WE KNOW PAPER!

PaperlinX

CONCISE ANNUAL REPORT 2006

IT'S OUR BUSINESS

Contents

2006 Concise Annual Report

This is the Concise Annual Report published by PaperlinX Limited. The 2005 and 2006 results have been reported under Australian equivalents to International Financial Reporting Standards (AIFRS). Prior periods to that have not been adjusted.

2006 Full Financial Report

A copy of the PaperlinX Limited 2006 Full Financial Report, including the Independent Auditors' Report, is available to all shareholders and will be sent to shareholders without charge upon request. The Full Financial Report can be requested by telephone (Australia 1800 232 867, outside Australia +613 9415 4000) or by email at contact@paperlinx.com.au.

Alternatively, the Full Financial Report and Concise Annual Report can be accessed on the PaperlinX website at www.paperlinx.com.

Annual General Meeting

The seventh Annual General Meeting of PaperlinX Limited will be held in the Ballroom, Park Hyatt Melbourne, 1 Parliament Square (off Parliament Place), Melbourne, Victoria at 11.00am on Friday 20 October 2006.

Financial Calendar

Full Year Results 2006	22 August 2006
Record Date for 2006 Final Dividend	22 September 2006
Final Dividend Mailed	13 October 2006
Annual General Meeting 2006	20 October 2006
Interim Results 2007	22 February 2007
Full Year Results 2007	24 August 2007

Forward Looking Statements

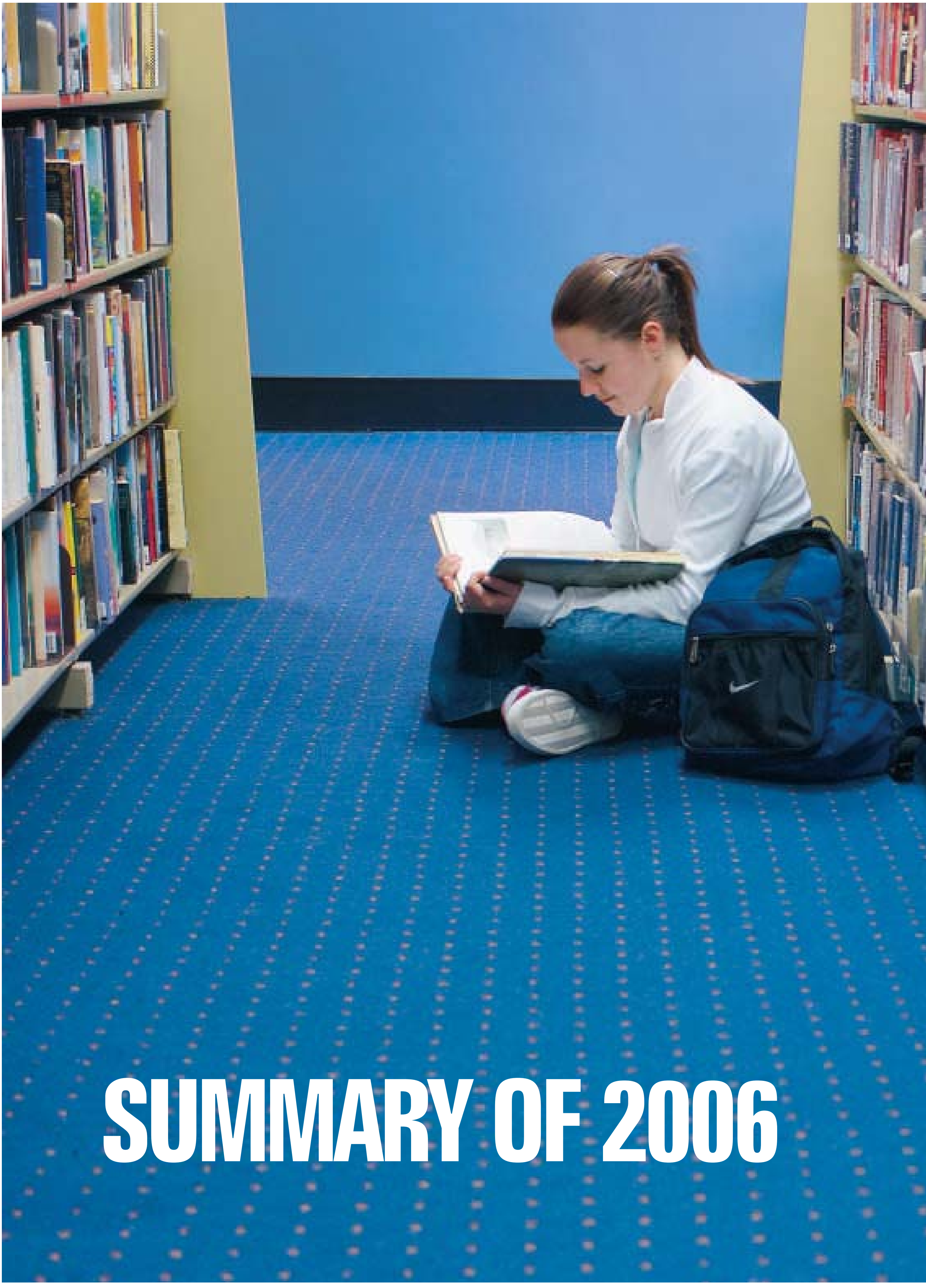
Certain statements in this Report relate to the future, including forward looking statements relating to PaperlinX's financial position and strategy. These forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or achievements of PaperlinX to be materially different from future results, performance or achievements expressed or implied by such statements. Neither PaperlinX nor any other person gives any representation, assurance or guarantee that the occurrence expressed or implied in any forward looking statements in this document will actually occur and you are cautioned not to place undue reliance on such forward looking statements.

Subject to any continuing obligations under applicable law or any relevant listing rules of the ASX, PaperlinX disclaims any obligation or undertaking to disseminate any updates or revisions to any forward looking statements in this document to reflect any change in expectations in relation thereto or any change in events, conditions or circumstances on which any such statement is based.

PAPERLINX, THE WORLD'S LEADING INTERNATIONAL PAPER MERCHANT AND A UNIQUE AUSTRALIAN MANUFACTURER OF PACKAGING PAPER AND HIGH PERFORMANCE COMMUNICATION PAPER, HAS AN UNPARALLELED OFFERING – PROVIDING SUPERIOR LOCAL CUSTOMER RELATIONSHIP MANAGEMENT WHILST LEVERAGING ITS GLOBAL EXPERTISE.

IT'S ALL ABOUT THE PAPER!

RENEWABLE. SUSTAINABLE. RECYCLABLE.



SUMMARY OF 2006

06

Continuation of challenging market conditions has kept pressure on earnings and our ability to improve short-term returns.

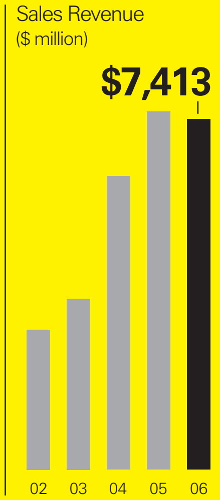
Our core operating principles provide guidance to our people, direction for our business and have led to the development of initiatives to increase value for PaperlinX regardless of the external environment.

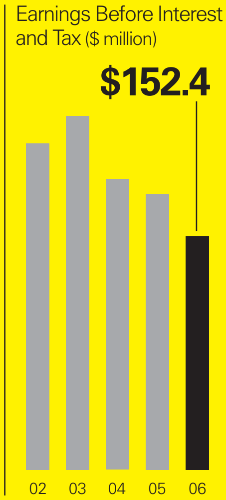
A strong focus on cost control, working capital, productivity improvements and the sale of surplus assets have allowed us to progress key restructuring activities that will provide significant long-term incremental returns to shareholders.

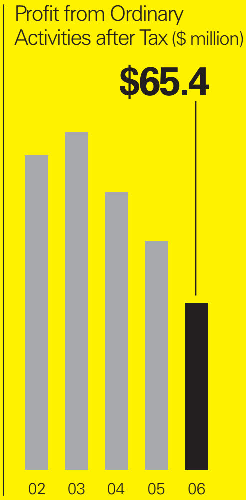
PaperlinX has clear leverage to the upside if industry dynamics improve. While below targets, current returns remain in the top quartile among global paper companies.

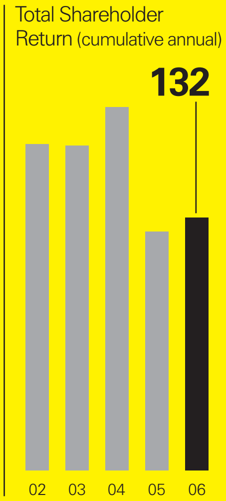
We have continued to make sound progress in the key areas of environment, health and safety with improvements in all key measures.

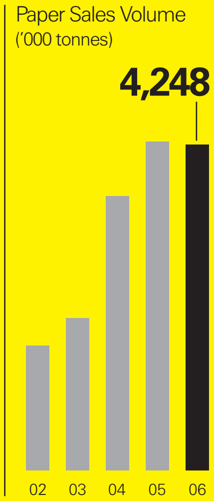
HIGHLIGHTS

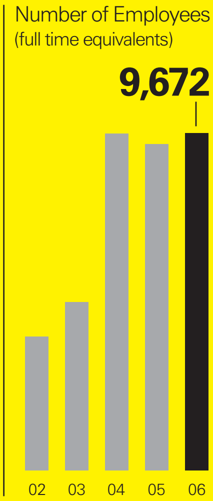












Note: For all graphs, 2005 and 2006 reported under AIFRS. Prior years as previously reported (i.e. unadjusted for the change to AIFRS). In this Report, currency is in Australian dollars unless otherwise indicated.

SUMMARY FINANCIALS

		PaperlinX Limited and controlled entities		
Year ended 30 June		**2006**	**2005**	**% change**
Sales revenue	$m	7412.7	7,574.1	(2)
Earnings from ordinary activities before interest, income tax, amortisation and depreciation	$m	257.1	293.0	(12)
Earnings from ordinary activities before interest and income tax	$m	152.4	180.1	(15)
Profit from ordinary activities before tax	$m	87.3	111.6	(22)
Profit from ordinary activities after income tax (excluding ATC)	$m	65.4	89.6	(27)
Profit from ordinary activities after income tax (including ATC)	$m	65.4	166.6	(61)
Key Ratios				
Earnings from before interest and income tax to average funds employed	%	6.2	6.7	
Working capital to sales	%	16.5	16.1	
Operating cash flow	$m	259.8	273.4	
Net interest cover (times)	x	2.3	2.6	
Net debt/Net debt and equity	%	36.0	35.9	
Earnings per share (excluding ATC)	cps	14.7	20.1	
Earnings per share (including ATC)	cps	14.7	37.3	
Dividend per share	cps	10.0	25.5	

Note: In this statement, currency is in Australian dollars unless otherwise indicated.
2005 results included a one-off benefit of $77 million from entering the Australian Tax Consolidated regime (ATC).

	Operating Earnings		Sales Revenue		Total Assets	
	Jun 2006 $m	**Jun 2005 $m**	**Jun 2006 $m**	**Jun 2005 $m**	**Jun 2006 $m**	**Jun 2005 $m**
Industry Segments						
Paper Merchanting						
• Australasia	27.0	31.1	1,230	1,278	505	532
• Europe	123.5	133.8	4,555	4,867	2,187	2,140
• North America	39.9	29.2	1,145	890	569	382
Total Paper Merchanting [1]	190.4	194.1	6,930	7,035	3,261	3,054
• Communication Papers	(9.4)	2.1	674	700	635	623
• Packaging Papers	5.3	10.0	242	243	298	292
Total Australian Paper [2]	(4.1)	12.1	916	943	933	915
Corporate and Other	(33.9)	(26.1)	95	101	122	113
Operating earnings before interest and income tax (EBIT)	152.4	180.1				
Net interest	(65.1)	(68.5)				
Income tax expense	(21.9)	(21.9)				
Outside equity interests	0.0	(0.1)				
Inter-segment sales			(528)	(505)		
Unallocated assets (deferred tax assets)					74	85
Total	65.4	89.6[3]	7,413	7,574	4,390	4,167

Notes:
[1] 2006 EBIT includes net one-off benefit of $9.4 million. 2005 EBIT one-off cost of $(9.9) million.
[2] EBIT includes net one-off cost of $13.6 million.
[3] Excludes benefit of entering Australian Tax consolidation regime of $77 million.

CHAIRMAN'S REPORT

> "During 2006 we either implemented or commenced implementing a number of restructuring and development programmes, which involve investing current capital and current earnings to provide improved profitability and returns for shareholders in the longer term."

The 2006 results for PaperlinX have again been negatively impacted by adverse trading conditions in most of our major markets. However, the platform of businesses we have built up over the past five years has continued to provide some balance with the substantial earnings from our Paper Merchanting operations continuing to partly ameliorate the depressed earnings and returns from our domestic manufacturing operations.

The results of the past few years demonstrate that the paper manufacturing and paper distribution industries operate within a tough and competitive global environment. Many of the macroeconomic factors that affect the demand for and prices of paper products are clearly outside the control of individual companies, including PaperlinX. However, we are able to control how we respond to these negative factors and take action to restructure and reshape our businesses to produce longer-term sustainable returns. During 2006 we either implemented or commenced implementing a number of restructuring and development programmes, which involve investing current capital and current earnings to provide improved profitability and returns for shareholders in the longer term.

Our results for the year reflect the significant impact of negative movements in key external factors, including global oversupply of paper caused by excess manufacturing capacity, a continued weak US dollar and rising input costs for items such as oil and wood pulp. However, while all sectors of our business have been impacted to some degree by these external factors, our Merchanting business has proved to be less volatile on the downside and provided significant leverage on the upside. Our early recognition of this factor has influenced the strategic direction of PaperlinX with the result that the majority of our earnings today is being contributed by Merchanting businesses we have acquired over the past four years. With the benefit of an 11.5 per cent return for Paper Merchanting, our overall return on funds employed of 6.2 per cent is below our targets but in the top quartile compared with other global paper companies.

In responding to the current economic challenges, we have focused on the key areas within our control such as operating costs, working capital management, logistics and strategic supplier partnerships and also on the development of our people. Our focus is on improving the returns from our Merchanting and Manufacturing businesses and this has involved making some challenging decisions during difficult economic and trading conditions. However, the Board and management have recognised that it is important to invest capital and earnings now to ensure the longer-term earnings of our businesses and to deliver improved returns for our shareholders. We have taken steps to strengthen our existing businesses, to exit businesses where we do not have competitive advantage and to acquire businesses that will improve our market positions and profitability. Recent initiatives include commencement of the substantial project to upgrade the pulp mill and bleach plant at Maryvale, the closure of a paper machine at the Shoalhaven Mill, the acquisition of Cascades Merchanting in Canada (now called Spicers Canada), the restructuring of our Merchanting operations in the Netherlands and the significant rationalisation of our market delivery operations in the UK. Most of these actions will have a negative short-term impact on earnings but are critical to the long-term success of PaperlinX.

As announced previously, the Board has activated the Dividend Reinvestment Plan (DRP) to assist shareholders to acquire additional shares in PaperlinX without brokerage, stamp duty or other transaction costs. The total dividend for the year of 10.0 cents per share represents a pay-out ratio of approximately 70 per cent of our earnings per share.

In the governance area, we have proposed a restructuring of the Directors' remuneration arrangements, which involves terminating the existing Non-executive Directors' retirement scheme and adjusting cash remuneration to compensate for this change. This restructuring results in a slight reduction in the total remuneration paid to the current Non-executive Directors. In addition, the Board has decided to commence progressive retirement by Directors to avoid a situation where a number of Directors reach their retirement date at the same time. To assist the transition of new Directors into PaperlinX, the Board intends to have an overlap in time between the appointment of new Directors and the retirement of existing Directors. This process will continue over the next few years, but the intention is to maintain the existing number of six Non-executive Directors in the longer term.

On behalf of the Board, I would again like to recognise the substantial effort of our management team over the past 12 months and thank all employees for their effort and commitment during what has been another difficult year. I would also like to acknowledge the contribution made over the past six years by Darryl Abotomey, our foundation Chief Financial Officer, who retired as a Director during the year.

The Board also appreciates the support of our shareholders and other stakeholders as we commit ourselves to securing the long-term future of PaperlinX.

David Meiklejohn
Chairman

MANAGING DIRECTOR'S REPORT

"2006 was a year of contrasts. The difficult external environment that has impacted our earnings so much over the past few years has continued, but we are also beginning to see the benefits from our internal initiatives. These initiatives are doubly important in tough times; they help mitigate negative external impacts and they release funds to support our future growth."

The theme of this Report is paper. Paper is a wonderful material. It is highly versatile. The paper you use says something about both the message and the user. Paper has been part of mankind's interactions for thousands of years and is yet to be rivalled as a way to deliver a message or relay information.

It is made from renewable fibre sources, it costs nothing to run once printed and it is recyclable. Paper from a responsible and sustainable supplier is just that, the responsible and sustainable way to deliver your message.

But the paper industry today has too much manufacturing capacity. This has impacted pricing and earnings, but we are now seeing manufacturers in key markets recognising that the solution is in their hands. A significant amount of North American high-cost capacity has been shut and European manufacturers are starting to announce reviews and closures.

In this environment we have moved strategically to reduce our volatility by building the only true global paper merchant from our original manufacturing base. Our results show that we have not been immune to the external factors impacting our industry and Australian manufacturing, but our results, though well below our targets, also show that our returns are in the top quartile compared with our international sector peers with substantial upside leverage to improvements in the sector.

We have aggressively pursued a range of strategic initiatives over the past two years. Benefits from these will flow into 2007 and beyond with more positive initiatives being developed.

