PaperlinX Limited
ABN 70 005 146 350
307 Ferntree Gully Road
Mt Waverley Victoria 3149
Australia
Tel: +61 3 8540 2211
Fax: +61 3 8540 2255

STOCK EXCHANGE RELEASE

24 August 2007

PAPERLINX RESULT SHOWS UNDERLYING IMPROVEMENTS

PaperlinX today announced profit after tax for the year ended 30 June 2007 of $80.1 million, up 22% on the prior year. Reported EBIT was $185.5 million, up 22% on the prior year. Underlying EBIT, adjusted for asset sales and the implementation of strategic initiatives, was $197.7 million (up 26% on the prior year). The final dividend will be 6.0 cents per share, unfranked.

The key features of this result are:

- benefits have begun to accrue from previously announced strategic initiatives with above target net benefits of $41 million flowing to profit in 2007 (against 2005 base)
- target has been to achieve over $100 million in net benefits from strategic initiatives in 2009 off the base of our 2005 EBIT. Current potential is to exceed that target by $20 million, although there is still much to be done before the full benefits of these initiatives are realised
- product mix management, strong cost management and good efficiency performance helped to mitigate higher input costs
- lift in underlying return on average funds employed for both our merchanting and manufacturing businesses reflects the gathering internal momentum on initiatives and reductions in working capital
- returns remain below target levels due to a challenging external environment with pressure continuing from high input costs, soft demand and currency impacts.

Commenting on the result, PaperlinX CEO Mr Tom Park said, “This is a good result in a difficult environment. We have further enhanced our future prospects during the year, and while 2008 will also be tough given the external conditions existing as we have entered the year, we look to 2009 with enthusiasm when our internal activities will contribute even more significantly. I believe our progress so far on the strategic initiatives is a tribute to the idea transfer, commitment and change management skills of our people around the globe.”

Added Mr Park, “It appears that the financial market has not yet attributed significant value to the future benefits from strategic initiatives given the focus in the short term on the volatile macro factors such as currency and European pricing. However, as we progress through the year and move closer to the completion of our key projects, we will have greater certainty and see value attributed to the benefits that will accrue to PaperlinX in 2009 and beyond. Additionally, our earnings are highly leveraged to any improvement in external market conditions.”

RESULTS FOR THE
YEAR ENDED 30 JUNE 2007

PaperlinX has reported operating earnings (EBIT) of $185.5 million and after tax earnings of $80.1 million for the year ended 30 June 2007.

PAPERLINX LIMITED AND CONTROLLED ENTITIES		Year ended 30 June		
		2007	2006	% change
Sales Revenue	$M	7,839.3	7,371.6	+6
Earnings from Operating Activities before interest, income tax, amortisation and depreciation	$M	286.5	257.1	+11
Earnings from Operating Activities before interest & income tax	$M	185.5	152.4	+22
Underlying Earnings from Operating Activities before interest & income tax	$M	197.7	156.6	+26
Profit before tax	$M	114.6	87.3	+31
Profit after income tax	$M	80.1	65.4	+22
Key Ratios				
Earnings before interest and income tax to average funds employed	%	7.0	6.2	
Working Capital to Sales	%	15.5	16.6	
Operating Cash Flow	$M	142.9	259.8	
Net interest cover	x	2.6	2.3	
Net debt/Net debt & Equity	%	24.3	36.0	
Basic earnings per share post hybrid distribution (1)	cps	16.4	14.7	+12
Dividend per share (Total annual)	cps	11.0	10.0	+10

(1) Hybrid distribution accrued in 2007 of $6.6 million

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

- Sales revenue grew 6% to $7.84 billion from $7.37 billion.
- Reported EBIT grew 22% to $185.5 million and underlying EBIT grew 26% to $197.7 million, reflecting the growing benefits from a range of strategic initiatives generated within the company.
- After tax profit of $80.1 million compares with $65.4 million for the prior year (up 22%).
- Profit includes net one-off costs of $(12.2) million before tax arising from restructuring costs of $22.3 million partially offset by net profit on property transactions of $10.1 million.
- PaperlinX overall return on average funds employed was 7.0%, an improvement on 2006 despite the difficult market conditions.
- Paper Merchanting achieved earnings before interest and tax of $205.2 million, up 9% on 2006, helped by the inclusion of Spicers Canada for the full period. Underlying operating earnings were $206.8 million (excluding a net $1.6 million in one-off costs). Paper demand in our key European market was mixed, however prices were generally higher. ROAFE improved to 11.9% from 11.4%, supported by an improved working capital to sales ratio.

