

The logo for PaperlinX, featuring the word "PaperlinX" in a bold, sans-serif font. "Paper" is in white, "lin" is in yellow, and "X" is in blue. The logo is set against a dark blue background that is part of a larger graphic design consisting of vertical stripes of various colors and textures, including blue, green, yellow, and brown.

PaperlinX

Sustainable Development Report 2010

Report Scope

This Sustainable Development Report covers the operations of PaperlinX Limited's businesses and its social and environmental commitments for the period July 2009 to June 2010. It aims to broadly report against the Global Reporting Initiative (GRI) guidelines for sustainability reporting that encourage 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. We welcome your views and comments on this report.

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committed to sustainable development

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 of benefit to present and future generations of employees, shareholders and customers without detrimentally affecting the resources or biological systems of the planet.

2010

Highlights

- Celebrated ten years of business, growing to become one of the world's largest resellers of chain-of-custody certified and recycled papers.
- In line with the changed focus of our Company, revised our Sustainable Development Charter and developed a new global supply chain policy.
- One hundred per cent of operating companies retained multiple chain-of-custody certification.
- Achieved reductions in electricity and gas use of 12 per cent in Merchanting.
- Closed our paper manufacturing operations in Tasmania, sourcing replacement paper grades and suppliers, meeting our financial obligations to our employees, minimising safety incidents and finalising plans for the environmental remediation and decommissioning of the sites.
- Developing new carbon neutral paper grades in partnership with suppliers for the Australian market.
- Over the past ten years, we have successfully reduced our Medically Treated Injury Frequency Rate (MTIFR) by 72 per cent and our overall Lost Time Injury Frequency Rate (LTIFR) by 67 per cent, with falls in 2010 of 37 per cent and 36 per cent respectively, to the lowest rates on record in the Company's history.
- Over 700 employees around the world participated in the WeightLinX Challenge, a weight reduction initiative, and over 300 employees have recently joined an exercise initiative called the Global Corporate Challenge[®], as part of our global health and wellbeing programme.
- We once again participated in the Carbon Disclosure Project survey in Australia.

Chief Executive's comment

With our focus on economic sustainability, we are adapting our business to cope with the economic downturn while preparing for the future when conditions improve. Over the past year, we have restructured our business to become a merchant enterprise and have reshaped our balance sheet by refinancing and reducing debt. Throughout this process, we continued to drive operational efficiencies and we renewed our supply chain framework. We further improved safety to record levels, enhancing health and wellbeing.



Closing our Australian paper manufacturing operations in June 2010 was the final step in our business strategy to become a streamlined global merchant business. Without our manufacturing operations, our environmental footprint will be considerably reduced. So as we emerge from this major company transformation, we aim to improve our supply chain processes and build our environmental brands, whilst also reducing our energy costs and consequently the carbon footprint of our logistics and site operations.

Building trust through our supply chain

We want our customers to remain confident about sourcing products from us, safe in the knowledge that our businesses offer the best environmentally sustainable product ranges and services available in the industry. We are rolling out a new supply chain policy regionally to ensure our robust product stewardship framework provides greater assurance and information to our worldwide customer base.

As part of our own environmental footprint, we aim to improve the performance of our operating companies by better managing our energy use and finding ways to reduce our waste and carbon emissions.

Innovative brands and solutions

Not only am I proud of the extensive range of environmental paper brands that we source for our customers, I am excited that we go one step further by creating solutions to problems like waste recycling. Similar to our closed-loop office paper supply delivery and recycling system, yoyo™, we are running R3, a scheme in the UK, to recycle sign and display plastics.

We are also moving beyond paper to offer a range of products and services to meet the broader communication requirements of our customers. Products like graphics consumables and sign and display materials, along with innovative services such as pre-media technology solutions for printers, are contributing to our growth.

Change and transformation

This year we have farewelled colleagues in our manufacturing business and we thank them for their contribution to our business.

Due to economic factors, we have inevitably had to ease back on some of our community support activities, but nevertheless, many of our operating companies and individual employees continue in the spirit of giving to make a difference.

As we reflect on our ten year anniversary as a Company, I want to thank our employees and our many stakeholders who have contributed to building our unique brands and our international presence.

As we look ahead to our future as a streamlined merchant business, our commitment to align sustainable business development with our value chain will bolster our international competitiveness and help our customers with their growing sustainability requirements. Paper merchanting is changing and we are leading the way.

A handwritten signature in black ink, appearing to read 'T P Park', followed by a horizontal line.

Thomas P Park

Managing Director and Chief Executive Officer

Our business

Around the world, we deliver the papers and materials our customers need to meet their communication requirements. We operate a range of distinct businesses across 26 countries; local businesses with worldwide links. Together, we have grown to become one of the world's largest merchants.

We source, stock, market and distribute branded fine paper ranges and specialty paper used in brochures, magazines, annual reports and other business applications. We have expanded our range of communication materials and services, such as sign and display products, industrial packaging, graphics materials and pre-media software solutions.

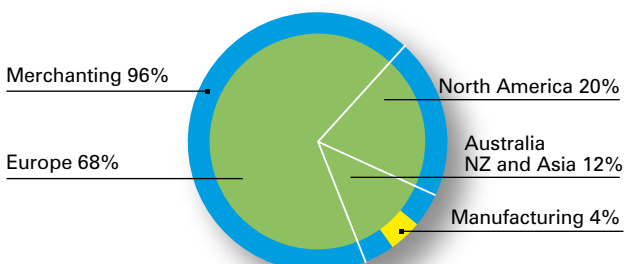
The companies that make up PaperlinX today have a long history in paper, with some businesses in Europe distributing paper since the 1600s.