Group Results

The PaperlinX net profit after tax for the 2006 financial year was A$65.4 million, down 27 per cent on last year's A$89.6 million (excluding the benefit of Australian Tax Consolidation). This result continues to reflect the structural imbalances in global paper supply and demand, along with sharply higher input costs. It also includes significant one-off restructuring and closure costs that we have funded internally through sale of surplus assets. These one-off costs are investments in our future, with significant and growing benefits to earnings in coming years as I will discuss later.

After a weaker first half, the underlying result in the second half of the year stabilised, showing a lift over the second half of the prior year.

Group operating earnings before interest and tax were A$152 million, down 15 per cent on last year. We saw weaker results in our Australasian and UK merchanting businesses and Australian Paper, and a strong performance in North America and Asia reflecting our leverage to any improvements in the external environment. Continued focus on expense management and working capital helped the Company to generate operating cash flow of A$260 million. Working capital was A$92 million lower than last year (excluding currency impacts and acquisitions). Reducing working capital from existing business activities allows us to improve returns and to largely fund growth of the business internally.

While our current profits are not where we want them to be and not at a level that allows us to provide the level of returns we have targeted for our shareholders, our progress on our internally generated opportunities is encouraging.

Core Operating Principles

These have provided guidance to our people in prioritisation and decision-making and are now clearly reflected in the strategic initiatives identified to strengthen our business in this difficult environment. Our core operating principles are:

- 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.

MANAGING DIRECTOR'S REPORT

Key Strategic Initiatives

In this difficult external environment, we have followed our core operating principles to focus on the things within our control that will build a better and stronger Company for the long term. Certainly we have had to address costs and manage our spending to match our current level of earnings, but we have also continued to invest in our people, our service to customers, and in expanding in areas where we have competitive advantages. These investments have been funded from reductions in working capital and the sale of surplus assets.

The list of initiatives highlighted at the half year is expected to add at least A$35 million to underlying operating earnings in 2007, and at least A$100 million in 2009. Additionally, two new initiatives have been announced. These initiatives, while having a one-off cost of around A$12 million in 2007, will contribute positively to operating earnings beyond that and meet all of our return criteria.

Not all of our decisions have been either easy or pleasant, but all have been aligned with our strategic direction and been important steps towards the future. The following list shows the key projects underway across the Group and their current status:

Cascades Merchanting Acquisition (Canada)

Complete, year three target return already achieved (15%+)

- Build economies of scale and realise synergies by growing Canadian merchanting platform.

Exit of Portuguese Market

Completed

- Exiting small, poorly performing paper merchanting businesses.

Shoalhaven Mill Paper Machine 1 Closure

Completed on schedule

- To improve overall operating efficiency by replacing unprofitable products made for the export market at Maryvale with products that were previously manufactured on Shoalhaven PM 1.

Upgrade Maryvale Mill Paper Machine 1

Complete, uptake improving from slow start

- World-class product quality to enhance our competitive position.

Maryvale Pulp Mill Upgrade

On schedule, on budget

- To improve paper quality, reduce pulp production costs, replace 80,000 tonnes of imported pulp and improve our environmental impact by upgrading the current pulp capacity and bleach plant.

Netherlands Integration

On plan, integration underway

- Integration of paper merchanting businesses in the Netherlands to realise synergies in commercial print and packaging services.

The Delivery Co (UK)

First site operational as scheduled

- Integration of the individual logistics operations of UK paper merchants to optimise customer service, maximise efficiency and minimise the environmental impact of distribution activities.

European IT Platform

First implementation successful

- Creation of a common IT platform to improve inventory and warehouse control in order to improve working capital management, deliver a range of other synergy benefits and improve service to customers.

Strategic Supplier Alliances

Progressing as expected

- Working with strategic suppliers to build competitiveness and grow volumes together.

New Strategic Initiatives

PaperlinX Office

Plans initiated July 2006

- Combining three Australian businesses that service the office products and stationery market in Australia.

Maryvale Mill Wood Yard

Conditional agreement reached

- Outsourced new wood yard facility for Maryvale Mill in Australia to further enhance the quality and consistency of pulp to be produced at Maryvale's upgraded pulp facilities.

Business Performances

I will now look at our operating businesses individually.

Our overall Paper Merchanting business delivered an 11.5 per cent return on funds employed as a result of volumes down 1 per cent, revenue down 2 per cent, but balanced by expenses down 2 per cent and good reductions in working capital in all regions. This return exceeds our cost of capital.

Volumes for Australasian Paper Merchanting were 3 per cent lower than last year, primarily due to lower volumes in New Zealand. Market conditions remained highly competitive, with average prices down 2 per cent in Australia and New Zealand. Asian prices were up 3 per cent, with improved earnings and market share growth. Paper Trading was constrained in volume due to lower exports from Australian Paper, but still grew operating earnings.

Market conditions remained stronger in the US than was evident in other markets, and results in North American Paper Merchanting reflect both that and the benefits of internal initiatives. The acquisition of Cascades Merchanting (now called Spicers Canada) was completed in March, and delivered strong earnings and working capital reductions. Returns are currently running at over 15 per cent, already exceeding the target we set to achieve by the end of year three. Kelly Paper in the US performed well. Underlying volumes in North America were up 5 per cent, which included strong growth in proprietary brands and sheeter volumes (up 15 per cent). Coast Paper in Canada has seen a particularly pleasing improvement in performance resulting from clear management focus despite the Canadian market facing many of the same macro issues seen in other non-US markets.

European market conditions were again mixed. Continental European countries were somewhat more positive than in the prior year, while the UK market weakened as the year progressed after a more buoyant 2005. Given the high weighting of the UK in our European business portfolio, we saw overall volumes slightly lower and both margins and profits impacted. Continued improvements in expenses (down 2 per cent) and working capital reductions (down 7 per cent excluding acquisitions) were encouraging. Europe will benefit in coming years from a number of key strategic initiatives that will build on the acquisition synergies already successfully achieved.

The external pressures on our paper manufacturing business, Australian Paper, have continued. The closure of the number 1 paper machine at Shoalhaven Mill is a reflection of our need to make step changes in our business as demanded by this environment, and will lead to improved returns. We are investing in areas of competitive advantage including the Maryvale pulp mill upgrade, the consolidation of Paperlinx Office, the growth of our copy paper brands like Reflex™, and in other quality upgrades. Underlying operating earnings have stabilised over the past three halves and, while external costs such as oil, pulp and chemicals have continued to rise and remain a risk, we believe we are making the necessary decisions to strengthen Australian Paper.

In addition to our internal initiatives we will need some assistance from the external market to bring Australian Paper to an acceptable level of return.

Branding and Why We Do It

The value proposition we offer our customers is more than a sheet of paper. We must be competitive on price, but we must also help our customers to realise the value from the suite of services we offer beyond that sheet of paper. It involves quality and reliability, a wide range, availability and the ability to deliver when and where needed. It involves knowledge and technology skills. We also have unique global reach. All of this allows us to offer our customers relevant and meaningful value propositions that are represented by our brands.

In the last year we saw growth in our branded volume of 8 per cent, well ahead of the market.

Our People

How we bring together the collective knowledge and enthusiasm of our people will determine our long-term success. To support our people and grow their skills we must invest in them.

In 2006, we completed training for around 300 of our most senior managers, looking at leadership skills as well as introducing a common approach to building economic profit to create value for shareholders.

We have an advanced sales training programme underway to provide our salespeople with additional tools to be able to better define and communicate our value propositions to our customers, and we will continue to roll out new programmes to support the development and growth of our people.

Workplace safety is also a key priority for our people at PaperlinX. Our Sustainability Report highlights many of the initiatives occurring across the Group in this area. Our key measures of performance in this area, lost time injury frequency rate (LTIFR) and medically treated injury frequency rate (MTIFR), were down 27 per cent and 26 per cent respectively on last year with a particularly good improvement in the European businesses and with the impact of the 'Search for the Future' initiative at our Maryvale Mill.

Conclusion

This year has been about focus. Focus on our products. Focus on the areas within our control. Focus on our customers and our unique offering. To be successful we need to be better. Better than we are today and better than our competition. We need to have the best product portfolio with differentiated products. We need simple and clear value propositions. Our focus this year has moved us well down this path.

While there do appear to be more positive developments occurring within the industry to address some of the structural issues I have mentioned, business conditions remain challenging. We will remain focused on delivering the commitments to our shareholders, suppliers, customers and our employees that we can control.

I would like to thank my fellow employees for the progress we have made this year and for the courage they have shown in looking for new ways of doing business. The energy and collaboration to identify and deliver better ways of operating are increasingly visible across the Company and underpin our future success.

Thomas P Park
Managing Director and
Chief Executive Officer

OUR GROUP STRUCTURE

SENIOR MANAGEMENT

Tom Park
Managing Director and Chief Executive Officer

Tom was appointed Managing Director and Chief Executive Officer of PaperlinX Limited in February 2004. He was previously Chief Executive Officer of Goodman Fielder Limited and Chief Executive Officer of Southcorp Limited. Tom has broad business experience in Australia, Asia, North America and Europe.

David Lamont
Chief Financial Officer

David joined PaperlinX as Chief Financial Officer in February 2006 and has worldwide responsibility for finance, taxation, commercial, legal, audit and business systems. David was previously Chief Financial Officer of BHP Billiton's Carbon Steel Materials business and has held a number of senior finance roles in the mining, chemical and agricultural industries.

David Goldthorp
Executive General Manager, Corporate Development

David returned to the position of Executive General Manager, Corporate Development for the PaperlinX Group in July 2006. David previously held the role of Chief Operating Officer, Australian Paper from September 2003 and has held a number of senior operational positions during his tenure. David's new role will support the continued strategic development of the Group.

Ross O'Brien
Executive General Manager, Human Resources

Ross joined PaperlinX in March 2003 and is responsible for developing the Group's worldwide human resources and environment, safety and health policy and strategy. Ross has held various senior executive level roles in human resources and operational areas in Australia, the US and Europe.

David Shirer
Executive General Manager, Corporate Affairs

David was appointed Executive General Manager, Corporate Affairs in May 2004 and has responsibility for investor relations, external communication including media relations, and internal communication. David joined PaperlinX in 2000 as Executive General Manager, Corporate and Investor Relations and has broad experience in investor relations and the finance industry.

Chris Creighton
President, PaperlinX North America

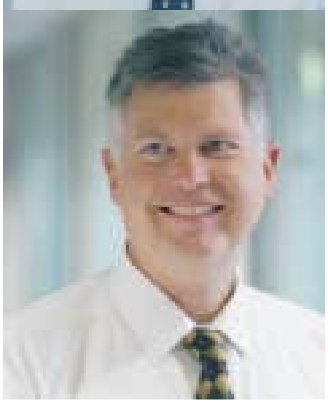
Chris was appointed President, PaperlinX North America in March 2001 and has responsibility for the operations in the US and Canada. Chris has an extensive background in merchanting and has held various senior positions in Australia and North America.

Eduard de Voogd
Chief Executive Officer, PaperlinX Europe

Eduard was appointed Chief Executive Officer, PaperlinX Europe in November 2003 and has responsibility for the growth and strategic direction of the Merchanting businesses in Europe. Eduard has held a number of senior marketing and management positions in PaperlinX's European operating companies.

Martin Fothergill
Group General Manager, Merchanting Australasia

Martin was appointed Group General Manager, Merchanting Australasia in November 2005 with responsibility for Australia, New Zealand, Asia and Paper Trading. He was previously Regional President, UK and Ireland and joined the PaperlinX Group in 2002 as Managing Director of Bunzl Fine Paper in the UK, later renamed The Paper Company. Martin has over 30 years of experience in Paper Merchanting.



Jim Henneberry
Executive General Manager, Australian Paper

Jim joined PaperlinX in July 2006 and has responsibility for the Australian Paper manufacturing operations. Jim was previously with International Paper/Carter Holt Harvey in the US and New Zealand. Prior to this he held various operational, capital and strategic roles during his 28 years in the international pulp and paper industry.

^

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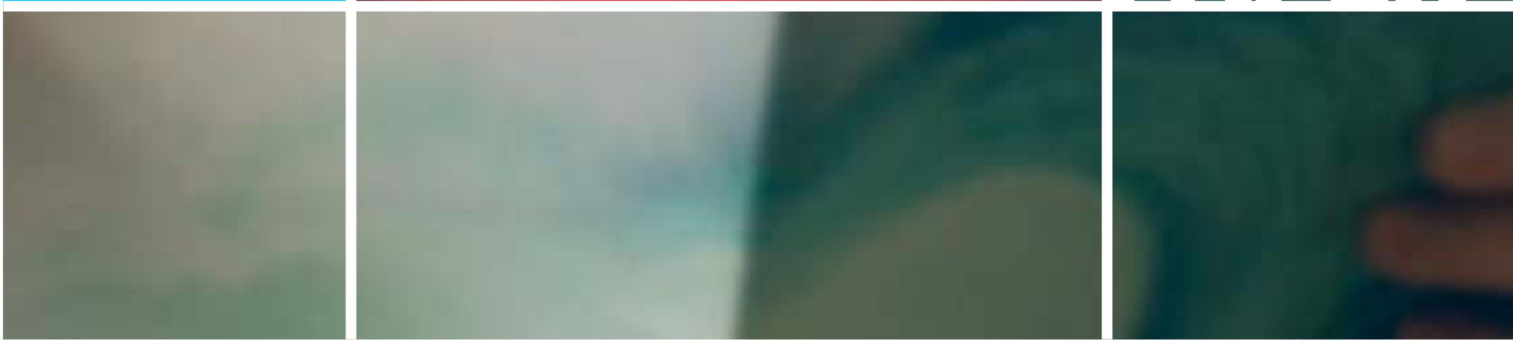
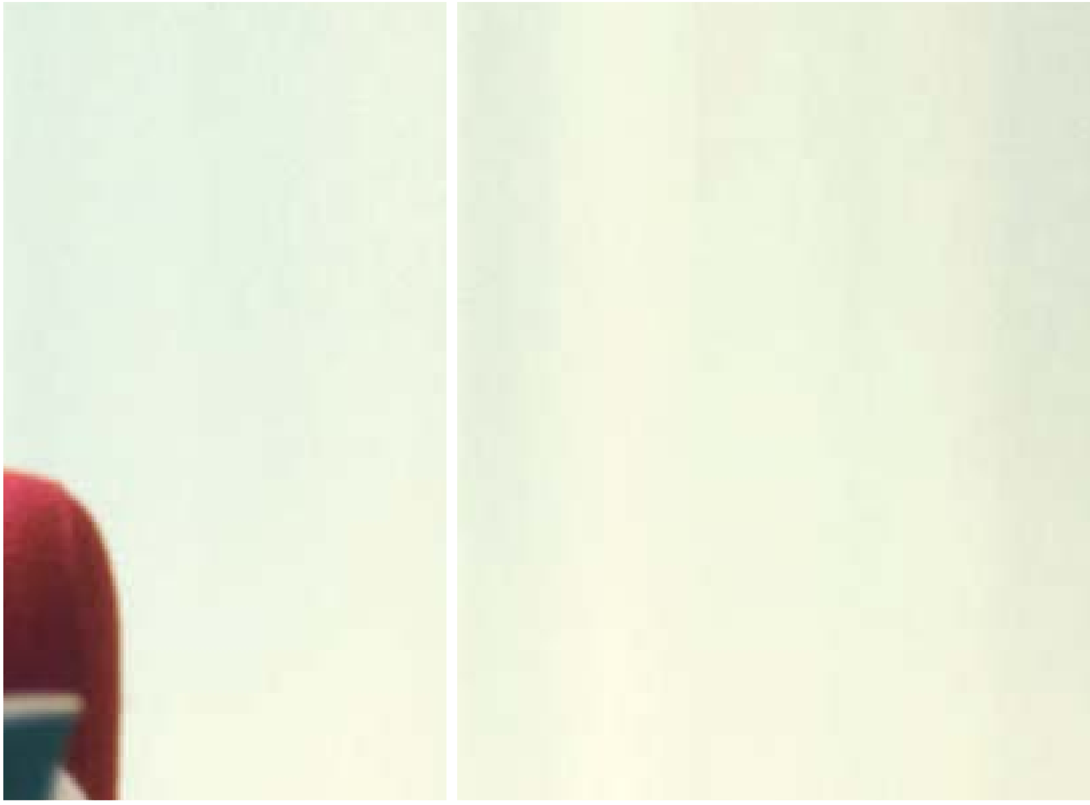


On™ is one of Europe's leading brands of uncoated paper. It's ready for business by providing a corporate identity solution.



9Lives™ is 'born again paper' for the environmentally aware who want a top quality printed result. As a top seller in the UK, we are bringing this paper to new markets in Australasia.

