Interim Results 2005 / 2006

23 February 2006

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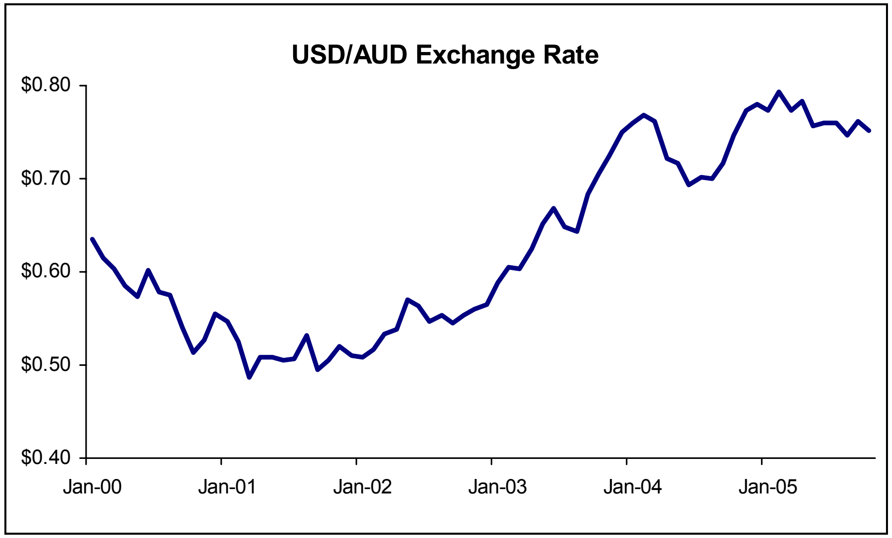
Presentation Sequence

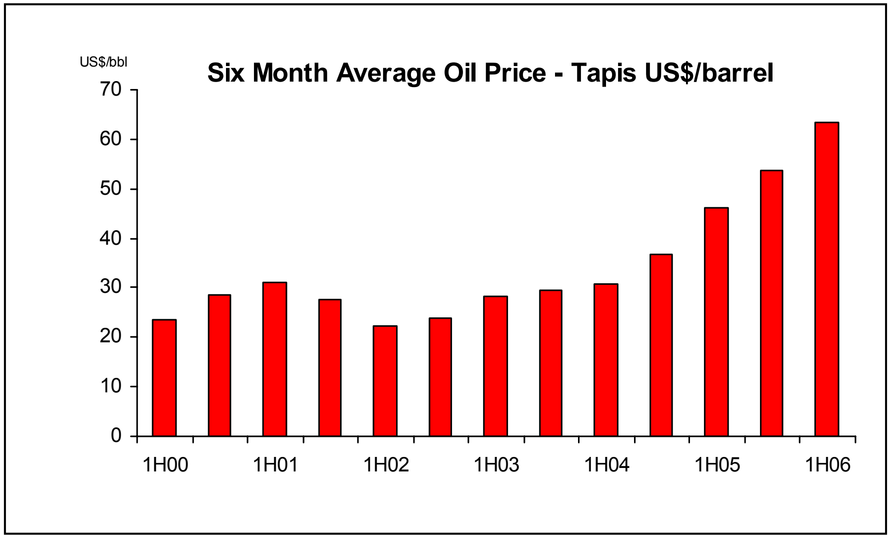
- Introduction and Overview
- PaperlinX 2006 Interim Result
- PaperlinX Merchanting
- Australian Paper
- Outlook
- Questions and Answers