We have a vested interest in developing a sustainable business model and providing leadership, particularly in the supply chain area and across our operations, for the future success of our business. Our growing range of paper and materials with strong environmental credentials is an example of how we are shaping our business to meet the challenges ahead.

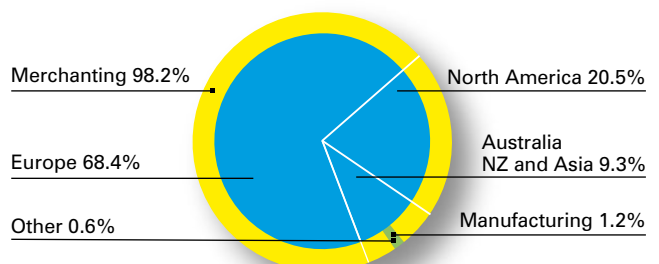
Financial profile (year to 30 June)	2010	2009
Total revenue (A\$ million)	5,225	7,107
Operating earnings before net finance costs, income tax and significant items (A\$ million)	(23.5)	81.8
Sales volume ('000 tonnes)	2,900	3,638

Operations (as at 30 June)	2010	2009
Countries	26	26
Employees	6,508	7,512

Total revenue (full financial year)
A\$5,225 million



Employees (as at 30 June)
6,508



Our vision and strategy for sustainable development

Our vision is to be recognised as the leading sustainable international merchant of communication materials – a truly sustainable business built on a positive approach to the health, wellbeing and capabilities of our people, our sustainable product range, solid environmental management and our financial prudence and integrity.

As our business transitions to becoming solely a global merchant company, our main strategy for delivering these changes is embedding sustainable development into our business strategy and planning, structures and processes. One of the Group's seven organisational values is sustainability and this is intertwined through our value chain (see diagram below).

Sustainable development involves a personal and management commitment from all. Across PaperlinX, it provides us with the opportunity to reduce the size of our environmental footprint at our operations while also maximising our commercial opportunities by tailoring resource efficient products, responsible supply chains and providing new services to customers that improve their own sustainability performance.

To maintain our Company's growth, we focus our strategy on these three areas:

- Social sustainability – meeting society's expectations of our responsibilities to our employees and the communities in which we operate.
- Environmental sustainability – minimising the environmental impact of our site operations and logistics, with a focus on resource use and carbon emissions, while also developing and offering our customers and end users sustainable product solutions and services.
- Economic sustainability – the successful performance of our business model.

Our commitments are set out in the PaperlinX Sustainable Development Charter, which was updated in 2010 to reflect our changing business structure.

Managing sustainable development

Supporting our sustainability commitments is a framework of management, risk and governance involving all levels of the Company from the Board through to operational teams. The Company has a risk oversight and management regime that involves detailed analysis of the material risks to the business worldwide. Board committees have responsibility for specific areas of compliance, and the regime's effectiveness is subject to annual certification by the Managing Director and Chief Financial Officer.

Good performance in occupational health and wellbeing, safety and the environment are key strategic issues for PaperlinX. A Board committee consisting of three Non-executive Directors convenes with the Managing Director and the Group General Manager Environment Safety and Health (ES&H) on a regular 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 to gain first-hand knowledge of operations and performance.

To integrate sustainability between operational and commercial efforts, the Sustainability Affinity Group was created in 2008 and advises the Executive Board. This global team, with representatives from each business region, is responsible for marketing sustainable product brands globally, coordinating the Group's global sustainability position and ensuring regions have plans in place to deal with environmental and brand risks and opportunities. A European group of 'Sustainability Champions' was set up this year to broaden our internal network.

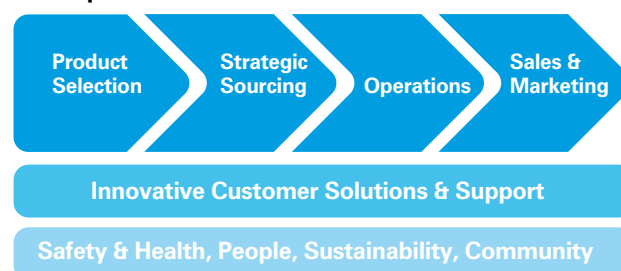
Supply chain priority

Where we source the wood and fibre products we sell is becoming increasingly relevant to stakeholders as the spotlight falls on verifying the environmental performance of suppliers. Driven by dialogue with a range of stakeholders, we are increasing our focus on the verification of the products we sell and our suppliers' social and environmental credentials. We have developed a new sustainable supply chain policy vision to guide our operating companies in procuring products. Where appropriate, we have replaced some suppliers in our portfolio with certified and independently verified alternatives. As one of the world's largest resellers of chain-of-custody certified and recycled papers, the growth of our business depends on having a robust product stewardship framework.

Managing our operational footprint

The Company has a multifaceted approach to ES&H management that is underpinned by an Environment, Safety and Health Management System (ESHMS), as well as the identification and implementation of strategic priorities. The ESHMS is being consolidated, realigned and enhanced over the next 6 months as we complete the transition to a merchant company. We collect data relating to our resource use and carbon emissions at our warehouses and offices through a central IT system. This system provides a framework for managing our performance, which is measured on continuous improvement.

The PaperlinX Value Chain



Sustainable Development Charter

As a leading international merchant that distributes paper, sign and display material, graphics solutions and industrial packaging products, this Charter represents our corporate responsibilities.

At PaperlinX, sustainable development means balancing the financial constraints, social responsibilities and environmental impacts of our operations and the commercial products and services we provide to our customers to ensure we build a truly sustainable business.

