

26 August 2004

**Statement to Australian Stock Exchange and News Media
for the financial year ended 30 June 2004**

REVIEW OF THE TWELVE MONTHS

Key Influences on Result

In the year ended 30 June 2004, PaperlinX has established the world's leading fine paper merchant, which in conjunction with our unique Australian manufacturing position, creates a solid and balanced foundation for our future. PaperlinX is now well diversified both geographically and by business segment.

Despite positive strategic progress, the profit performance for the year was disappointing, with profit after tax of \$108.5 million, being 18% below the prior year with a similar decline in earnings before interest and tax.

The major positive impacts on the full year result were:

- ◆ Acquisition of Buhrmann's paper merchanting division (BPMD). This business is included for the 8 months from 1 November 2003
- ◆ Increased sales volumes in all major merchanting markets
- ◆ Excellent performance from The Paper Company in UK and Ireland
- ◆ Returns ahead of expectation for the BPMD acquisition

The above positive impacts were offset by:

- ◆ Worldwide excess supply of fine papers, resulting in reduced selling prices
- ◆ Currency volatility impacting in Australia:
 - * Paper selling prices
 - * Export revenue
 - * Translation of earnings
- ◆ Intense competition in the Australian market
- ◆ Difficulties in meeting semi-extensible sack kraft market requirements

Highlights of the full year results are:

- | | |
|------------------------------------|--------------------|
| ◆ Sales Volume | 3.6 million tonnes |
| ◆ Sales Revenue | \$6.2 billion |
| ◆ Profit after Tax | \$108.5 million |
| ◆ Net operating cash flow | \$402.7 million |
| ◆ EPS before goodwill amortisation | 28.6 cps |
| ◆ EPS after goodwill amortisation | 24.7 cps |
| ◆ Dividend maintained at | 27.5 cps |

		PaperlinX Limited & Controlled Entities		
		12 months to June 2004	12 months to Jun 2003	%
		Change		
Sales Revenue	\$m	6,211.6	3,617.8	72
Profit from Ordinary Activities before interest, income tax, amortisation and depreciation	\$m	300.7	313.2	(4)
Profit from Ordinary Activities before interest & income tax (PBIT)	\$m	189.7	230.9	(18)
Profit from Ordinary Activities before income tax	\$m	141.2	190.4	(26)
Profit from Ordinary Activities after income tax	\$m	108.5	132.1	(18)
Key Ratios				
Profit from Ordinary Activities before interest and income tax to average funds employed	%	7.5	12.3	
Return on average shareholders equity	%	6.2	9.3	
Net operating cash flow	\$m	402.7	234.0	
Net interest cover (times)	x	3.9	5.7	
Earnings per share before goodwill amortisation	cps	28.6	41.2	
Earnings per share	cps	24.7	36.9	
Dividend per share	cps	27.5	27.5	
Note: In this statement currency is AUD unless otherwise indicated.				

PaperlinX's earnings for the year to 30 June 2004 were significantly influenced by a number of factors:

- The company completed the acquisition of BPMD, Europe's largest paper merchant, on 1 November 2003, at a total cost of €667 million (A\$1.1 billion). BPMD's European operating companies have joined The Paper Company to create 'PaperlinX Europe'. The European business is now performing well with:
 - The Paper Company achieving a return on funds employed in excess of 15% by the end of the second year since it was acquired – twelve months ahead of target
 - BPMD's net contribution ahead of target for the first eight months and contributing by being significantly eps accretive
- The global excess supply of fine paper continued to depress selling prices, with lower average selling prices compared to the prior year being realised in all major markets.
- Currency volatility adversely impacted earnings with an unfavourable net impact on PBIT for the year compared to the prior year, of approximately \$60 million. This comprises reduced Australian selling prices, lower export revenue, the translation of overseas earnings, partially offset by reduced imported pulp costs. The average AUD/USD exchange rate of 0.7061 was 20% higher than the prior year.
- Higher sales volumes were achieved in merchanting in all major regions, with total merchanting volume for the year of 3.1 million tonnes.