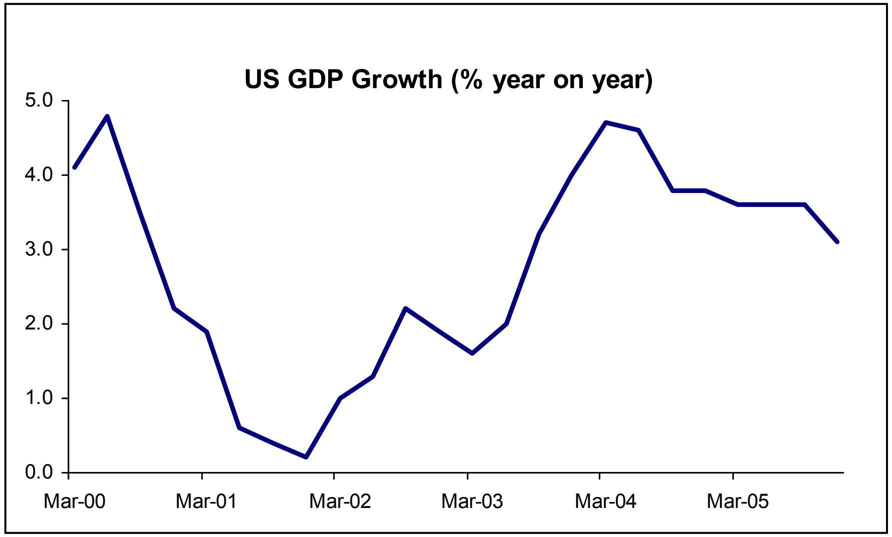
Six Month Overview

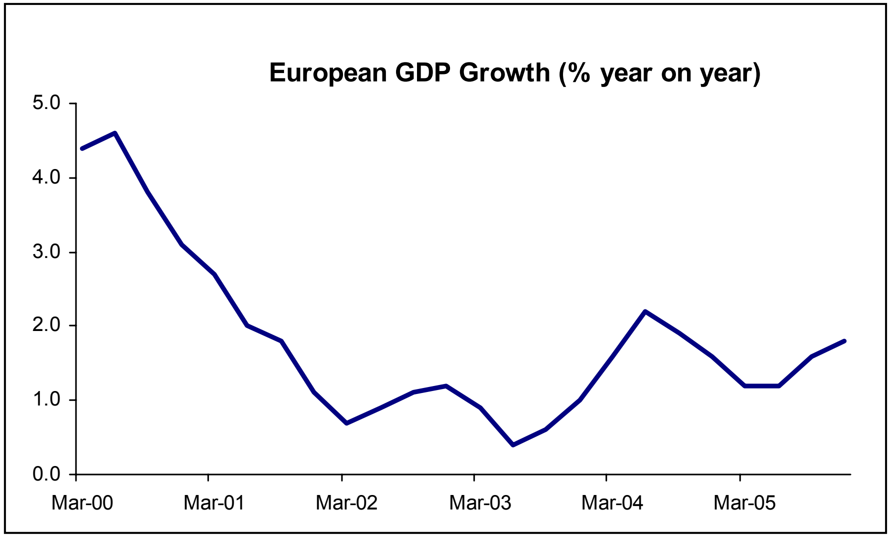
- These results reflect a continuation of the adverse trading conditions seen in the second half of fiscal 2005 and are well behind the results for the corresponding period last year (as indicated at our AGM)
- Returns have been maintained in the top quartile of global paper companies as a result of strategic diversification, tight expense management and reduced working capital versus prior period
- A number of key strategic initiatives have been developed and announced that are expected to contribute over $100 million in incremental operating earnings per annum in 2009
- While there have been some positive signs in terms of industry capacity rationalisation and price rise announcements in Europe, the U.S. and Australia, the overall environment has remained difficult and it is too early to call a turn