With a network of businesses around the globe, we operate according to our mission, values, policies and procedures. We recognise the importance of relationships and dialogue with our stakeholders, including our customers, suppliers, shareholders, industry groups, employees and society.

Through this Charter we are committed to open dialogue, transparent reporting, continuous improvement and, as a minimum, we comply with the laws of all regions in which we operate.

Sustainability is one of our seven organisational values and is embedded into our business strategy, planning, structures and processes. Our commitments and responsibilities are outlined below and we expect our employees to follow them in their everyday business practices.

Social Sustainability

We are socially responsible through our ethical business conduct and we uphold internationally accepted human and labour rights across our operations, provide safe, healthy and rewarding workplaces for our employees and act as a responsible neighbour supporting communities in which we operate.

Environmental Sustainability

We aim to minimise the environmental impact of our site operations and logistics activities through efficient and best practice environmental management systems focused on energy, waste and recycling. We develop and offer our customers sustainable product solutions and services through a sustainable procurement and supply chain based on sound product stewardship processes. The fibre used in the paper products we buy from paper mills must be from sustainable sources. We are committed to supporting independent certification systems for paper and related products and sustainable forestry practices.

Economic Sustainability

To sustain the future of PaperlinX, we must be a profitable business with a successful business model and strong financial management and performance. Our goal is to create both customer satisfaction and superior value for our stakeholders. We are committed to the principles of best practice in corporate governance for financial prudence and our overall integrity.

Our value chain

Achievements 2010

- Developed a new global supply chain policy.
- All of our operating companies maintained multiple chain-of-custody environmental certifications.
- Achieved reductions in electricity and gas use of 12 per cent in Merchanting.
- Broadened our sustainable product range.
- Reviewed and revised the PaperlinX ES&H management system following the exit from manufacturing.
- Identified recycling opportunities for our operations and our customers.
- Delivery Co introduced teardrop-shaped rigid vehicles to reduce drag and improve fuel efficiency.
- Upon closure of manufacturing operations, replaced paper grades with minimal business disruption for customers.
- The Decommissioning & Rehabilitation Plans for the two closed manufacturing sites in Tasmania were approved by regulatory authorities.

Goals 2011

- Improve the environmental performance and profitability of our operating companies by better managing our resource use in energy and waste.
- Roll out the regional sustainable supply chain policies to suppliers in late 2010.
- Meet obligations under the UK CRC Energy Efficiency Scheme across our UK operating companies by implementing our business plan to further decrease energy use.
- Continue to develop sustainable product ranges and customer solutions.
- Implement transport efficiencies relating to driver fleets and distribution activities.
- Improve our understanding about the environmental impact of our new non-paper products.
- Manage the decommissioning and environmental remediation of the closed manufacturing sites in Tasmania.

Through our Sustainable Development Charter, our Values and our Core Operating Principles, we continue to drive environmental initiatives that make a difference to our operational carbon footprint and the products and solutions we provide to customers.

The exit from our manufacturing operation, Tas Paper, has had an immediate and significant impact on the size of our carbon footprint. It also means we no longer control the production process of some 25 per cent of our product range and have had to replace these products with paper grades from other suppliers. We recognise that our suppliers and their supply chains are major contributors to the environmental and social impacts related to our business, and PaperlinX has a responsibility to assess, understand and, where possible, minimise those impacts. It is PaperlinX's long-term goal that all its products will be sourced from suppliers that can demonstrate proven economic, environmental and social responsibility. So we are refocusing our sustainability platform along our value chain, paying attention to improving our supply chain and developing our product stewardship system.

Our Sustainability Affinity Group, which integrates operational and marketing approaches to sustainability issues on a global basis, has been pivotal in developing a new sustainable supply chain policy and a broader range of sustainable product offerings to the marketplace. This year, the European region introduced 'Sustainability Champions', a network of managers from local operating companies to help execute sustainability strategies across the continent.

At the same time, a number of Group strategies, policies and management systems help to guide the operational management of the businesses across the three regions. These set a level of consistency in managing the environmental footprint of our operations, optimising resource use and reducing cost.

The following update outlines our activities in these areas in the last year.

Selecting a sustainable product portfolio

We are committed to providing our customers with product options that have strong environmental credentials. The fibre that is used in the paper products we buy from paper mills must be from sustainable sources. Our businesses conduct surveys and focus groups with printers and other customers to keep abreast of their requirements and satisfaction levels. There is growing demand for recycled and environmentally certified paper grades and we are meeting that challenge.

In our European business, we aim to progressively increase the sustainability of our products and their supply chains. After extensive research into paper and print sustainability trends, Revive™, an affordable, adaptable recycled paper stock, was launched this year across the continent. In the North American region, increasing customer demand means that our major brands offered all have a recycled element and 67 per cent of the volume sold was FSC certified.

Our value chain

Targeting carbon

Many customers are looking for ways to reduce their carbon footprint and so require detailed information about the products they purchase. In Australia, Spicers Paper and Dalton are working with the Carbon Reduction Institute to calculate Life Cycle Assessments (LCA) for several paper grades as well as their own operational footprint. The LCA incorporates manufacturing, forestry and waste disposal elements. This helps to define a product's environmental impact and enables customers to define their own impacts. Spicers and Dalton will purchase carbon credits to offset emissions generated by the sales of these products. This initiative will be launched in August. The businesses will also set their own carbon reduction targets. www.spicerspaper.com.au. www.dalton.com.au.