- Earnings before interest and tax for Paper Manufacturing of $10.2 million included a net $(10.6) million of one-off costs associated with strategic initiatives. Underlying operating earnings of $20.8 million were double the prior year, benefiting from production efficiencies and the benefits of the successful PaperlinX Office consolidation and closure of Shoalhaven paper machines 1 and 2, despite being impacted significantly by higher input costs ($26 million more than in the prior year).
- Strategic initiatives contributed a net $41 million to underlying operating earnings (over the base 2005 level) which exceeded expectations. Continued investments will see modest additional EBIT benefit in 2008, though the current potential is to exceed the $100 million net incremental target for 2009 by $20 million. Much work is still required to achieve this result.
- Working capital decreased by $65 million, with year end working capital to sales of 15.5%, lower than the prior year of 16.6%. Average working capital to sales for the year fell to 17.9% versus 18.9% last year (currency adjusted), led by a 6% decline in inventory days.
- The net liability for superannuation defined benefit plans reduced significantly from $87.8 million as at 30 June 2006 to $38.4 million as at 30 June 2007. Contributing to the reduction were curtailment gains in accordance with AIFRS across a number of plans totalling $13.8 million.
- Capital expenditure in the period was $212.7 million ($112.4 million, excluding the pulp mill project, 111% of depreciation). The first major shut for the pulp mill upgrade was completed on time, though the project is now expected to exceed the $203 million budget by up to 25%.
- Earnings before interest, tax, depreciation and amortisation (EBITDA) were $286.5 million, up 11% over the prior year. Net cash inflow from operating activities was $143 million, down $117 million versus the prior year due to a lower shift in trade working capital and movements in other non-current receivables and payables.
- During March 2007 PaperlinX Step-up Preference Securities (SPS) were issued to Australian investors raising $285 million. This issue reduced debt, strengthened the Group's balance sheet, provided increased financial flexibility and enhances PaperlinX's financial platform to take advantage of future opportunities. The distribution for this instrument for the 2007 financial year was $2.3033 per security which totalled $6.6 million.
- The final dividend of 6.0 cents per share, unfranked, (4.5 cents per share last year) represents a payout ratio of approximately 70% of earnings post hybrid distribution. This brings the total dividend for the year to 11.0 cents per share (10 cents per share last year).

RESULTS FOR THE YEAR ENDED 30 JUNE 2007

Commentary on the Group Final Results

Introduction

Reported profit after tax of $80.1 million for the year ended 30 June 2007 compared with $65.4 million for 2006. Results included a net $(12.2) million in pre-tax one-off costs associated with various strategic initiatives. Reported EBIT was $185.5 million, up 22% on the prior year.

An improvement in underlying operating earnings ($197.7 million, up 26% versus the prior corresponding period) was seen. This improvement has been primarily due to growing net benefits from internally generated strategic initiatives and favourable shifts in product mix in both Manufacturing and Merchanting.

Regional variations in capacity utilisation and pricing have been driven by different levels of supplier discipline and exchange rates. This has meant a more supportive pricing environment in the United States and a continuation of the more challenging conditions across Europe, Australia, New Zealand and Canada. EBIT has yet to see any substantial benefit from improving capacity utilisation in Europe.

Working capital showed a normal seasonal reduction, while the year end working capital to sales ratio further improved to 15.5% from 16.6%. The average working capital to sales ratio showed a 5% improvement over the prior year, reducing from 18.9% to 17.9% (currency adjusted).

The return on average funds employed of 7.0% continued to improve (up 0.8pts but still below target) with both Merchanting and Manufacturing showing increased returns. This is a credit to the employees of PaperlinX who have continued to focus on delivering improvements against controllables.

Paper Merchanting

The Paper Merchanting businesses achieved EBIT of $205.2 million, up 9% on the prior year. Operating earnings in North America were up 36% in local currency boosted by the inclusion of Spicers Canada (9% excluding Spicers Canada), Europe was up 11% in local currency and Australia, NZ and Asia was down 47%, where the earnings remained under significant pressure from lower priced paper imports and currency impacts.

Overall, the Paper 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. Total merchanting return on average funds employed increased to 11.9% from 11.4% in 2006 (and 10.5% in 2004), and remains well above the cost of capital. Overall expenses rose 2.1% (adjusting for acquisitions and direct currency), partially reflecting the improved European stock to indent ratio, while the year end working capital to sales ratio reduced to 13.5% from 14.7%.

Australia, NZ and Asia earnings were negatively impacted by lease and restructuring charges of $(3.2) million and a $(5.4) million loss from the continued strengthening of the NZ dollar (up 27%) impacting currency related items.

Paper Manufacturing

Underlying operating earnings from PaperlinX's Paper Manufacturing business in Australia benefited from internal initiatives, cost control and efficiency programmes. Operating earnings of $10.2 million included a net $(10.6) million charge due primarily to restructuring and implementation costs associated with the Maryvale Mill bleach plant and pulp capacity upgrade including the out sourcing of the Maryvale Mill wood yard. Underlying operating earnings of $20.8 million was a sound improvement on the $10.2 million earned in the prior year. This was achieved despite significant input cost pressures during the year (around $26 million on pulp, fuel, oil and chemicals).