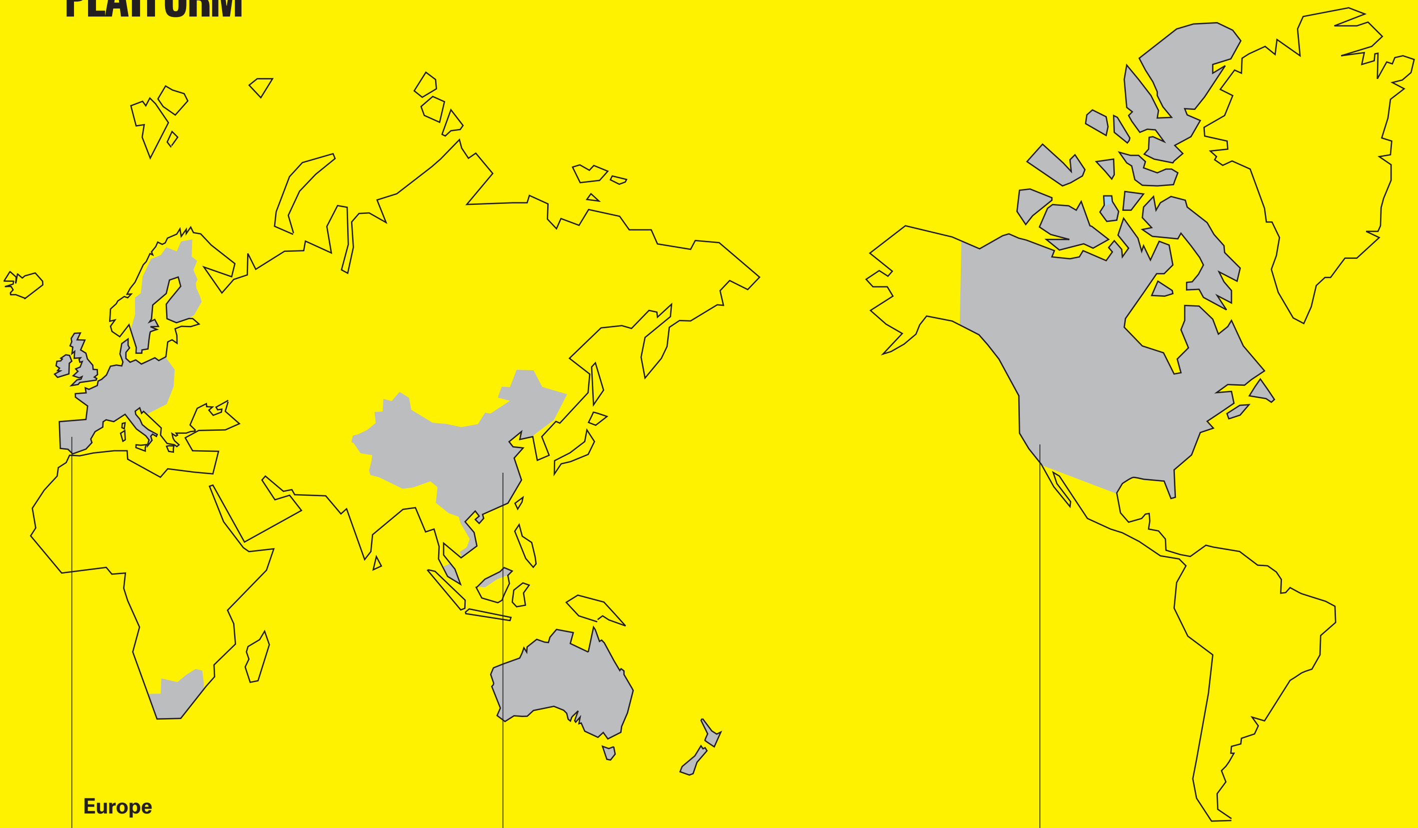
Pacesetter™ is a high bulk coated sheet paper that offers versatility and runnability for printers in the North American market. Matching digital products are now available and we can custom sheet orders.

WE KNOW OUR CUSTOMERS

PAPER MERCHANTING

OUR GLOBAL NETWORK OF 37 PAPER MERCHANTS IN 28 COUNTRIES PROVIDES SUPERIOR LOCAL CUSTOMER RELATIONSHIP MANAGEMENT COMBINED WITH THE EXPERTISE OF A GLOBAL LEADER.

GLOBAL PAPER MERCHANTING PLATFORM



Europe

Adria Papir
Alpe papir
Axelium
Bratislvaska papierenská spolocnost
Budapest Papir
BührmannUbbens
Caledonia
CC&CO Group
ContactHorne Paper
Deutsche Papier
DM Paper
DRiem Papier
Epacar
Finwood Papers
Howard Smith Paper Group
Mercator Papier
Ospap
PaperNet
PaperNet Austria
PaperNet Denmark
Polyedra
Proost en Brandt
Robert Horne Group
The M6 Paper Group
The Paper Company
Udesen
Union Papelera

Australasia

Dalton Fine Paper
Dalton Web Papers
Spicers Office Papers
Spicers Paper
Winpac Paper

North America

Coast Paper
Kelly Paper Company
Papier Turgeon
Spicers Canada
Spicers Paper Inc

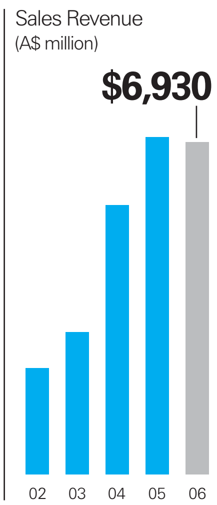
PAPER MERCHANTING OVERVIEW AND RESULTS

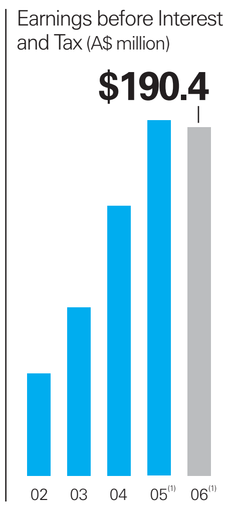
International paper markets provided mixed opportunities for our paper merchants in 2006, with our focus on internal initiatives providing the highlights for our businesses. Good progress was made to strengthen and grow our global platform and to prioritise our activities in areas that create value for our customers, suppliers and for PaperlinX.

In a continuation of the mixed market conditions seen over the past few years, overall earnings before interest and tax of A$190.4 million for Paper Merchanting was 2 per cent lower than in the prior year on sales revenue of A$6.9 billion. Earnings included net benefits of $9.4 million from the sale of surplus property assets, which more than offset one-off costs associated with a number of the strategic initiatives and restructurings being undertaken in the Paper Merchanting business. Underlying operating earnings were impacted by lower average prices and lower volumes in the key merchant markets of the Netherlands, UK and New Zealand. Cost increases, while mitigated by management of expenses and other internal initiatives, also impacted.

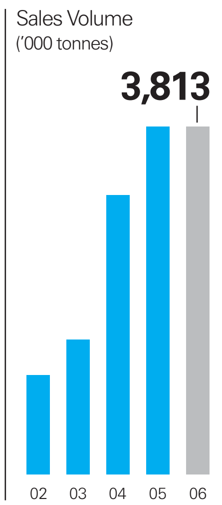
Our Paper Merchanting businesses have continued to produce sound returns in the difficult 2006 environment, with clear potential upside from any improvements in market conditions. The return on average funds employed (ROAFE) of 11.5 per cent was above our cost of capital. Overall expenses were reduced by 2 per cent as management made good progress against its targets despite the rising input costs, such as oil. Working capital reductions have continued to be a focus and remain an opportunity, with all key business areas at lower levels than a year ago. Working capital is a measure of the amount of money we have tied up in running our business. Reducing working capital results in improved returns even in difficult markets as we become increasingly efficient with the capital we use. This is a key measure of our improving productivity.

We have continued to invest in our businesses and we have funded that growth internally through the working capital reductions, productivity gains and the sale of surplus assets. This growth is seen in the acquisition of Spicers Canada in March 2006, the ongoing growth in sales of proprietary brands, our investment in advanced sales training that we are rolling out across the Group and the IT investments being made in Europe. We are seeing increasing momentum in Paper Merchanting as best practice is shared and growth initiatives are developed across the Group.





[1] 2005 and 2006 are reported under AIFRS



Paper Merchanting Europe

Business Summary

The European market was challenging throughout 2006. Demand in continental Europe was soft but relatively stable throughout most of the year, while the UK market continued to deteriorate. With the UK representing around a half of our European Paper Merchanting activity, this clearly impacted on our overall results. Coated fine paper prices continued to soften in 2006, while uncoated paper prices showed gains late in the year to close up 2 per cent on the prior year. Coated paper is the key product category for Paper Merchanting. Overall volume was off slightly, but we saw good growth in sales of our proprietary branded products (up 5 per cent) and an improving stock/indent sales ratio, both helping to hold margins in a difficult market. Proprietary branded paper now represents some 20 per cent of European sales volumes.

Our European business has continued to perform well against its industry peers, providing returns above our cost of capital and adding positively to shareholder value. The business is well positioned as the leading European paper merchant to benefit from any improvements in the European market, while business initiatives will ensure that the underlying performance of the business is enhanced. The successful move into Europe has been a vital ingredient in PaperlinX's development of a balanced business platform and will be a key part of the ability of the Group to grow returns for shareholders in the future.

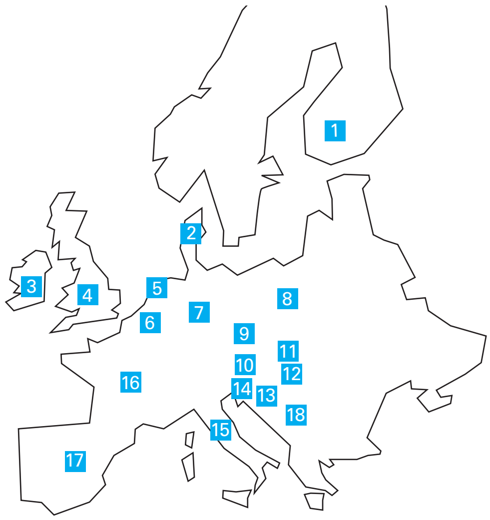
Results

Sales revenue of €2.7 billion was down 2.8 per cent on the prior year on sales volume of 2.5 million tonnes. Earnings before interest and tax were €74.5 million, down 4.1 per cent, impacted by the softer UK market, weaker coated paper prices and increasing fuel costs, partially mitigated by lower expenses (down 1.9 per cent). The result also included a range of one-off items, both positive and negative. One-off costs were associated with a number of strategic initiatives to improve long-term business performance, while gains were made from a successful programme to sell surplus property assets. The net impact of these items was a positive contribution of €6.7 million. Of note was the strong performance of our Danish business, which in the last 18 months has successfully acquired and integrated two small businesses into its existing business and is now making record profits and returns, showing the benefits of 'bolt-on' acquisitions to existing, successful businesses.

Highlights

The European business has actively pursued a number of key strategic initiatives that will contribute significantly to the Group's future earnings. These initiatives are largely in addition to the acquisition synergies already achieved, and have been developed to their current point by local business teams supported by Group resources where needed. The list of activities underway is too long to cover fully, but the three key projects are:

- The Delivery Co – the creation of an integrated logistics group across our three UK paper merchants. This programme is on schedule, with the first integrated site in Ipswich operating smoothly.
- Netherlands integration – integration of two of our three Dutch paper merchants and the consolidation of packaging wholesale activities.
- European IT roll-out – installation of a common IT platform across our European merchant business. The first site for this four-to-five-year programme has been successfully implemented in Ireland, and will roll out across Europe on a controlled basis.



1 Finland
2 Denmark
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4 United Kingdom
5 Netherlands
6 Belgium
7 Germany
8 Poland
9 Czech Republic
10 Austria
11 Slovakia
12 Hungary
13 Croatia
14 Slovenia
15 Italy
16 France
17 Spain
18 Serbia

Results for Europe include South Africa

Financial Highlights	2005	2006
Sales revenue (€m)	2,828	2,748
Earnings before interest and tax (€m)	77.7	74.5
Sales volume ('000 tonnes)	2,534	2,458

A recent survey amongst thousands of printers confirmed the allround top performance of Hello™, Europe's number one woodfree coated paper brand, because it gives printers actual influence on product and service improvements.

Paper Merchanting North America

Business Summary

The US market saw only modest growth in demand, but pricing benefited from supplier discipline, with reducing capacity seeing uncoated paper prices up approximately 4 per cent and coated paper prices up close to 2 per cent in aggregate. The Canadian market was challenging throughout 2006, especially in the eastern provinces of Ontario and Quebec. A volatile Canadian dollar added further challenge. Paper prices in Canada declined by almost 2 per cent overall. PaperlinX North America saw growth ahead of the market in its underlying business, and with the successful acquisition of Cascades Merchanting (now Spicers Canada) in March 2006 our overall position in North America has been considerably strengthened. Overall revenues for our business were up 9 per cent on the back of an improved sales mix, while underlying volume (excluding Spicers Canada) was also up 5 per cent. Proprietary brand sales and sheeter volumes grew 15 per cent, with a continued focus on this differentiated offering to customers creating shared value.

The acquisition of Spicers Canada has given us complete geographic coverage in the Canadian market. It has well-developed graphic arts supplies and industrial packaging businesses, which offer additional opportunities for us to grow in the complementary area of non-paper print and digital-related segments.

Results

Sales revenue of US$849 million was up 28 per cent on the prior year on sales volume of 509,000 tonnes. Earnings before interest and tax were US$29.6 million, up 35 per cent, with underlying earnings, excluding Spicers Canada, up 17 per cent. Operating expenses were higher as a result of the commission-based remuneration structures in the US, while other expenses reduced. Overall working capital rose as a result of the Spicers Canada acquisition, but once adjusted for this, was at a record low. As in other regions, rising fuel costs increased logistics costs.

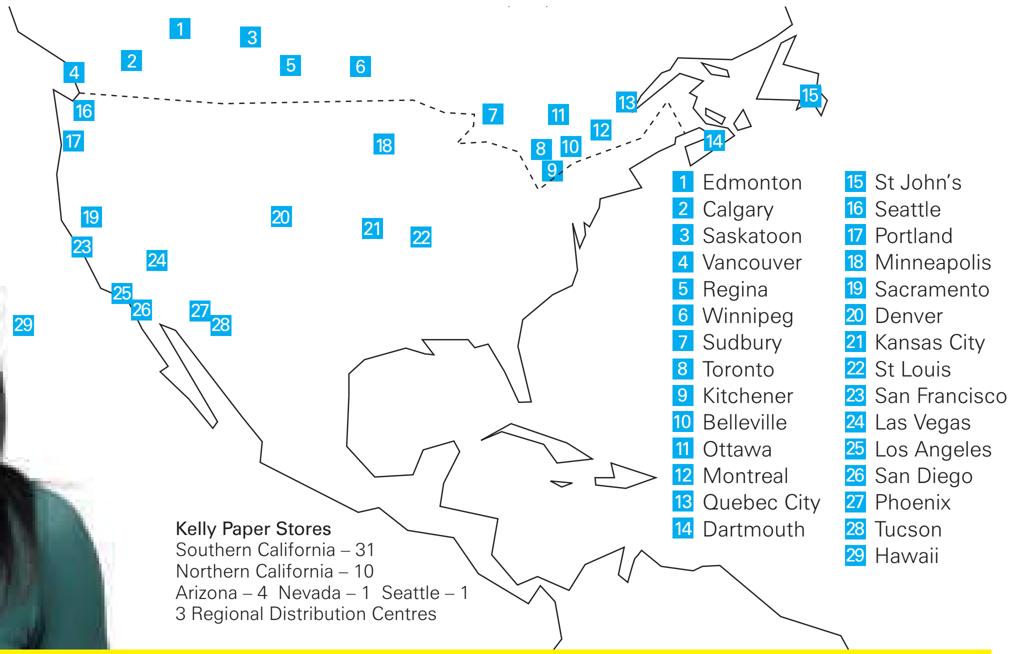
Highlights

The undoubted highlight for the year was the successful acquisition of Spicers Canada. The integration has gone extremely well, with year three target returns already exceeded and many future opportunities identified. Results for the four months since acquisition were a significant positive contribution, ahead of initial expectations.

Our existing Canadian business, Coast Paper, showed significant improvement over last year in both earnings and returns. Strong management of margins was a major contributor in a market that only reflected modest growth. Working capital was also reduced and the ratio to sales saw further improvement.

Kelly Paper in the US delivered an excellent result with increases in revenue, margin, operating profit and returns, and reductions in working capital and expenses. As with many operating companies, Kelly Paper's management and employees have delivered a number of internal initiatives to further enhance both financial performance and commitment to superior customer relationship management.

Spicers Paper in the US offset commodity-related margin pressure with a combination of improved prices, volume and mix. Continued progress was made on proprietary brands and in satisfying customers looking for environmentally certified papers. Further gains were also made in reducing working capital, helping Spicers Paper to achieve a noteworthy improvement in returns.



Financial Highlights	2005	2006
Sales revenue (US$m)	662	849
Earnings before interest and tax (US$m)	21.7	29.6
Sales volume ('000 tonnes)	416	509

Our Sustainable Advantage Grades help customers to select papers with socially and environmentally responsible credentials.

Paper Merchanting Australasia

Business Summary

The Australasian Paper Merchanting business consists of three regional groups: Australia and New Zealand, Asia and Paper Trading.

2006 was a disappointing year for Australian and New Zealand Paper Merchanting with the slow market conditions and competitive environment impacting across the board. Earlier in the year, the New Zealand market suffered falls in prices, volumes and margins, which moderated towards year end. The Australian market saw more stable market volumes with generally flat pricing. Increases in logistics costs were unable to be passed on. Despite this, overall expenses were still 7 per cent below the prior year benefiting from business restructurings in the 2005 fiscal year.

PaperlinX's Asian Paper Merchanting businesses have finished a phase of restructuring and integration of businesses acquired as part of the Buhrmann acquisition. This year has seen the beginnings of the benefits of these activities with solid gains in market shares in profitable business areas.

Overall sales volume and sales revenue for Paper Trading were constrained by Australian Paper's focus on the Australian domestic market. Operating earnings improved as the business saw benefits from previous restructurings.

Results

Strong competition and currency relativities have continued to impact on margins in both the Australian and New Zealand markets, with lower volumes in New Zealand and sales realisations down around 2 per cent. Sales volume was down 3 per cent while revenue was down almost 5 per cent and operating profit was down 17 per cent. Working capital saw a significant reduction supporting returns.

Demand was quite stable in Asian markets through the year although increased regional supply kept some pressure on prices. Our volumes were 11 per cent higher on the back of good gains in market share. Sales revenue was up 12 per cent and operating profit was up 16 per cent.