- Benefits are being delivered from the structure utilised for the acquisition of BPMD which will continue to be advantageous in future years.
- In the Packaging Papers business, sales of sack kraft have been adversely affected by lower selling prices and changing market specifications which impacted on our domestic sales volumes.
- Cash flow from operations was strong at \$403 million with a significant proportion arising from the management of working capital.

Profit before interest and tax of \$189.7 million, and profit after tax of \$108.5 million, are 18% below the prior year. Overall return on average funds employed for the year is 7.5%, which includes 10.1% in merchanting and 5.8% in Australian Paper.

PaperlinX's balance sheet and key financial ratios remain strong.

DIVIDEND

Directors have declared an unfranked final dividend of 14 cents per share, resulting in total dividends for the year of 27.5 cents per share – the same level as the prior year.

The Board decided to maintain the level of dividend after taking into consideration the strong cash flow, the underlying financial strength of the business and the outlook.

The significant reduction in the earnings of the Australian based business combined with the increasing proportion of earnings being generated by the overseas businesses resulted in the dividend being unfranked.

The dividend will be mailed on 30 September 2004 to shareholders on record as of 10 September 2004 as being entitled to the dividend.

OPERATIONS

The following table shows, for PaperlinX Limited and controlled entities, Operating Profit from Ordinary Activities, Sales Revenue, and Total Assets by industry and geographic segments for the twelve months to 30 June 2004 and 30 June 2003.

	<u>Operating Profit</u>		<u>Sales Revenue</u>		<u>Total Assets</u>	
	June 2004	Jun 2003	June 2004	Jun 2003	June 2004	Jun 2003
	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>
<u>Industry Segments</u>						
Merchanting & Paper Trading ^{(1) (2)}	147.5	92.0	5,620.4	2,966.8	3,410.6	1,361.1
Communication Papers ⁽¹⁾	44.8	108.4	714.7	787.5	872.5	894.4
Packaging Papers ⁽¹⁾	21.6	53.9	254.2	275.6	313.9	296.5
Corporate and Other ⁽¹⁾	(24.2)	(23.4)	100.5	110.1	142.5	386.6
Operating profit from Ordinary Activities before interest & income tax	189.7	230.9				
Net Interest	(48.5)	(40.5)				
Income Tax Expense	(32.5)	(58.3)				
Outside Equity Interests	(0.2)					
Inter-segment Sales			(478.2)	(522.2)		
Unallocated Assets (deferred tax assets)					40.6	40.2
Total:	108.5	132.1	6,211.6	3,617.8	4,780.1	2,978.8
<u>Geographic Segments</u> ^{(2) (3)}						
Australia & New Zealand ⁽¹⁾	72.3	172.3	1,641.5	1,763.2	1,775.2	2,053.9
North America ^{(1) (2) (3)}	16.4	18.3	904.3	898.3	421.9	366.6
Europe ^{(1) (2)}	98.9	37.9	3,576.1	867.2	2,483.7	467.7
Asia ^{(1) (2)}	2.1	2.4	89.7	89.1	58.7	50.4
Operating profit from Ordinary Activities before interest & income tax	189.7	230.9				
Net Interest	(48.5)	(40.5)				
Income Tax Expense	(32.5)	(58.3)				
Outside Equity Interests	(0.2)	-				
Unallocated Assets (deferred tax assets)					40.6	40.2
Total:	108.5	132.1	6,211.6	3,617.8	4,780.1	2,978.8

⁽¹⁾ Profit before interest and income tax.

⁽²⁾ Buhrmann's paper merchanting division included from 1/11/03.

⁽³⁾ The geographic segments reflect PaperlinX's management structure – sales, profits and assets are shown in the region where the business is based.

MERCHANTING

		12 mnths <u>Jun 04</u>	12 mnths <u>Jun 03</u>
Sales Volume	'000 tonnes	3,060	1,477
Sales Revenue	A\$m	5,620.4	2,966.8
Operating Profit before Interest & Tax	A\$m	147.5	92.0
Return on Average Funds Employed	%	10.1	11.1

The PaperlinX Merchanting results include BPMD for the eight months from 1 November 2003. BPMD businesses operate predominately in Europe, however there are also businesses in North America, South Africa, Asia and Paper Trading.

