

**What
we
are
doing**

Sustainability Report 2007



Highlights 2007

- For the third consecutive year, PaperlinX satisfied the requirements of the FTSE4Good Index Series by meeting globally recognised corporate responsibility standards of social, ethical and environmental performance.
- Data was collected across our merchanting and manufacturing operations for a Sustainability Action Plan, to quantify the Group's global environmental impact and provide baselines for further improvements.
- An emissions inventory was completed at the four Australian paper mills to better understand our environmental impact, incorporating the current upgrade of the pulp mill at Maryvale.
- The first shut relating to the upgrade of the pulp capacity at Maryvale was completed over June and July 2007. When completed, the new bleach plant and pulp mill will provide further improvements in environmental performance.
- For the first time we participated in the international Carbon Disclosure Project survey and the Australian Greenhouse Challenge Plus Programme.
- A number of our operations in Australia, Austria, Belgium, Canada, Germany, Hong Kong, Italy, the Netherlands, UK and the US, maintained their Forestry Stewardship Council chain-of-custody certification, confirming their ability to trace paper back to an approved sustainable fibre source.
- Over the past six years we have successfully reduced our overall Lost Time Injury Frequency Rate (LTIFR) from 9.8 to 5.8, a 40 per cent reduction; and 42 per cent of our operating companies worked the whole year with zero injury incidents.
- A common set of PaperlinX Values are being developed in consultation with colleagues throughout our businesses, to enhance our organisational culture.
- The Speak Up business conduct programme was launched globally to all employees.
- The Strategic Selling Programme was rolled out to senior sales and marketing managers from around the world.

What sustainability means to PaperlinX

Sustainable development is most often defined as 'meeting the needs of the present without compromising the ability of future generations to meet their own needs'. For PaperlinX and its operating companies, this means achieving sustainable economic growth that is of benefit to present and future generations of employees, shareholders and customers without detrimentally affecting the resources or biological systems of the planet.

Report Scope

This Sustainability Report covers the operations of PaperlinX Limited's businesses and its social and environmental commitments for the period July 2006 to June 2007. We aim to broadly report against the Global Reporting Initiative (GRI) a set of guidelines for sustainability reporting that encourages tracking and measuring performance through disclosure. All data reported has been collected and validated through internal financial and environmental management systems and is available for auditing purposes.

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Chief Executive's comment



Tom Park, Managing Director and Chief Executive Officer

Across the PaperlinX Group, we are facing some challenges that have the potential to impact our long-term sustainability as a successful business. These challenges also present us with great opportunities to do something that makes a real difference in the areas where we have control.

As our industry transforms in challenging market conditions, we must develop and retain our best employees and continue to attract new talent so that we have the right blend of organisational skills to build a long-term sustainable business.

In the last year we strengthened our organisational culture by beginning to develop The PaperlinX Values, and to distil the common beliefs that set us apart and enable us to realise our goals together. We encouraged leadership and entrepreneurial skills to flourish by expanding our range of professional development and training programmes. We have looked at ways to improve the diversity of our workforce in areas such as gender, education and work experience.

And we have made good progress in supporting the personal safety, health and wellbeing of all our people. While our safety record has improved dramatically over the last six years, in 2007 our safety performance reached a plateau. Now we need to re-double our efforts to achieve the next step improvement.

Given the size and complexity of our business, our challenge is how we respond to the current environmental debate regarding climate change and pollution and manage our use of natural resources.

The widely-held view is that the production of greenhouse gases is having a significant impact on the environment, and we cannot wait for the climate change debate to be resolved. Manufacturing is an energy intensive business, and distributing paper also uses energy.

As a business it makes good sense, both from an economic and philosophical perspective, to look for ways to fully understand and reduce our environmental impact where possible.

So we have spent the past two years conducting a global sustainability audit at both mill and merchanting sites to determine benchmarks. Some details of this survey are published here for the first time, along with the data of the greenhouse gas emissions inventory completed at our four paper mill sites in Australia.

This is a step forward for our business. But we are treading slowly when it comes to setting absolute emission targets. With the upgrade of the Maryvale Mill,

our manufacturing capacity is expected to expand from 2009. So, we are focusing on understanding our impact and making our existing businesses more environmentally efficient. We are working through the complexities of determining the carbon footprint of our operations and the carbon impact of the products we make and distribute.

We are making sure that our claims of environmental improvements come from real changes, and not from marketing spin.

Another challenge we face relates to the reputation of paper products.

A commonly held opinion is that paper is not environmentally acceptable because its production requires tree harvesting as the main source of fibre. This neglects the facts that forestry today is carried out sustainably and responsibly, giving us a renewable natural product that can be recycled. So we are doing more to reassure our customers and the general public that our fibre sources are sustainable. Our products with environmental credentials are proving to be a popular choice for customers.

The use of paper and print is changing due to advances in technology, such as the increasing use of electronic communication and storage of information. Increasingly, we are seeing the push to 'go virtual' being presented as better for the environment with little consideration given to the environmental impact of technology. Is the concern real or simply a cost cutting measure? We are doing more to provide balance to the debate about the environmental impact of paper from cradle to grave.

I want to thank everyone involved in contributing to our achievements over the last 12 months and look forward to receiving your feedback on this report.

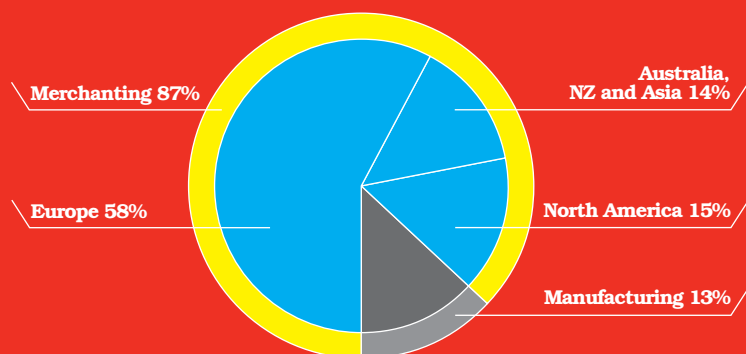
A handwritten signature in black ink, appearing to read 'Tom Park', written in a cursive style.

Thomas P Park
Managing Director and
Chief Executive Officer

Our business

Revenue

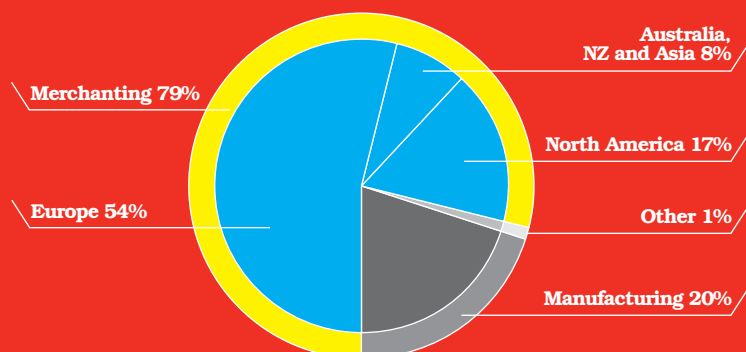
Total Revenue – \$7,839 million



Percentage calculated before intercompany eliminations

Our people

Employees – 9,502



From Paper to Packaging and More...