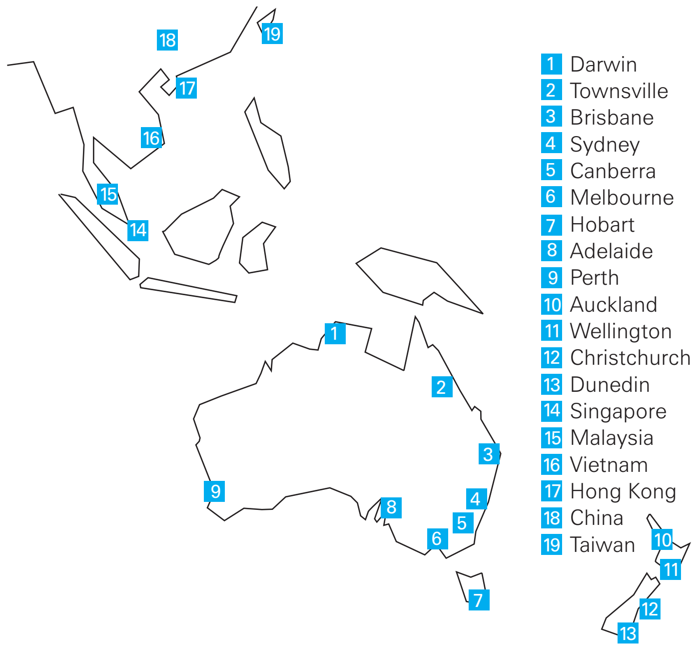
Paper Trading improved earnings despite both lower volumes and sales revenue, with lower expenses benefiting margins.

For the overall Australasian Paper Merchanting group, sales revenue of A$1,231 million was down 4 per cent on the prior year on sales volume of 846,000 tonnes. Earnings before interest and tax were A$27.0 million, down 13 per cent. Overall working capital was reduced by 15 per cent. As in other regions, rising fuel costs increased logistics costs.

Highlights

The focus for Paper Merchanting Australasia has been on improving the key controllables within the business. In all regions the business has gone through a remodelling process to build on its business strengths. The significant reduction in working capital is a key indicator of the work that has occurred as it continues to consolidate its resources.

PaperlinX Merchanting Australasia has taken a leadership position within the Forest Stewardship Council's chain-of-custody process by becoming one of the first merchants to become FSC certified in the Australian, New Zealand and Hong Kong markets, and able to meet the growing interest in products with a sustainable fibre source.



1 Darwin
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5 Canberra
6 Melbourne
7 Hobart
8 Adelaide
9 Perth
10 Auckland
11 Wellington
12 Christchurch
13 Dunedin
14 Singapore
15 Malaysia
16 Vietnam
17 Hong Kong
18 China
19 Taiwan

Financial Highlights	2005	2006
Sales revenue (A$m)	1,288	1,231
Earnings before interest and tax (A$m)	31.1	27.0
Sales volume ('000 tonnes)	873	846

Australian-made Impress® is a luxurious coated paper with outstanding environmental credentials, ideal for prestigious print applications such as annual reports and magazines.

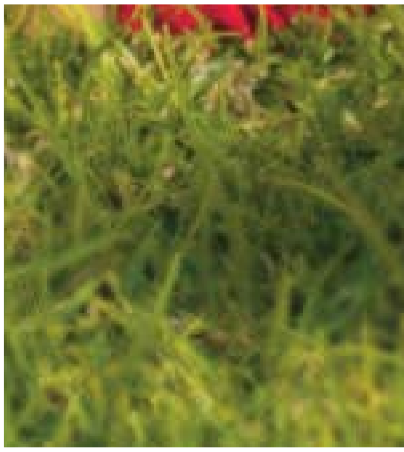
Saxton is a contemporary range of uncoated corporate and design papers with a perfect print surface. Saxton – makes me look good. >

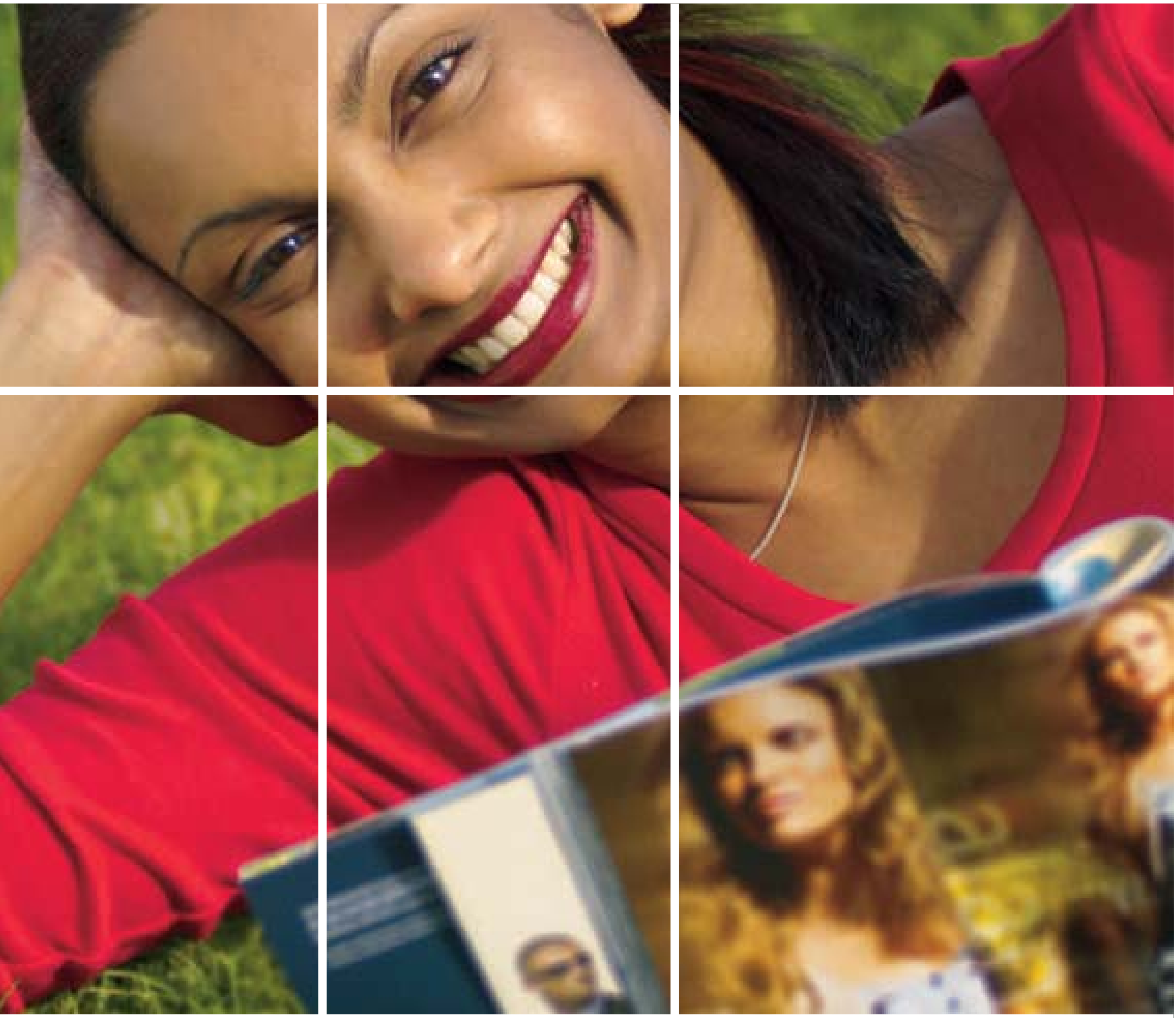
WE KNOW PAPER

Australian-made Optix™ paper is now available in 30 colours for fun, colourful impact. >

Postspeed™ is the Australian market leader in high performance envelope papers that are Australian made and environmentally-friendly. Postspeed™ – pushing the envelope.

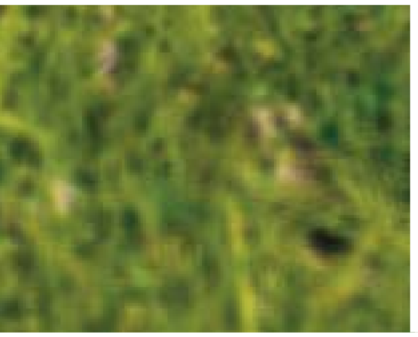
V

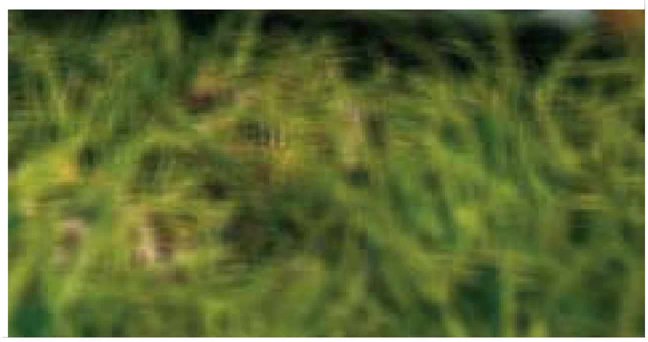




Our packaging products, which include semi-extensible sack kraft, kraft liner boards, envelope and bag papers, are used by Australia's leading companies.

Impress® is Australia's leading A2 coated paper, a trusted and reliable name with excellent whiteness, high ink lift and world-class environmental credentials.





WE KNOW OUR MARKETS

PAPER MANUFACTURING

AUSTRALIAN PAPER'S COMMUNICATION PAPERS AND PACKAGING PAPERS ARE RELIED ON EVERY DAY IN BUSINESSES AND HOMES ACROSS AUSTRALIA, NEW ZEALAND AND ASIA.

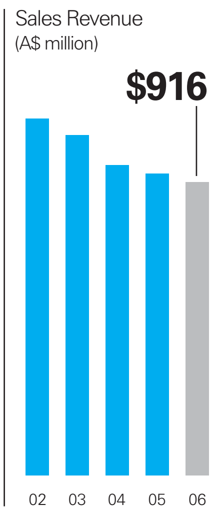
AUSTRALIAN PAPER OVERVIEW AND RESULTS

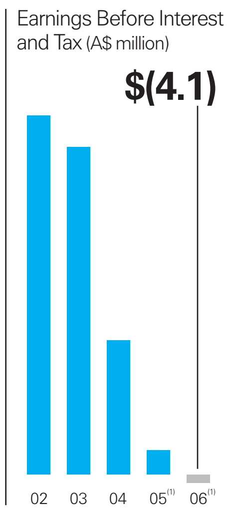
Our Australian paper manufacturing business, Australian Paper, has a unique position as a leading regional packaging papers manufacturer and is the only manufacturer of communication papers in Australia. Our competitive advantages include our local supply of copy papers, a secure source of sustainable fibre, the Reflex™ brand and long-term packaging paper contracts. However, with significant competition from paper imported from global markets, imported pricing translated to Australian dollars has a key influence on the results for Australian Paper.

Earnings remained under significant pressure during 2006 as the combination of soft demand, weak pricing and rising costs continued to impact. Overall operating earnings of A$(4.1) million included a net one-off charge of A$13.6 million for the closure of the number 1 paper machine at our Shoalhaven Mill and commissioning costs for the number 1 paper machine at Maryvale Mill offset by profits on asset sales. It also reflected the continued impact of depressed Australian paper prices, oversupply in global paper markets and higher input costs, especially pulp prices and energy and chemical costs. In the current environment of weak pricing it is not possible to pass on these cost increases. With paper prices down 4 per cent on average and costs up, average margin per tonne of product sold has been under significant pressure. This pressure remained going into the 2007 financial year.

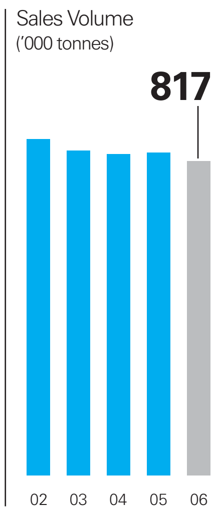
To strengthen this business, management has actively moved ahead on a number of key initiatives to improve returns from the current unacceptable levels. The upgrade of the number 1 paper machine at Maryvale Mill in Victoria, Australia, has been completed and product is reclaiming market position, though at a rate slower than initially planned. The Maryvale pulp mill upgrade announced in August 2005 is progressing to plan. The currently higher level of global pulp prices further enhances the expected returns from this project. The number 1 paper machine at Shoalhaven Mill was closed in March 2006 as planned, with product now being produced at the Maryvale Mill and less profitable exports being eliminated. Incorporating the new paper grades had some impact on machine efficiency at the Maryvale Mill, but this has now largely been addressed. A conditional agreement has been reached to outsource the Maryvale Mill wood yard to supply high-quality wood fibre to the upgraded pulp mill, helping to further reduce costs and improve efficiency.

Additionally, PaperlinX Office has been launched, combining three PaperlinX businesses that supply the Australian office products and stationery markets with improved service and a clearer product offering.





(1) 2005 and 2006 are reported under AIFRS



Australian Paper – Communication Papers

Business Summary

Australian Paper is Australia's only manufacturer of communication papers, with all other communication papers imported into the Australian market. Australian Paper has a number of key strategic advantages that are unique, including local supplier advantage, being closer to customers with the ability to offer greater levels of service, and strong local brands. Reflex™ office papers offer customers papers that are better for the Australian environment (with waste diverted from Australian landfill) along with improved product characteristics and service reliability.

However, surplus global capacity and generally static demand combined with the strength of the Australian dollar relative to the US dollar have resulted in a protracted period of weak pricing. This has unfortunately combined with a period of rising costs for inputs such as pulp, fuel oil and chemicals to cause a significant deterioration in margins and operating earnings over the last three years. The underlying level of decline has begun to stabilise in this period as the business has taken significant steps to adjust to the current conditions and has begun initiatives to restore returns to acceptable levels.

Results

Sales revenue of A$674 million was down 2.8 per cent on the prior year on sales volume of 501,000 tonnes. Underlying earnings before interest and tax were A$4.3 million, up on last year, with reported operating earnings being A$9.4 million. This included net A$13.7 million in one-off charges for the closure of the Shoalhaven Mill number 1 paper machine, and Maryvale Mill number 1 paper machine commissioning costs offset by asset sales.

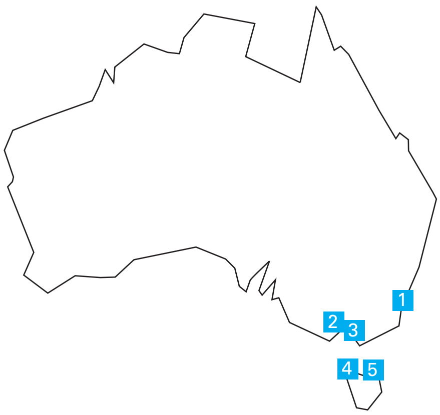
Highlights

A number of strategic initiatives are underway in the Communication Papers area to strengthen our existing business and improve productivity. Already mentioned has been the closure of the number 1 paper machine at our Shoalhaven Mill. This initiative has improved overall operating efficiency by replacing unprofitable products made for the export market at our Maryvale Mill with products made for the domestic market. While this closure was disappointing for the Shoalhaven Mill, better news is the achievement by that mill of Forest Stewardship Council (FSC) environmental certification at the end of 2006, which will allow it to supply the Australian market with paper made to comply with this increasingly sought-after guarantee of environmental credentials.

On a related subject, we have seen strong growth in our own branded recycled office papers in the Australian market with growth over the year of 21 per cent as part of our focus to increase overall domestic sales, which were up over 12 per cent for our copy paper business. Our focus on brands is highlighted throughout this Report, and in our Sustainability Report you can also see many examples of how we are better supplying the markets with products that are renewable, sustainable, recyclable and, in many cases, made of significant quantities of recycled Australian fibre – fibre that would otherwise end up in Australian landfill.

The upgrade of the Maryvale Mill pulp capacity and bleach plant is progressing well. This project will provide significant cost savings, and even more so at the current high level of imported pulp prices, along with environmental and product quality improvements.

As the 2006 year closed we announced the creation of PaperlinX Office, combining the strengths of our existing Australian Paper office products business, our stationery and envelope business (*tudor* Group), and our specialist office papers paper merchant, Spicers Office Papers. This combined entity will provide the office products area in the Australian market with improved service and a clearer product offering.



1 Shoalhaven Mill, New South Wales
2 Head Office, Melbourne, Victoria
3 Maryvale Mill, Victoria
4 Burnie Mill, Tasmania
5 Wesley Vale Mill, Tasmania

Financial Highlights	2005	2006
Sales revenue (A$m)	700	674
Underlying earnings before interest and tax (A$m)	2.1	4.3
Sales volume ('000 tonnes)	522	501

Reflex™ has been Australia's most popular office paper since 1984. The range now includes Reflex™ Platinum Ultra White for enhanced whiteness and smoothness.

Australian Paper – Packaging Papers

Business Summary

Australian Paper makes packaging papers at its Maryvale Mill for supply to packaging manufacturers primarily in Australia, but also in export markets. The two main product streams are linerboard for sale to box manufacturers, and sack and bag papers. 2006 saw softer demand in Australia for linerboard grades from key customers as a result of pressures in their own marketplaces.

Sales of sack kraft paper into the Australian market were lower than previously, resulting in an overall increase in exports, with the resulting impact of lower margins.