Paper Manufacturing's strategy is to increase domestic sales through product, environmental and logistics innovation while managing costs through efficiency and supply chain improvement. During 2007 plant operating efficiencies and supply chain costs have improved, as has mix. Strategic initiatives have also begun to deliver significant benefits, 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, cost reductions and mix. The upgrade of the Maryvale pulp mill and its associated projects will provide additional benefits for 2009 and beyond.

Earnings have continued to be impacted by depressed Australian paper selling prices as a combined result of a strong Australian dollar relative to the US dollar and regional over supply in coated paper markets. This has meant a continued high level of paper imports lowering paper selling prices in Australia, and reduced export returns when translated to Australian dollars.

The first major shut for the pulp mill upgrade was completed on time despite industrial relations and weather issues. To date, over 90% of materials and 30% of labour has been expended on the pulp mill upgrade. Two more major shuts are scheduled during this fiscal year. The cost of the project is now expected to be up to 25% above the original estimate of $203 million. The key impacts on costs result from higher material costs and the tight labour market in Australia, with industrial relations and weather the key risks to on-time completion. Benefits to be realised in 2009 are also running above initial forecasts, due to the high imported pulp costs, and as a result the project is anticipated to deliver returns in line with expectations.

OPERATING EARNINGS

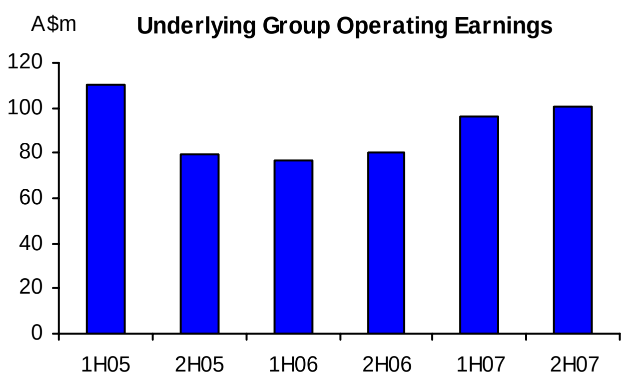
The following table shows, for PaperlinX Limited and controlled entities, Operating Earnings (EBIT), Sales Revenue and Total Assets by industry segment for the year to 30 June.

	EBIT		Sales Revenue		Total Assets	
	Jun 2007 $M	Jun 2006 $M	Jun 2007 $M	Jun 2006 $M	Jun 2007 $M	Jun 2006 $M
Industry Segments						
Europe	139.9	123.5	4,780	4,528	2,148	2,187
North America	51.5	39.9	1,380	1,133	502	569
Australia, NZ and Asia (1)	13.8	25.5	1,033	1,049	462	472
Inter-merchant Sales	-	-	(34)	(19)	-	-
Total Paper Merchanting	205.2	188.9	7,159	6,691	3,112	3,228
Paper Manufacturing(1)	10.2	(3.3)	1,016	1,021	1,148	1,032
Corporate (1) (2)	(29.9)	(33.2)			129	56
Operating earnings before interest & income tax	185.5	152.4				
Net Interest	(70.9)	(65.1)				
Income Tax Expense	(34.4)	(21.9)				
Outside Equity Interests	(0.1)	0.0				
Inter-segment Sales			(336)	(340)		
Unallocated Assets (deferred tax assets)					53	74
Total	80.1	65.4	7,839	7,372	4,442	4,390

Notes – (1) Reported historic results adjusted to reflect the formation of PaperlinX Office.
(2) Corporate includes Group overheads, governance and compliance costs, financing costs, public company costs, Group wide long term incentive costs and applicable one-off items.

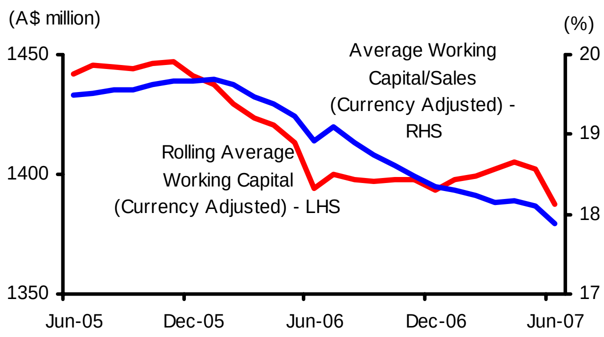
Underlying Operating Earnings

The reported operating earnings for the past three years have contained 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 second half EBIT for 2007 has continued the improvement seen in the first half of the year.



Trade Working Capital

Trade working capital for the Group at June 2007 was $1,212 million. This was 5% lower than June 2006. Average trade working capital for the year was $1,387 million, in line with the prior year after adjusting for currency and acquisitions. The working capital to sales ratio continued to show improvement, reducing to 15.5% versus 16.6% at June 2006, and the 13 month rolling average fell from 18.9% to 17.9% (currency adjusted).