Around the world, it's our business to deliver the papers our customers want. We operate different businesses across 27 countries; local businesses with worldwide links.

We distribute and manufacture high-quality fine paper used in offices as well as specialty papers used in brochures, magazines, annual reports and other business applications. We also manufacture packaging papers for converting into corrugated cartons, paper bags and other packaging materials. And we are expanding our offerings in sign and display and industrial packaging and graphics.

The companies that make up PaperlinX today have a long history in paper. In Australia, some businesses have been making paper since 1939 and, in Europe, others have been distributing paper since the 1600s.

What we offer our customers is more than a sheet of paper. It's a valuable suite of services including competitive pricing, quality, reliability, choice, availability and delivery.

We have a vested interest in developing a sustainable business model and providing leadership, particularly in the environmental area, for the future success of our business.

Operations	2006	2007
Countries	28	27
Sites	401	403
Manufacturing sites	4	4

Financial profile	2006	2007
Total revenue (A\$m)	7,372	7,839
Earnings before interest and tax (A\$m)	152.4	185.5
Sales volume (before commission sales) ('000 tonnes)	4,248	4,313

Our vision and strategy for sustainability

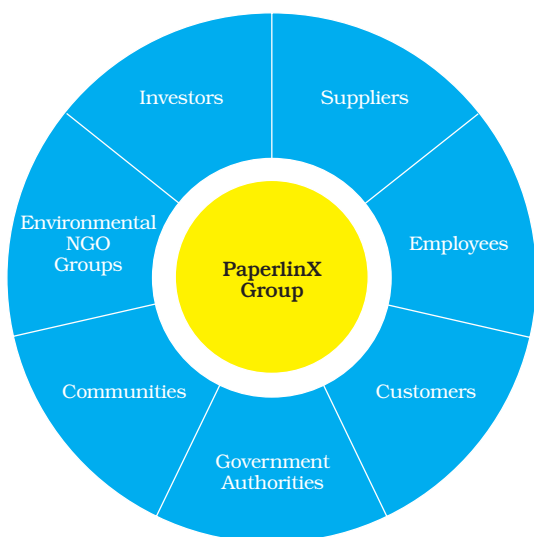
For the PaperlinX Group, sustainability means achieving sustainable economic growth that is of benefit to present and future generations of employees, shareholders and customers, without threatening the resources or biological systems of the world we live in.

In reality, this means that to maintain our company's growth we must focus on these three areas:

- economic sustainability – the successful performance of our business model;
- social sustainability – meeting society's expectations of our responsibilities to our employees and the communities in which we operate;
- environmental sustainability – managing natural resources wisely in a bid to continually improve our environmental performance.

Our business has been built on paper which is a sustainable product made from a renewable, natural resource that is completely recyclable. These unique product features have become increasingly important to environmentally-conscious consumers the world over. And as a manufacturer and distributor of paper, we have certain responsibilities. We explain our commitments in our Sustainability Charter, which was launched in 2004.

Our business is founded on mutually beneficial relationships and partnerships with a range of stakeholders (diagram below) and through the Charter we have committed to open dialogue, ethical behaviour and good business conduct.



Making Sustainability a Reality

For PaperlinX, the search for a balance between cost constraints, social impacts and ecological performance has driven our businesses to take the route of continuous improvement with a focus on making real and effective changes to the way we operate.

Supporting our sustainability commitments is a management and governance framework that involves all levels of the company from the Board through to operational teams.

Good performance in occupational health and wellbeing, safety and the environment are key strategic issues for PaperlinX. A Board Committee consisting of four Non-executive Directors convenes with the Managing Director and the Group General Manager Environment Safety and Health, on a quarterly basis to consider safety and environmental issues that may have strategic, business and reputation implications for the Group.

This Safety and Environment Committee reviews policies and monitors compliance; assesses management systems, standards and practices; and reviews significant incident investigation reports. The Committee also regularly visits sites within the Group in order to gain first-hand knowledge of operations and performance.

During the year the Committee visited the Wesley Vale Mill in Australia, reviewing the mill's Strategic Plans, the environmental performance, and the Search for the Future process and safety strategies. The Committee also visited the PaperlinX Canada headquarters in Toronto and other North American sites to review environment, safety and health (ES&H) management and the integration of the Cascades group of companies into the PaperlinX ES&H programme.

Global Environmental Management Approach

The Company has a multifaceted approach to environmental management that is underpinned by an Operations Management System (OMS) as well as identifying and implementing strategic priorities.

The OMS provides a framework for managing ES&H through performance requirements for all operational activities. These cover risk management, legal compliance, improvement, roles and responsibilities, training and compliance, communications, documentation, operational control, emergency response, contractor management, incident reporting, record keeping and auditing.

In addition, we identified key strategic priorities for the 2006–2008 period that will add significant value to the Company's ES&H management. Most of these priority projects, some outlined in this report, have been or are nearly completed and, in early 2008, the ES&H community and the Board Committee will develop the next Strategic Plan for the 2008–2010 period.

Environmental Management in Manufacturing

In addition to the OMS, each of our four paper mills in Australia has a site-specific environmental management system (EMS) that provides the processes and procedures for compliance with environmental requirements. These include site-specific licences that are issued by Australian Federal and State Governments as well as standards and codes of practice.

Each site's EMS complies with the International Standard ISO 14001 for environmental management, which is the leading standard for manufacturing sites. Performance against the EMS is assessed by external auditors SAI Global and Det Norske Veritas (DNV).

Sustainability Charter

PaperlinX is a leading international paper distribution and manufacturing company with a commitment to delivering long-term sustainable returns and environmental and social benefits for all our stakeholders. In so doing, we seek to add value for our customers, employees, the communities in which we operate and for our shareholders.

In pursuit of these commitments, we recognise that our products and operations have an impact on the environment and that we must continually improve our performances across a range of areas to deliver the sustainable returns to which we aspire.

Our fundamental commitment globally is to not only ensure that as a minimum we comply with the laws of all the regions in which we operate, but we also seek to go beyond just compliance with a range of positive initiatives.

Our commitments in relation to the environment, our employees, our communities and our suppliers are explained below.

Environment

We will provide product options to satisfy the needs of our customers and will ensure that we provide information to allow our customers, neighbours and the public to make informed choices about our products and their environmental credentials.

At PaperlinX, we are committed to continuously reducing our environmental footprint in measurable ways. Our operations seek, wherever possible, to reduce resource use (such as energy, water, fibre and chemicals) efficiently by increasing recycling opportunities and reducing waste output. We are committed to regularly monitoring these improvements.

Employees

Our objective is to be the 'employer of choice' in which all members of our workforce are treated with respect and employed within strong principles of equal opportunity, ethical behaviour and transparent management practices.

At PaperlinX, we are committed to providing our employees the opportunity to grow and develop within a safe workplace wherever they are located.