Results

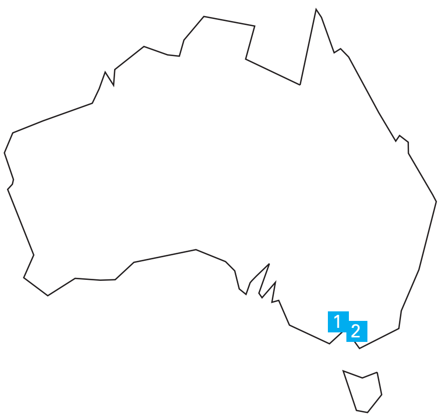
Sales revenue of A$242 million was in line with the prior year on sales volume of 316,000 tonnes. Underlying operating earnings of A$5.2 million were down on last year's results due to lower demand from key customers due to increased competition, lower returns from exports and a slower than expected uptake of the improved semi-extensible sack and bag paper produced following the upgrade of the number 1 paper machine at Maryvale Mill.

Highlights

The return to normal activity of the number 1 paper machine at Maryvale Mill was achieved at the end of the year, after an extended period of disruption as work was undertaken to convert the machine to produce a semi-extensible product for industrial sacks and bags. Product is now at a high quality and lost market share was being regained in the second half of the year.

The Australia-wide debate on plastic bags has opened up an opportunity to promote paper bags as an environmentally-friendly option. Our paper bags are made from a sustainable plantation fibre source and are recyclable.

There was encouraging growth in export market demand and price for sack papers through the second half of the year.



1 Head Office, Melbourne, Victoria
2 Maryvale Mill, Victoria

Financial Highlights	2005	2006
Sales revenue (A$m)	243	242
Underlying earnings before interest and tax (A$m)	10.0	5.2
Sales volume ('000 tonnes)	318	316

Our recyclable paper bags are providing a clever environmental alternative to plastic shopping bags, reducing Australian landfill.

Other Businesses

Business Summary

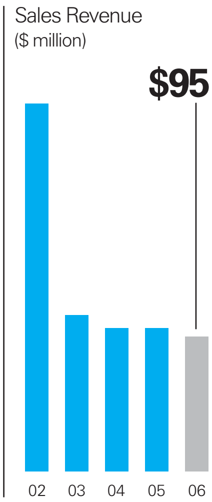
Other businesses includes the stationery and envelope business as well as the corporate expenses of PaperlinX.

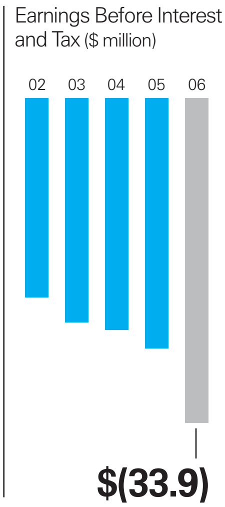
The *tudor* Group is the largest manufacturer of envelopes and stationery products in Australia. Core brands include *tudor*®, Olympic, Universal, Croxley and Queens Slipper, which can be purchased from major retailers, newsagencies and specialty stationers across Australia. This business is being combined with Spicers Office Papers and Australian Paper's office papers business to form PaperlinX Office.

The stationery and envelope business competes with imported products as well as envelopes manufactured in Australia. The market remains highly competitive with reduced pricing from low-priced imports affecting margins and earnings, which were well down on the prior year. The second half of the year saw a significant deterioration.

Corporate costs were at a similar level to the prior year, however, a number of small prior year one-off benefits were not repeated.

Financial Highlights	2005	2006
Sales revenue (A$m)	101	95
Earnings before interest and tax (A$m)	(26.1)	(33.9)





IT'S ALL ON PAPER

SUSTAINABILITY REPORT 2006

HIGHLIGHTS 2006

- By establishing environmental, safety and health requirements for our paper suppliers, we have enhanced the supply chain assurance for our customers.
- PaperlinX again satisfied the requirements of the FTSE4Good Index Series by meeting globally recognised corporate responsibility standards. FTSE4Good is a global equity index series that is designed to facilitate investment in companies that have met stringent social, ethical and environmental criteria.
- Shoalhaven Mill in Australia became our first paper mill to achieve Forest Stewardship Council chain-of-custody certification. In July, Maryvale Mill also achieved this certification.
- Our paper merchants, Spicers Paper in Australia, the US and Hong Kong and Robert Horne Group in the UK, maintained their Forestry Stewardship Council chain-of-custody certification, confirming their ability to trace paper back to an approved sustainable fibre source.
- The Robert Horne Group was the first paper merchant in the UK to be granted membership of the WWF-UK Forest and Trade Network, which recognised the group's commitment to the responsible sourcing of paper products.
- Our workplace safety programmes across the Group have helped to reduce the medically treated injury frequency rate by 26 per cent and the lost time injury frequency rate by 27 per cent.
- In the first year of our Leadership Development Programme, approximately 300 managers progressed through a range of training courses.

What Sustainability Means to PaperlinX

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, this means achieving sustainable economic growth that is of benefit to present and future generations of employees, shareholders and customers without detrimentally affecting the resources or biological systems of the planet.

Report Scope

This Sustainability Report covers the operations of PaperlinX Limited's businesses and its social and environmental commitments for the period July 2005 to June 2006. We aim to broadly report against the Global Reporting Initiative (GRI), a set of guidelines for sustainability reporting that encourages tracking and measuring performance through disclosure.

CHIEF EXECUTIVE'S COMMENT

AN INTERVIEW WITH TOM PARK, MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

"We must invest in sustainability for the security of our own future and for the future of the resources we utilise, for the long-term benefit of our shareholders and other stakeholders."

Why is sustainability critical for the success of PaperlinX businesses?

Paper is made from a renewable resource and is completely recyclable. Paper has been part of our lives for thousands of years and, if managed correctly, will continue to be.

It is our responsibility to deliver the products our customers want in ways that are sustainable. For us this means creating economic growth that benefits present and future generations without threatening the resources or biological systems of the world we live in.

What are the major sustainability challenges facing the paper industry and how is PaperlinX responding?

Environmental issues are becoming increasingly mainstream and the environmental credentials of paper products are becoming more important. So we are listening to our customers and the community and offering new environmentally certified grades and recycled products that reduce landfill waste.

We are fortunate that wood is the primary resource for paper making as it is both renewable and recyclable. Our responsibilities for managing this natural resource extend from sustainable manufacturing through to encouraging responsible, viable forest management practices from our suppliers. Every year, more of our merchants around the world are receiving chain-of-custody certification and have systems in place to audit their paper suppliers' forest management and manufacturing practices.

As one of Australia's leading pulp and paper manufacturers, we must manage our fibre supply carefully. We expect to significantly increase the amount of plantation fibre we use, and 64 per cent of the fibre used at our largest mill, Maryvale, is already from sources that are certified by the Forest Stewardship Council (FSC). We are seeking to certify all our mills to FSC standards.

What is PaperlinX doing to reduce its environmental footprint?

Every one of our businesses throughout the world has some impact on the environment and this is especially so for our manufacturing operations. As part of the Maryvale pulp mill upgrade, we will reduce odour emissions and energy use as a result of the new elemental chlorine free bleaching plant. Through this investment we are reducing our use of pulp logs and other residue from Victorian State managed forests and moving to use 100 per cent plantation sourced fibre for printing and communication papers produced at Maryvale by 2017. We have decreased our demand for water by 8 per cent over five years and are moving towards a greater reliance on using recycled water from the local water authority, aiming for a 10 per cent increase by 2008.

How does PaperlinX support communities near where its businesses operate?

Our business has grown to more than 400 sites and 9,600 people in 28 countries, and we recognise the need to create a consistent and meaningful approach to supporting communities where we operate. We are developing guidelines and a framework for employee volunteering, charitable donations and employee giving programmes that allow our businesses to design their responses according to the needs of their surrounding communities.

Why report on environmental and social commitments?

For us, community engagement and environmental awareness are part of the way we do business.

Our environmental and social performance is key to our success. It is not only about managing and reducing our risks and how our activities are measured; it is about the way we respond to our customers, our employees and the communities where we operate. Improving in these areas is part of my own performance criteria and is reported to the Board every month. When we set targets these are taken very seriously. Take our commitment to improving our workplace practices and safety performance; this year we have again reduced our medically treated injury frequency rate by 25.7 per cent (26 per cent reduction in 2005) and our lost time injury frequency rate by 26.9 per cent (14 per cent reduction in 2005). Rather than just respond to codes of practice or other standards, we have established a culture of environmentally responsible behaviour and continuous improvement throughout the Company, which is supported by external measurements.

How does PaperlinX help to motivate employees in a period of rapid change and challenging external conditions?

We support our people by developing their skills, looking after their health and safety and providing regular communication to help them understand the strategy of the business and their involvement in its success. We encourage teams to identify best practice initiatives and continuously improve so we can be proud to say we are the best in the business. By recognising the individual styles of our different businesses and their relationships with customers, we encourage initiative and ideas that make a difference.

I am proud of the achievements that everyone at PaperlinX has contributed to in the last year and I am confident that, together, we can continue to deliver sustainable results for all our stakeholders.

Thomas P Park
Managing Director and
Chief Executive Officer

OUR BUSINESS

Paper is our Business

Around the world, it's our business to deliver the papers our customers want. We operate 47 businesses across 28 countries, giving us the widest geographic distribution of any paper company in the world.

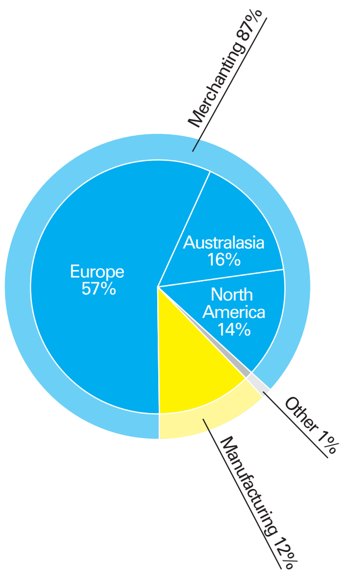
We distribute and manufacture high-quality fine paper used in offices as well as specialty papers used in brochures, magazines, annual reports and other business applications. We also manufacture packaging papers for converting into corrugated cartons, paper bags and other packaging materials. And we are expanding our offerings in sign and display and industrial packaging and graphics.

Our operations are based on solid knowledge of paper. The companies that today make up PaperlinX have been making paper in Australia since 1939 and have distributed paper in Europe since the 1600s.

Sustainability is central to the way we work and to the success of our business in the future. For us, sustainability means long-term economic growth that benefits present and future generations.

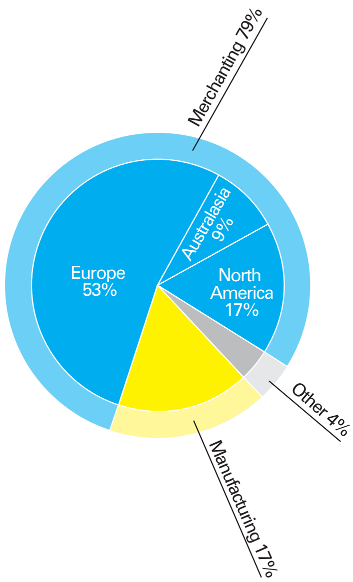
Revenue

Total Revenue	$7,413 million



Our People

Employees	9,672



Percentages calculated before intercompany sales elimination.

Operations

Countries	28
Sites	401
Manufacturing sites	4

Financial Profile

Total revenue (A$m)	7,413
Earnings before interest and tax (A$m)	152.4
Sales volume (before commission sales) ('000 tonnes)	4,248

MANAGING SUSTAINABILITY

Management and Policy

Good performance in health, safety and the environment are key strategic issues for PaperlinX. A Board Committee consisting of four Non-executive Directors convenes with the Managing Director on a quarterly basis to consider safety and environmental issues that may have strategic, business and reputation implications for the Group.

The PaperlinX Board's Safety and Environment Committee reviews policies and monitors compliance with those policies; assesses management systems, standards and practices; and reviews significant incident investigation reports. The Committee also regularly visits sites within the Group in order to gain first-hand knowledge of our operations and performance.

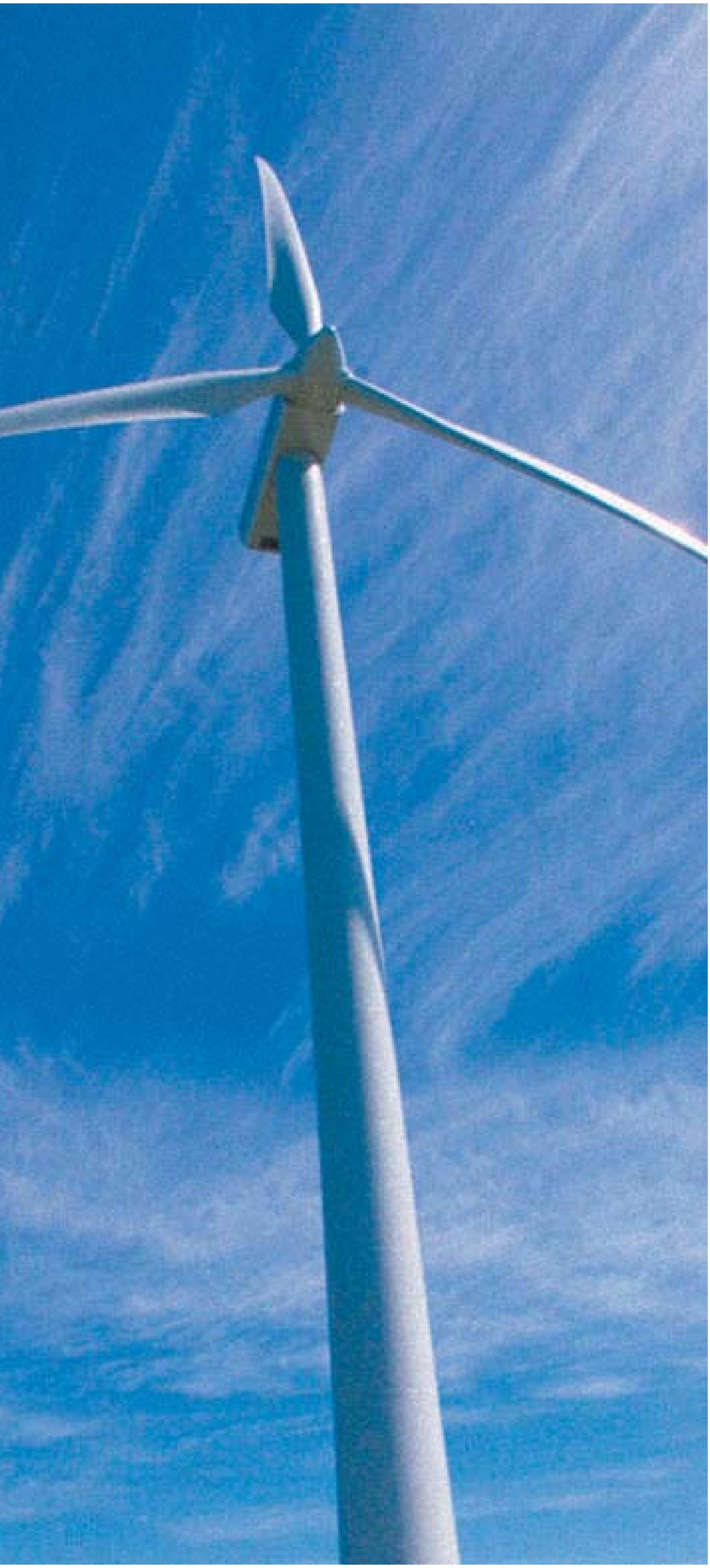
During the year the Committee visited the Maryvale Mill in Australia, reviewing the mill's Strategic Plan for 2004 to 2010, the pulp mill upgrade project, the 'Search for the Future' process and safety strategies. The Committee also visited our PaperlinX Europe headquarters in Amsterdam and looked specifically at environment, safety and health (ES&H) management in Europe and the integration of the Buhrmann group of companies into the PaperlinX ES&H programme.

A Global Approach

The Company has a multifaceted approach to environmental management that encompasses an Operations Management System (OMS) as well as identifying and implementing strategic priorities.

The OMS provides a framework for managing ES&H through performance requirements for all operational activities. These cover risk management, legal compliance, improvement, roles and responsibilities, training and compliance, communications, documentation, operational control, emergency response, contractor management, incident reporting, record keeping and auditing.

In addition, we have identified key strategic priorities for the coming three-year period that will add significant value to the Company's ES&H management. They include developing ES&H capabilities and proactive behaviours throughout the Group, improving the implementation of the Contractor Management System to ensure that defined standards are met globally, and implementing a global vehicle and traffic risk reduction initiative.



Sustainability Charter

PaperlinX is a leading international paper distribution and manufacturing company with a commitment to delivering long-term sustainable returns and environmental and social benefits for all our stakeholders. In so doing, we seek to add value for our customers, employees, the communities in which we operate and for our shareholders.

In pursuit of these commitments, we recognise that our products and operations have an impact on the environment and that we must continually improve our performances across a range of areas to deliver the sustainable returns to which we aspire.

Our fundamental commitment globally is to not only ensure that as a minimum we comply with the laws of all the regions in which we operate, but we also seek to go beyond just compliance with a range of positive initiatives.

Our commitments in relation to the environment, our employees, our communities and our suppliers are explained below.

Environment

We will provide product options to satisfy the needs of our customers and will ensure that we provide information to allow our customers, neighbours and the public to make informed choices about our products and their environmental credentials.

At PaperlinX, we are committed to continuously reducing our environmental footprint in measurable ways. Our operations seek, wherever possible, to reduce resource use (such as energy, water, fibre and chemicals) efficiently by increasing recycling opportunities and reducing waste output.

We are committed to regularly monitoring these improvements.

Employees

Our objective is to be the 'employer of choice' in which all members of our workforce are treated with respect and employed within strong principles of equal opportunity, ethical behaviour and transparent management practices.

At PaperlinX, we are committed to providing our employees the opportunity to grow and develop within a safe workplace wherever they are located.

