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19 March 2009

Dear Shareholder

As we send you our Interim Report for 2009, I would like to take the opportunity to update you on some of the key matters that PaperlinX has been addressing over the past six months. In particular, I wish to comment on our recent decision to sell our Australian manufacturing business, Australian Paper.

Many businesses around the world have been facing an extremely challenging business environment for some time and PaperlinX is not excepted. We did, however, move to address a number of issues at an early stage.

In October 2008 the Company raised a net \$177 million through a successful Share Entitlement Offer and the proceeds of the Issue were applied to reducing debt. We have also sold some non-core assets, including property in Europe, in what have been viewed as generally difficult markets. PaperlinX has also obtained Waivers from its lenders and noteholders for breaches to lending covenants at the December balance date.

We indicated to shareholders last year that PaperlinX was undertaking a strategic review of its Australian paper manufacturing business, Australian Paper. Further to this review, PaperlinX announced on 16 February, 2009 that it had reached agreement to sell this business, with the exception of its manufacturing operations in Tasmania, to Nippon Paper Group Inc of Japan. We expect this sale to be completed by mid 2009, subject to various conditions and approvals. The cash proceeds from the sale will be applied to further reducing debt. Full details of the announcement of the sale are available at www.paperlinx.com.

This divestment is a major strategic step in the transformation of PaperlinX and substantially strengthens our financial profile at a time of volatility and uncertainty in global economic markets. The Board believes this transaction to be in the best interests of the Company and its shareholders as it allows PaperlinX the opportunity to focus on the core operations of paper merchanting and distribution. We are already the global leader in this sector.

On behalf of the Board, I thank you for your continued support as a shareholder and we will update you on the Company's strategies later in the year.

Yours sincerely

David E Meiklejohn
Chairman



Half Year Financial Report 2009

PaperlinX

**PEOPLE
PAPER
PROGRESS**

SUMMARY

PaperlinX has announced an after tax loss of \$(560.9) million after significant items. This includes as a significant item an impairment of the carrying value of Australian Paper of \$(567.5) million due to the announced sale to Nippon Paper Group Inc. Reported operating earnings (EBIT) was \$(516.3) million, including significant items. Profit after tax but before significant items was \$6.6 million. No interim dividend will be paid.

This half has been the most challenging in PaperlinX's history. The results reflect the difficult external environment coupled with the cost of carrying the upfront investment in the pulp mill upgrade ahead of expected returns. The completion of this major project underpinned the sale of Australian Paper, which was announced on 16 February 2009.

The sale of Australian Paper is a major strategic milestone in PaperlinX's transformation from an Australian paper manufacturer to a focused global paper merchandising and distribution company. While PaperlinX has incurred a significant loss this half as a result of this transaction, it has also taken an important step to secure its financial stability during a difficult economic period.

Forward Looking Statements

Certain statements in this Report 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.

KEY POINTS

- Sale of Australian Paper (excluding Tasmanian operations)
- Divisional operating earnings (excluding Corporate) of \$92 million, down 8 per cent
- Rapid weakening of the AUD from August onwards resulted in negative foreign exchange impact
- Maryvale pulp mill upgrade project complete and on track for expected returns, with increased output and improved EBIT benefits already evident
- Strategic initiatives on track to deliver a total incremental \$125 million operating earnings contribution per annum in 2009 (over 2005)
- The target FY09 benefit for the profit protection plan, made up of a number of expense reduction programmes, has been increased from \$30 million to \$50 million. \$28 million has already been achieved in the first half, including a worldwide headcount reduction of 469 to the end of January over June 2008
- Completion of a share issue in October raised a net \$177 million to reduce debt
- There will be no interim dividend on ordinary shares
- Full details of the Company's half year results can be found at www.paperlinx.com

PaperlinX Results For the half year ended 31 December 2008

All currency is in Australian dollars unless otherwise indicated.