CO₂

CARBON NEUTRAL PAPER

Love paper campaign

Spicers Paper in NZ has launched the Love Paper campaign, aimed at providing information about sustainability and the paper industry and assisting designers, marketers and businesses to make informed sustainable paper choices. At the heart of the campaign is information about the environmental and marketing benefits of paper and a summary of issues to be considered when choosing a paper or designing a campaign. A series of Love Paper print advertisements and booklets were launched, along with street posters in Auckland and Wellington business districts. To celebrate the launch, street artists Cut Collective were commissioned to create a live art installation themed around paper and sustainability, which was later auctioned online to raise funds for the WWF – New Zealand. www.spicerspaper.co.nz/lovepaper.



Energy Sources and Greenhouse Gas Emissions

	Purchased electricity (MWh)	Natural gas usage (GJ)	Total Scope 1 CO ₂ emissions from stationary energy sources ^{1,2} (t)	Total Scope 2 CO ₂ emissions (t)
2008–09 (incl. Tas paper mills)	279,550	1,067,825	203,704	51,878
2008–09 (merchant sites only)	52,197	306,694	15,845	24,596
2009–10 (incl. Tas paper mills)	212,836	731,143	158,993 ³	42,634 ³
2009–10 (merchant sites only)	47,460	259,603	13,275 ⁴	22,789 ⁴

1 Stationary energy sources at PPX sites: black coal, fuel oil (non-transport), LPG (non-transport), natural gas, wood, poppy trash.

2 Due to the complexity of the different transport energy sources at sites around the world and with variously owned, contract and other third party arrangements, transport energy sources from all sites are not included here.

3 In part, the large reduction in Scope 1 and Scope 2 emissions this year is due to the closure of the mills as can be seen from the prior year comparison.

4 In addition, the specific reductions from merchant operations are due to site consolidation and energy savings programmes.

In Australia, New Zealand and Asia, there is now a greater offering of paper with recycled content, more forestry certified products and a growing range of carbon neutral products (see the case study on page 8). The business markets hundreds of different brands and products with environmental credentials, and approximately 60 per cent of their range is either PEFC or FSC certified, and this is growing annually. Through continual work with their suppliers, based on customer needs, their recycled offer has grown to 20 per cent of their range and the number of carbon neutral grades has nearly reached double figures.

Supply chain assurance

Our merchants are an important link in the supply chain, taking products from mills to a range of customers, including commercial printers, envelope converters, stationers and resellers, corporate printers, publishers and end users. As merchants, we must understand the source of the wood fibre in all the paper we sell and be able to provide advice about this to customers. We are finding that tenders increasingly require formal procurement policy evidence.

Working with our major suppliers

With a business that spans many countries and provides hundreds of products, each region has different supply and customer dynamics.

To ensure that we can provide information and certainty to customers, PaperlinX has developed a global supply chain policy, which outlines our responsibilities and what we expect of responsible suppliers. This is the mainstay of our product stewardship framework. PaperlinX is committed to assessing suppliers and their product sustainability performance, encouraging continuous improvement with suppliers and acting upon stakeholder feedback.

We expect suppliers to provide sustainability information in a transparent manner, achieve certification to environmental and social standards, comply with all applicable local and international legislation, source wood fibre only from legal and well managed forestry or from recycled sources, assess, manage and reduce their greenhouse gas emissions and support the minimisation of impacts throughout the product life cycle.

The supply chain policy has been adapted regionally to fit customer requirements and will be launched to suppliers in North America and Australia and New Zealand in the latter part of 2010. Our European business will launch its supply chain policy to suppliers at a similar time, along with a robust product stewardship framework for supplier assessment that will provide a central resource for essential information while also increasing our credibility, reducing our risk and adding value to customers.

Product certifications

All operating companies maintain multiple chain-of-custody environmental certifications. This ensures that we have in place the processes to determine the provenance of the fibre that goes into the products that we sell. When we receive a chain-of-custody certification, it confirms our ability to trace paper through each link in the fibre-handling chain, right back to its sustainable forest or plantation of origin.

All our businesses sell papers bearing a range of environmental certifications from external organisations, which confirms that certified wood is used in their production. We support internationally recognised, independent environmental certification systems, such as the Forest Stewardship Council (FSC) accreditation process, the Programme for Endorsement of Forest Certification (PEFC) and the Sustainable Forestry Initiative (SFI), because they provide assurance to customers.

Our operational footprint

PaperlinX operations extend from office sites to logistics businesses incorporating warehouses and transport. The heating, cooling and lighting of our many business premises, as well as the transportation and storage of paper, uses energy.

We use 'Envirochart' software to track energy use and emissions across our global operations, helping us to understand our business and set targets for continuous improvement. There is an uncertainty range of 5 per cent around the data we collect due to metering and billing accuracy (see table above).

Our value chain

Delivering improvements

The Delivery Co is the synchronised logistics operation that services the three different UK operating companies. As the largest dedicated merchant delivery fleet in the UK, they are the first fleet to introduce a number of teardrop designed rigid vehicles. This aerodynamic shape reduces drag, delivering up to 15 per cent improved fuel efficiency. The new vehicles are equipped with onboard technology to monitor driver performance and associated fuel consumption, together with an Opticruise gearbox, which further improves fuel efficiency and reduces driver fatigue. The fleet also has a tyre recycling policy. www.deliveryco.co.uk.



PaperlinX also discloses its environmental performance in the Carbon Disclosure Project survey, reporting Scope 1 and Scope 2 carbon emissions.

The UK Government introduced the Carbon Reduction Commitment (recently renamed the CRC Energy Efficiency Scheme) in April 2010, a mandatory scheme aimed at improving energy efficiency and cutting emissions in large organisations. All our UK companies are required to disclose the carbon emissions from their facilities and transport operations to the environment agency, so we have developed a business plan to ensure we meet our energy reduction targets.