Communities

We will support the communities in which we operate in ways that make a positive difference and will maintain an open relationship with these communities, report on our performance and make this information readily available to the public as well as customers.

In addition, we will also recognise our corporate role in assisting our employees to make individual and collective contributions to improve aspects of the communities in which they participate.

Suppliers

We are committed to proactively encouraging our suppliers to improve their environmental performance by insisting they act in a legal and sustainable fashion and are committed to continuous improvement.

OUR STRENGTH – PEOPLE AND CULTURE

Achievements

- A global talent management strategy was developed to support the attraction and retention of key talent.
- Continued the focus on development initiatives across the Group and launched a global Strategic Selling Programme.
- Reduced the medically treated injury rate by 26 per cent and the lost time injury rate by 27 per cent across the Group.
- Our Wesley Vale Mill in Australia won the Tasmanian 2005 Workplace Safety Award for 'best solution for an identified workplace health and safety issue' and the National Safe Work Australia Award.
- Our Maryvale Mill in Australia won a New Apprenticeship Award in the 2005 Minister's Award for Excellence for Employers of New Apprentices.
- Launched a global PaperlinX extranet site to encourage online best practice sharing between our businesses in different countries.

Goals

- Develop and launch a global health and wellness initiative.
- Continue the development and implementation of our Vehicle and Traffic Risk Reduction Programme to reduce accidents in warehouses, transport fleets and sales fleets.
- Obtain a further 10 per cent reduction of our medically treated and lost time injury rates across the Group.
- Roll out the Strategic Selling Programme to over 500 key sales staff.
- Implement the Future Workforce Management Plan.
- Develop organisational values through a consultative process involving all areas of the Company.

We are committed to providing opportunities for everyone to work effectively and develop their skills. We recognise that our people and our culture are key competitive advantages. By strengthening the overall culture of the Company and the performance of individuals we aim to maximise these strengths.

Developing our Culture

Our operations span 28 countries and incorporate many languages and backgrounds among our people. Creating a strong and cohesive culture across the Company is therefore a key priority for us. To encourage this we bring global teams together to address common best practice opportunities and provide opportunities for individuals to work in different countries on both short and long-term assignments.

In the coming year we will strengthen our culture through the development of organisational values. This will include input from all areas of the business and provide a shared set of values across the Group.

Our operating principles provide a directional framework for everyone at PaperlinX, while allowing local leadership and entrepreneurial skills to flourish. These principles are brought to life every day as they guide decision-making. Business strategies and new initiatives are regularly communicated to our people in a range of different ways: *ConneXions* quarterly internal magazine is published in five languages; regular team briefings; video messages; and websites are made accessible for all employees.

We also regularly seek feedback from employees on all aspects of the employment cycle through internal surveys. At the Robert Horne Group in the UK, nearly 80 per cent of employees responded to the *Have Your Say* survey, which explores employee satisfaction. The results show a continuing trend of very high levels of satisfaction with the working environment.

FROM LITTLE THINGS BIG THINGS GROW

PaperlinX's culture is shaped by our global policies and practices, but it is also formed by the local activities initiated by our businesses. These activities contribute to the achievement of the Company's vision, making PaperlinX a great place to work.

As an organisation we are aiming to become more consistent in taking pockets of excellence across the broader Group.

Spicers/Dalton New Zealand again offered incentives to encourage employees to extend their commitment to environmentally responsible behaviour by adopting waste organisation initiatives at home.

At the Robert Horne Group in the UK, the Company has developed 'Above and Beyond', an incentive scheme to further enhance levels of customer service. Colleagues nominate fellow workers through the intranet or offline through the internal post system. Every person nominated receives a letter of encouragement from the Managing Director and a small gift recognising their achievement. All nominations are entered into an annual judging by the executive Board with prizes awarded to the best performers.

Spicers Paper in Australia runs 'Go MAD (Making a Difference) with Ideas', a national programme to encourage their people's creativity and innovation towards continuous improvement.

go mad with ideas

OUR STRENGTH – PEOPLE AND CULTURE

An online forum was launched on our global extranet site this year to facilitate sharing ideas and information among our businesses.

This year, research was undertaken with a sample of employees to review internal communication activities and their feedback will be used to refine Group-wide communications going forward. One of the greatest challenges is providing information that is relevant and meaningful for our diverse businesses in different countries.

Strengthening our Leadership

Our Leadership Development Programme, which was initiated in 2004/05 with senior managers, was extended during the year to include additional management levels within the Company. This five-and-a-half-day programme brings people together from different business areas and focuses on developing their leadership behaviours and their understanding of the drivers that maximise our business results.

We also implemented a global talent management strategy during the year. The strategy involves a comprehensive approach to the identification, development and retention of our organisational talent. As PaperlinX grows and changes to meet customer needs, we need to ensure we have the right blend of talent to build a long-term sustainable business and this means understanding and developing our people.

Learning and Development

The development of the people who work at PaperlinX is a key priority in maximising our performance. This is not just about training programmes, it also encompasses the way in which we recruit people; career planning, providing leadership, opportunity and challenge; the values and culture of the Company; managing diversity, policies that support people to work to their best; and effective communication.

We have developed a Future Workforce Management Plan that will be implemented throughout the businesses over the coming year. It identifies the Company's anticipated needs, market trends and the resources available within the Company as well as the development of our people.

Strategic Selling Skills

Our ability to compete effectively is dependent on the skills of our sales teams. During the year, a team of people drawn from all areas of our business developed a Strategic Selling Programme to create a value-added sales culture. This three-day programme was piloted with sales management teams from the US, Canada, Europe and Australia and will be further rolled out to over 500 sales people who manage major accounts during 2006/07.

ENCOURAGING DIVERSITY

Making paper is a traditional skill that many people at Australian Paper have learnt 'on the job'. However, that is not the only way that people start in this industry. Ruth Obendorf started at Australian Paper as a Machine Support Officer at the Burnie Mill in Tasmania in October 2002 after completing a science degree in chemistry and marine biology.

Prior to joining Australian Paper, she had worked in Melbourne for a change management research group and as an organic chemist specialising in marine organisms.

Her current position as Operations Support Superintendent at the mill involves leading a team that is responsible for 'all the ins and outs of Burnie Number 4 Paper Machine', which makes approximately 50,000 tonnes of paper each year across 14 grades.

Ruth says that the nature of the job is always changing and that it takes a reasonable amount of time to learn the technical aspects of making paper. For her, the most rewarding parts of her job are the people she works with, the management skills she has developed and the opportunity to rise to challenges she thought she would never be able to tackle.

Workplace Safety and Wellbeing

Workplace safety is a key priority for everyone at PaperlinX. Yet the Company recognises that safety at work goes beyond minimising the risk of injury. It includes taking action to promote personal wellbeing. As part of the Company's commitment to wellbeing, there are local programmes to increase awareness of the personal benefits of a balanced lifestyle. These include health checks, first aid training and a range of Employee Assistance Schemes that offer counselling, advice and practical support to employees in need. One of the priorities for the Company in the coming year is to provide structure and sustainability in this area through a global health and wellness initiative.

Achieving our goal of zero accidents and injuries requires not just a focus on the physical work environment, but also the systems and processes we use and the culture of the organisation. A global steering group provides overall direction on the Safety and Health Strategic Plan and members of the health and safety community proactively develop and promote safe workplace behaviours throughout the Company. Members of our Global Safety Audit team have visited 52 of our largest sites over the past 12 months as part of the audit process.

Safety training is now an intrinsic part of all of our businesses. This includes refresher training in forklift operation, training for manual handling and back care, first aid training, emergency response training and legal compliance training relating to Occupational Health and Safety (OHS) laws.

At present, the key measures used to assess workplace safety across the Group are the medically treated injury frequency rate (MTIFR) and lost time injury frequency rate (LTIFR).

Using these measures, our programme has achieved significant gains, with the Group MTIFR reducing by 25.7 per cent and Group LTIFR reducing by 26.9 per cent.

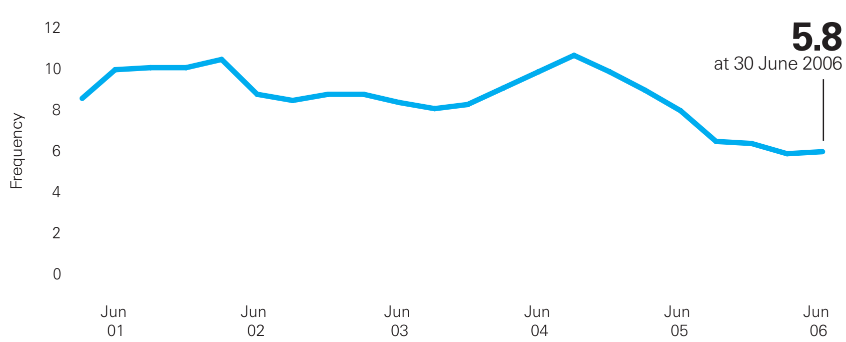
In our Australian Paper mills, progress continues to be good with a reduction in the MTIFR of 28.0 per cent and the LTIFR of 15.5 per cent.

In the Australasian Paper Merchanting group, the MTIFR was reduced by 22.7 per cent and the LTIFR by 26.9 per cent.

With another full year to integrate the European companies acquired from the Buhrmann group, the European Paper Merchanting group achieved a reduction in the MTIFR of 23.0 per cent and the LTIFR by 24.5 per cent.

The Canadian and US Paper Merchanting businesses achieved reductions in their MTIFR of 17.7 per cent and LTIFR of 32.2 per cent. This includes results from the integration of the Kelly Paper business from 42 localities into the business, as well as the more recent acquisition of Cascades Merchanting, now named Spicers Canada.

Rolling Quarterly LTIFR (injuries per million hours worked)



Safety is a key focus for everyone working at our largest manufacturing facility, Maryvale Mill in Victoria's Latrobe Valley in Australia.

A serious safety incident prompted a renewed focus on making safety 'part of the way we all work'. A mill-wide consultation, issues identification and problem-solving programme commenced in July 2005, driven by an employee-led taskforce with representation from all areas of the mill's operations and unions.

The recommendations that the taskforce identified have now been implemented.

People from the operating areas of the mill were appointed to 12-month secondments as Health and Safety Assistants. They take on the challenge to work within the mill on day-to-day safety issues. This expanded team of 'safety champions' is expected to progressively build greater awareness of safety throughout the site.

"As Health and Safety Assistants we have a chance to help raise the level of awareness of safe work practices on the site. We'll not only have the ability to have input into the implementation of proactive systems and projects, but we'll be able to report on the effectiveness of these programmes to the decision-makers by observation and communication with all personnel on the site. This role gives every person at Maryvale an avenue to ensure our site's future," *said Peter Freeman, Health and Safety Assistant*

Left to right: Frank Murtagh, Michael Everett, Peter Dyke, Ian Moule, Bill Van Sambeek, Colin Peterson and Ben McLean.
Members not present in photo: Greg Stewart, Leo Galea, Jenine Smith, Peter Berryman, Russell Donoghue.

OUR COMMITMENT – WORKING WITH COMMUNITIES

Achievements

- We contributed $910,785, including employee contributions, to hundreds of community programmes and not-for-profit organisations around the world, including disaster relief for Hurricane Katrina in the US and Cyclone Larry in Australia.
- We developed a framework for a global community relations programme including scoping of an employee giving scheme.
- Robert Horne UK completed the second year of an ongoing partnership with the Marie Curie Cancer Care charity.
- A range of local programmes were ongoing in their support for communities around our sites.
- In 2005/06 our global community investment was equivalent to 1.37 per cent of our reported profits.

Goals

- Develop community involvement guidelines to guide our businesses.
- Set up a steering committee to oversee a global community investment programme.
- Review our practices of allocating funds to a range of non-profit community groups and organisations.
- Develop a process to value our contributions to community investments across the Group.
- Develop a framework/management tool to measure our community commitments.
- Explore participation in the Global Compact, the United Nations voluntary corporate citizenship initiative adhering to 10 principles relating to human rights, labour, anti-corruption and environmental issues.

PaperlinX has a strong commitment to working with the communities we operate in. With operations in 28 countries, many of our businesses support a wide range of local community groups, schools, charities and voluntary organisations by providing financial support and in-kind paper donations. We support our employees' involvement in fundraising and volunteering in the community.

At each of our mill sites in Australia we work with nearby communities on continuously improving our environmental performance, and we host regular public tours and open days.

In 2005/06 the Company set a number of targets for our work in the social area. As we progressed in these areas, it became evident that additional work needed to be done to collect information on our existing activities and ensure that our strategies were properly aligned to the needs of the business and our stakeholders. As a result of this need for further planning, we did not achieve all of the targets we set for ourselves in 2005/06. We have now established targets for the year ahead that we believe are aligned to our business.

Community Relations

Community Consultative Committees

To better understand the needs of the communities we are part of and to obtain feedback on our operations, there is a Community Consultative Committee at each of the Company's four manufacturing mills. These long-standing Committees are made up of people representing diverse organisations who have an interest in the mills' operations.

Each year the Committees develop an Environmental Improvement Plan that forms part of the site's overall Environmental Management Plan. These plans have addressed issues such as odour reduction and improvements in water and energy usage at the mills and the Committees are a valued part of the overall communications between the Company and the communities we are part of.

Community Partnerships

Spicers Paper US Provides Hurricane Support

After forming a distribution partnership in September 2005, Spicers Paper in the US and Boise Paper teamed up again to raise funds for the victims of Hurricane Katrina that struck the south east coast of the US in August 2005. Spicers Paper contributed US$25,000 to the American Red Cross with Boise Paper agreeing to match the funds. Their support assisted the millions of people who lost homes, belongings and family members in this devastating hurricane.

Paper Education

Many of our businesses are actively involved in providing paper education and supporting the professional development of the design and printing communities. Spicers 'Paper Knowledge Workshop' and Robert Horne's 'Know How Academy' are two such examples.

Saxton Scholars is Australian Paper's annual competition that supports communication design education across Australia. Tertiary students are invited to conceptualise and develop a graphic design or visual communication project where creativity is the key and there are no limits to how students can respond. The top three finalists are each awarded a budget to implement and develop their ideas. A judging panel then selects the overall winner, who receives a cash prize, paid work experience with a reputable Australian graphic design studio and a tour of a paper making mill.

Leadership Victoria

Since 2002, as part of the Company's commitment to enhancing leadership within communities and supporting our people to make a contribution to their community, PaperlinX has been a major sponsor of Leadership Victoria in Australia. This not-for-profit organisation promotes leadership skills for community benefit through an annual programme that enhances the leadership capacity of participants from the public, community and private sectors, while supporting over 150 community organisations by placing volunteers in community projects.

Employee Involvement

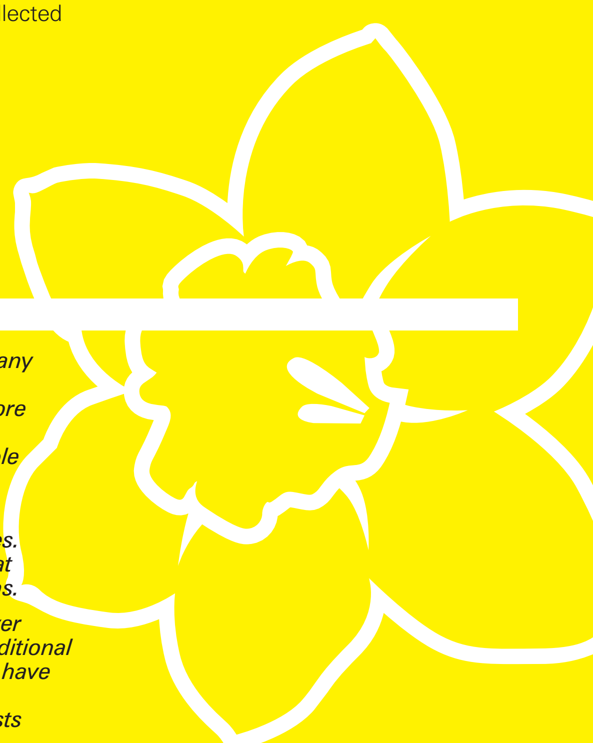
Our businesses are actively involved in raising funds for local events and good causes. Whether it is supporting the Leukaemia Foundation by taking part in the World's Greatest Shave, holding a charity BBQ to raise funds for a local children's charity or walking the 320 kilometres from Seattle to Portland in the US for charity, PaperlinX and our people are proud to support the communities we are part of.

Coast Paper in Canada continued its tradition of supporting local organisations by supporting the United Way campaign for the first time and matching employee donations. Their annual Coast Paper Christmas Drive involved collecting over 4,000 donated gifts to benefit 9,000 people in need.

SPICERS PAPER HELPS RECREATE LANDFILL SITES

Since 2003, Spicers Paper in Australia has 'put its money where its mouth is' in caring for the environment. Partnering with Landcare Australia, the Spicers Paper Recreate Programme aims to rehabilitate ex-landfill sites through cleaning up and planting. Through funding supported by a percentage of sales of *tudor ® RP 100% Recycled* paper, several restoration projects around Australia have been undertaken. Rehabilitated areas include Imaroo Street at Merri Creek, Victoria; Wirranendi Parklands in Adelaide; Marks Park, Tamarama, NSW; Belmont, near the Swan River, in WA; and the Demonstration Catchment in QLD.

tudor ® RP 100% Recycled is made from materials that might otherwise end up as landfill, namely office papers, offcuts from printing and envelope manufacturing processes and collected milk and juice cartons.



ROBERT HORNE SUPPORTS UK CANCER CARE

Traditionally, the Robert Horne Group of paper merchants has supported many different charitable organisations in the UK. It was felt that focusing on one single charity that was relevant to the majority of employees would be a more appropriate approach. Employees were surveyed and they chose to support the Marie Curie Cancer Care charity to make a difference to the lives of people with cancer.