Results

PaperlinX Limited and Controlled Entities	6 months ended 31 December		
		2008	2007
Sales Revenue	\$M	3,782.3	3,783.0
Earnings from operating activities before interest, income tax, amortisation and depreciation and significant items	\$M	98.3	136.5
Earnings from operating activities before interest and income tax and significant items	\$M	51.2	85.7
Significant Items	\$M	(567.5)	0.0
Earnings from operating activities before interest and income tax	\$M	(516.3)	85.7
Profit after income tax (before significant items)	\$M	6.6	35.3
Profit after income tax	\$M	(560.9)	35.3
Step-up Preference Security (SPS) distribution	\$M	(14.9)	(12.9)
Key Ratios			
Earnings before interest and income tax and significant items to average funds employed	%	3.3	6.2
Average working capital to sales	%	18.7	18.0
Operating cash flow	\$M	(156.4)	(110.4)
Net interest cover ⁽¹⁾	x	1.4	2.7
Net debt/Net debt and equity	%	40.4	32.7
Basic earnings per share post SPS distribution	cps	(111.9)	5.0
Dividend per ordinary share	cps	0.0	3.0

(1) After capitalised interest in the first half of 2009 of \$11.3 million compared with \$7.1 million in the first half of 2008.

Operating Earnings

	EBIT		Sales Revenue		Total Assets	
	Dec 2008	Dec 2007	Dec 2008	Dec 2007	Dec 2008	Dec 2007
	\$M	\$M	\$M	\$M	\$M	\$M
Industry Segments						
Europe	52.7	63.9	2,314	2,308	2,285	2,127
North America	9.9	22.0	670	651	557	507
Australia, NZ and Asia	14.6	10.7	518	518	486	449
Inter-merchant Sales	–	–	(30)	(20)	–	–
Total Paper Merchancing	77.2	96.6	3,472	3,457	3,328	3,083
Paper Manufacturing ⁽¹⁾	14.8	3.9	449	482	1,018	1,270
Divisional EBIT ⁽¹⁾	92.0	100.5				
Significant Items	(567.5)	0.0				
Corporate ⁽²⁾	(40.8)	(14.8)			68	52
Operating earnings before interest and income tax	(516.3)	85.7				
Net Interest ⁽³⁾	(35.6)	(31.5)				
Income Tax Expense	(9.0)	(18.9)				
Outside Equity Interests	0.0	0.0				
Inter-segment Sales			(139)	(156)		
Unallocated Assets (deferred tax assets)					78	51
Total	(560.9)	35.3	3,782	3,783	4,492	4,456

Notes

(1) The divisional result excludes significant items.

(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, including an unfavourable FX impact in the half.

(3) After capitalised interest in the first half of 2009 of \$11.3 million compared with \$7.1 million in the first half of 2008.

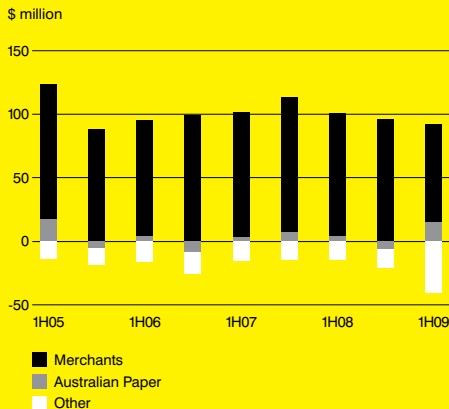
PAPER MERCHANTING

The Paper Merchanting businesses achieved operating earnings (EBIT) of \$77.2 million, down 20 per cent. Overall Merchanting volume was down 7 per cent, mainly due to lower volumes in the UK, NW Europe and the US. Revenue was up marginally as product mix, pricing and translation countered the weak volume result.

The Paper Merchanting businesses have continued to produce a reasonable 8.9 per cent return on average funds employed in this difficult environment.

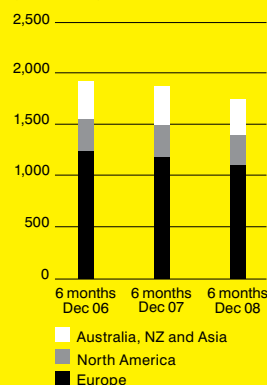
Divisional Operating Earnings

This chart shows the divisional operating earnings over time. It clearly shows both the improvement, off a low base, in earnings from Australian Paper (\$14.8 million, excluding significant items of \$(567.5) million), along with the significant negative impact of foreign exchange on the Other category in the first half of 2009.