Communities

We will support the communities in which we operate in ways that make a positive difference and will maintain an open relationship with these communities, report on our performance and make this information readily available to the public as well as customers.

In addition, we will also recognise our corporate role in assisting our employees to make individual and collective contributions to improve aspects of the communities in which they participate.

Suppliers

We are committed to proactively encouraging our suppliers to improve their environmental performance by insisting they act in a legal and sustainable fashion and are committed to continuous improvement.

Customers

Our commitment to our customers extends beyond satisfying them with excellent service, knowledge and technical support. Helping our customers understand their paper choices is one benefit we can deliver. We will provide a range of product options with environmental credentials and useful product information guides, making it easier for customers to make an informed decision.

Developing our people and culture

Achievements 2007

- Developing organisational values through a consultative process across businesses.
- Developed HealthLinX, a global health and wellness initiative for employees.
- Implemented Vehicle and Traffic Risk Reduction Programmes at all manufacturing and warehouse sites to reduce accidents.
- Rolled-out the Strategic Selling Programme globally to key sales staff and developed a programme for customer service staff.
- Trained more than 95 per cent of the 4345 employees engaged in manufacturing and warehousing/logistics in more than one health and safety discipline.
- The Search for the Future safety initiative at Maryvale Mill has been replicated and implemented at our Tasmanian operations.
- Launched Speak Up, to employees globally, to promote good business conduct.
- Updated the competition law compliance training programme online to improve employees' understanding of Trade Practices.
- Launched a Graduate Programme in Australia to attract diverse university graduate talent.

Goals 2008

- Integrate The PaperlinX Values throughout the organisation with support of regional management teams.
- Improve workforce diversity through employee consultation and delivery of a Diversity Awareness programme.
- Broaden accessibility of the competition law compliance training programme by making it available in different languages.
- Regional roll-out of HealthLinX programme, including voluntary employee health checks.
- Obtain a further 10 per cent reduction in medically treated and lost time injury rates.
- Measure employee engagement through a series of communications and dialogue.
- Launch the Internal Selling Programme to key customer service staff.
- Roll-out the next phase of the Leadership Development Programme.
- Complete another workforce capability review to ensure alignment with changing business priorities and identify a global talent pool of future business leaders.

Underpinning everything we do at PaperlinX are our people. They give our company a unique competitive advantage. Creating a strong and cohesive culture and a safe working environment is a priority for us. We support people to work to their best and continue to provide opportunities to make this the high point of working life.

A Shared Culture

Our operations have developed through a series of acquisitions, transforming independent businesses into a global network of companies linking across 27 countries with many employees, diverse languages and backgrounds. While this is one of our competitive strengths, the organisational breadth is challenging when we need to work effectively together.

To encourage team work, we bring global teams together to address common best practice opportunities and provide individuals with opportunities to work in different countries on short-term and long-term assignments.

In the last year we strengthened our organisational culture by beginning to develop The PaperlinX Values to distil the common beliefs that set us apart and enable us to realise our goals together. The values respect existing local business values and recognise the additional global element of the broader organisation. Together with our Core Operating Principles they will guide decision-making and provide a directional framework for everyone at PaperlinX. The values will be launched to employees in the coming year.

The way we conduct ourselves around the world where we operate, reflects on our reputation and the way we are regarded by colleagues, customers, suppliers and the wider community.

Compliance is one of the Company's Core Operating Principles and two initiatives were rolled out globally to our employees to improve business practice. In addition to the relaunch of Speak Up (see case study), the competition law compliance programme was improved to help employees understand the regulatory and legislative environment. The programme now involves online training and face-to-face presentations relating to Trade Practices.

Engaging our People

One of the greatest challenges is providing relevant and meaningful information for our diverse businesses worldwide. Business strategies, new initiatives and achievements are regularly communicated in a range of different ways: the popular *conneXions* quarterly employee magazine is published in five languages; regular team briefings; email alerts; video messages; and websites are made accessible for all employees.

Developing our people and culture

We are seeking more feedback from employees on all aspects of the employment cycle through the use of internal surveys and employee focus groups. The new 'Your Voice' employee survey was launched during the year in Australia, New Zealand and Singapore and results will be available soon. In the year ahead, we plan to measure the level of employee engagement through a business-wide consultative process.

Strengthening our Leadership

As PaperlinX grows and changes to meet customer needs, we need to ensure we have the right blend of talent to build a long-term sustainable business. This means understanding and developing our people. We have been mapping succession plans for the leadership group and, in the coming year, will establish a global talent pool for future business leaders. During the year, we also developed the next phase of the Leadership Development Programme.

Learning and Development

The development of the people who work at PaperlinX is a key priority in maximising our performance. We invest heavily in providing a variety of internally and externally led programmes; some are coordinated globally such as the Leadership Development Programme and the Strategic Selling Programme, while others are led by the regional businesses.

During the year, we rolled out the three-day Strategic Selling Programme to more than 500 sales people who manage major accounts in Australia, New Zealand and North America, and commenced implementation in Europe. The programme aims to improve the skills of sales teams and create a value-added sales culture linked to our strategic objectives.

In Australia, New Zealand and Asia numerous training programmes include LeaderlinX 1 and 2 to develop the skills of new and emerging managers, and the Managing for Success programme to give staff confidence for performance conversations.

In each of the 27 operations forming Europe, a wide range of programmes are available to provide our 5,000 employees with the opportunity to fulfil their potential. Some examples include: Financial for Non-Financial Managers (The Paper Company, UK), People First Personal Development Programme (Howard Smith, UK), Leaders Today (Robert Horne), Presentation Skills/ Public Speaking (Italy, Denmark) and Strategic Thinking, Acting, Selling (Germany).

Across North America, the focus is on rolling out the Strategic Selling Programme, Customer Relationship management training and Leadership Development. Training is also linked to the Customer Service Charter which is focused on exceeding customer expectations.

Improving Diversity

We implemented a Future Workforce Management Plan, reviewing workforce planning requirements as part of a 'people capability' review process linked to our businesses' strategic priorities. This identified the anticipated skills and capabilities we require in our workforce, and in the coming year we will seek further feedback on our diversity needs. At the same time, we will be developing and delivering a Diversity Awareness programme across the Company.

What we are doing

Speak Up Campaign

One of the toughest challenges for anyone who witnesses improper conduct at work is what to do about it and where to go for support. The Speak Up programme helps our employees keep their workplace safe, fair and honest. A global communication campaign was launched in February to remind everyone about the confidential reporting service that provides anonymity and protection. Employees can raise concerns by contacting Speak Up using an international 24 hour telephone helpline or a multilingual online website, email or fax option. A new printed booklet, *PaperlinX Employee Guide to Business Conduct*, was published in English, Dutch, French, German, Italian and Spanish and distributed to employees worldwide. Online resources are available on our global extranet website.