In all regions, an ongoing programme has been underway to consolidate warehouses and transport fleets and this should be taken into consideration when analysing our environmental performance.

Energy usage and carbon emissions

The exit from manufacturing reduces our carbon footprint dramatically, but we remain committed to managing our direct and indirect emissions of carbon dioxide and other greenhouse gases.

We report our primary energy uses for power, lighting, heating and cooling across our total operations (see table on page 9). There is a focus on reducing electricity and gas usage and consequently energy costs, while sourcing renewable energy where practicable. We are also pursuing innovative solutions and behaviours to reduce energy use and costs, including conducting lighting reviews and introducing motion sensors at some sites.

PaperlinX has a carbon policy, which provides guiding principles and methodology to our operating companies which enable them to calculate operational and product carbon footprints as well as carbon offsetting arrangements.

This ensures that our environmental claims are consistent, accurate and can be substantiated, while also satisfying the needs of customers so they can make informed choices about our products.

Waste management and recycling

The issue of waste management is a serious one, with waste disposal options becoming more limited and the decomposition of landfill sites producing methane gas, which is more potent in its greenhouse effect than carbon dioxide.

Our offices and warehouses generate different types of waste, such as catering waste, paper, plastic, timber and wood by-products, chemicals, steel and inks. We are setting recycling and reduction targets at our sites and finding new ways to reuse and recycle waste.

Every business separates waste streams of plastic, wood and paper to manage waste disposal and minimise waste to landfill. Our difficulty is measuring our performance on a global basis because recycling opportunities and providers differ in each of the countries in which we operate.

Waste is also a by-product of our paper and board conversions. In the US, Spicers Paper has a national converting service for printers and customers that trims paper to required sizes and therefore reduces waste. In the last year they recycled in excess of 50,000 tonnes of sheeting waste. Similar activities are offered by Howard Smith Paper Group's 'My Size' and the Conversion Co in the UK, Dalton and Spicers Paper in Australia, and Roll-o-vert operations and Spicers RiteSize initiative in Canada.

Transport energy and impacts

There are two elements to our transport footprint – our business fleet and our distribution fleet. The mix of fully owned and operated delivery fleets (particularly in our

Plastics recycling scheme

To enhance customers' recycling capabilities, Robert Horne Sign and Display business in the UK has started an ambitious new plastics recycling scheme called R3 (recover, recycle re-use). The scheme works on a closed loop basis and collects customers' plastic waste from a specific waste cage and charges them a small collection and recycling fee. This represents a saving of 25 per cent based on current landfill and collection charges. The scheme currently recycles acrylic, polycarbonate, polypropylene PVC rigid foamboard and aluminium composite material. www.roberthorne.co.uk.



UK and Dutch businesses) and third party contracts throughout our global operations make it difficult to show a global comparison of our distribution impact.

In Australia, we work with our outsourced distribution contractors to reduce costs and impacts of transport. In the UK, the Delivery Co reduces kilometres travelled by using computerised vehicle routing to consolidate deliveries and a range of fleet vehicles to maximise fuel efficiency and minimise emissions. (see story on page 10).

Beyond our distribution impact, some businesses are encouraging fuel efficient driving through driver training and introducing company car policies that include hybrid car options.

Exiting our manufacturing operations

While the Burnie and Wesley Vale sites have closed, PaperlinX has three years to remediate the sites and is maintaining a small team of specialists to oversee the process. Much of the infrastructure will be retained for future end users. PaperlinX has worked closely with the Environment Protection Authority (EPA) and Workplace Standards Tasmania, to agree on the environmental remediation required at the sites, and the EPA has approved the Decommissioning & Rehabilitation Plans (DRPs). We are aware of the community's concerns about the impact of asbestos and chemical contamination. We have instigated a third party review of the condition of asbestos at the sites and have committed to remove or repair damaged asbestos. We are also conducting air monitoring. PaperlinX is committed to remediate and clean up all areas of environmental concern.

Helping customers make the right choices

We want to assist customers fulfil their own corporate responsibilities by advising them on the responsible use of paper products and services. We produce 'green

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

Many businesses support information events to raise awareness of environmental certification in the design and printing industry. Across Europe, we organise 'Green Days'; educational seminars for printers, publishers, suppliers, advertising agencies and corporate end users that focus on sustainability issues in the printing and paper industry.

We also work with industry groups to promote the positive contribution the paper industry makes. In Europe, we participate in industry-wide initiatives, including the 'Two Sides' program (www.twosides.net) and Print Power (www.printpower.eu). In Australia, we developed the 'Positive about Paper' program and Spicers Paper NZ launched the 'Love Paper' campaign to improve understanding about the sustainability and effectiveness of print (see story on page 8).

Finding innovative solutions

Many customers are looking for ways to reduce their carbon footprint. In response, we have increased our product range with environmental credentials and developed some innovative environmental solutions such as carbon neutral or carbon offset paper ranges (see story on page 8).

We also help customers handle their waste problems. In 2008, Robert Horne Group in the UK developed yoyo™, the closed-loop office paper delivery and waste collection service. This solution is currently being evaluated with customers in the Netherlands. Robert Horne also championed a new recycling scheme called R3 offering customers a similar recycling scheme for waste plastics (see case study above).