Largely due to the inclusion of BPMD, sales revenue was up 89% to A\$5.6 billion on an increase in volumes sold of 107%, reflecting the lower average selling prices experienced in all major regions. Profit before interest and tax increased 60% over the prior period. The impact of translation of overseas earnings reduced the reported merchanting profit by \$6 million compared to the prior period.

The major influence on the business has been the global excess supply of paper, partially due to depressed world economic conditions, which has led to intense competition and lower selling prices. The average selling price for the year was 8.5% lower than the prior year.

Considering the general market conditions, PaperlinX's merchants have performed well, with many notable achievements as outlined in this report. Sales volumes have been maintained or improved in all major regions. A focus on growing profitable business has resulted in gross margin percentages improving, although cash margins have reduced due to lower international paper selling prices. Return on average funds employed in merchanting was 10.1% reflecting the good operating performance and management focus on reducing working capital which was 9.5% lower on a comparable basis..

At an operating profit level (including synergy benefits), BPMD performed to our expectation for the eight months since acquisition. At a net contribution level (ie after interest and tax) the performance is ahead of expectation.

Following further weakening of paper selling prices in the second half, in the last few months of the year paper selling prices were showing signs of strengthening off the depressed base. Increases are being achieved in the USA and Asia and increases have been announced in all other regions.

PaperlinX has established the world's leading fine paper merchant. The merchanting business is and will continue to derive cost efficiencies from its structure and is well placed to benefit from improved economic conditions and increased demand for printing papers.

Australia & New Zealand

		12 mnths <u>Jun 04</u>	12 mnths <u>Jun 03</u>
Sales Volume	'000 tonnes	605	585
Sales Revenue	A\$m	1,050.4	1,116.2
Operating Profit before Interest & Tax	A\$m	29.1	29.3

Competition in Australia and New Zealand was intense during the period. The appreciation in the Australian dollar resulted in a higher level of imports as overseas suppliers focussed more product into the market to take advantage of stable Australian demand in the face of weak international market conditions. This in turn led to lower average selling prices.

Despite the highly competitive environment and average selling prices being down \$170 per tonne or 9%, PaperlinX increased its sales volume by 3.5% and maintained its overall profit level.

PaperlinX's Australian and New Zealand business maintained a strong market position, grew market share in both countries and delivered good returns.

In Australia, the transition of all merchanting businesses to a new business transaction system (SAP) was completed successfully, providing opportunities to leverage the benefits of a common information base. The business has also committed to consolidating its Melbourne offices.

At the end of the period, many paper suppliers to the Australian market have announced selling price increases in the range from 3% to 6% to be effective in the first half of 2004/5.

Europe

		12 mnths <u>Jun 04</u>	12 mnths <u>Jun 03</u>
Sales Volume	'000 tonnes	1,835	374
Sales Revenue	€m	2,092.3	486.3
Operating Profit before Interest & Tax	€m	57.9	21.3

PaperlinX Europe, comprising The Paper Company (which operates in the UK and Ireland), the BPMD European businesses, and South Africa, operates in 20 countries.

The Paper Company has continued its excellent performance, increasing sales volume more than 3% and achieving a return on funds employed at the end of the year – its second year since acquisition – in excess of 15%. Combined with the increased sales volume, yet lower average selling prices, earnings increased 14% as the business delivered benefits from efficiency improvement initiatives and strong working capital management. The business continues to perform well.

The results include the European operations of BPMD for the eight months since 1 November 2003. On a proforma basis, sales volumes in the BPMD operations were in line with the prior year reflecting a healthy market share. Despite softening markets in the key regions of the Netherlands, France and Germany, the business has performed well and in line with expectations at the operating level.

Prior to acquisition restructuring initiatives were implemented in Germany, UK, France and Netherlands with the beneficial results being delivered in line with our expectations. Further restructuring is continuing in France, with cost initiatives and synergy opportunities underway in other countries.

Market conditions within Europe vary considerably. Paper suppliers have announced selling price increases for September 2004, although previous increases announced in the second half of the 2003/4 financial year have not been successfully implemented in most markets. For the year, average selling prices across PaperlinX Europe were down 7% compared to the prior year.

PaperlinX Europe is performing well and we expect this to continue as we capitalise on the opportunities of this unique business.