Managing Workplace Safety Challenges

Achieving our goal of zero accidents and injuries is a challenge. Over the past six years we successfully reduced our overall Lost Time Injury Frequency Rate (LTIFR) from 9.8 to 5.8, a 40 per cent reduction, and our Medically Treated Injury Frequency Rate (MTIFR) from 25.7 to 13.4, a 48 per cent reduction. This year 42 per cent of all of our reporting companies worked the whole year with zero injury incidents. We did not, however, meet our target of a further five per cent reduction in both measures. In 2007 our safety rates reached a plateau and now we must re-double our efforts to achieve that next step change.

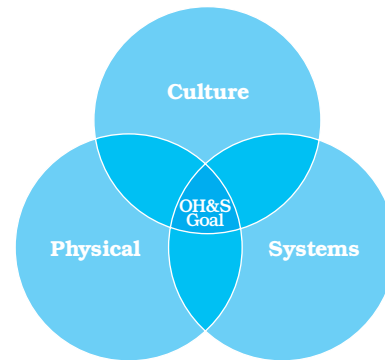
We also report that one of our employees was unfortunately injured onsite in Adelaide, South Australia, and the regulator fined the company \$5,500 for failing to implement a safe operating procedure. This was the only conviction for a PaperlinX business during the year.

Managing Occupational Health and Safety (OH&S) at PaperlinX has always involved a tripartite approach of focusing on the physical environment (our buildings, machinery and equipment), the systems we use (our management system, our safe operating procedures and internal audits) and the cultures and behaviours of our organisation. Over the past six years we have acquired many businesses and helped them to successfully improve their health and safety performances. To achieve the next step we will need to improve our efforts in the cultural area to bring about effective behavioural change.

Checking our performance is fundamental to our promise of continuous improvement and improving our safety. We monitor safety statistics and undertake regular audits (usually biennial) against our system, written procedures and instructions, to check that our sites comply with applicable legislation, company standards and expectations.

In addition, external audits were conducted at our paper mill sites for the certification of their safety systems, in our Victorian sites for self insurance purposes and the Maryvale Mill site for the renewal of its Major Hazard Facility licence. In all cases the various licences, certifications and insurance status were confirmed.

The strong focus on safety training continued. In the last year, more than 95 per cent of all the 4,345 employees directly engaged in manufacturing and warehousing/logistics received training in more than one of these subject areas.

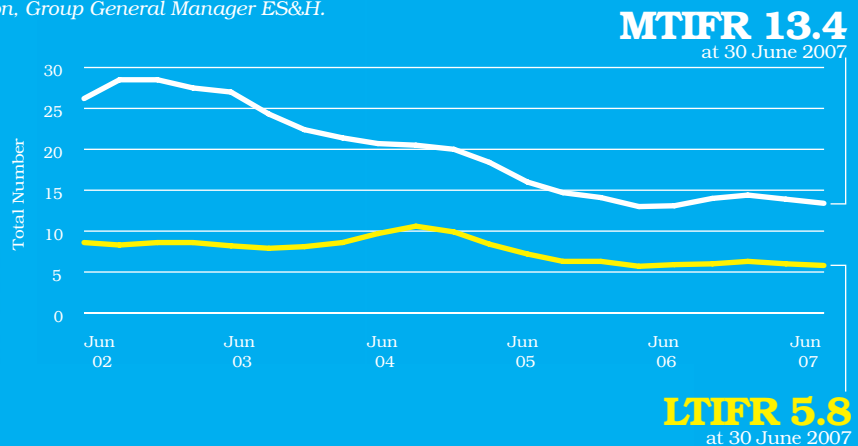


Promoting Health and Wellness

For PaperlinX to be a sustainable business, we must proactively manage the health and wellness challenges in all our businesses, and invest in protecting our employees' health. During the year, we developed HealthLinX, a new global health and wellness initiative for our employees, which will be rolled out in the coming year. We plan to provide a voluntary and confidential personal health check for every employee around the world, make useful health information available, and measure the programme's impact.

'Members of our ESH team conducted 84 internal safety audits at sites around the world to help improve our safety performance.'

Andrew Jackson, Group General Manager ES&H.



Our community commitment

Achievements 2007

- Contributed \$1.16 million, to a range of local programmes and non-profit organisations that support communities around our business sites.
- Continued to build constructive relationships with environmental groups such as World Wildlife Fund (WWF) in Australia, the UK, Europe.
- Continued our dialogue with key stakeholders near our mills through Community Consultative Forums.
- Reviewed community investment activities and identified challenges and opportunities, as part of developing a framework for a global community relations programme.
- Began developing charitable funding guidelines to assist our businesses with their community support programmes.
- Developed a system to improve the identification and measurement of community investment activities across operating companies.
- In 2006/07 our global community investment was equivalent to 1.45 per cent of our reported profits, a 28 per cent increase compared to last year.

Goals 2008

- Roll out a global community investment model for businesses to adopt as required.
- Launch a pilot employee workplace giving programme in Australia and evaluate its success for implementation in other countries.
- Identify new community partnerships for PaperlinX corporate division to support.
- Review our practices of allocating funds to a range of non-profit community groups and organisations.
- Coordinate an Australian-wide employee community support event.
- Develop a metric for valuing paper donations to charitable organisations.

PaperlinX has made a broad commitment to support communities in which it operates, through its Sustainability Charter.

The PaperlinX Community Partnership Model



Working with Communities

With four paper mill sites in regional areas of Australia, our operations provide employment and positive economic sustainability for rural communities in Victoria, New South Wales and Tasmania. We work with nearby communities on continuously improving our environmental performance, we host regular public tours and open days, we have open dialogue with environmental groups and we support local community organisations.

Our many operating companies around the world also provide a broad range of community support; either through charitable contributions of cash and paper, commercial sponsorships for industry support, cause-related marketing initiatives and employee involvement activities (see the PaperlinX Community Partnership Model). All of these activities are led by local management.

Community Relations

To better understand the needs of the communities we are part of, and also to obtain feedback on our operations, we have a Community Consultative Forum at each of the Company's four Australian manufacturing mills. These long-standing forums are made up of people representing diverse organisations who have an interest in the mills' operations.

These groups participate in the development of an Environmental Improvement Plan that forms part of a site's overall Environmental Management Plan. These plans address issues such as odour reduction and improvements in water and energy usage at the mills. The groups are a valued part of the overall communications between the Company and the communities in which we work.



What we are doing

Paper delivers messages of hope and inspiration

For several years, PaperlinX has supported the work of Breast Cancer Network Australia as they empower, inform, represent and link people whose lives have been affected by breast cancer.

We donate the paper to publish *The Beacon* and *The Inside Story*, a quarterly magazine and supplement which reaches out to 30,000 Australian women diagnosed with breast cancer. The publications provide information and inspiration to help women through their breast cancer journey. Later this year, our Australian merchandising and manufacturing sites will hold 'Pink Lady' morning teas to support fundraising for Australia's Breast Cancer Month. And our paper merchant, Spicers Paper, is helping to streamline their paper purchasing for their printing requirements.

left: Kirsten Pilatti and Lyn Swinburne from the BCNA.

A range of briefings were held during the year to provide Australian environmental groups with the latest information on the environmental performance of our paper manufacturing operations and the products produced.