Financial Position

At 30 June 2007, PaperlinX had a gearing ratio of net debt to net debt plus equity of 24.3%, which is below both last year and the Group's target range of 40% to 50%. Interest cover was 2.6 times. Both of these ratios are in compliance with debt covenants.

Earnings before interest, tax, depreciation and amortisation (EBITDA) were $286.5 million, up 11% over the prior year. Net cash inflow from operating activities was $143 million, down $117 million versus the prior year due to a lower shift in trade working capital and movements in other non-current receivables and payables. Inventory days improved by a full 6% over June 06 levels and creditor and debtor days were in line with June 2006. Net debt has reduced to $612 million compared to $903 million last year.

Capital expenditure in the period was $212.7 million ($112.4 million, excluding the pulp mill project, 111% of depreciation). No significant new expenditures have been committed to over the past six months. Funding for all capital expenditure projects is adequately available within existing credit lines.

Significant progress was made in reducing the company's net liability for superannuation defined benefit plans. As at 30 June 2007 the net liability was $38.4 million a reduction of $49.4 million from 30 June 2006.

During March 2007 $285 million of hybrid securities in the form of PaperlinX Step-up Preference Securities (SPS) were issued to Australian investors. This issue reduced debt, strengthened the Group's balance sheet, provided increased financial flexibility and enhanced PaperlinX's financial position to take advantage of future opportunities. The distribution for this instrument for the 2007 financial year was $2.3033 per security which totalled $6.6 million.

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 8.9% to $70.9 million reflecting an increase in floating interest rates, changes to the domicile of debt offset by the raising of the SPS.

Potential future income tax benefits relating to accumulated tax losses of $90.3 million (tax affected) have not been recognised in the balance sheet.

Dividend

Directors have declared an unfranked final dividend of 6.0 cents per share (4.5 cents per share last year) representing a payout ratio of approximately 70% of earnings per share post the distribution to the Step-up Preference Securities. This brings the total dividend for the 2007 financial year to 11.0 cents per share (10 cents per share last year).

The final dividend will be paid on 26th September 2007 to shareholders on record as of 5th September 2007 as being entitled to the dividend. The PaperlinX Dividend Reinvestment Plan (DRP) applies in respect of this final dividend.

SUSTAINABILITY

Employees

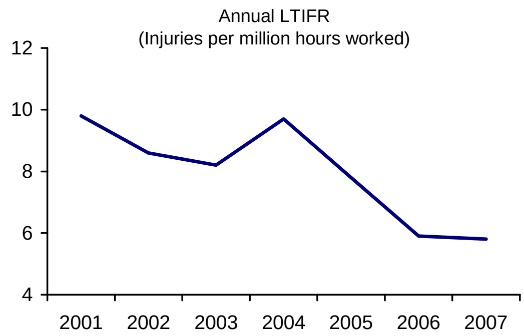
As at 30 June 2007, PaperlinX had 9,502 employees, down 1.7% versus the prior year but up 1.4% versus two years ago (as a result of acquisitions). Of our employees 29% are in Australia, New Zealand and Asia, 54% in Europe and 17% in North America.

Safety

Achieving our goal of no accidents and injuries is a challenge. Over the past six years the overall Lost Time Injury Frequency Rate (LTIFR) has been reduced successfully by 40%, however in the last 12 months the Groups rolling LTIFR only decreased from 5.9 to 5.8.

The challenge is to address this plateauing of performance. A number of programmes are underway and these include a focus on health and wellness, vehicle and traffic risk and manual handling.

Safety and health will continue to be a key focus for PaperlinX at all levels of management and operations.



Environment

PaperlinX has a long-term commitment to the environment through many initiatives and is focusing on areas where sustainability can deliver real and credible benefits at many levels.

We believe there are three critical areas our organisation should focus on:

1. Energy use and carbon footprint (greenhouse gas emissions)
2. Resource Use and Water management
3. Waste reduction and recycling

Manufacturing is an energy intensive business and storing and distributing paper also uses energy. As a business, it makes good sense both from an economic and social perspective to look for ways to reduce our impact which is why we set ourselves an objective of quantifying our energy use and reducing its environmental impact. Given that our manufacturing operations account for around 90% of our energy use much of the effort is focused here. Key projects include:

- PaperlinX has signed a Greenhouse Challenge Plus agreement with the Australian Government and will identify and implement further opportunities to reduce greenhouse gas emissions (GGE)

- The Maryvale Pulp Mill upgrade will provide strong economic benefits and reduce GGE, other air emissions, odour and liquid waste.
- Oil and coal fired boilers are being replaced at Wesley Vale and Shoalhaven which will significantly reduce GGE.
- The Group is rationalising its logistics operations in Europe to improve fleet utilisation and reduce GGE.

Continued progress has been made on further reducing water utilisation, with a 2.5% decrease in the raw water used per tonne of production at the Maryvale Mill over the year, while the water recycling factory initiative adjacent to Maryvale is expected to further reduce the site's daily raw water demands by around 12% by using recycled industrial and household waste water.