Macro Economic Environment Unsupportive

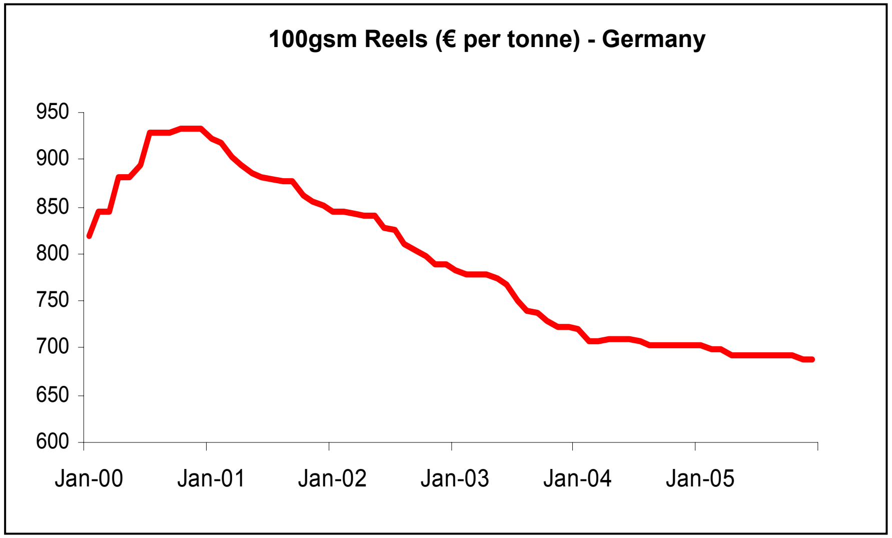


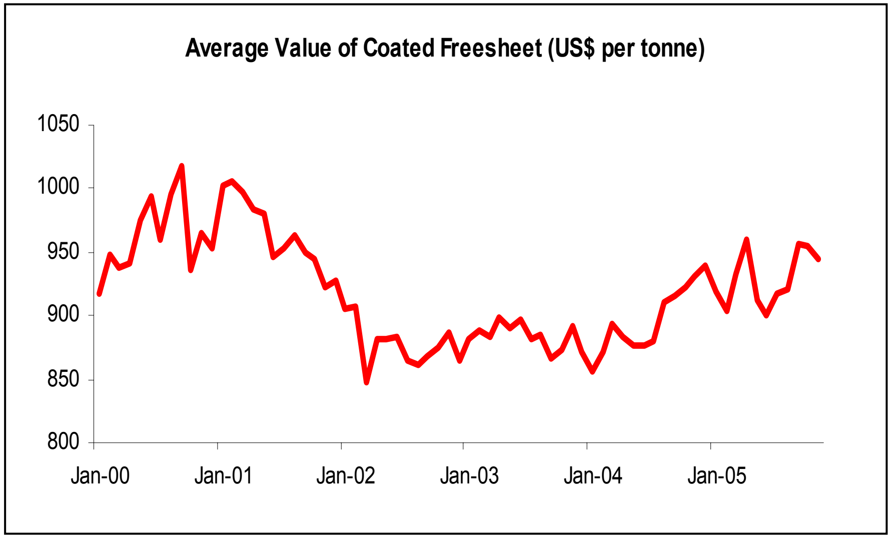


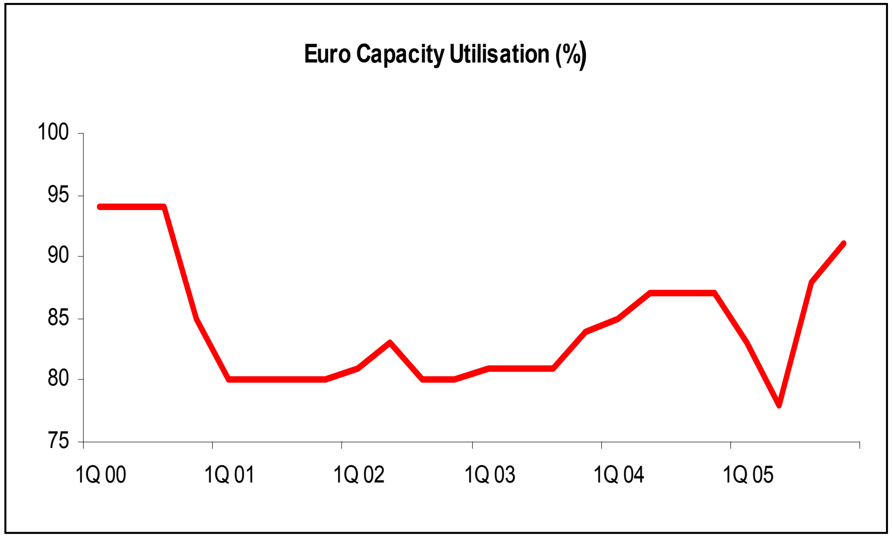


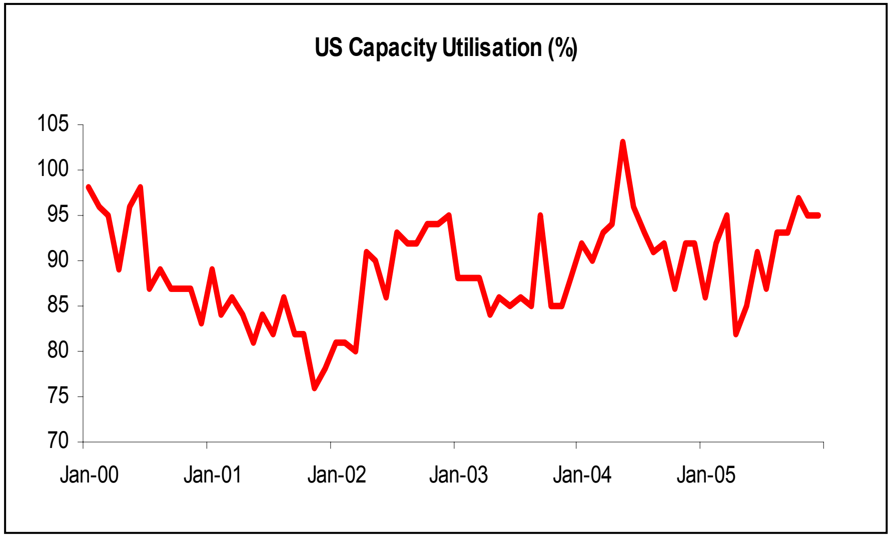


Coated Woodfree Paper

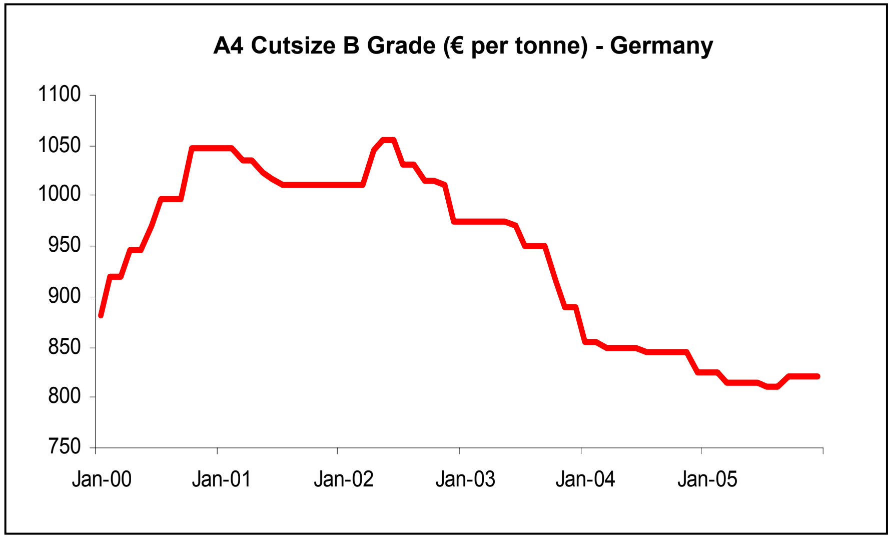


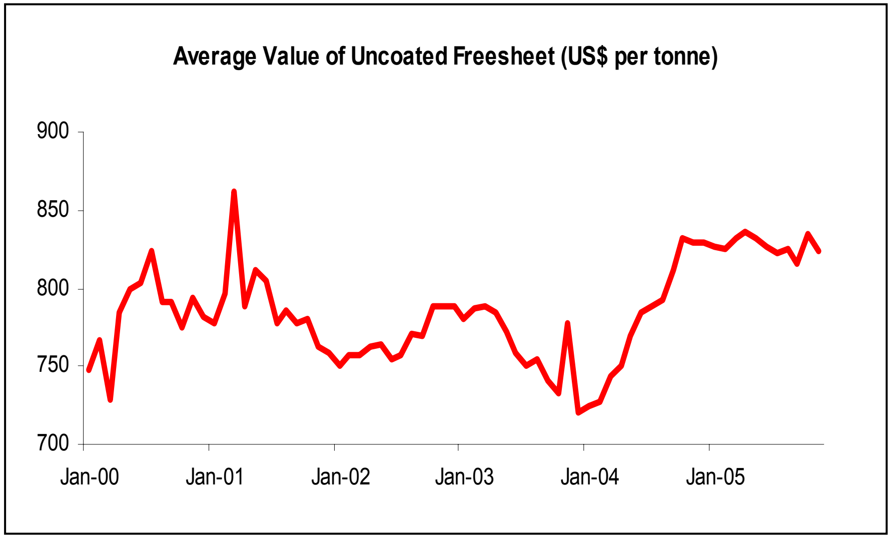


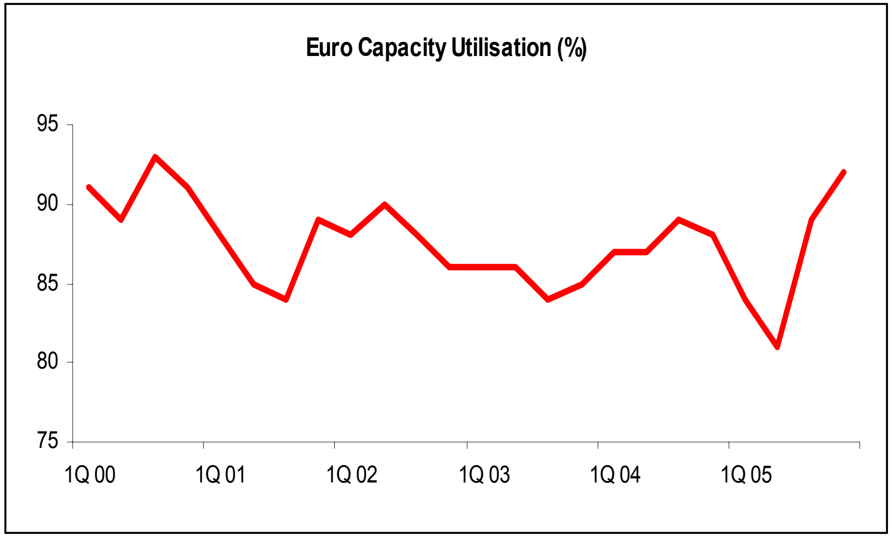


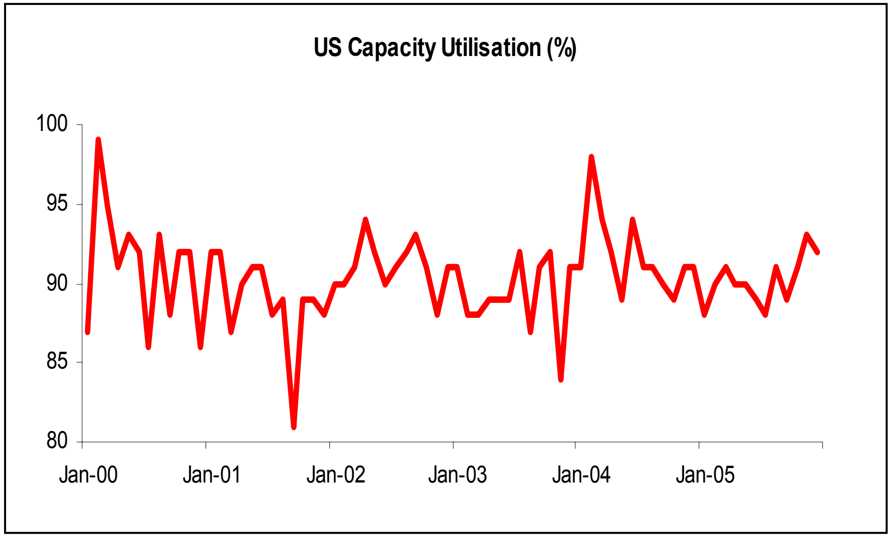


Uncoated Woodfree Paper









Source: RISI & Company Data

PaperlinX

Results for six months ended 31 December 2005

- Reported earnings of $35.3 million compare with $30.2 million for the six months ended 30 June 2005 but down 41% on the prior period reflecting a continuation of the difficult macro environment facing the paper industry globally
- EBIT of $79.2 million (down 28% on prior period) includes one-off gain on a property sale partially offset by small one-off restructuring charges
- Negative external factors partially mitigated by reduced working capital (down $123 million on December 2004) and lowering operating expenses in paper merchanting (down more than 3% on prior period)
- A range of strategic initiatives are underway across the Group
  - they range widely in size, style and timing, but are all consistent with our core operating principles and strategic direction
  - one-off restructuring costs are partially covered by profit on non-core asset sales (primarily property)
  - expected to generate over $35 million incremental EBIT benefit in 2007
  - expected to generate over $100 million incremental EBIT benefit in 2009

Financial Summary

		6 months to Dec 2004	6 months to Dec 2005
Sales Volume ('000 tonnes)		2,169	2,111
Sales Revenue	$m	3,891	3,593
EBIT	$m	109.7	79.2
Reported Earnings after Tax (excluding ATC)	$m	59.5 [1]	35.3
Earnings per share (excluding ATC)	cps	13.3 [1]	7.9
Dividend	cps	13.5	5.5
EBIT/Average funds employed	%	8.0	6.1
Net Debt / Net Debt & Equity	%	40.4	39.4