Our people

Achievements 2010

- Thirty-seven per cent reduction in Medically Treated Injury Frequency Rates, to the lowest rates in the Company's history.
- Developing a human rights and labour policy.
- Over 700 employees participated in our global WeightlinX Challenge, losing a total of 2,437 kg.
- Launched the Global Corporate Challenge®, an initiative encouraging regular exercise, with 340 employees participating.
- Continued to collect non-work related absenteeism data from all of our businesses to ascertain the value of the HealthLinX programme on the health of our workforce.
- Continued a range of training and development activities regionally.
- Managed the transition and exit from manufacturing operations, meeting our obligations to over 400 employees who lost their jobs, while maintaining low injury incidents.

Goals 2011

- Through a global programme of employee engagement, articulate the vision of PaperlinX as a sole merchant operation.
- Update employee communications to reflect the new business structure.
- Simplify and automate the talent review process to improve succession readiness and retention.
- Refine and relaunch a leadership development programme with an online component to improve management capability.
- Complete the second Viewpoint Leadership Engagement Survey.
- Develop social networking facilities to encourage team work and sharing ideas.
- Implement a revised ESH Management System, including policies that reflect our new structure.
- Roll out the Safety Culture Survey in all regions.
- Obtain a further 10 per cent reduction in Medically Treated and Lost Time Injury Frequency Rates.

PaperlinX is built on a positive approach to the health, wellbeing and capabilities of our people. They give our Company a unique competitive advantage. We support our people to work to their best and continue to provide opportunities to make this the high point of their working life.

A business in transition

Our businesses around the world have each faced enormous challenges over the past year, but across the 26 different countries in which we operate, our businesses have been united by PaperlinX's common set of Values and Core Operating Principles, which guide decision-making and enable us to develop a directional framework for the future.

During the year, we announced that we would stop paper manufacturing in Tasmania by the end of June 2010. Over 400 employees lost their jobs, in addition to job losses associated with our maintenance contractor and with other suppliers. PaperlinX honoured employee entitlements in full and provided outplacement services, including assistance to retrain, financial planning assistance and counselling.

With the changing orientation of the business, we have amended policies, procedures and employment contracts. As the business moves to incorporate diversified segments, we are aligning resource levels and skills to reflect this shift.

Integrity and reputation

Our Values underpin our efforts to act with professionalism, integrity and honesty and to treat people with respect. The way we conduct ourselves reflects on our reputation and the way we are regarded by colleagues, customers, suppliers and the wider community. This year, we started

developing a human rights and labour policy, holding ourselves to the highest standards of human rights and actively supporting The United Nations Universal Declaration of Human Rights (UDHR). This extends to what we expect from our suppliers and subcontractors. This is further supported by our compliance training and *Speak Up* programmes.

The competition law and fair practices compliance programme enables employees to understand the regulatory and legislative environment for PaperlinX. The online training programme is available in nine languages, with a participation rate of 90 per cent. *Speak Up* is a confidential reporting service in which employees are able to raise concerns about improper conduct. This encourages employees to keep their workplace safe, fair and honest.

Improving our safety culture

As we move closer to our goal of zero accidents and injuries, our year-on-year safety performance continues to improve despite the difficult business environment. This year, we reduced our Lost Time Injury Frequency Rate (LTIFR) by 36 per cent and our Medically Treated Injury Frequency Rate (MTIFR) by 37 per cent. In addition, 36 per cent of all our reporting companies worked the whole year with zero injury incidents.

We continue our efforts to create a positive safety culture. As part of our 2010–11 ES&H strategic plan,

Driver safety

Driver safety is a major focus for PaperlinX when it comes to preventing workplace injuries. Our employees operate forklifts and delivery vehicles as part of our logistics operations, and our sales teams drive to visit customers. PaperlinX has developed a booklet *Guide to Traffic Management on Site* to assist with effective traffic management systems at our sites. We are also developing tailored regional training for our car fleets to reduce occupational road risks. This commenced in the UK, with the 'Pitstop' driver training programme, which focuses on improving the skills of company car drivers and others who are on the road for work. To date, 416 drivers have been trained.



'We exceeded our safety target, reducing our Lost Time Injury Frequency Rate (LTIFR) by 36 per cent and our Medically Treated Injury Frequency Rate (MTIFR) by 37 per cent.'

we have taken a sustainable development approach and revised the ES&H management system and audit protocol to align our safety procedures with our new business model.

In North America, the Safety and Health Achievement Recognition Program (SHARP) continues, tracking safety initiatives and positive performance indicators while recognising initiatives that reduce medical treatment injury cases. In Europe, training has been provided to improve driver safety (see story on page 13).

In the last year, there were a total of 14,184 days devoted to safety training across the Company. To check our performance, members of our ES&H team conducted 43 internal safety audits and assessments at our larger sites around the world.

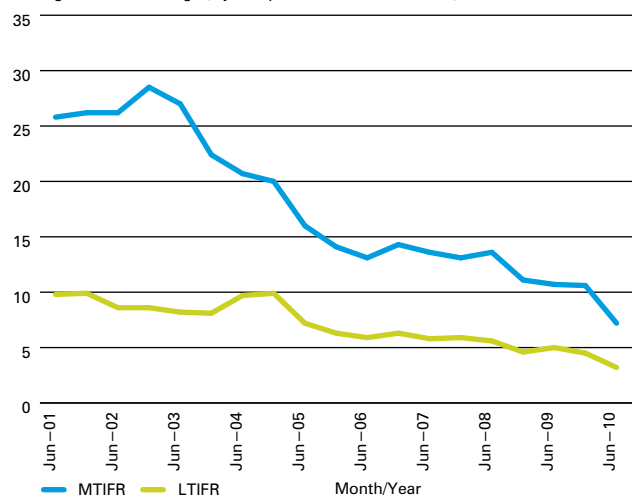
Promoting health and wellbeing

Our proactive management of sustainability issues extends to the health and wellbeing of our employees. We aim to understand their concerns and provide them with information and opportunities to proactively manage their own health.