Sites around the group are identifying and implementing recycling opportunities for waste such as fibre, plastic, paper, wood and metals.

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

BALANCE SHEET

PAPERLINX LIMITED AND CONTROLLED ENTITIES		June 2007	June 2006
Current Assets	$M	2,874.0	2,880.6
Non Current Assets	$M	1,568.4	1,509.8
Total Assets	$M	4,442.4	4,390.4
Current Liabilities	$M	1,823.0	1,460.3
Non Current Liabilities	$M	714.3	1,321.4
Total Liabilities	$M	2,537.3	2,781.7
Shareholders Equity	$M	1,905.1	1,608.7
Key Balance Sheet Ratios			
Net Debt	$M	611.8	903.3
Net tangible assets per share	$	2.58	2.49

INCOME STATEMENT

PAPERLINX LIMITED AND CONTROLLED ENTITIES	Year ended 30 June	
	2007	2006
	$M	$M
SALES REVENUE	7,839.3	7,371.6
Operating Earnings before depreciation, amortisation, interest and income tax (EBITDA)	286.5	257.1
Depreciation and amortisation	(101.0)	(104.7)
Operating Earnings before interest and income tax (EBIT)	185.5	152.4
Net Interest Expense	(70.9)	(65.1)
Operating profit from Ordinary Activities before income tax	114.6	87.3
Income tax expense on Operating profit	(34.4)	(21.9)
Outside Equity Interests	(0.1)	0.0
NET PROFIT AFTER TAX	80.1	65.4

RETURN ON AVERAGE FUNDS EMPLOYED [1]

		Year June 2007	Year June 2006
Merchanting*	%	11.9	11.4
Australian Paper*	%	1.1	(0.2)
PaperlinX Group	%	7.0	6.2

* before allocation of corporate overheads

[1] EBIT / average funds employed

Summary and Outlook

An improving demand picture in Continental Europe is not matched in the important UK market, resulting in a flat demand picture for PaperlinX in Europe. North American demand softness is balanced by supply reductions to support pricing, while Australia and New Zealand are experiencing price softness resulting from the weak US dollar, though this may improve based on recent currency movements.

The impact of the weak US dollar on the overall PaperlinX results is substantial despite the real progress made on efficiencies, costs and expenses to mitigate this impact. Major exposures are on pricing, input cost recovery and export sales translation in our Paper manufacturing business in Australia. Pricing in Europe, New Zealand and Canada is also indirectly affected.

Capacity reductions and demand growth in continental Europe are leading to increased support for post-summer coated woodfree paper pricing across Europe. Pricing in the US on coated woodfree paper is supported by anti-dumping actions against Asian suppliers to that market, but resulting supply dislocations from this action and currency movements will be seen in other geographies.

PaperlinX has invested capital and restructuring charges over the past three years to improve competitiveness and strengthen our future platform. The 2008 fiscal year will see a continuation of investment in this programme with substantial net benefits to be realised from these initiatives in 2009 and onwards. Our current potential is to exceed our 2009 target of $100 million by $20 million. There is still much to be done to secure these benefits though momentum is favourable.

For further information, please contact:

Mr David Shirer
Executive General Manager
Corporate Affairs
PaperlinX Limited
Ph: +61 (3) 8540 2302
Ph: +61 (407) 512 521

Forward looking Statements:

Certain statements in this release relate to the future, including forward looking statements relating to PaperlinX's financial position and strategy. These forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or achievements of PaperlinX to be materially different from future results, performance or achievements expressed or implied by such statements. Neither PaperlinX nor any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this document will actually occur and you are cautioned not to place undue reliance on such forward looking statements.

Subject to any continuing obligations under applicable law or any relevant listing rules of the ASX, PaperlinX disclaims any obligation or undertaking to disseminate any updates or revisions to any forward looking statements in this document to reflect any change in expectations in relation thereto or any change in events, conditions or circumstances on which any such statement is based.

APPENDIX 1 - SECTOR COMMENTARY

PAPER MERCHANTING [1]

		Year June 2007	Year June 2006
Sales Volume	'000 tonnes	3,764	3,692
Sales Revenue	A$M	7,159	6,691
Earnings before Interest & Tax	A$M	205.2	188.9
EBIT/Sales Ratio	%	2.9	2.8
Return on Average Funds Employed	%	11.9	11.4

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

- Overall sales volume for Paper Merchanting was up 2%, benefiting from the inclusion of Spicers Canada for the full year, however sales volume reduced in the UK, the Netherlands and in New Zealand.
- The stock to indent ratio (the ratio of product sold from our warehouse stock compared to the product sold directly from suppliers) continued to improve, resulting in a favourable $9 million mix variance.
- Growth in Sign and Display and Industrial Packaging continued, with revenue from these activities up 12% on the prior year.
- Sales revenue for the total Paper Merchanting business was 7% ahead of the prior year and EBIT was 9% ahead.
- The return on average funds employed was 11.9%, well above the cost of capital and a 4% improvement over 2006 (11.4%).