[1] including one-off $73 million Australian Tax Consolidation benefit in December 2004, prior year reported earnings were $132.5 and earnings per share was 29.7 cps

Core Operating Principles

Our Core Operating Principles have provided guidance to improve our competitiveness and position ourselves for improved returns going forward.

- Strengthen then build off existing business platforms
- Productivity to provide funds to improve sustainability and growth
- Simplification
- Actively prioritise activities based on value creation for our customers, suppliers and for PaperlinX
- Fully leverage our global opportunities
- Invest in our people and their skills
- Compliance is mandatory
- Results oriented teamwork/success as a team

Major Business Initiatives

Consistent with our core operating principles, a number of key business initiatives aimed at reshaping our existing business platform have been announced that will result in the creation of significant shareholder value

PROJECT	DESCRIPTION	LOCATION	BENEFITS
The Delivery Co launched	Integrate distribution	UK Merchants	Improved customer service, reduced costs, reduced environmental emissions, working capital savings
Netherlands Integration	Integration across 3 businesses	Netherlands Merchants	Enhanced customer service, improved business focus, reduced costs, working capital savings, improved competitiveness
Capacity Balancing	Transfer production from Shoalhaven 1 to Maryvale 3	Shoalhaven/Maryvale	Improved quality and consistency, reduced costs, reduced dependence on exports
Portfolio changes	Exit unsustainable markets	Sweden, Portugal, others	Improves management focus and returns

The Delivery Co

Additional Strategic Initiatives are Underway

There are a range of initiatives that are already underway that look to build on the strength of our existing business platform, to improve productivity and leverage on our global opportunities

