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24 February 2011

PAPERLINX 2011 INTERIM RESULTS

PaperlinX Limited (PaperlinX) today announced a substantially reduced statutory loss after tax of $(10.2) million for the 6 months to 31 December 2010 compared to a loss of $(175.3) million for the prior corresponding period (pcp).

PaperlinX reported an underlying profit after tax of $8.5 million, compared to a loss of $(11.2) million for the pcp. The difference between the statutory loss and underlying profit results from a non cash valuation loss of $16.8 million for a currency option purchased in December 2009 and a net loss of $1.9 million related to the discontinued manufacturing operations.

The key features of this result are:

- Revenue was $2.44 billion, down from $2.74 billion for pcp on lower volumes of 1.36 million tonnes down from 1.5 million tonnes for pcp reflecting continued weak markets.
- An improvement in gross profit percent at 19.6%, up from 17.9% for pcp
- Average working capital to sales improved to 16.6% from 18.3% for pcp.
- Operating cash flow was $(7.8) million, up from $(94.4) million for pcp.
- Staff changes at the Corporate Head Office in Melbourne and the closure of the European Head Office in Amsterdam will reduce corporate overheads by $15 million per annum from 2012 financial year and will be cost neutral in the current financial year.

Whilst markets remained generally soft in the UK and Benelux there were volume improvements in Central Europe and Germany. These volume improvements together with generally higher pricing resulted in improved sales revenue in Europe. In North America improved pricing helped to offset slightly weaker demand. Market conditions remained weak in ANZA. Despite challenging market conditions, each of the regions delivered a positive statutory EBIT and underlying EBIT for the half year.

Commenting on the result PaperlinX CEO, Toby Marchant said, “While it is clear market conditions remain weak, it is pleasing to see early evidence of operational and cost improvements across the business translating into improved earnings and an underlying profit. The accounting treatment of the option is frustrating, however we should not forget that its cash cost is fixed and the arrangements associated with it generated sufficient funds to enable the Company to close its loss making Tasmanian operations. We will continue to improve and stream line our operations to generate acceptable returns to our investors and make our businesses more relevant to the markets we serve."

"With volumes seeming to have flattened out, albeit at reduced levels, and ongoing pressure on pricing we will continue to focus on those matters which are within our control. Accordingly we will continue to make improvements in our working capital and cost base. In addition, we will optimise our core product range and service delivery whilst accelerating investment into higher margin diversified areas. Given our lower cost base, a more efficient business structure and a focus on diversification we remain well leveraged for any cyclical recovery or upturn in economic conditions."

RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

The following table shows statutory earnings and sales revenue by region in Australian dollars. Segment results exclude significant items but include one-off costs and benefits, including restructuring costs to benefit future years. Included is a reconciliation of underlying sales revenue and earnings. The difference between statutory results and underlying results is the valuation loss on the currency option and results related to the discontinued manufacturing operations.

	Earnings		Sales Revenue	
For the half-year ended 31 December	**2010**	**2009**	**2010**	**2009**
	$m	**$m**	**$m**	**$m**
Europe	12.8	8.5	1,654.0	1,818.2
North America	8.1	9.4	500.5	521.6
Australia, New Zealand and Asia	9.4	10.8	279.9	305.9
Unallocated	(10.0)	(7.5)	(3.7)	(2.6)
Total continuing operations	20.3	21.2	2,430.7	2,643.1
Discontinued operations	(0.2)	(17.4)	15.8	134.8
Profit before net finance costs, tax and significant items	**20.1**	**3.8**		
Significant items (pre-tax)	(23.8)	(114.1)		
Net other finance costs	(0.9)	(13.1)		
Loss before interest and tax	**(4.6)**	**(123.4)**		
Net interest	(9.4)	(16.3)		
Loss before tax	(14.0)	(139.7)		
Tax relating to pre-significant items	(2.8)	(2.9)		
Tax relating to significant items	6.6	(32.7)		
Tax benefit/(expense)	3.8	(35.6)		
Group eliminations			(4.2)	(39.8)
Statutory loss for the period / Total Revenue	**(10.2)**	**(175.3)**	**2,442.3**	**2,738.1**
Adjust for following gains/(losses) included in statutory profit/revenue:				
Discontinued operations	1.9	135.1	(15.8)	(134.8)
Tax relating to discontinued operations	-	31.0		
Currency option	23.4	(3.7)		
Tax relating to currency option	(6.6)	1.7		
Group eliminations			4.2	39.8
Underlying profit/(loss) for the period / Revenue	**8.5**	**(11.2)**	**2,430.7**	**2,643.1**

Refer to Appendix for a detailed reconciliation of underlying sales revenue and underlying earnings.