Community Partnerships

We are currently finalising a framework that will provide a more relevant community strategy and will assist our operating companies with building stronger community connections. We believe our community support is in line with the size and profitability of the PaperlinX business. Our challenge is to improve measurement and reporting of our community activities across all our operations. In particular, we are working to develop a metric to value the tonnes of paper that we donate in kind every year to charitable organisations.

Our key areas of support are learning and creativity, the environment, and health and wellbeing. Some examples of the range of our community support worldwide include:

- Australia's Maryvale Mill Y-Linx Sponsorship Programme is a local community grants programme in Victoria that is managed by an employee-led committee that meets quarterly to review applications from local non-profit organisations for funding and paper donations.
- Robert Horne Group's three-year partnership with Marie Curie Cancer Care UK was selected by employees as the single charity of choice. Proceeds from employee fundraising are also donated to the charity.
- Coast Paper in Canada supports the United Way by matching employee donations. United Way provides the infrastructure for community giving and relies on employees to champion fundraising activities within their company. In addition, the annual Coast Paper Christmas Drive collects donated gifts to benefit around 9,000 people in need.

- Spicers Paper Recreate programme with Landcare Australia is a 'cause-related marketing' initiative that funds rehabilitation of ex-landfill sites through a percentage of sales of Tudor RP 100% Recycled paper. Employees and customers volunteer for working bees.

Getting Involved

Across our businesses, the spirit of giving and involvement is strong with employees who assist in raising funds and volunteering for local events and good causes. Whether it is supporting selected charities through workplace fundraising, donating gifts for underprivileged children, or entering a team into a cancer charity triathlon, PaperlinX and our people are proud to support the communities we are part of.

Supporting Design and Printing Communities

Many businesses are actively involved in providing paper education and supporting the professional development of the design and printing communities. Spicers Paperpoint School in Australia and Robert Horne's Know How Academy in the UK are two such examples.

Our businesses are involved in creating a range of industry awards to support excellence in print and design for professionals and students. Saxton Scholars is Australian Paper's annual competition that supports communication design education across Australia for tertiary students. In the UK, Howard Smith Paper Group held their first Graphic Design and Print Awards this year, to promote the value and benefits of graphical communications.

And we work together with a number of industry groups in Europe, North America and Australia to tackle specific issues that arise.

Managing our environmental footprint

Achievements 2007

- Completed the Sustainability Action Plan to quantify the Group's environmental impact.
- Completed an emissions inventory at the four Australian paper mills to better understand the environmental impact of our operations.
- Achieved a 2.5 per cent reduction in raw water used per tonne of production at Maryvale Mill through recycling and efficiency efforts.
- Extended the environmental, safety and health requirements for PaperlinX paper suppliers by including Key Performance Indicators in every strategic supplier agreement.
- No significant breaches or non-compliance with environmental regulations.
- All manufacturing sites maintained ISO 14001 certification.
- Maryvale's pulp mill and bleach plant upgrade is progressing on track.
- Participated for the first time in the international Carbon Disclosure Project survey, reporting on our environmental efforts and performance.

Goals 2008

- Analyse the results of the Sustainability Action Plan to determine our environmental performance and from these baselines, develop goals and strategies to improve performance across the Group.
- Better understand and quantify the impact of transport energy relating to our logistics and distribution operations globally.
- Assist business operations to better quantify their environmental footprint.
- Work with Forestry Tasmania to determine if suitable forestry sources can be achieved for environmental accreditation.
- Demonstrate environmental leadership by achieving environmental certification for key products.
- Continue to progress works on the new bleach plant and pulp upgrade at Maryvale Mill in Victoria, Australia.

Today, our long-term commitment to the environment through many initiatives is evidence that sustainability can deliver real benefits at many levels.

The Company is committed to responsible environmental management as laid out in the PaperlinX Sustainability Charter and our global Environmental Policy. We seek to continuously improve our environmental performance in measurable ways.

Our Environmental Performance

PaperlinX owns and/or operates many sites around the world including large paper mills, light manufacturing sites (including envelope and stationery manufacture, packaging and paper conversion), warehouses and offices. In addition, the company's logistics operations through transport and distribution efforts range from being fully owned, leased and fully and/or partly outsourced to third party operators.

While there are numerous environmental issues that impact on our company as well as our suppliers and customers, the current focus is on three critical areas:

- Energy use and carbon footprint (greenhouse gas emissions)
- The use of natural resources, such as water and fibre
- Waste reduction and recycling

Energy Use and our Carbon Footprint

Manufacturing is an energy intensive business and storing and transporting paper also uses energy. Our first Sustainability Action Plan, completed during the year, will enable us to quantify our energy use and its environmental impact so we can develop goals and strategies to improve performance.

Benchmarking our Performance

Over the last two years, PaperlinX has acquired, integrated and divested a number of business sites, so the challenge has been obtaining and analysing a comprehensive and comparable annual dataset from 2005 to 2007.

Making comparisons is complicated by the different types of energy use across our global business infrastructure (excluding transport and logistics), which include electricity, gas (natural and LPG), coal, fuel oil and diesel.

And in different countries, the electricity is generated from a number of sources (gas, coal, wind, hydro and nuclear) with varying environmental impacts.

However, by defining our parameters, we have been able to quantify the energy use for power and steam production, lighting, heating and cooling across our global operations in merchanting and manufacturing as set out here.

Last year, we set ourselves a target of reducing our energy use by 2 per cent. The data comparison is difficult because of acquisitions and disposals; however, we can determine that our electricity use was reduced by 1.8 per cent and gas use by 0.6 per cent (see Chart 1).

Chart 1. Energy Use from Fossil Fuels by Business

	Paper Manufacturing (Australia)	Australasian Merchants	European Merchants	North American Merchants	Total	
Purchased Elect (MWh)						Reduced by 1.8%
2005–2006	543,522	14,920	16,809	11,702	586,953	
2006–2007	535,089	5,733	14,147	12,308	575,583	
Gas (GJ)						Reduced by 0.6%
2005–2006	7,573,767	22	51,547	4,520	7,629,856	
2006–2007	7,507,664	20	65,143	19,332	7,592,159	

What we are doing

- The PaperlinX Head Office in Melbourne has reduced demands on lighting and is exploring renewable energy sources such as solar panels.
- One of our UK paper merchants, The Paper Co, is trialling a 7.5 tonne electric truck for suitability in its transport fleet.
- On World Environment Day, employees are encouraged to *Rethink* how they can make a difference at the office, through recycling office paper, turning off computer screens, whiteboards and lights when not in use.
- In the UK, Robert Horne Group launched two Environmental Know How training courses, to improve employee understanding of environmental issues and their business relevance.
- As a signatory to the Australian Government's National Packaging Covenant we produce an annual Action Plan to address our responsibilities to minimise the environmental impacts of packaging waste.
- As a member of Paper Round, an Australian product responsibility organisation for the office papers industry, we are developing a plan to improve office paper waste management and reduce landfill.



Managing our environmental footprint

Reducing our Impact

One goal outlined in last year's Sustainability Report, was to quantify our primary energy uses from electricity and gas, with the aim of also identifying opportunities to reduce this use and our impacts.