INITIATIVE	STATUS	IMPACT
Common European IT platform	• platform selected/initial site underway (Ireland) • roll-out over 3-5 years	Facilitate logistics, supply chain and working capital benefits
Strategic Supplier Alliances	• discussions underway on global basis	Growth, supply chain efficiency, strategic support
Expansion to high margin complementary categories	• industrial packaging • sign & display • graphics	Margin improvements, leverage existing platforms
Growth of own Brands	• focus in all regions	Consistent/reliable supply to customers, proprietary benefits

Strategic Projects

There are also a number of capital investments that are already underway to build on the strength of our existing business platforms, improve quality and reduce costs

INITIATIVE	STATUS	IMPACT
Maryvale PM1 rebuild	• final commercial trials with customers	Improved product quality and performance
Maryvale Pulp mill upgrade	• Project approved, resourced, and underway • 3 year programme	Maryvale pulp self-sufficiency, lower production costs, improved environmental performance, improved quality
Cascades Resources acquisition in Canada	• Awaiting regulatory approval	Regional scale advantages Expansion in graphics/digital

Benefits from Strategic Initiatives

Upfront one-off costs for restructuring projects partially funded from profit on non-core asset sales (primarily property), as funds are released to improve competitiveness and productivity. Sustainable incremental operating earnings from currently identified initiatives expected to exceed $100 million per annum in 2009 with a positive contribution of over $35 million expected in 2007

Restructuring initiatives (The Delivery Company, Netherlands, Shoalhaven Mill)

	2006	2009
One-off costs	(- - -)	
Profit on asset sales	++	
Ongoing Benefits		+++
Net Benefits	($10 - 20m)	$30m+

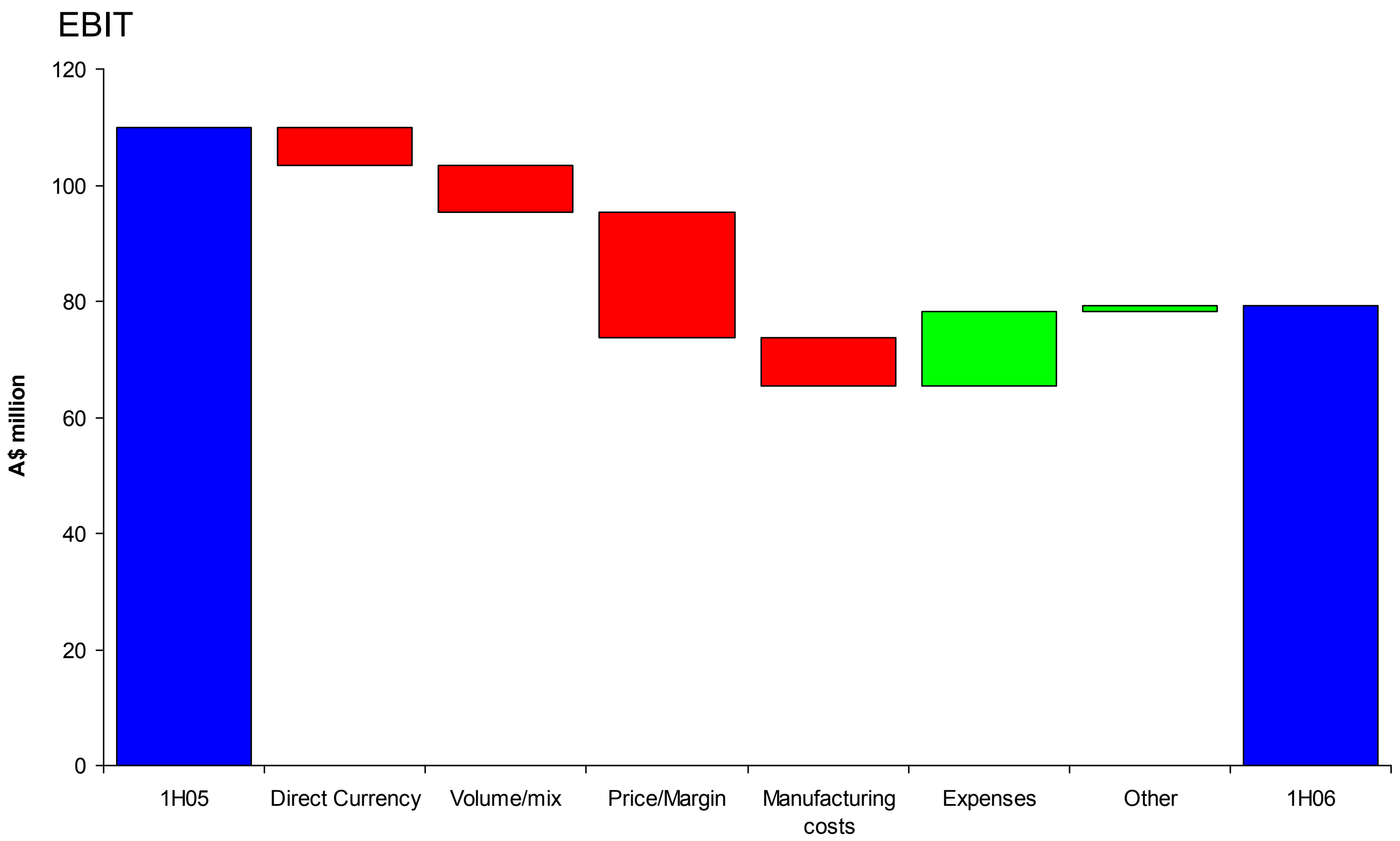
Additional Strategic Initiatives (Cascades acquisition, European IT Roll-out, Pulp mill upgrade, Strategic supply alliances, Australian Paper M1 upgrade, other)