Balance sheet

		As at 31 December 2010	As at 30 June 2010	As at 31 December 2009
Current assets	$m	1,604	1,774	2,083
Non current assets	$m	489	531	513
Total assets	$m	2,093	2,305	2,596
Current liabilities	$m	913	1,000	1,220
Non current liabilities	$m	337	381	341
Total liabilities	$m	1,250	1,381	1,561
Shareholders equity	$m	843	924	1,035
Key ratios				
Funds employed (net debt + net assets)	$m	1,043	1,088	1,286
Gross debt	$m	330	301	526
Net debt	$m	200	164	251
Net debt / net debt & equity	%	19.2	15.1	19.6
Net tangible assets per share	$	0.34	0.40	0.60

Financial position

Funds employed of $1,043 million reduced from $1,286 million in December 2009 and average funds employed of $1,133 million reduced from $1,489 million for the pcp. This favourable result was due to lower working capital balances and the impact of a stronger A$. Working capital was $704 million down from $947 million at 31 December 2009 due to favourable FX translation and lower working capital.

Net debt reduced to $200 million down from $251 million at 31 December 2009. Gross debt reduced to $330 million down from $526 million for the pcp but is higher than $301 million at June 2010 which reflects the additional funding required to support seasonality of the business at half year. Compared to December 2009 net debt and gross debt have benefited from improved cash management outcomes from the working capital facilities established in the 2010 financial year and a stronger A$ resulting in favourable FX translation.

Interest costs reduced to $8 million down from $16 million in the pcp due to lower average gross debt balances and lower interest rates negotiated when establishing the facilities last year.

Capital expenditure for the period was $7 million compared with $13 million for the pcp. Depreciation and amortisation was $12 million compared with $14 million for the pcp.

Operating cash flow improved to an $8 million outflow, compared to a $94 million outflow for the pcp due to improved earnings and favourable working capital. Although total cash flow on a net debt basis of $51 million outflow was down from a $42 million outflow for the pcp, the current period included a hybrid distribution of $11 million and Tasmanian operations closure payments of $25 million neither of which were incurred in the prior period.

Dividend and Distribution
There will be no interim dividend on the Ordinary shares of PaperlinX for the period ended 31 December 2010.

The scheduled distribution on the PaperlinX Step-Up Preference Securities was paid on 31 December 2010. As two consecutive distributions have now been paid, the dividend block on the Ordinary shares has been removed.

For further information please contact
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Appendix – Detailed reconciliation of underlying sales revenue and underlying profit

Underlying sales revenue reconciliation
For the half-year ended 31 December

	2010				2009			
	Sales Revenue	Less: Adjustments Discont'd Ops	Less: Adjustments Group Elims	Underlying Revenue	Sales Revenue	Less: Adjustments Discont'd Ops	Less: Adjustments Group Elims	Underlying Revenue
	$m	$m	$m	$m	$m	$m	$m	$m
Europe	1,654.0			1,654.0	1,818.2			1,818.2
North America	500.5			500.5	521.6			521.6
Australia, New Zealand and Asia	279.9			279.9	305.9			305.9
Unallocated	(3.7)			(3.7)	(2.6)			(2.6)
Total continuing operations	2,430.7	-	-	2,430.7	2,643.1	-	-	2,643.1
Discontinued operations	15.8	(15.8)	-	-	134.8	(134.8)	-	-
Group eliminations	(4.2)	-	4.2	-	(39.8)	-	39.8	-
Group revenue	**2,442.3**	**(15.8)**	**4.2**	**2,430.7**	**2,738.1**	**(134.8)**	**39.8**	**2,643.1**

Underlying profit reconciliation
For the half-year ended 31 December

	2010				2009			
	Statutory Loss	Less: Adjustments Discont'd Ops	Less: Adjustments Currency Option	Underlying Profit	Statutory Loss	Less: Adjustments Discont'd Ops	Less: Adjustments Currency Option	Underlying Loss
	$m	$m	$m	$m	$m	$m	$m	$m
Europe	12.8			12.8	8.5			8.5
North America	8.1			8.1	9.4			9.4
Australia, New Zealand and Asia	9.4			9.4	10.8			10.8
Unallocated	(10.0)			(10.0)	(7.5)			(7.5)
Total continuing operations	20.3			20.3	21.2			21.2
Discontinued operations	(0.2)	0.2	-	-	(17.4)	17.4	-	-
Profit before net finance costs, tax and significant items	**20.1**	**0.2**	**-**	**20.3**	**3.8**	**17.4**	**-**	**21.2**
Significant items (pre-tax)	(23.8)	0.4	23.4	-	(114.1)	117.8	(3.7)	-
Net other finance costs	(0.9)	-	-	(0.9)	(13.1)	(0.1)	-	(13.2)
Profit/(loss) before interest and tax	**(4.6)**	**0.6**	**23.4**	**19.4**	**(123.4)**	**135.1**	**(3.7)**	**8.0**
Net interest	(9.4)	1.3	-	(8.1)	(16.3)	-	-	(16.3)
Profit/(loss) before tax	(14.0)	1.9	23.4	11.3	(139.7)	135.1	(3.7)	(8.3)
Tax relating to pre-significant items	(2.8)	-	-	(2.8)	(2.9)	-	-	(2.9)
Tax relating to significant items	6.6	-	(6.6)	-	(32.7)	31.0	1.7	-
Tax (expense)/benefit	3.8	-	(6.6)	(2.8)	(35.6)	31.0	1.7	(2.9)
Profit/(loss) for the period	**(10.2)**	**1.9**	**16.8**	**8.5**	**(175.3)**	**166.1**	**(2.0)**	**(11.2)**