9.6) million primarily relating to the outsourcing of the Maryvale wood yard and the consolidation of PaperlinX Office. Australian Paper operating earnings now include PaperlinX Office results with adjustments to the historic segmental reporting. Overall sales volumes were 4% lower due to the closure of Shoalhaven paper machines 1 and 2. There has been good support by Australian corporations for Reflex, Australia's only Forest Stewardship Council (FCS) environmentally certified office paper.

The pulp and bleach plant upgrade at Maryvale to improve paper quality, reduce pulp costs and improve environmental performance announced in August 2005, remains on track for targeted returns. This reflects the risk to steel and labour costs balanced by higher savings on current pulp prices than originally projected.

Australian Paper has built on its long-term commitment to improve water efficiency. Already a global paper industry leader in water efficiency, projects completed in recent months have improved water efficiency by around 10% and projects are underway to replace raw water inflows with recycled industrial and household waste, targeting to reduce inflows by a further 12%.

OUR KEY BRANDS

Australia

Office Paper



Specialty



Packaging and Industrial



Stationery



Europe



North America



Asia



CORPORATE DIRECTORY

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Facsimile: +61 3 9473 2500

Internet: www.computershare.com

Forward Looking Statements

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