	2006	2009
Net Benefits		$70m+
Total Potential Benefits	($10 - 20m)	$100m+

Key Financial Measures

		6 months to Dec 2004	6 months to Dec 2005
Working Capital	$m	1,482	1,359
Working Capital / Sales	%	19.0	18.9
EBITDA	$m	162	129
Operating cash flow	$m	8	(32)
Net Interest cover	X	3.0	2.4
EBIT / Average funds employed	%	8.0	6.1
Capital Expenditure (excluding acquisitions)	$m	37	46
Capital Expenditure (including acquisitions)	$m	79	47
Net tangible assets per share	$	2.56	2.41
Net Debt / Net Debt & Equity	%	40.4	39.4

Key Variances in EBIT



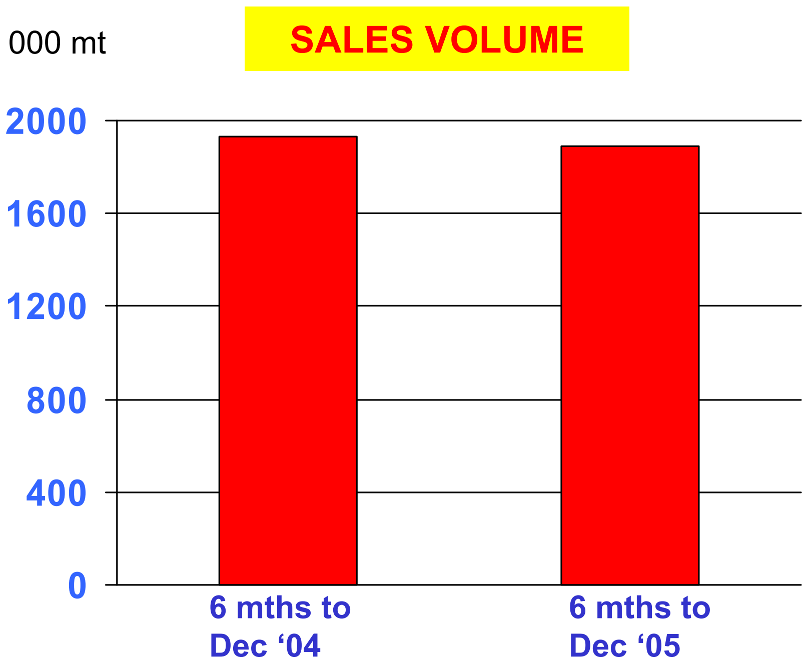
Corporate and Other

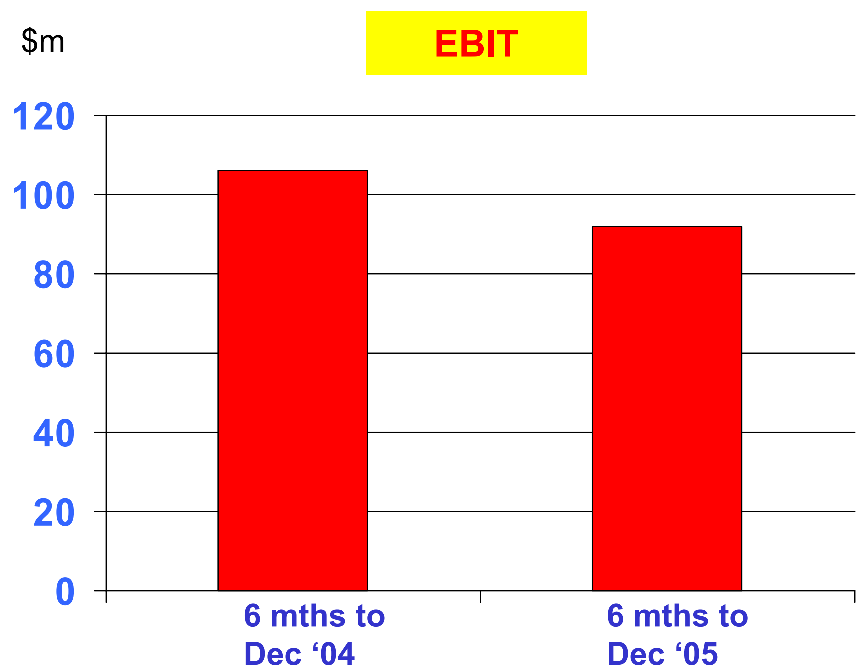
		6 months Dec 04	6 months Dec 05	Change %
Sales Revenue	$m	52	51	(2)
Earnings before Interest & Tax	$m	(12.8)	(15.4)	(20)

- Underlying corporate costs were at a similar level to prior period
- While Tudor Group made a positive contribution, earnings continue to be impacted by low priced import competition, with reduced pricing affecting margins
- Prior period one-off benefits were not repeated

Merchanting – Consolidated Result

		6 months Dec 04	6 months Dec 05	Change %
Sales Volume	'000 tonnes	1,931	1,885	(2)
Sales Revenue	$m	3,618	3,337	(8)
Earnings before Interest & Tax	$m	105.7	92.0	(13)
Return on Average Funds Employed	%	11.4	11.0	





Merchanting - Europe

		6 months Dec 04	6 months Dec 05	Change %
Sales Volume	'000 tonnes	1,276	1,231	(4)
Sales Revenue	€m	1,423	1,371	(4)
Earnings before Interest & Tax	€m	42.4	38.4	(10)

- European market remained challenging, with UK economy softening throughout the period. UK advertising spend down over 2% in September quarter reflecting particularly soft retail market
- Lower volume primarily driven by the UK slowdown, restructurings in France and Germany, as well as first quarter supply restrictions due to Finnish strike and impact of failed mill coated paper price increase in Q4 of fiscal 2005
- Average pricing stable, composed of positive improved stock/indent mix and branding countered by declines in key woodfree grades
- Some positive signs are emerging in Continental Europe, with cut size price increases appearing to hold