Europe

		Year June 2007	Year June 2006
NW Europe	'000 tonnes	738	751
UK & Ireland [1]	'000 tonnes	1,180	1,202
Central & Southern Europe	'000 tonnes	525	505
Total European Sales Volume	'000 tonnes	2,443	2,458
Sales Revenue	€M	2,828	2,732
Earnings before Interest & Tax	€M	82.8	74.5
EBIT/Sales Ratio	%	2.9	2.7

Note (1) Also includes volume from South Africa

- Sales volumes were 1% lower than in the prior year due to the weaker UK market and some volume lost during the Netherlands integration. The volume impact was largely on lower value indent (direct) volumes.
- The average price realisation across the European merchanting platform was 4% ahead of last year. Coated woodfree paper prices ended 2007 higher than at the end of 2006 (up 1-2% in Germany and 5-6% in the UK) but had a mixed performance during the year, while uncoated woodfree prices were tracked higher throughout the year (up 5% in Germany and 5% in the UK).
- Reported EBIT was up over 11%, supported by benefits from strategic initiatives. Underlying EBIT was up 17% to €81.9 with the prior year reported EBIT including one-off gains on property sales.
- Progress on the rollout of the UK integrated logistics solution, The Delivery Company, has progressed well with 7 sites now operational.

- The stock to indent ratio improved 0.8 points versus the prior year.
- Proprietary brands grew 10% in volume and now represent over 20% of total paper volumes.
- Sign and Display and Industrial Packaging sales revenue was up 9% over last year.
- Average working capital saw a slight improvement on the prior year despite 3.5% revenue growth.
- The sale of French paper merchant Axelium and acquisition of Italian paper merchant Antalis SpA were completed successfully.
- Following the end of the year, the decision was made to exit a small merchant position in Finland.
- The overall UK market is estimated to have declined by 3.4% compared with 2006, with PaperlinX merchants gaining market share.
- Operating expenses were impacted by a small number of bad debts and increased 1.1%. The increased stock sales also contributed to the rise in distribution expenses.
- Following the progression of pension benefits to a defined contribution system a curtailment gain of approximately €8 million arose in accordance with AIFRS across a number of superannuation plans.
- The rollout of a common European IT system is progressing to plan with implementation in Ireland and progressed rollouts in Germany and the UK.

North America

		Year June 2007	Year June 2006
Sales Volume	'000 tonnes	623	508
Sales Revenue	US$M	1,078	841
Earnings before Interest & Tax	US$M	40.2	29.6
EBIT/Sales Ratio	%	3.7	3.5

- Total sales volume growth for North America of 23% was boosted by the inclusion of Spicers Canada for the full year.
- Proprietary brand volume growth of 18% brings the total volume sold through our own brands to over 25% of total volume.
- North American paper selling prices continued to be supported by mill capacity reductions, with realised prices up 4.6% on the prior year, despite weaker market demand.
- Total operating earnings grew by 36% (9% excluding Spicers Canada) reflecting the earnings leverage to improvements in the operational environment along with the inclusion of Spicers Canada.
- The EBIT/sales ratio grew to 3.7% from 3.5% in the prior year.
- The impact of anti-dumping actions and countervailing duties is currently flowing through in US pricing.
- The acquisition of Spicers Canada has been accretive to earnings with a very successful integration into our North American business platform and the upcoming Toronto warehouse integration will create another layer of opportunities. Returns have already exceeded year 3 acquisition targets (+15% ROAFE).
- IT integrations across Canada and within Kelly Paper are progressing well and expected to provide positive benefits as our entire North American business establishes a common platform.
- There are a wide range of strategic initiatives underway across North America, which has included the establishment of a Global Customer Solutions Group.
- Working capital improved by 6% compared with the prior year.
- Operating expenses excluding the impact of Spicers Canada were up 5.6%, mainly reflecting sales growth. The operating expense to sales ratio was largely unchanged from the prior year.

Australia, NZ and Asia [(1)]

		Year June 2007	Year June 2006
Sales Volume	'000 tonnes	725	741
Sales Revenue	A$M	1,033	1,049
Earnings before Interest & Tax	A$M	13.8	25.5
EBIT/Sales Ratio	%	1.3	2.4

Note (1) Reported historic results adjusted to reflect the formation of PaperlinX Office. Includes the Group's paper trading activities.