There is much concern around climate change and the production of greenhouse gases from many sources, particularly energy generation and use. The challenge has been to collect comprehensive numbers and conversion factors for various forms of electricity and other energy use, and their respective greenhouse gas factors, from our global operations in a manner which allows year-on-year comparisons.

PaperlinX is Australia's largest paper manufacturer, producing approximately 1,000 grades and weights of paper that are used every day in Australian homes and businesses. Our four manufacturing plants located in three states in Australia are major energy consumers and provide both focus and opportunity for environmental improvements. Given that our paper manufacturing operations utilise approximately 90 per cent of our electricity use globally, we are using the comprehensive Australian data obtained from a greenhouse gas emissions inventory of our four manufacturing sites to evaluate our carbon impact and performance.

Every year, the manufacture of paper at our four Australian mills utilises in excess of 12 petajoules of energy (equivalent to the energy used by 250,000 households) and produces around 1.1 million tonnes of carbon dioxide emissions from within the mill gates.

Using the metric of tonnes of carbon dioxide per gross tonne of paper produced, over the last seven years our overall Greenhouse Gas Emissions (GGE) from Australian manufacturing have reduced by 14 per cent through energy efficiency opportunities (see Chart 2).

Our Strategy Going Forward

Our strategy to manage our environmental impact includes identifying further opportunities for direct energy reduction and reduced reliance on fossil fuels and the reduction of waste disposal to landfill. Fossil fuels and landfill are major sources of greenhouse gas production. While the Company is working to reduce these quantities where we can, we have made significant progress over the last decade. In the Australian manufacturing operations, we have reduced energy use from fossil fuels by 46 per cent over the last 25 years and we are already maximising renewable energy sources such as biomass, hydroelectric and wind power (see case study).

At PaperlinX, our programme is therefore multi-layered and seeks to reduce all of these, in real, credible and quantifiable ways.

What we are doing

Harnessing Renewable Energy

Manufacturing and distributing paper is an energy intensive business so we use renewable alternatives in our energy supply mix, to reduce our reliance on fossil fuels. Renewable energy is derived from sources that cannot be depleted or can be replaced, and don't produce greenhouse pollution.

In Australia, around 60 per cent of the energy used at our four mills is from renewable energy sources and 69.5 per cent of Maryvale Mill's energy input in Victoria is produced from waste materials (black liquor, agricultural waste and sawmill residues).

In our merchanting businesses, we are exploring opportunities for solar and wind power generation at some office and warehouse facilities.

Chart 2. Greenhouse Gas Emissions – Paper Manufacturing

Year	Gross Paper Production (tonnes)	Total CO ₂ emissions from purchased electricity natural gas & fuel oil* (tonnes)	Greenhouse Gas Emissions (CO ₂ -e)/tonne of paper
2000–2001	918,143	1,140,767	1.24
2001–2002	992,062	1,159,205	1.17
2002–2003	1,006,968	1,139,109	1.13
2003–2004	1,007,589	1,137,166	1.13
2004–2005	1,035,499	1,162,532	1.12
2005–2006	1,003,308	1,134,900	1.13
2006–2007	992,241	1,063,714	1.07

* Electricity, gas, fuel oil and coal are our major imported fossil fuel energy inputs and thus the major source of GGE. In addition, GGEs are generated by transport energy and methane production from waste.

As part of this commitment, Australian Paper is now a member of the Greenhouse Challenge Plus, is registered under the Australian Energy Efficiency Opportunities legislation and is meeting various Australian state legislation requirements, including:

- The NSW Greenhouse Gas Abatement Scheme,
- The NSW Department of Energy, Utilities and Sustainability Energy Savings Plan, and
- Victorian Environment and Resource Efficiency Plan requirements.

Each of these requires an independent assessment of the company's environmental achievements.

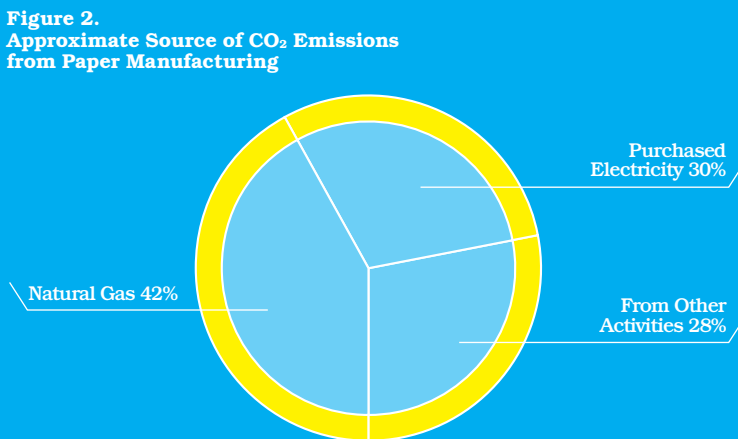
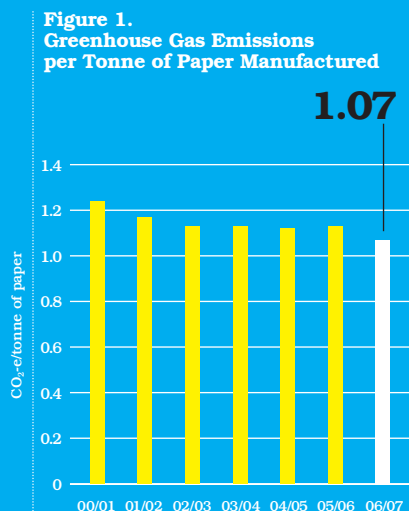
There also are a number of additional programmes underway to further improve our energy efficiency and thus reduce our greenhouse gas emissions. These include the upgrade of the pulp mill at Maryvale, the replacement of the oil-fired boiler at Wesley Vale with a gas-fired boiler, the replacement of the coal-fired boiler at Shoalhaven Mill with a gas-fired boiler and reviews of the energy pinch points at each of the mills to identify further opportunities.

These capital projects alone, once completed, will result in an estimated reduction of carbon dioxide emissions of at least 25,000 tonnes per annum, along with reduced water demands, reduced nitrous oxide and reduced particulate emissions.

Transport Energy and Impacts

In the coming year, we intend to accurately quantify the energy use of distribution and logistics operations associated with transporting fibre, pulp and paper products. Throughout our international operations we use a mix of fully-owned and operated delivery fleets (particularly in our UK and Dutch businesses) and third party contracts and we are exploring ways to reduce our fleets or run them more efficiently.

Some initiatives are already underway. In the UK, by integrating our logistic operations into the Delivery Co we have reduced the size of the transport fleet and pilot projects indicate that the more efficient use of the fleet will bring a reduction in carbon dioxide emissions of 25 per cent. In Australia, the current upgrade of our Maryvale pulp mill capacity will reduce our requirements of imported pulp (25 per cent currently – eucalypt and pine) consequently reducing the indirect carbon emissions associated with transporting the pulp to our Victorian site.