Marie Curie Cancer Care provides high-quality nursing totally free, to give terminally ill patients the choice of dying at home supported by their families. Marie Curie nurses provide almost 800,000 hours of practical nursing care at people's homes every year, made possible only through charitable donations.

Robert Horne is supporting Marie Curie with funding of £10,000 per year over three years and employees are encouraged to get involved in a range of additional fund-raising events at a local level to support the charity. So far, employees have raised over £5,700. The company also makes its premises in Northampton available to the charity for meetings and events, saving them significant costs over the year, and donates paper as required. For more information see www.mariecurie.org.uk.

OUR SHARED FUTURE – THE ENVIRONMENT

Achievements

- Completed the first stage of the two-year Sustainability Action Plan to quantify the Group's environmental impact.
- Established environmental, safety and health requirements for PaperlinX paper suppliers to enhance supply chain assurance for customers.
- No significant environmental breaches or non-compliance with environmental regulations.
- All manufacturing sites maintained ISO 14001 certification.
- Shoalhaven Mill in New South Wales and Maryvale Mill in Victoria both achieved FSC chain-of-custody certification.
- Australian Paper achieved preferred supplier status with a number of government and corporate customers on the basis of environmental performance.
- Maryvale's pulp mill and bleach plant upgrade was granted works approval and is progressing on track.
- Built constructive relationships with environmental groups such as World Wildlife Fund (WWF) in Australia and the UK.

Goals

- Complete stage two of the Sustainability Action Plan; and from our baseline, improve on our performance across the Group:
  – by reducing energy consumption by 2 per cent; and
  – reducing waste production by 2 per cent.
- Continue the focus on further improving recycling of waste at each of our major sites around the world.
- Achieve FSC certification for our Tasmanian mills.
- Show environmental leadership by achieving FSC certification for Australian Paper's key products.
- Continue progress on the Maryvale pulp mill upgrade in Victoria, Australia.
- Identify opportunities to collaborate with key environmental groups on sustainability issues.

Through our Sustainability Charter, we are committed to providing our customers with product options that have strong environmental credentials, while also reducing the environmental footprint of our operations, wherever possible. This is not an add-on to our business because it is expected of us. Our environmental approach is part of our sustainable business model.

Spreading the Word

Each of our businesses works closely with customers to communicate the high environmental standards of our products.

Across our Merchanting businesses, we regularly provide environmental information to our customers about the products they purchase, and have secured a number of government and corporate customers as a result.

Australian Paper has produced *Environs*, a comprehensive report covering our position and performance on all aspects of the environmental and social credentials of our paper manufacturing operations.

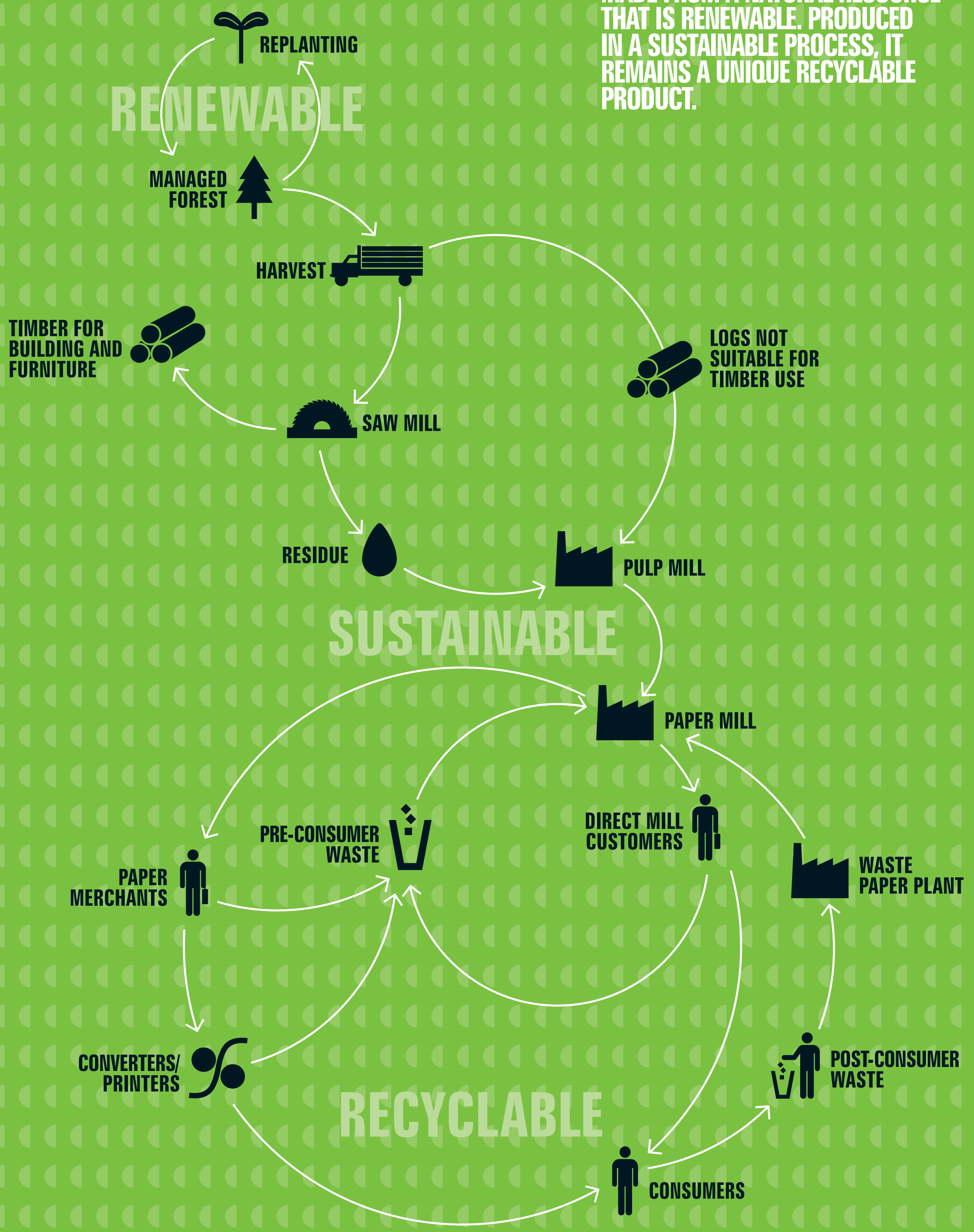
In the UK, staff at the Robert Horne Group also found there was a need to explain more about our efforts towards sustainability. A regular bulletin, *The Leaflet*, updates customers, employees and other stakeholders on specific environmental initiatives in our Paper Merchanting operations.

Working with Suppliers

Of course, with a business that spans 28 countries and hundreds of paper products, no one certification system will be appropriate for all products. To ensure that we can provide the certainty customers are looking for across our full range of products, PaperlinX has documented environmental, health and safety requirements that our paper suppliers must conform with. The requirements include:

- compliance with all regulatory requirements in the countries in which the supplier operates;
- established environmental management systems (EMS) and independent third-party certification of these systems;
- independent third-party certification of appropriate sustainable forest management standards. This could include Forest Stewardship Council (FSC) or the Program for Endorsement of Forest Certification (PEFC) as well as a range of other certification systems; and
- annual reporting from the supplier to PaperlinX against these areas.

PAPER IS A WONDERFUL MATERIAL MADE FROM A NATURAL RESOURCE THAT IS RENEWABLE. PRODUCED IN A SUSTAINABLE PROCESS, IT REMAINS A UNIQUE RECYCLABLE PRODUCT.



ENVIRONMENT – PAPER MERCHANTING

Environmental and sustainability issues are high on the global agenda, especially when it comes to the use of paper. Our customers, governments and the broader community all have an active interest in these areas.

As paper merchants we are the link in the chain that takes products from mills to commercial printers, envelope converters, stationers and resellers, corporate printers, publishers and end users.

We believe that it is important to be able to demonstrate that the wood fibre used in the papers sold by our merchants is sourced from sustainably managed forests. Certifications systems, such as the FSC's accreditation process and the PEFC provide assurance to customers.

The FSC is one of the leading global certification systems and is supported by the World Wildlife Fund and Greenpeace. We support this and other independent certification systems.

A number of our businesses have been actively involved with the FSC and have achieved chain-of-custody certification. During the period, the Robert Horne Group in the UK and Spicers Paper in Australia, the US and Hong Kong retained this level of certification. This is recognised as a global standard in forest certification and the chain-of-custody component ensures that the final product can be traced back to its original source.

In the UK, the Robert Horne Group was the first UK paper merchant to be granted membership of the World Wildlife Fund's Forest and Trade Network. This provides a framework that enables companies to identify and move towards products from credibly certified forests. They have also published a Responsible Paper Purchasing Policy and agreed to work towards targets set in collaboration with the environmental group.

Providing Green Products for Our Customers

Throughout the world there is growing demand for recycled and environmentally certified paper stocks and our Merchanting businesses are well positioned to meet our customers' requirements.

As part of our commitment to providing the products our customers want, many of our businesses now sell papers bearing the FSC logo, which traces back to the FSC certified wood used in their production.

One of the first UK products offered with FSC chain-of-custody certification is 9lives™ 80. This is made from 80 per cent recycled fibre and 20 per cent totally chlorine-free pulp and is available in gloss and silk finishes.

In Australia, Spicers Paper's flagship brand of 26 years, Monza® Recycled, received FSC certification as a mixed source product in April 2006. Monza® Recycled is produced from recycled fibre, pre-consumer and post-consumer waste and FSC certified pulp.

The revive™ brand range offers printers and end users a comprehensive choice of different finishes and recycled fibre content, with many of the options also being FSC certified. revive™ has emerged as the strongest recycled paper range in the UK. It is also proving to be a successful international brand, with demand growing in Australia, the US and Asia. In the US, our businesses have created Sustainable Advantage Grades of paper for customers who want to make socially and environmentally responsible choices about the products they use.

Reduce, Reuse, Recycle

Over the past 12 months our merchanting operations have been working towards reducing their environmental impact, particularly in the areas of waste recycling and reducing energy usage. In our offices, there is a greater emphasis on recycling office paper, glass bottles and cans. Our warehouses are increasing the recycling of wooden pallets, the plastic stretch wrapping that protects paper and paper offcut waste.

For example, at Robert Horne's national distribution centre in Northampton, UK, over 1,000 tonnes of rubbish are created every year. By implementing new recycling and waste management procedures they are aiming to increase their recycling rate from 30 per cent to 50 per cent in the next year.

ENVIRONMENT – PAPER MANUFACTURING

Australian Paper manufactures paper in three states in Australia, producing approximately 1,000 grades and weights of paper that are used every day in Australian homes and businesses. These products include coated papers, coloured papers, security papers, watermark papers, packaging papers, copy papers, offset printing papers, bag papers and recycled paper in both sheet and roll forms.

Australian Paper recognises that in the production of paper products there are impacts and that customers have a choice about the products they use. We are committed to meeting customers' needs by producing paper products in a sustainable manner, utilising raw materials and processes that achieve continuous improvement in environmental, safety and social performance.

Sound Environmental Management

Each of our four mills has a site-specific environmental management system (EMS) that provides the processes and procedures for compliance with environmental requirements. These include site-specific licences that are issued by Australian Federal and State Governments as well as standards and codes of practice.

Each site's EMS complies with the International Standard ISO 14001 for Environmental Management, which is the leading standard for manufacturing sites. Performance against the EMS is assessed by external auditors SAI Global and Det Norske Veritas (DNV).

In August 2005, we committed $203 million to a new elemental chlorine free bleaching plant and pulp mill upgrade at the Maryvale Mill. The project includes upgrading the kraft pulping operations and will cut emissions of sulphur oxide by 80 per cent. It is expected to be completed during 2008.

Sustainable Fibre Sources

Australian Paper purchases wood fibre from independent sustainable forest suppliers. This fibre is sourced from sawmill residue, sustainably managed hardwood forests, managed hardwood and softwood plantations, imported pulp and waste paper. No wood fibre is sourced, either as timber or pulp, from old growth forests. We acknowledge the importance of plantation fibre and as this resource becomes increasingly available in Australia, we expect to significantly increase the amount we use. As part of Maryvale's pulp mill upgrade, the use of native State Forest timber will be phased out by 2017.

Following independent verification for adherence to FSC chain-of-custody processes, Australian Shoalhaven Mill and Maryvale Mill operations were recently certified to FSC standard. Accordingly, all wood fibre utilised in the manufacture of the Company's speciality papers meet all FSC criteria, as either FSC certified or FSC 'Controlled Wood' from well managed forests. Chain-of-custody is the path taken by raw materials from the forest to the consumer, including all successive stages of processing, transformation, manufacturing and distribution.

We are committed to preserving the natural habitat surrounding our mills. The Giant Freshwater lobster, Astacopsis gouldi, is a rare species that lives in the water catchment areas around our Burnie Mill in Tasmania.

Using Energy Efficiently

The generation of energy from fossil fuels results in the emission of greenhouse gases including CO_2. We are committed to reducing our reliance on fossil fuels to reduce our greenhouse gas emissions and are continually refining methods to maximise our on site power generation capabilities.

Our Tasmanian mills use renewable energy sourced from hydroelectric and wind farm power for 92 per cent of their energy requirements, thus reducing carbon emissions. This is one of the few paper operations in the world with negligible carbon emissions. The Burnie Mill uses poppy seed waste and wood waste, which would otherwise go to landfill, to fuel part of its operations. More than 40 per cent of Maryvale Mill's power supplies are produced on site from waste materials such as wood waste.

Over the past 25 years, our mills have reduced their consumption of fossil fuels by more than 50 per cent per tonne of paper produced. Over 65 per cent of energy used at Australian Paper's operations is from renewable sources.

Using Water Responsibly

Water is an essential component of paper making and we are acutely aware of the need to responsibly manage our water usage through water recycling and re-treatment. In the last 12 months our water usage has decreased by a further 0.2 per cent across our four mills. We operate at levels well under our current licence limits and our Tasmanian mills only use 22 per cent of their allocated water supplies. At Shoalhaven Mill, a natural biological treatment system constructed in 1996 has since led to a 94.1 per cent reduction in pollutant loads in discharged water. At Maryvale Mill, water usage per tonne of paper produced has reduced by 66 per cent in the last 20 years, making it one of the most efficient users of water in the worldwide paper industry.

Emissions

Australian Paper has strict parameters and continuous monitoring for all major emissions into the atmosphere. All of our mills seek to maintain their operations well within their licence limits, however, there have been times when these limits have not been met. The Company has therefore implemented a programme of further reduction and elimination of emission sources working closely with environmental regulators to obtain our best possible performance. Over the past 12 months, there were no additional improvements in carbon dioxide emissions across our four mills. Since 1999, Maryvale Mill has shown an 85 per cent reduction in odour emissions as a result of continual improvement of operating procedures supported by an investment of $10 million. Further improvements at Maryvale are expected from the pulp mill upgrade due to be completed in 2008.

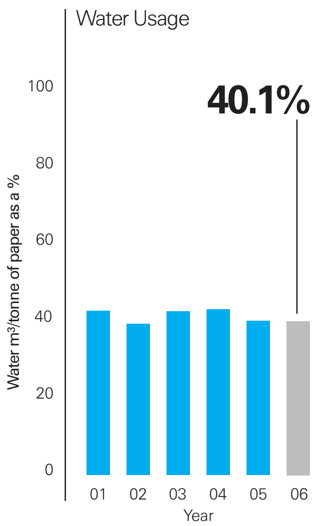
Recycling for the Future

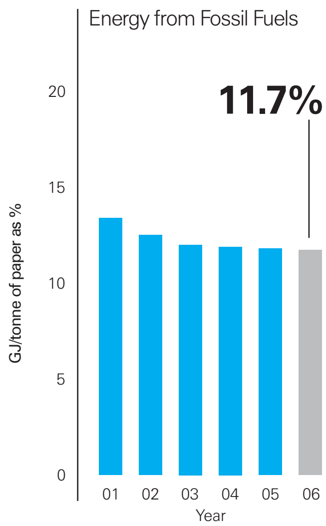
Australian Paper is committed to the 'reduce, reuse, recycle' principle.

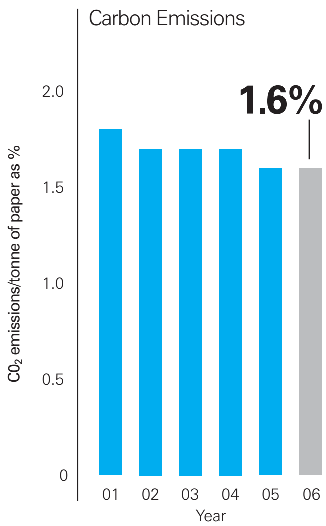
In fact, we use approximately 70,000–80,000 tonnes of recycled packaging and paper materials from homes, offices and industrial sources in Australia that would otherwise go to landfill.

Recycled paper products form a significant part of our total product range, with recycled content making up between 10 per cent and 100 per cent depending on the intended use of the paper.

Other recycling activities within our operations include office papers, batteries, ink cartridges, reel cores, non-hazardous waste products, ferrous metals, hydrocarbons and raw material containers.







Optimising the Use of Waste Paper

Australian Paper is a signatory to the National Packaging Covenant, which is an Australian Government initiative designed to minimise the environmental impacts of packaging waste and support Australia's voluntary recycling system.

An action plan has been developed to address our responsibilities under the Covenant. The plan encompasses support for recycling, education, product development and research, resource utilisation and support systems. These plans are implemented by our staff as part of their normal operations.