North America

		12 mnths <u>Jun 04</u>	12 mnths <u>Jun 03</u>
Sales Volume	'000 tonnes	391	349
Sales Revenue	US\$m	573.4	469.9
Operating Profit before Interest & Tax	US\$m	12.0	10.2

PaperlinX North America achieved increased sales volumes despite lower average selling prices compared to the prior year. For the majority of the year, overall market demand for printing paper lagged the general economic improvements being reported.

In the USA, PaperlinX's merchants (excluding Kelly paper - ex BPMD) increased volume by 3%, which was ahead of market growth, however this only partially offset lower average selling prices which were an average of 2% below the prior year. Towards the end of the year, increases in USA employment levels coincided with stronger levels of demand for printing papers and gradually higher selling prices were implemented by PaperlinX and the industry generally.

The addition of Kelly Paper in the USA (ex BPMD) has created a number of synergy benefits, as this business is complementary to the previous PaperlinX USA businesses. The Kelly Paper business is performing to expectation.

In Canada, the strengthening of the Canadian currency against the United States currency, affected selling prices and demand. Print demand transferred across the border to the USA and selling prices in the last quarter of the year deteriorated further. The first half of the year was adversely affected by the investigation by the Canadian Competition Authority and the resulting legal costs. As previously

advised, we believe the major effect of this investigation on PaperlinX has passed. Despite the tough trading environment, PaperlinX's Canadian business increased sales volumes by 7.5% on revenue 3% lower than the prior year due to selling prices being down an average of 10% from the prior year.

In Canada, the Vancouver warehouse and offices were sold under a sale and leaseback arrangement, a step that was planned at the time of acquiring the business. The sale generated a profit of CAD\$2.4 million.

Asia

		12 mnths <u>Jun 04</u>	12 mnths <u>Jun 03</u>
Sales Volume	'000 tonnes	71	67
Sales Revenue	\$m	99.3	92.0
Operating Profit before Interest & Tax	\$m	2.2	2.3

The overall year in Asia has been another challenging one characterised by weak demand and competitive trading conditions. Compared to the prior year, selling prices and margins continued to be under pressure. A major concentration in the year has been restructuring elements of the Asian business to improve productivity and focussing on profitable business. During the last quarter, selling prices started to increase with some suppliers having restricted availability of product.

The acquisition of Winpac in Singapore (ex BPMD) provides the opportunity to leverage synergies with our pre existing business in this market, to further improve our overall performance in this region.

Paper Trading

		12 mnths <u>Jun 04</u>	12 mnths <u>Jun 03</u>
Sales Volume	'000 tonnes	158	104
Commission Volume	'000 tonnes	318	303
Sales Revenue	A\$m	131.4	100.5
Operating Profit before Interest & Tax	A\$m	3.6	6.0

Paper Products Marketing is PaperlinX's Paper Trading business that sells paper products in over 65 countries. The business links paper manufacturers and customers, predominately on a commission basis.

The results for the year were impacted by lower overall selling prices and the loss of some agencies where compensation was received in the prior year.

As a commission based business, Paper Products Marketing will benefit from higher paper selling prices.

AUSTRALIAN PAPER - CONSOLIDATED

		12 mnths <u>Jun 04</u>	12 mnths <u>Jun 03</u>
Sales Volume	'000 tonnes	836	845
Sales Revenue	A\$m	968.9	1,063.1
Operating Profit before Interest & Tax	A\$m	66.4	162.3
Return on Average Funds Employed	%	5.8	14.7

Australian Paper is the trading name for PaperlinX's Communication Papers and Packaging Papers businesses, which produce printing and writing papers and high performance packaging papers predominately for the Australian and New Zealand markets.

Australian Paper had a disappointing operating result which was down 60% on the prior year. The major components affecting the PBIT result were:

- | | Approximate
PBIT Impact |
|---|------------------------------------|
| • Reduced selling prices and volumes in Australia and New Zealand due to the strengthened currency and excess supply of paper internationally | (\$45 m) |
| • Machine downtime taken due to the strengthened currency and our target to only sell above cash cost. Downtime increased to 6% of available capacity | (\$10 m) |
| • Semi extensible sack kraft production quality not achieving market requirements | (\$25 m) |
| • The strengthened currency reduced the revenue from export sales, however this was offset by the lower cost of imported pulp. | |

Further details relating to Australian Paper's Communication Papers and Packaging Papers businesses appear below.