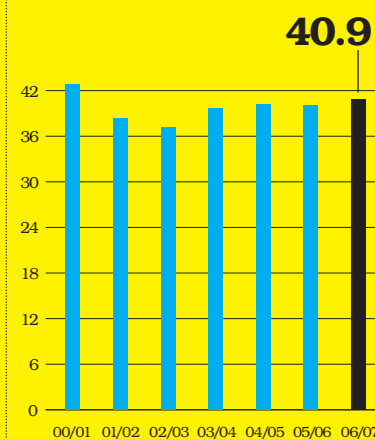


What we are doing

Water's Three Rs – Reduce, Reuse, Recycle

Water is essential for paper making. While the process utilises a lot of untreated raw water, our Three Rs principle means that most of it is ultimately treated and returned to the environment. Our largest mill, Maryvale Mill in Victoria, draws an average of 64 megalitres of untreated raw water daily from a regional reservoir. This year we cut this daily water inflow by 2.5 per cent through continuous recycling and efficiency innovations in manufacturing processes. Changes to water cooling processes and replacing raw water with treated effluent in parts of the mill are just some of the improvements that made the difference.

Figure 3. Paper Manufacturing Raw Water Use (all mills) per Tonne of Paper (m³)



Managing our use of Natural Resources

Apart from energy, the two other major components required to manufacture paper are water and fibre.

Water Management and Recycling

Raw, untreated water is essential for paper making and is used in a number of areas including the transport of fibres through a paper machine. A long-term reliable source of water is necessary for the production of paper. The impact of both drought and changing rainfall patterns in Australia has reinforced the importance of our long-term strategic approach to efficiently managing water usage at our mills in regional areas, where river flows and storages are under pressure.

Our Three Rs water principle – recycle, re-use and return – means we are doing all we can to reduce the amount of raw water used in paper making, including recycling every litre at least 5–6 times before cleaning it and discharging it from the mills (see case study). In the last 12 months our raw water used per tonne of production across all our mills remained in line with 2006 (see Chart 3 and Figure 3). Gains from efficiency programmes were offset by changes in product mix to more water intensive grades, but there were reductions in actual water used at Maryvale.

Over the past 25 years, we have initiated measures that have reduced our water use per tonne of paper produced by 60 per cent at Maryvale, and we intend to do more. This includes our plans to cut raw water inflows by 12 per cent at Maryvale, by using recycled industrial and household waste water supplied by the nearby Gippsland Water Factory. This year we also participated in the Water Stewardship Forum held in Melbourne, Australia, which aims to develop a standard for responsible water use for commercial users.

Chart 3. Paper Manufacturing Raw Water Use

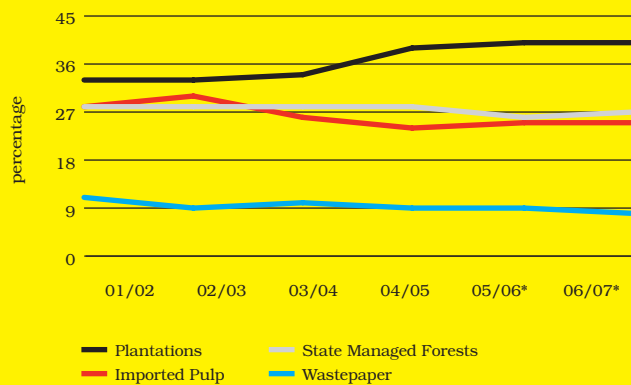
Year	Gross Production (tonnes)	Raw Water Use m ³	Raw Water Use m ³ /tonne
2000–2001	918,143	39,297,530	42.8
2001–2002	992,062	38,096,430	38.4
2002–2003	1,006,968	37,513,401	37.2
2003–2004	1,007,589	40,046,000	39.7
2004–2005	1,035,499	41,643,128	40.2
2005–2006	1,003,308	40,266,768	40.1
2006–2007	992,241	40,578,722	40.9

Sustainable Fibre Sources

We are committed to producing paper products in a sustainable manner. One of the key issues for our manufacturing operation is that the wood fibre used in our paper products comes from sustainably managed sources.

This fibre is sourced from sustainably managed hardwood and softwood plantations, sustainably managed hardwood forests, and imported pulp and waste paper. In each case (see Figure 4), PaperlinX seeks evidence from suppliers that these sources are managed for long-term sustainability and that at no time is any of the fibre sourced from old growth forests.

Figure 4.
Sustainable Fibre Sources (total for all mills)



* Overall reduction in wastepaper sourced is largely due to the closure of Shoalhaven 1 Paper Machine.



As plantation timber becomes increasingly available within Australia, we plan to significantly reduce the amount of fibre we source elsewhere. Over the last five years at Maryvale Mill, our reliance on state managed forest has reduced by 15 per cent, plantation eucalypt fibre has increased by 75 per cent and wastepaper has increased by 36 per cent.

The pulp operations at Maryvale are being upgraded to make the site self-sufficient in pulp supply, thus eliminating the importation of bleached pulp, and increasing the pulp bleaching capacity. This upgrade means that the use of fibre from state managed forest for communication papers will be phased out by 2017.

Following independent verification for adherence to Forest Stewardship Council's (FSC) chain-of-custody processes, the Shoalhaven Mill and Maryvale Mill operations retained their certification to FSC standard. Accordingly, all wood fibre utilised in the manufacture of the Company's speciality papers meet all FSC criteria, as either FSC certified or FSC 'Controlled Wood' from well managed forests. Chain-of-custody is the path taken by raw materials from the forest to the consumer, including all successive stages of processing, transformation, manufacturing and distribution.

Waste reduction and recycling

Waste disposal in landfill sites decomposes and produces methane gas which is more potent in its greenhouse effect than carbon dioxide.

Through the Sustainability Action Plan, we are currently trying to quantify the waste produced at our merchandising and manufacturing sites, identify reduction targets and find new ways to re-use and recycle waste. This varies significantly from business to business because of the different waste types produced, i.e. paper, plastic, timber and wood by-products, chemicals, steel, inks. The availability of recycling opportunities and providers also differs in each of the countries where we operate, making it difficult to measure our performance on a worldwide basis.

Individually our merchandising warehouses are already increasing the recycling of wooden pallets, paper offcut waste and the plastic stretch wrap that protects paper products. For example, at Robert Horne's national distribution centre in Northampton, UK, over 1,000 tonnes of rubbish are created every year. By implementing new recycling and waste management procedures they increased their recycling rate from 30 per cent to 60 per cent over the past 12 months.

At Maryvale Mill, the waste bark from sawlogs is supplied to a third party to produce garden mulch and saltcake is reprocessed into a raw ingredient for detergents supplying the Australian market. Other recycling activities within our manufacturing operations include reel cores, non-hazardous waste products, ferrous metals, hydrocarbons and raw material containers. We are also actively exploring alternative options to landfill disposal waste of waste fibre at our mills, using pyrolysis and soil amelioration.

Managing our environmental footprint

Our Products and the Environment

Through our Sustainability Charter, we are committed to providing our customers with product options that have strong environmental credentials. Each of our businesses works closely with customers to communicate the high environmental standards of our products.