Merchanting - Europe continued

- Total expenses down 3.4% driven by strong performance in operating expenses and restructuring benefits
- Strong performance from Denmark benefiting from early integration of Hestbech
- Working capital continued to reduce, with improved performance on all measures
- Key projects underway include:
  - The Delivery Co (integrated UK logistics)
  - Netherlands integration
  - European IT rollout
- Results include €3.5m profit on sale of building in Denmark, and restructuring costs in the UK and Ireland

Merchanting – Australia and New Zealand

		6 months Dec 04	6 months Dec 05	Change %
Sales Volume	‘000 tonnes	311	307	(1)
Sales Revenue	A$m	531	512	(4)
Earnings before Interest & Tax	A$m	17.2	12.1	(29)

- Strong competition and the strong Australian dollar have resulted in selling prices in Australia being down 2% on the prior period and in New Zealand selling prices were 8% below last year
- January pricing announced to recover input costs
- Overall volume down 1%
- Expenses over 6% lower than prior period. Savings from prior year warehouse consolidation and improved debtor control
- Working capital reduced versus prior year

Merchanting - North America

		6 months Dec 04	6 months Dec 05	Change %
Sales Volume	‘000 tonnes	216	218	1
Sales Revenue	US$m	332	351	6
Earnings before Interest & Tax	US$m	10.1	11.7	16

- North American markets reasonable, with overall selling prices higher largely on the back of producer discipline with significant amounts of high cost production being shut
- Overall volumes in line with the prior year, with improvements in warehouse volumes largely offset by lower indent/direct ex-mill volumes
- Converted and proprietary branded volumes were up 17% across North America
- Expenses contained (ex sales commission flow on)

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Merchanting - North America - continued

- Coast Paper benefited from a range of internal management initiatives to be well ahead of the prior period, with improved working capital and expenses
- Kelly Paper also had a strong rise in profit with improved margins as this business continues to compliment Spicers in terms of market penetration in the US
- Reduced working capital combined with improved operating earnings resulted in a healthy improvement in returns
- Acquisition of Cascades Fine Paper merchanting division announced in November with completion expected by March 2006 pending regulatory approval

Merchanting - Asia

		6 months Dec 04	6 months Dec 05	Change %
Sales Volume	'000 tonnes	37	43	16
Sales Revenue	S$m	55	63	15
Earnings before Interest & Tax	S$m	2.0	2.5	26

- Healthy regional demand, however new Chinese capacity has kept pressure on prices
- Benefit of restructuring and focus on profitable businesses
- Market share gains supporting 16% volume growth
- Expense savings resulting from back office consolidation
- Working capital reduced and returns increased

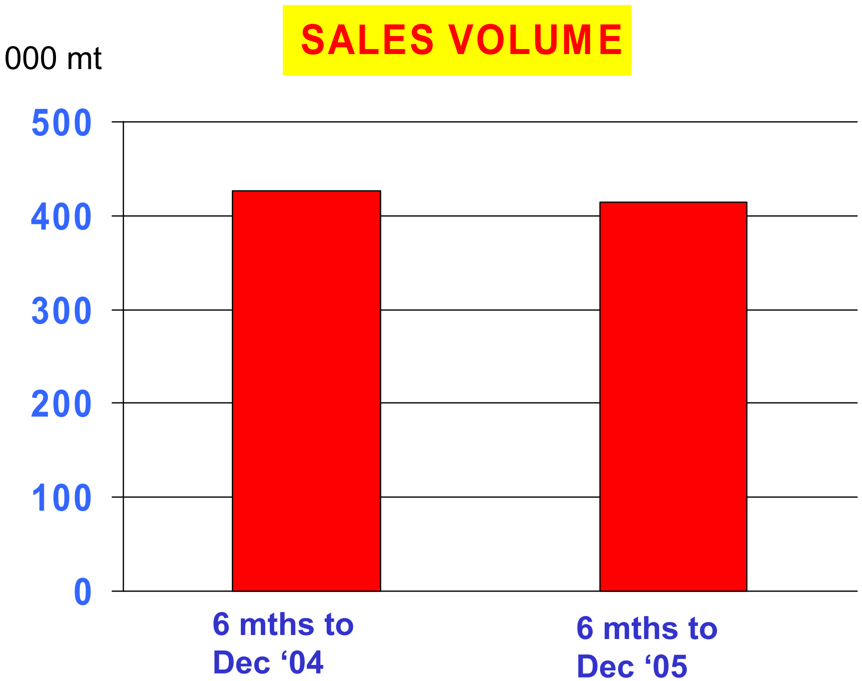
Paper Trading and Other

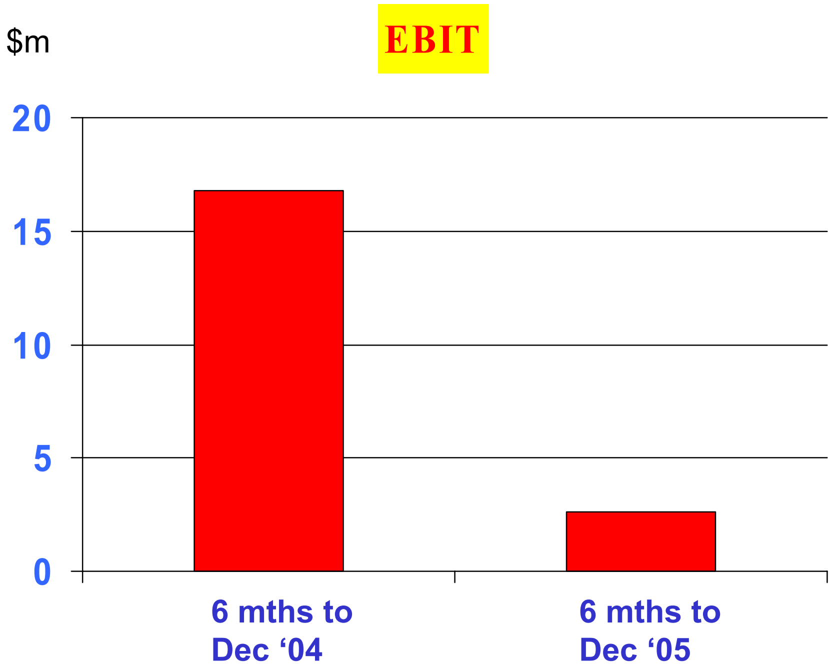
		6 months Dec 04	6 months Dec 05	Change %
Sales Volume	'000 tonnes	91	84	(8)
Commission Volume	'000 tonnes	131	140	7
Sales Revenue	A$m	85	69	(18)
Earnings before Interest & Tax	A$m	(1.6)	(0.4)	75