During the year, HealthLinX, our global health and wellbeing initiative, continued incorporating a number of programmes such as WeightLinX, a weight loss challenge (see story on page 14). Feedback about WeightLinX was so positive we launched a new initiative called the Global Corporate Challenge®. This 16 week

Safety Performance

Rolling 12 month average (injuries per million hours worked)



programme follows teams who record their daily step count via supplied pedometers and log their data into a website (www.gettheworldmoving.com), which plots their progression along a virtual tour of the world. We have 49 teams from North America, Australia and New Zealand competing, which will enhance team building skills and camaraderie while promoting individual health benefits.

Our people

WeightLinX

The WeightLinX Challenge was a HealthLinX initiative introduced with the intention of supporting healthy weight goals of employees. In all, 151 teams, 710 employees from 12 countries, battled it out for 12 weeks to see who could lose the most weight. Participants lost a staggering collective total of 5,372 pounds, or 2,437 kg, more than the weight of two and half pallets of paper. The winning team was the Round Tree Fruit Chumps from Dixon & Roe/The Delivery Co London, losing 61.5 pounds between the three team members – an overall weight loss percentage of 10.64 per cent.



Other wellbeing initiatives are developed and organised at individual sites. We continue to improve our absence measurements and data collection and evaluate the impact of HealthLinX initiatives on our workforce.

Engaging our people

With our business being in transition, it is particularly important to provide relevant and meaningful information for our international employee base. We regularly communicate our business strategies, new initiatives and achievements through the *conneXions* quarterly magazine, which is published in five languages, regular face-to-face team briefings, email alerts, monthly CEO updates and websites.

We encourage teamwork by bringing together multi-country teams to address common business issues and, in doing so, provide individuals with opportunities to work in different locations on assignments. We promote the use of online knowledge-sharing tools to help groups work together more closely.

Through internal surveys and focus groups, we are seeking more feedback from employees on all aspects of the employment cycle. The business in Europe is rolling out the 'In Touch' survey later this year to assess employee engagement over three years and the global Viewpoint Engagement Survey for our leadership group will be conducted in late 2010. We will also launch a Safety Culture Survey, focusing on risk-taking behaviours.

Learning and development

We recognise the importance of developing the people who work at PaperlinX to maximise our business performance and we do this through a variety of internally and externally led programmes on a global and regional basis.

At a Group level, due to the difficult economic conditions, some programmes have been put on hold. However, we

continued to run the strategic value selling programme in Europe for sales executives. From January 2010, we launched the Harvard ManageMentor® programme for managers across a number of regions; this is an interactive web-based learning programme that will build critical leadership skills.

In Australia, New Zealand and Asia our businesses offered a range of training programmes, including those aimed at time management and communication skills. Staff profiling research showed a need to build resilience across the business, so we are piloting a new programme called ARC (Agility, Resilience, Confidence) to encourage greater accountability and self-direction.

In the European operations, many programmes continue to assist our 4,500 employees with their professional growth, including Financial for Non-Financial Managers (The Paper Company, UK), Leaders Today and Diversity Matters (Robert Horne Group, UK), Presentation Skills and Public Speaking (Italy, Denmark), Strategic Thinking, Acting, Selling (Germany) and English language training.

This year in North America, Kelly Paper launched an online training intranet site providing 43 online training modules for employees, ranging from the company induction to disaster preparedness.

Focus on leadership

As PaperlinX responds to structural and industry change, we need the right blend of talent to develop a sustainable, successful business. This means understanding and developing our leaders so they can meet the challenges ahead.

We have simplified the talent review process to identify and develop future business leaders. By early 2011, we will roll out the next phase of our leadership development journey, which focuses on building leadership capability and uses online learning tools.

Our community connections

Achievements 2010

- Contributed \$473,686 in cash and paper donations to a range of local programmes and non-profit organisations that support communities around our business sites.
- Held dialogue with key community stakeholders in Tasmania in relation to the review and consequent exit from manufacturing operations there.
- Developed a new internal approach to improve communications with environmental organisations.
- Supported the graphics, print and communication industry through various promotional initiatives.

Goals 2011

- Recognise and support efforts of our operating companies to undertake community partnerships.
- Update relevant community stakeholders in Tasmania regarding the progress of the decommissioning and remediation of the closed Wesley Vale and Burnie sites until completion.
- Integrate measurement of community investment activities from operating companies into the financial reporting system.
- Ensure the Group's new sustainable development framework incorporates community and social elements.
- Continue industry support initiatives.
- Improve our coordination of communication with environmental groups.

PaperlinX takes its social responsibilities seriously and recognises the importance of supporting relationships and dialogue with our many stakeholders, including shareholders, industry groups, interest groups and local communities.

As an employer, we recognise that the business decisions we make have an impact on the communities where we operate.

We provide a broad range of community support through charitable contributions of cash and paper, commercial sponsorships for industry support, cause-related marketing initiatives and employee involvement activities. All of these activities are led by local management to support local organisations.

Many of our businesses also actively support the professional education and development of printing and design communities, helping to build talent and creativity.

PaperlinX was included in FTSE4Good Index series for the past five years, but this year did not qualify, for market capitalisation (business size) reasons. This is no reflection on our standards of corporate responsibility, but rather the inclusion criteria of the index.