- The New Zealand EBIT compared to the prior year was negatively impacted by $(7.7) million resulting from the continued strong appreciation of the New Zealand dollar (up 27% against the US dollar) affecting the translation of foreign currency items.
- Australian EBIT compared to the prior year included a net $(1.7) million impact related to restructuring activities. The combination of these two variances versus last year was $(9.4) million, explaining the majority of the total EBIT variance versus prior.
- Reported EBIT was down 46% with underlying EBIT down 38%. Considerable focus has been applied to further reduce costs (down 3.0%) given difficult market conditions.
- The Australian market saw no overall growth in volumes, while the New Zealand market is estimated to have fallen by 8%. We have seen a small amount of market share loss in these two markets as pricing leadership was provided. Volume growth in Asia was a solid 11%.
- Pricing in Australia and New Zealand remained under pressure from a weak US dollar. Overall pricing for Australia, NZ and Asian merchants was down around 1% with regional and mix variations.
- Recent strengthening of the US dollar versus the Australian dollar and the Euro, coupled with increasing global capacity utilisation on coated woodfree paper and announced European pricing, could lead to increased Australian prices.
- Customer consolidation has been a feature of both the Australian and New Zealand markets.
- Asian EBIT was 7% above the prior year on the back of volume growth and tight control of operating expenses. Overall pricing was down on the prior year which put some pressure on margins.
- Paper Trading had a strong year with EBIT significantly above the prior year though volumes from Paper Manufacturing reduced due to previously announced production line closures.
- Average working capital was reduced 9% as a result of good performance on a range of initiatives. 2007 saw a significant number of warehouse consolidations across the whole PaperlinX network in Australia to ensure the business is well positioned in what is expected to remain a highly competitive market.

PAPER MANUFACTURING (1)

		Year June 2007	Year June 2006
Communication Papers Volumes	'000 tonnes	499	530
- Australia/New Zealand	%	80	80
Packaging Papers Volumes	'000 tonnes	319	316
- Australia/New Zealand	%	70	73
Total Sales Volumes	'000 tonnes	818	846
Sales Revenue	A$M	1,016	1,021
Underlying Earnings before Int & Tax	A$M	20.8	10.2
Reported Earnings before Int & Tax	A$M	10.2	(3.3)
Return on Average Funds Employed	%	1.1	(0.2)

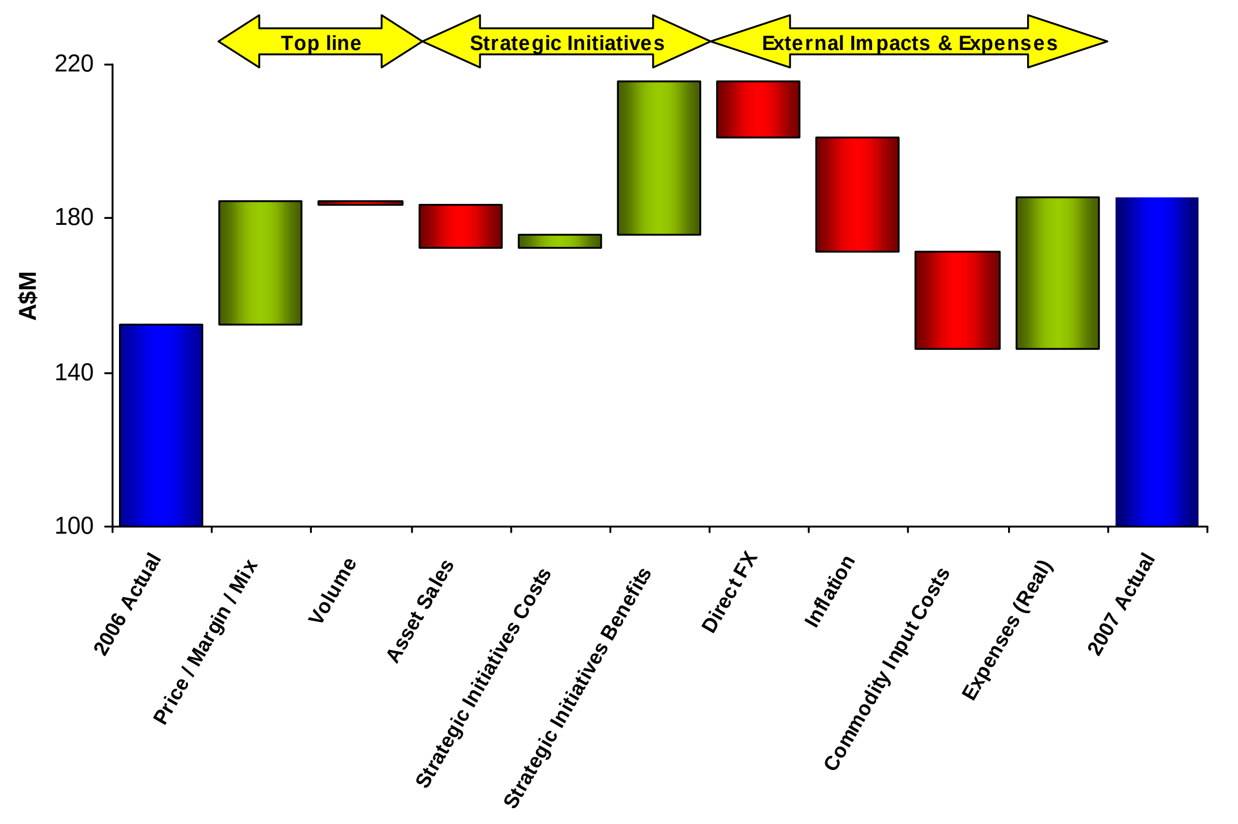
Note (1) Reported historic results adjusted to reflect the formation of PaperlinX Office