Products with Environmental Credentials

With community support for recycling and natural products, there is growing demand for recycled and environmentally certified paper stocks. While it is commonly thought that the major benefit from paper recycling is forest preservation, recycling efforts contribute to reducing landfill waste and consequently greenhouse gas emissions.

When it comes to manufacturing recycled paper in Australia, we use more than 75,000 tonnes of waste packaging and papers annually to produce the largest range of fine papers with recycled content in the Asia Pacific region. Recycled content ranges between 10 per cent and 100 per cent depending on the intended use of the paper.

Worldwide our merchanting businesses are well positioned to meet our customers' environmental requirements. Many of our businesses sell papers bearing environmental certification such as the Forest Stewardship Council (FSC) logo, which confirms the FSC certified wood used in their production.

We produce 'green paper guides' and fact sheets to help customers choose the most appropriate environmentally certified paper grades for their paper needs.

Supply Chain Assurance

Our paper merchants are the link in the chain, taking products from mills to commercial printers, envelope converters, stationers and resellers, corporate printers, publishers and end users.

We believe that it is important to be able to demonstrate assurance that the wood fibre used in the paper sold by our merchants is sourced from sustainably managed forests. We support independent certification systems, such as the FSC accreditation process and the Programme for Endorsement of Forest Certification (PEFC) because they provide assurance to customers.

A number of our paper merchants in Australia, Austria, Belgium, Canada, Germany, Hong Kong, Italy, the Netherlands, the UK and the US have achieved the internationally recognised FSC chain-of-custody certification, confirming their ability to trace paper back to an approved sustainable fibre source.

Working with Our Major Paper Suppliers

With a business that spans many countries and provides hundreds of paper products, no one certification system will be appropriate for all products. To ensure that we can provide certainty to customers, PaperlinX has documented environmental, health and safety requirements that our major strategic paper suppliers must conform with. The requirements include:

- compliance with all regulatory requirements in the countries in which the supplier operates;
- established environmental management systems (EMS) and independent third-party certification of these systems;
- independent third-party certification of appropriate sustainable forest management standards. This could include FSC or PEFC as well as a range of other certification systems; and
- annual reporting by the supplier to PaperlinX against these areas.

What we are doing

- Researching the manufacture and development of carbon offset paper products.
- Our businesses conduct surveys and focus groups with printers and other customers about paper requirements and customer satisfaction.
- This year, we launched the Ask for a Paper Bag campaign in Australia to promote paper bags as an environmental alternative to plastic shopping bags. www.askforapaperbag.com.au
- Robert Horne Group UK worked with the World Wildlife Fund's Forest and Trade Network to develop an action plan for responsible paper purchasing.
- Many of our businesses support FSC information events to raise awareness of environmental certifications in the design and printing industry.



Glossary

CO₂

Carbon dioxide is the main greenhouse gas that results from burning petrol, coal, oil and natural gas.

Carbon Offset

The act of counterbalancing ('offsetting') greenhouse gas emissions produced by undertaking emission reduction projects. Common examples are renewable energy, energy efficiency and forestry projects.

Coated paper

Paper with a uniform application of a coating to provide maximum smoothness and ink holdout in the printing process. The coating (a mix of clay or carbonates and latex) is applied in separate coaters or in the paper machine.

Corporate sustainability

A business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments, and maintaining global competitiveness and brand reputation.

Environmental Footprint

For an industrial setting, this is a company's environmental impact determined by the amount of depletable raw materials and non-renewable resources it consumes to make its products, and the quantity of wastes and emissions that are generated in the process.

Fibre

The raw material for the manufacture of paper is cellulose fibre, which can be obtained from trees and recovered paper.

Fine paper

Both coated and uncoated woodfree (white) papers used for writing, printing and other graphic purposes.

Forest Stewardship Council (FSC)

An international organisation promoting responsible forest management. FSC has developed principles for forest management that may be used for certifying the management of forest holdings, and a system of tracing, verifying and labelling timber and wood products that originate from FSC certified forests.

Furnish

The specific mixture of raw materials, including pulp and chemicals, that is used to manufacture a particular grade of paper.

FTSE4Good

Created by the independent financial index company FTSE Group, FTSE4Good is a financial index series that identifies and facilitates investment in companies that meet globally recognised corporate responsibility standards and that manage their social, ethical and environmental impacts.

Global Reporting Initiative (GRI)

The GRI is an independent institution that has produced voluntary guidelines for use by organisations for reporting on the economic, environmental and social dimensions of their activities, products and services.

Greenhouse Gas Emissions

Emissions into the atmosphere of gases that affect the temperature and climate of the earth's surface. Some greenhouse gases occur naturally in the atmosphere, while others result from human activities such as burning of fossil fuels. They include water vapour, carbon dioxide, methane, nitrous oxide and ozone.

ISO 14001

A voluntary independently certified international standard for environmental management systems used, developed and maintained by the International Organisation for Standardisation.

Kraft linerboard

This board is used in the manufacture of cardboard boxes and is engineered to withstand varying atmospheric conditions such as extreme heat, humidity or the freezing temperatures of a coolroom.

Landfill

A disposal point for society's waste. They may be old excavations such as quarries or newly constructed sites.

Old growth forest

Forest that is ecologically mature and has been subjected to very little, if any, unnatural disturbance such as timber harvesting, roading and clearing, or natural disturbance such as bush fire.

Operating company

A business owned by PaperlinX.

Paper merchant

A distributor of paper that buys large quantities of paper, board and stock from different mills around the world and stores them in warehouses until they are required by customers. The stock is then broken down into smaller quantities to meet customer requirements.

Plantation

A forest stand established by the planting of trees of either native or exotic species, selected for their wood producing properties and managed intensely for timber production.

Pulp

The raw material used for paper production. It can be softwood or hardwood and depending on the process used may be chemical, mechanical and bleached or unbleached.

Recycled fibre

Paper and board that has been collected for re-use as raw fibre material in paper and board manufacture.

Sack kraft paper

A high strength paper used in the manufacture of multiwall paper sacks to hold products such as cement, minerals, flour, milk powder and potatoes.

Sawmilling residue

Reject logs or cuttings from the harvesting of timber for use by sawmills.

Sustainable development

Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Woodfree paper

Paper manufactured entirely from chemically pulped wood (e.g. kraft pulps), as distinct from papers incorporating mechanically pulped wood or groundwood. Usually applied to fine papers.

Sustainability Report 2007

The high-quality recycled paper used in this Report is distributed exclusively by PaperlinX and its Merchanding businesses.

The cover stock is revive™ 50:50 Silk 250gsm, a 50% recycled FSC mixed source certified paper. It looks and performs like a virgin fibre product without compromising print quality.

The cover is *Flirt* embossed with a thick corrugated pattern. This custom embossing process takes your favourite paper and embosses it in up to 20 different patterns.

The text stock is printed on 9lives 80™ 130gsm, a certified FSC mixed source paper which is derived from well managed forests. It contains 80% recycled fibre and 20% totally chlorine-free pulp.

When you have finished with this publication, PaperlinX encourages you to recycle it to avoid landfill.



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