Australian Paper: Communication Papers

		12 mnths <u>Jun 04</u>	12 mnths <u>Jun 03</u>
Sales Volume	'000 tonnes	506	509
- Australia/New Zealand	%	78	81
Sales Revenue	A\$m	714.7	787.5
Operating Profit before Interest & Tax	A\$m	44.8	108.4

Australian Paper's Communication Papers business has continued to face intense competition from imported products entering the Australian market and lower export receipts due to the strength of the Australian dollar, which increased 20% against the US dollar compared to the prior year.

Imports account for approximately 65% of the communication papers sold in Australia. Worldwide supply of paper has been exceeding demand, resulting in extremely competitive prices as suppliers look for markets in which to sell their products. New suppliers into the Australian market included manufacturers from Russia, China, and Taiwan.

This excess paper supply and lower international paper selling prices, combined with the strength of the Australian dollar, resulted in overall selling prices being down 8.5% for our Communication Papers business when compared to the prior year. The most significant selling price reductions were for exports which were A\$200 per tonne lower.

In the major sector of cutsize office papers, REFLEX™ maintained its market leadership. Product enhancements have been launched improving REFLEX™'s competitiveness.

The publishing papers segment was the area most affected by lower Australian selling prices. Import competition accounts for approximately 80% of the product sold in this segment in Australia.

Overall volume sold by the Communication Papers business was at a similar level to the prior year, however sales in Australia were down 14,000 tonnes, resulting in a higher level of exports. This sales mix adversely affects earnings as exports were at a significantly lower contribution rate.

Market related paper machine downtime was higher during the year, in line with our policy only to sell for export at a positive cash contribution. Total machine downtime for market reasons was 6.5% of total production, compared to 1% in the prior year – an additional cost of \$10 million.

Manufacturing costs were reduced during the period by a combination of the ongoing focus on cost efficiencies, the lower average cost of imported raw materials such as pulp due to the stronger Australian currency, and through leveraging purchasing opportunities.

Market demand strengthened in the last quarter, with a tightening of supply in some imported products. Following the deterioration in selling prices throughout 2003/4 resulting in a low point at year end, paper selling prices are strengthening, with a range of increases being announced by overseas suppliers. Australian Paper has announced increased paper selling prices of 3% to 6% across most of its range. The Australian currency volatility appears to have stabilised around USD0.70, compared to the peak of USD0.80, which occurred in the second half of the financial year.

Globally there has been a strengthening in paper demand and pricing, which if sustained, could flow through to impact positively on the Communication Papers business in the January to June 2005 period.

PaperlinX's Communication Papers business is focussed on providing Australian customers with quality Australian produced paper, enhancing its brands, superior customer service, and with an ongoing focus on cost efficient manufacturing.

Australian Paper: Packaging Papers

		12 mnths <u>Jun 04</u>	12 mnths <u>Jun 03</u>
Sales Volume	'000 tonnes	330	336
- Australia/New Zealand	%	81	84
Sales Revenue	A\$m	254.2	275.6
Operating Profit before Interest & Tax	A\$m	21.6	53.9

The Packaging Papers segment of Australian Paper comprises two main sectors, namely linerboards, used in the manufacture of corrugated boxes, and sack and bag papers, used to make paper sacks, carry bags and wrapping papers.

Overall profitability in this business was significantly affected by the poor performance of the sack and bag sector which has been impacted by low selling prices and lower sales volumes into the Australian market. The impact was approximately \$25 million compared to the prior year.

The Australian linerboard sector maintained profitability. Export volumes increased, however export selling prices were at lower levels and revenue was adversely impacted by the higher Australian exchange rates.

The sack and bag sector continues to face major challenges from imported products and changing product specifications. This has resulted in the Packaging Papers business exporting significant volumes at low prices. Market related machine downtime has also been taken where product cannot be sold at a positive cash contribution. Following manufacturing initiatives, some domestic volume recovery is underway.