- Overall sales volumes were down 3% from closures at Shoalhaven 1 and 2.
- Higher pulp costs impacted EBIT by A$(22) million, with the average price of pulp up 20% on last year in Australian dollars. Cost increases in US dollars have been mitigated to some extent by the stronger Australian dollar. Pulp prices have remained high with further increases announced going into 2008.
- EBIT included a range of one-off items, including asset sales and costs associated with strategic initiatives (A$(10.6) million). Underlying EBIT of A$21 million was 103% up on the prior year. Overall earnings from packaging activities were at a similar level to last year.
- The high Australian dollar continues to hold down pricing across most segments, though more particularly in coated woodfree and publication papers markets, with a net direct impact on EBIT from export earnings of A$(9) million. Over capacity and consolidation in the Australian printing industry is keeping pressure on paper prices making it difficult to pass on cost increases.
- The creation of PaperlinX Office has provided a better contribution than expected with a successful integration of a number of channels to market. Domestic volumes of manufactured copy paper increased 2-3%, as we were better able to match customer's needs with a wide range of papers for office and home uses, including a wide range of papers containing recycled fibre diverted from Australian landfill.
- Domestic linerboard volumes were down 4% on last year, below expectations due to market circumstances.
- Sack kraft demand has been good in export markets, with international selling prices in US dollars for exports at record levels; however, much of the gain was lost on translation.
- Mill operating performance improved over the prior year, with the changes at the Shoalhaven mill returning that facility to profit. Efficiency gains, supply chain savings and mix management more than offset the increased input costs.
- Working capital was down 2% over the prior year with the working capital to sales ratio of 24.1% showing a similar trend.
- The first major shut of the pulp mill project was completed over June/July 2007. Project work was completed on time and to good quality. This was a good outcome given the complicating factors at the time of industrial disputes in contractor workforces and unprecedented rain during the shut.
- The cost of the pulp project is now expected to be within 25% of the original estimate of $203 million. The key impact on costs results from materials, the tight labour market in Australia, with industrial relations and weather being the key risk to timely completion.

APPENDIX 2 – VARIATION ANALYSIS

Reported EBIT for the year ended June 2007 was $185.5 million, up 22% on the $152.4 million reported for the prior year. The chart below highlights the key items of variance between these two years, with commentary relating to the three key areas.

EBIT VARIATION ANALYSIS BY MAJOR INFLUENCE



Top Line Growth

- Product volumes excluding Spicers Canada were slightly down on the prior year and reflected the decline in manufacturing volumes, and tough market conditions in the UK and The Netherlands.
- Momentum is being seen in the Graphics, Sign and Display and Industrial Packaging product areas saw revenue growth of 12%.
- Product mix equally has shown the positive impacts of continual focus on moving more merchant volumes towards stock rather than indent. As compared with the prior year, there was an $9 million benefit due to a 0.8% point shift in this mix.
- Price has also benefited in Manufacturing by the improvement in global packaging and uncoated woodfree paper prices in US dollars (up $9 million), however the stronger Australian dollar has effectively eliminated this gain.

Strategic Initiatives

- Overall strategic initiatives continue to have a positive impact on group earnings, up a net $32 million compared to last year, making a total of $41 million since the 2005 base.
- Restructuring costs at $22.3 million were below the prior year by $3.1 million and whilst being partly funded by property transactions of $10.1 million, the level of offset was $11.1 million below the prior year's profit.
- Gross benefit from initiatives (before costs) from 2005 is now $53 million, up $40 million over the 2006 level, reflecting the short payback of a number of the initiatives.

External Impacts and Expense Management

- Foreign currency direct impact was an adverse $15 million compared with 2006, being equally split between Paper Manufacturing, due to lower export earnings, and Paper Merchanting, the majority being in New Zealand due to adverse impacts on paper purchases.
- Commodity input cost pressures continued in our Manufacturing business (up $26 million) most notably, the cost of pulp which was up 27% in $US over 2006.
- Expense management has continued to be a key focus, with total trading expenses up 1.7% over 2006 excluding the impacts of acquisitions, partially reflecting the increased stock deliveries in Europe and sales growth in North America.
- Allowing for inflation, expenses improved around $39 million. Contributing to this was $13.8 million, resulting from gains under AIFRS due to the curtailment in respect of a number of defined benefit superannuation plans. Significantly, the net liability for superannuation defined benefit plans reduced by $49.4 million to $38.4 million.