Community support

Our key areas of support are learning and creativity, the environment, health and wellbeing. This support takes on numerous forms, and our challenge remains to improve measurement and reporting of our community activities and the value of paper donations. Over the past year, our businesses have reduced some of their community activities due to the difficult financial times. While some of our operating companies support national charities, many get involved with charities in their local community. Our employees raise funds and volunteer for good causes.

Some examples of our community support worldwide include:

- Robert Horne Group links up with the children's charity Childline in the UK.
- The PaperCo in the UK supports Macmillan Cancer Support, pledging to fund a Macmillan nurse for cancer patients and their families.
- Leading up to the 2012 London Olympics, PaperCo has become a partner of Team Superschools Challenge, where more than 400 schools have been visited by athletes to promote sport to children.
- Donald Murray Paper (a division of PaperCo) in Scotland donated paper to help produce the Glasgow Schools' Calendar, featuring the creative artwork of children.
- In Slovakia, Bratislavská papierenská spoločnosť supports the foundation managing the central park in Bratislava, Horský Park. The business donates paper for the foundation's annual report and employees are encouraged to volunteer their time to park events.
- Polyedra in Italy is supporting learning and technology through donations to the Tibet Cultural House Association, which has built a school for refugee Tibetan children living in poverty-stricken Bandahara, India.
- Deutsche Papier in Germany donated paper to the AO Foundation to support fundraising for the Blantyre Beit Cure Hospital for children in Malawi, Africa.

Our community connections

Jeans day for earthquake relief

After the devastating earthquakes that struck Haiti and Chile in early 2010, our North American employees held a 'PaperlinX National Jeans Day' fundraiser based on a suggestion from an employee. Employees could wear jeans to work if they donated at least \$10 for charity. To support employees' generosity, PaperlinX North America donated an additional sum on behalf of employees. In the US, the donation was made to Mercy Corps, a humanitarian aid agency headquartered in the US that is supporting earthquake relief efforts. In Canada, the donation was made to World Vision Canada.



- Spicers Paper's Union City branch in the US donated food to the San Francisco Food Bank, which delivers food to local community food programmes.
- Spicers Paper's Minnesota branch collects toys for the US Marines-sponsored 'Toys for Tots' campaign.
- Coast Paper in Edmonton, Canada, has been supporting the United Way for five years, through employee pledges and corporate donations, to assist people most in need in the community.
- In Australia, employees got involved in the Leukemia Foundation's World's Greatest Shave. The Australian businesses also supported the Breast Cancer Network Australia through paper donations and employee fundraising.
- Spicers Paper Australia supports Landcare through its 'Recreate' program involving tree planting and land rehabilitation activities across Australia.
- Spicers Paper New Zealand is supporting the WWF–New Zealand for three years by donating \$20 for every tonne of 9lives™ recycled paper sold.
- Spicers Paper Singapore and Winpac Singapore used Chinese New Year activities to fundraise for the the Kwong Wai Shui Hospital and the Society for Continence.

Community relations

Manufacturing Operations

During the year, we reviewed the sustainability of our two manufacturing mills in Tasmania, and after consultation with key stakeholders within the community, including the Tasmanian Government, we announced that we would close Tas Paper.

We worked closely with the Environment Protection Authority and Workplace Standards Tasmania to agree the approach to decommissioning the plants and environmental remediation. We are aware of the community's concerns about the impact of asbestos and chemical contamination at these sites, and further details about the decommissioning and remediation work will be communicated to the local community over the next three years.

Environmental groups

The profile of the paper and print industry in relation to sustainability issues often attracts criticism and questioning from interest groups. This year, we formalised the approach our businesses take when engaged with environmental non-government organisations. This will assist our operating companies when dealing with complex issues.

Many of our businesses continue to develop relationships with a range of credible and responsible environmental groups and we support constructive dialogue with these groups. For example, in the UK, the Robert Horne Group became the first merchant member of the WWF–UK Forest and Trade Network in 2005. In North America, we approached external specialists to review our operations to improve our sustainability approach.

Print and design communities

We are involved in creating industry awards to support excellence in print and design for professionals and students. In the UK, Howard Smith Paper Group continues their Graphic Design and Print Awards, The PaperCo supports Brief Encounters for college students and Robert Horne Group holds the Shout awards. In Australia, the Spicers Paperpoint School provides information to the design, print and paper industries.

Glossary

CO₂

Carbon dioxide is the main greenhouse gas that results from the burning of 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 responsibility

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

Emissions trading

An administrative approach used to control or reduce (carbon) pollution by providing economic incentives for achieving reductions in the emissions of pollutants. It is sometimes called cap and trade.

Environmental footprint

In an industrial setting, this is a company's environmental impact determined by the amount of depletable raw materials and non-renewable resources it consumes in making its products, and the quantity of wastes and emissions 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. The 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.

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 the 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.

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, road construction 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 until required by customers. The stock is then broken down into smaller quantities to meet customer needs.

PEFC

The PEFC Council (Programme for the Endorsement of Forest Certification schemes) is an independent, non-profit, non-governmental organisation, founded in 1999, which promotes sustainably managed forests through independent third party certification.

Plantation

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

Product Stewardship

The process of confirming the sustainability (or environmental and social) facts related to products and their supply chains, and using that knowledge to provide certainty to customers.

Recycled fibre

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

SFI

The Sustainable Forestry Initiative program promotes responsible forest management in North America, and responsible procurement globally.

Sustainable development

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

Supply Chain

The movement of materials as they flow from their source to the end customer.

Woodfree paper

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



Sustainable Development Report 2010

The high-quality paper used in this Report is distributed exclusively by PaperlinX merchants.

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