An extensive review of the current and future sack paper market has been undertaken combined with Australian Paper's manufacturing capability in this area. To meet the expected market requirements, a major upgrade of the sack paper machine, Maryvale 1, is being undertaken at a cost of \$32 million. The upgrade, which is complementary to the semi-extensible sack unit installed last year, will result in the production of sack kraft with quality characteristics in the top quartile globally. The enhanced quality characteristics are aimed to regain leadership in the Australian sack paper market and enhance competitiveness in exports. The upgrade project is expected to be completed by October 2005. This is a more comprehensive solution than originally indicated.

PaperlinX is committed to manufacturing market competitive packaging papers for the Australasian market. Our manufacturing capabilities as well as potential market opportunities are continually being reviewed. Manufacturing capabilities will be enhanced as necessary to ensure leadership in the supply of high performance packaging papers and to meet opportunities as they arise.

CORPORATE & OTHER

		12 mnths <u>Jun 04</u>	12 mnths <u>Jun 03</u>
Sales Revenue	\$m	100.5	110.1
Operating Profit before Interest & Tax	\$m	(24.2)	(23.4)

Corporate and other includes the stationery and envelopes business as well as the corporate expenses of PaperlinX.

The stationery and envelopes business was impacted by lower selling prices and a highly competitive environment, resulting in a 25% reduction in profitability. The strengthening of the Australian dollar was the major influence as our Australian manufactured stationery largely competes against imported products. Excess Australian manufacturing capacity in the envelopes sector resulted in a highly competitive environment.

Corporate costs included a profit of \$4.5 million on the sale and lease back of a warehouse complex in Melbourne. The complex was included in the acquisition of Spicers Paper in 2001. The sale is consistent with PaperlinX's philosophy of leasing distribution warehouses. This was the last Australian owned warehouse within the group.

Other Corporate costs increased slightly during the year reflecting the larger PaperlinX group following the acquisition of BPMD. Benefits were achieved from the outsourcing of the Australian information technology infrastructure support to Hewlett Packard.

FINANCIAL POSITION

As previously reported, PaperlinX acquired BPMD effective 1 November 2003 at a cost of €667 million, including costs, on a debt/cash free basis. A summary of the transaction is as follows:

Payment to Buhrmann NV & Minorities	€648m
Transaction costs	<u>19m</u>
Total Cost	<u>667m</u>
Represented by:	
Net assets	598m
Intangibles - brands	15m
- goodwill	54m

The acquisition agreement included the potential for a payment of deferred consideration based on earnings for the 2003 calendar year. No deferred consideration was payable. The value of one property acquired as part of the acquisition is in dispute and is being determined by arbitration. The maximum potential exposure is €7.5 million.

As part of the funding of the acquisition, PaperlinX:

- In June 2003 issued 53.6 million shares in an institutional placement
- In September 2003 issued 33.5 million shares through a Share Purchase Plan to existing shareholders
- In December 2003 increased its multicurrency bank debt facility from USD400 million to USD700 million
- In February 2004 undertook a United States Private Placement of the equivalent of USD250 million comprising 10 and 15 year notes at fixed interest rates.

As a result of these funding steps, PaperlinX now has an appropriate mix of long, medium and short term debt and is at the lower end of its target debt to equity range.

Capital expenditure for the year (excluding acquisitions) was \$55 million, which was below the depreciation level of \$93 million. A number of strategic projects are being developed and reviewed which generate returns in line with our targets, including the upgrade of Maryvale 1 machine. These projects will influence the level of capital expenditure over the next three years which is expected to exceed the depreciation expense.

Working capital (adjusted for acquisitions) reduced again this year due to the continued proactive management of this key area. On a comparable basis, a reduction of 10% was achieved.

Net operating cash flow from operations was strong at \$403 million, reflecting the positive impact of the focus on working capital management and the cash generation from the businesses

At 30 June 2004, PaperlinX has a solid balance sheet with all ratios within target ranges.