Sales Volume

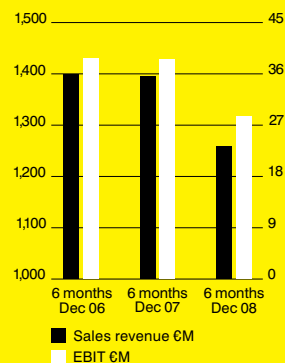
('000 tonnes)



Sales Revenue and EBIT Europe

Sales Revenue

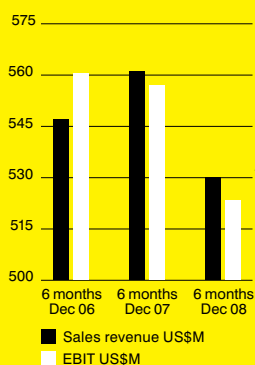
EBIT



Sales Revenue and EBIT North America

Sales Revenue

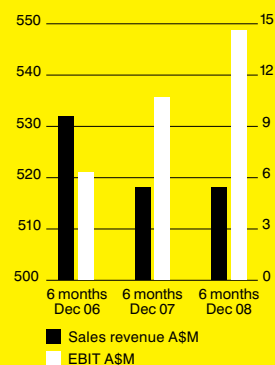
EBIT



Sales Revenue and EBIT Australia, NZ and Asia

Sales Revenue

EBIT



PAPER MANUFACTURING

Operating earnings (EBIT) before significant items from Paper Manufacturing in Australia of \$14.8 million was up on the \$3.9 million earned in the prior corresponding period. Total reported operating earnings of \$(552.7) million included a \$(567.5) million impairment charge resulting from the announced sale of this business.

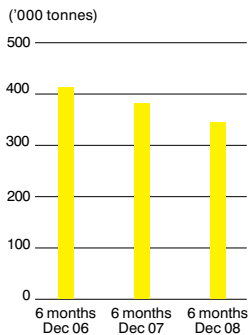
The Maryvale Mill pulp upgrade project was completed during the period for a cost of \$345 million. The mill is well up the start curve, with benefits being achieved in product quality, environmental performance, increased pulp capacity and reduced costs.

Overall sales volumes were impacted by ongoing work related to the pulp mill upgrade and planned shift reductions. Volumes were impacted in both domestic sales and exports. Domestic copy paper sales have reached 65 per cent market share.

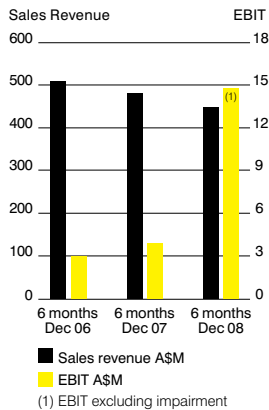
Sale of Australian Paper

The conditional sale of Australian Paper (excluding the Tasmanian operations) to Nippon Paper Group Inc. of Japan was announced on 16 February 2009. The sale is for a total consideration of \$700+ million. The sale consists of \$600 million in cash, with 10 per cent paid on signing, and a range of other considerations, including assumed liabilities and a potential earn-out that will allow PaperlinX to participate in positive earnings growth of the divested operations over the next three years. The completion of this sale is expected by mid 2009, subject to various conditions and approvals.

Sales Volume



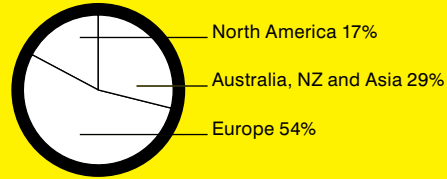
Sales Revenue and EBIT



SUSTAINABILITY

Employees

9,040, down 426 versus prior corresponding period.



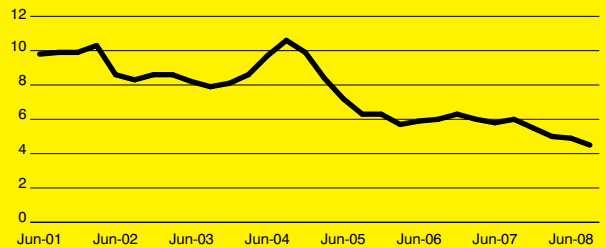
Safety

- 47 per cent reduction on overall Lost Time Injury Frequency Rate (LTIFR) over the past six years
- 22 per cent reduction on Group's rolling LTIFR in the last 12 months
- December safety results were the best in the Company's history

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

Rolling 12 month average LTIFR

(injuries per million hours worked)



Environment

PaperlinX has a long-term commitment to the environment 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.

Our merchants seek to be leaders in providing environmental information and product options in their markets.

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

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