- Commission based business, with reduced sales volumes from Australian Paper (planned export reduction)
- Start up of Chinese capacity negatively impacted regional supply/demand balance
- Restructuring charge following closure of European trading business

Australian Paper - Consolidated Result

		6 months Dec 04	6 months Dec 05	Change %
Sales Volume	'000 tonnes	426	414	(3)
Sales Revenue	A$m	479	467	(3)
Earnings before Interest & Tax	A$m	16.8	2.6	(84)
Return on Average Funds Employed	%	3.7	0.8	





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Australian Paper - Overall

- Overall operating earnings have been severely impacted by lower pricing and the inability to recover cost increases over three years. While the period on period variation of these is smaller than in prior years, in dollar terms, this remains the overarching issue
- Global issues have not eased, and input costs have continued to rise, eroding margins
- Overall volumes lower as export sales reduced where cash contributions were negative. Domestic volumes increased 2% overall, while exports were down over 17%
- All major capital projects on track, M1 upgrade complete, pulp and bleach plant upgrade at Maryvale to improve paper quality, reduce pulp costs, and improve environmental impact on track
- Closure of number 1 paper machine at Shoalhaven Mill announced, with volume transferring to Maryvale, resulting in reduced exports. $15 million charge to earnings in second half of fiscal 2006
- Price increases announced for Australia in February of 2 - 5%

Australian Paper - Communication Papers

		6 months Dec 04	6 months Dec 05	Change %
Sales Volume	'000 tonnes	256	255	-
- Australia / New Zealand	%	75	80	
Sales Revenue	$m	350	344	(2)
Earnings before Interest & Tax	$m	10.6	(0.2)	na

- Domestic sales volumes began to recover, volumes up 6% versus prior largely due to improved sales of office papers. Key Reflex® brand of copy paper launched range of new products including Reflex® Platinum and papers containing increased recycled content.
- Total office paper volumes up 4% and domestic office papers sales up 24%
- New advertising supporting core "Rely on Reflex" message commenced February 2006
- Overall Australian market demand stable with key issue still low priced imported paper. Average prices 1.5% lower versus prior period

Australian Paper - Packaging Papers

		6 months Dec 04	6 months Dec 05	Change %
Sales Volume	‘000 tonnes	169	159	(6)
- Australia / New Zealand	%	78	79	
Sales Revenue	$m	129	123	(5)
Earnings before Interest & Tax	$m	6.2	2.8	(55)

- Australian linerboard segment impacted by lower demand by key customers due to increasing competition
- Export receipts negatively impacted and export volumes reduced.
- Continued negative impact from sack and bag segment for the half with lower domestic volumes and reduced export receipts
- Upgrade of Maryvale number 1 semi-extensible sack kraft paper machine completed with start-up and trials running to plan. Benefits expected to accrue in second half with volumes beginning to recover as customer trials of improved product are completed
- Efficiencies on Maryvale number 4 have improved from F’05 levels through the period

2006 Interim Summary

- Net earnings of $35.3 million reflects the impact of adverse trading conditions, with average selling prices lower in most areas, supply imbalances remaining in a number of markets and a high Australian dollar impacting on manufacturing
- Currency and cost increases have continued to depress our Australian Paper manufacturing business
- Improvements in North America and Asia highlight the upside potential when pricing stabilises or increases
- Healthy merchanting ROAFE of 11% in historically weak markets reflects reduced expenses (over 3%) and working capital reductions along with integration benefits realised.
- Strategic acquisitions and small bolt-ons continue to drive value in merchanting
- A growing list of strategic projects to improve competitiveness / productivity expected to generate annual sustainable operating earnings benefit over $100 million in 2009, with $35 million benefit in 2007
- Dividend reflects a 70% payout ratio, unfranked

Business Outlook - Overall

- No positive upturn in markets yet anticipated
  - announced capacity reductions in NA / Europe will be positive over time
  - overall demand remains modest
  - some pricing to recover recent lost ground
- PaperlinX has configured towards more profitable volumes
- Ongoing delivery of reduced costs and working capital
  - progress over last 2 years (since acquisition of Buhrmann's paper merchanting) to continue
- Strong list of productivity/competitiveness projects generated and resourced
  - profit on sale of non-core assets (primarily property) to partially fund restructuring
  - net fiscal 2006 cost of $10-20 million including $15 million charge for closure of Shoalhaven PM1
  - +$35 million benefit in 2007
  - +$100 million benefit in 2009
- Merchanting growth opportunities are being addressed to leverage the existing global platform and build value
  - Cascades Resources acquisition in Canada
  - small bolt-ons in Europe
  - divestments as appropriate
- Focus remains on improved competitiveness, economic profit and shareholder returns through the cycle

Our Key Brands

motif®

Pacesetter™
Gloss & Matte

9lives™

Australian
Sustaining our future

impress.

ON

CORE
THE ESSENTIALS

tango®
always performing

HELLO

SAXTON

OPTIX
see the difference

REFLEX®

Tudor

SpringLeaf
Affordable creative papers

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