The PaperlinX group statements of Financial Position and Financial Performance are as follows:

STATEMENT OF FINANCIAL POSITION

		PAPERLINX LIMITED AND CONTROLLED ENTITIES	
		<u>June 2004</u>	<u>June 2003</u>
Current Assets	\$m	2,999.6	1,606.9
Non current assets	\$m	1,780.5	1,371.9
Total Assets	\$m	4,780.1	2,978.8
Current Liabilities	\$m	1,341.1	566.6
Non Current Liabilities	\$m	1,625.7	766.0
Total Liabilities	\$m	2,966.8	1,332.6
Shareholders Equity	\$m	1,813.3	1,646.2
<u>Key Balance Sheet Ratios</u>			
Net Debt	\$m	1,033.1	144.4
Net debt to net debt and shareholders equity	%	36.3	8.1
Net debt to shareholders equity	%	57.0	8.8
Net tangible assets per share	\$	3.15	3.30

STATEMENT OF FINANCIAL PERFORMANCE

		PAPERLINX LIMITED AND CONTROLLED ENTITIES	
		12 months ended 30 June	
		2004	2003
		\$m	
SALES REVENUE		6,211.6	3,617.8
Operating Profit from Ordinary Activities before depreciation, amortisation, interest and income tax		300.7	313.2
Depreciation and amortisation		(111.0)	(82.3)
Operating Profit from Ordinary Activities before interest and income tax		189.7	230.9
Net Interest Expense		(48.5)	(40.5)
Operating profit from Ordinary Activities before income tax		141.2	190.4
Income tax expense on Operating profit		(32.5)	(58.3)
Outside Equity Interests		(0.2)	
OPERATING PROFIT		108.5	132.1

RETURN ON AVERAGE FUNDS EMPLOYED ⁽²⁾

	12 mnths <u>Jun 04</u>	12 mnths <u>Jun 03</u>
Merchanting*	10.1 ⁽¹⁾	11.1
Australian Paper*	5.8	14.7
PaperlinX Group	7.5	12.3
* before allocation of corporate overheads		
⁽¹⁾ excluding Buhrmann paper merchanting division 12.0%		
⁽²⁾ EBIT / average funds employed		

OUTLOOK

Globally there are indications of a higher level of demand for paper products leading to reduced excess supply. In recent months some product segments have experienced tight supply. In many geographic regions and many product segments, paper manufacturers have either implemented or announced paper selling price increases partially recouping reductions experienced in the 2003/4 year. However there are also regions and products where paper selling prices and market conditions continue to be under pressure.

Generally, economic data in most major regions has been encouraging, especially the recent jobs growth and lift in advertising pages in the USA. The question that remains is whether these recent indications of economic growth, increases in paper demand and reduction in excess supply will lead to a sustainable increase in demand and higher selling prices for printing papers.

In Australia, the exchange rate appears to have stabilised around USD0.70, a reduction from the January 2004 level of around USD0.80, but a significant increase from 18 months ago when it was at USD0.56. For our Australian manufacturing business, the exchange rate level is a major influence on profitability as are the international selling prices and excess supply levels.

Taking account of the overall factors affecting the businesses, the Company's current assessment of the outlook is as follows:

- Australian Paper is a unique, strategically solid business which we expect to achieve sound returns over the cycle. The business profitability declined in 2003/4 due to adverse currency and selling price impacts, with the major impact in the second half of the year. Based on the currency stabilising, selling price increases being achieved and the forecast market conditions, we believe the business should recover from the trough of the January - June 2004 earnings level, to deliver a full year result in 2004/05 similar to 2003/04.
 - For Australian Paper's Communication Papers business, a strengthening environment is expected in the current half year following the continued price erosion experienced last year, leading to improving results in the second half of 2004/5.
 - The Packaging Papers business is expected to continue at the 2003/4 levels while the upgrade of the Maryvale 1 machine is undertaken. The upgrade is targeted to be completed in the October to December quarter in 2005.

- On the basis of recently announced paper selling price increases and continued realisation of synergy benefits, the merchanting businesses look to a continuation of their improving performance especially in our major regions, being Europe, Australia and in North America. The full year contribution of BPMD will have a positive impact on the group's performance.

PaperlinX is focussed on achieving the maximum synergy benefits of its business structure, delivering the targeted acquisition returns, continuing to support our customer base, investing to strengthen our existing brands and businesses and developing opportunities to enhance the business. PaperlinX is driving to capitalise on the strengths of its people, products, businesses and unique position and continue to build on its solid foundation to deliver improving returns to its stakeholders.

END

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