While all of our mills have recycling programmes in place, they are extending their commitment through environmental improvement plans – programmes that actively investigate and trial better methods of resource utilisation.

Providing the Products our Customers Want

Australian Paper produces the largest range of fine papers with recycled content in the Asia Pacific region. All of our products are manufactured to high environmental standards that are independently audited. We have always offered a range of papers with recycled content, but with growing demand from consumers, our range has expanded to include Australian™ 80% Recycled and Reflex™ 50% Recycled. Reflex™ is the only Australian-made FSC accredited office paper.

We are also the market leader in high-performance envelope paper. The Postspeed™ range provides quality envelopes for a wide range of business applications, all produced from sustainable natural resources.

Australian™ 80% Recycled is the highest recycled content Australian-made paper available. This paper was introduced during 2005 and has become one of the fastest moving brands on the market. Australian™ 80% Recycled diverts waste from Australian landfill and contains new fibre from plantations and sustainably managed forest reserves.

Australian Paper – Sustainability Charter

Paper products continue to perform an essential role in our day-to-day lives. In a world where our lifestyle depends on so many things made from non-renewable resources it remains a unique fully recyclable product. Australian Paper recognises that in the production of paper products there are impacts and our customers have a choice about the products they use.

Australian Paper is proud of its performance and always seeks opportunities to improve. We are committed to meeting our customers' needs by producing paper products in a sustainable manner, utilising raw materials and processes that achieve continuous improvement in our environmental, safety and social performance. We are also committed to reporting on our environmental performance as we seek out opportunities to continually improve.

Environment

Australian Paper's environmental commitment applies to all levels of our organisation and will be maintained within ISO 14001 certification and associated management systems. Key areas for future success will be:

- Minimising resource usage (energy, fibre and chemicals).
- Minimising waste production (air, land and water).
- Maximising recycling capabilities in both our operations and our products.

Each of our operational areas is responsible for implementing these environmental commitments.

People

Three groups of people guide our operation's success: our customers, our employees and the communities in which we operate.

Customers

We will provide product options and information for our customers to support them to make informed decisions about purchasing the products we manufacture.

Employees

Our objective is to be the 'employer of choice' in which all members of our workforce are treated with respect and employed within strong principles of equal employment opportunity, ethical behaviour and in a safe workplace.

Community

Our commitment is to provide environmental leadership, economic support and open relationships.

Sustainability

Suppliers

We will insist that our suppliers act in a legal and sustainable manner and are committed to continuous improvement. In particular we will ensure that fibre and forest product suppliers implement sustainable practices. We will consistently review supplier performance against our standards.

GLOSSARY

CO_2
Carbon dioxide is the main greenhouse gas that results from burning petrol, coal, oil and natural gas.

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

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. 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.

Furnish
The specific mixture of raw materials, including pulp and chemicals, that is used to manufacture a particular grade of paper.

FTSE4Good
Created by the independent financial index company FTSE Group, FTSE4Good is a financial index series that is designed to identify and facilitate investment in companies that meet globally recognised corporate responsibility standards. Companies in the FTSE4Good Index Series are doing more to manage their social, ethical and environmental impacts, and are better positioned to capitalise on the benefits of responsible business practice.

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.

ISO 14001
A voluntary independently certified international standard for environmental management systems used, developed and maintained by the International Organisation for Standardisation.

Kraft linerboard
This board is used in the manufacture of cardboard boxes and is engineered to withstand varying atmospheric conditions such as extreme heat, humidity or the freezing temperatures of a coolroom.

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, roading 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 in warehouses until they are required by customers. The stock is then broken down into smaller quantities to meet customer requirements.

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

Pulp
The raw material used for paper production. It can be softwood or hardwood and depending on the process used may be chemical, mechanical and bleached or unbleached.

Regrowth forest
A forest that has regrown after an area has been burnt by fire or harvested for timber.

Recycled fibre
Paper and board that has been collected for re-use as raw fibre material in paper and board manufacture.

Sack kraft paper
A high strength paper used in the manufacture of multiwall paper sacks to hold products such as cement, minerals, flour, milk powder and potatoes.

Sawmilling residue
Reject logs or cuttings from the harvesting of timber for use by sawmills.

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

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

DIRECTORS OF PAPERLINX

D E (David) Meiklejohn
BCom, Dip Ed, FCPA, FAIM, FAICD
(Chairman) Age 64

Appointed a Director and Chairman in December 1999. An experienced Company Director with a solid financial background and over 30 years' experience in paper manufacturing and distribution businesses. Currently a Director of ANZ Banking Group Limited (from October 2004), Coca-Cola Amatil Limited (from February 2005) and Mirrabooka Investments Limited (from March 2006). Previous roles include: Chief Financial Officer of Amcor Limited and a Director of Amcor Limited (1985–2000); Chairman of SPC Ardmona Limited (2002–2005); Deputy Chairman of GasNet Australia Limited (2001–2004); and a Director of OneSteel Limited (2001–2005) and WMC Resources Limited (2002–2005). Chairman of the Nomination & Governance Committee and a member of the Audit Committee, the Remuneration & Human Resources Committee and the Safety & Environment Committee.

T P (Tom) Park
BSEE, MBA
(Managing Director) Age 58

Appointed Managing Director and Chief Executive Officer of PaperlinX Limited in February 2004. Broad business experience in Australia, Asia, North America and Europe. Previous roles include: Managing Director and Chief Executive Officer of Goodman Fielder Limited, Chief Executive Officer of Southcorp Limited and a Director of the National Australia Bank and the Business Council of Australia.

A F (Andrew) Guy
LLB, MBA, FAICD
(Non-executive Director) Age 58

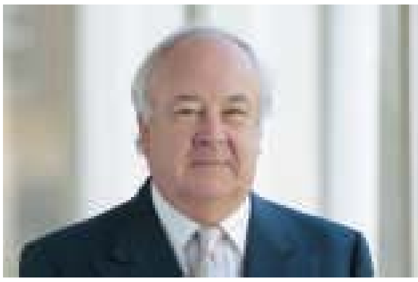
Appointed a Director in March 2001. Experienced commercial lawyer and former Director of Spicers Paper Limited. Currently a Director of Djerriwarrh Investments Limited (from December 1989), Aviva Australia Holdings Limited (from June 2003), Australian Institute of Company Directors (from September 2001) and Anglicare Victoria (from August 1997). A former managing partner in the law firm Arthur Robinson and Hedderwicks. Chairman of the Safety & Environment Committee and a member of the Remuneration & Human Resources Committee.

B J (Barry) Jackson
BCom (Hons), MAICD
(Non-executive Director) Age 61

Appointed a Director in February 2000. Over 30 years' experience in manufacturing and industrial marketing in Australian and international markets. Currently a Director of Alesco Corporation Ltd (from November 2001), CSR Limited (from April 2003), Equity Trustees Limited (from September 2002) and St Vincent's Institute of Medical Research in Melbourne (from February 2002). A former Managing Director of Pacifica Group Limited. Chairman of the Remuneration & Human Resources Committee and a member of the Audit Committee and the Nomination & Governance Committee.

N L (Nora) Scheinkestel
LLB (Hons) PhD, FAICD
(Non-executive Director) Age 46

Appointed a Director in February 2000. An experienced Company Director with a background in international project and structured financing. An Associate Professor at the Melbourne Business School. Currently a Director of Newcrest Mining Limited (from August 2000), AMP Limited (from September 2003), AMP Capital Group (from September 2003), Mayne Pharma Ltd (from November 2005) and Orica Ltd (from August 2006). Previously Chairman of South East Water (July 2002–August 2005) and Director of Mayne Group Ltd (July 2005–November 2005). Chairman of the Audit Committee and a member of the Nomination & Governance Committee and the Safety & Environment Committee.



D A (David) Walsh
LLB, MAICD
(Non-executive Director) Age 66

Appointed a Director in July 2000. Experienced Company Director with a wide background in corporate and commercial law, including in relation to the paper industry. Currently Chairman of Templeton Global Growth Fund Ltd (from August 1998) and a Director of Macquarie Infrastructure Investment Management Limited (which is the responsible entity of Macquarie Infrastructure Trust) (from March 2004) and Dyno Nobel Ltd (from February 2006). Previous roles include: a Director of Asia Pacific Specialty Chemicals Limited (1994–2002) and a former partner in the law firm Mallesons Stephen Jaques. Member of the Audit Committee and the Nomination & Governance Committee.

L J (Lindsay) Yelland
BSc, FAICD, MACS
(Non-executive Director) Age 60

Appointed a Director in February 2000. Extensive experience in the IT industry. Currently Chairman of Argus Solutions Limited (from March 2003) and Ideas International Limited (from November 2000). Previous roles include: Chairman of Legion Interactive Pty Limited (2002–2005); a Group Managing Director of Telstra Corporation; Vice President Asia-Pacific of Data General Corp; and Vice President of Apollo Computer Corporation. Member of the Remuneration & Human Resources Committee and the Safety & Environment Committee.

Committees of the Board

Directors as at 30 June 2006	Audit Committee	Nomination & Governance Committee	Remuneration & Human Resources Committee	Safety & Environment Committee
D E Meiklejohn	●	● (Chairman)	●	●
T P Park				
A F Guy			●	● (Chairman)
B J Jackson	●	●	● (Chairman)	
N L Scheinkestel	● (Chairman)	●		●
D A Walsh	●	●		
L J Yelland			●	●

● = Committee Chairman

DIRECTORS' REPORT

The Directors' Report contains three sections:
1. Statutory Matters
2. Remuneration Report
3. Corporate Governance

Directors

The names of the Directors of PaperlinX Limited in office at any time during or since the end of the financial year are:

D E Meiklejohn	B J Jackson
T P Park	N L Scheinkestel
D G Abotomey [1]	D A Walsh
A F Guy	L J Yelland

[1] Resigned as a Director 31 December 2005.

Details of the qualifications, experience and special responsibilities of Directors are set out on pages 48 to 49 of this Concise Annual Report.

Principal Activities

The principal activities of the consolidated entity were the distribution and sale of printing, publishing and packaging papers and the manufacture of communication papers and packaging papers. There were no significant changes in the nature of the principal activities of the consolidated entity during the year under review.

Review and Results of Operations

A review of the operations of the PaperlinX Group during the financial year and the results of those operations are contained in pages 14 to 28 of this Concise Annual Report.

State of Affairs

Significant changes in the state of affairs of the consolidated entity that occurred during the financial year ended 30 June 2006 were as follows:

March 2006	Acquisition of Cascades Merchanting in Canada for approximately A$104 million.
March 2006	Reorganisation of manufacturing operations (closure of number 1 paper machine at Shoalhaven and transfer of this production to Maryvale).

Commentary on the overall state of affairs of the economic entity is set out on pages 14 to 28 of this Concise Annual Report.

Environmental Regulation

The consolidated entity is subject to significant environmental regulation, in particular with respect to its manufacturing activities. Environmental performance obligations are monitored by management and the Board and subjected, periodically, to internal audits as well as independent external and government agency audits and site inspections. The Sustainability Report is set out on pages 29 to 47 of this Concise Annual Report.

Matters Subsequent to the End of the Financial Year

Since 30 June 2006 and to the date of this Report, no matter or circumstance has arisen (other than those occurring as a result of the normal vicissitudes of business) that has significantly affected or may significantly affect:

(a) the consolidated entity's operations in future financial years; or
(b) the results of those operations in future financial years; or
(c) the consolidated entity's state of affairs in future financial years

apart from reaching in principle agreement to outsource a new wood yard at Maryvale, which will result in one-off costs in the 2007 year of around $10 million.

Future Developments/Outlook

Certain likely developments in the operations of the consolidated entity known at the date of this Report have been covered in the Chairman's Report on page 6 to 7 and generally within this Concise Annual Report. In the opinion of the Directors any further disclosure of information would be likely to result in unreasonable prejudice to the consolidated entity.

Interests of Directors in Contracts or Proposed Contracts with the Company

As mentioned in the Remuneration Report, Non-executive Directors of PaperlinX Limited have entered into agreements with the Company for the payment of retiring allowances on retirement as a Director. In addition, Directors of PaperlinX Limited have declared their interests in contracts or proposed contracts that may result from their directorships of other corporations, as listed in their personal profiles set out on pages 48 to 49 of this Concise Annual Report.

Dividends

Dividends paid or declared by the Company since the end of the previous financial year were:

Type	Cents per share	Total amount $m	Date of payment	Tax rate for franking credits	Franked %
In respect of the 2004/05 financial year:					
Final – fully paid shares	12	53.5	28 Sep 05	30%	Nil
In respect of the 2005/06 financial year:					
Interim – fully paid shares	5.5	24.6	5 Apr 06	30%	Nil
Final – fully paid shares	4.5	20.0	13 Oct 06	30%	Nil

Directors' Meetings

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year are:

	Board of Directors		Audit Committee		Nomination & Governance Committee		Remuneration & HR Committee		Safety & Environment Committee	
Directors	A	B	A	B	A	B	A	B	A	B
D E Meiklejohn	11	11	5	5	3	3	5	5	5	5
T P Park	11	11								
A F Guy	11	11					5	5	5	5
B J Jackson	11	11	5	5	3	3	5	5		
N L Scheinkestel	11	11	5	5	3	3			5	5
D A Walsh	11	11	5	5	3	3				
L J Yelland	11	11					5	5	5	5
D G Abotomey (1)	5	5								

(1) Resigned as a Director 31 December 2005.
A – Number of meetings held during the time the Director held office during the year.
B – Number of meetings attended.

Directors' Interests

The relevant interest of each Director in the share capital of the Company as at 30 June 2006 is as follows:

	Fully paid ordinary shares	Options over ordinary shares (2)	Performance options issued as at 30/6/06 (3)	Performance options approved at 2004 AGM (3)	Shares subject to share plans (4)	Performance rights issued as at 30/6/06 (4)
D E Meiklejohn	67,612					
T P Park	70,000		200,000	300,000	600,000	480,645
A F Guy	58,256					
B J Jackson	40,980					
N L Scheinkestel	36,360					
D A Walsh	20,898					
L J Yelland	32,672					
D G Abotomey (1)	63,456	235,000				

(1) Resigned as a Director 31 December 2005. The following interests of Mr D G Abotomey lapsed during the course of the year or upon his resignation from Paper Australia on 8 July 2006: 91,790 performance options, 203,570 performance rights, and 105,000 shares subject to share plans.
(2) Issued prior to being appointed a Director.
(3) These represent contingent interests in the maximum number of options over shares to which executive Directors may become entitled under the Company's performance options plan.
(4) These represent contingent interests in the maximum number of shares to which executive Directors may become entitled under the Company's Performance Rights Plan.

Indemnities and Insurance

The Company has agreements with each of the Directors of the Company in office at the date of this Report, and certain present and former Officers of the Company, indemnifying those Officers against liabilities to any person other than the Company or a related body corporate that may arise from their acting as Officers of the Company notwithstanding that they may have ceased to hold office, except where the liability arises out of conduct involving a lack of good faith.

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contracts.

Non-audit Services

In addition to the statutory audit work during the year, the Company's auditors, KPMG, have provided certain non-audit services, including:

- tax compliance services totalling $188,000;
- other assurance services totalling $40,000;
- divestment services totalling $545,000; and
- other services (principally overseas entities' local statutory accounts preparation), amounting to $29,000.

The Company has strict criteria relating to the engagement of the auditor for non-audit services. Directors have reviewed the nature of non-audit services being provided, as well as their cost, and believe the provision of these services does not impair the integrity and objectivity of the auditors and is compatible with the general standard of independence for auditors imposed by the Corporations Act. In the current year, the Company has also engaged the services of other accounting firms to perform a variety of non-audit assignments.

Rounding

The Company is the kind referred to in the ASIC Class Order 98/100 dated 10 July 1998 and, in accordance with that Class Order, amounts in this Concise Annual Report and Directors' Report have been rounded off to the nearest one hundred thousand dollars or, where the amount is $50,000 or less, zero, unless specifically stated to be otherwise.

Remuneration Report 2006

1. Introduction

This Remuneration Report has been prepared for shareholders by Directors to explain the processes and policies underlying the determination of Board and executive remuneration. The Report forms part of the Directors' Statutory Report for the year ended 30 June 2006.

The roles of the Nomination & Governance Committee and the Remuneration & Human Resources Committee in relation to Board and executive remuneration are explained in the Directors' Corporate Governance Report on pages 58 to 63.

2. Executive Remuneration

2.1 Remuneration Policy and Principles

The policy of the Company is to design its remuneration practices so that they are sufficiently competitive to attract and retain the quality of staff that it seeks and also to encourage long-term commitment and superior performance from its employees. Rewards are linked to the achievement of business strategies and goals, and to increasing shareholder value.

The key principles upon which this remuneration policy is based include:

- All elements of remuneration will be set at appropriate levels in relation to market practice for comparable roles.
- Payment of incentive-based rewards will be dependent upon achieving demanding performance hurdles consistent with shareholder interests.
- Reward outcomes will be determined having regard to the performance of both the Company and individual executives.

2.2 Remuneration Structure

Remuneration for PaperlinX's executives consists of two main elements:

1. Total Fixed Remuneration (TFR) – includes all fixed costs such as base salary, car, health insurance and mandatory superannuation.
2. Variable Pay – comprises the short-term incentive (STI) (i.e. the annual cash incentive plan) and the long-term incentive (LTI) (i.e. share and options-based incentive plans).

The mix between fixed and variable pay for disclosed executives for the past year is shown in Table 1.

Table 1: Percentage of total target remuneration (annualised)

	Fixed remuneration	Variable (performance-based) remuneration
	TFR	STI, performance rights and performance options
T P Park	44%	56%
D G Abotomey [1]	53%	47%
C B Creighton	53%	47%
E de Voogd	55%	45%
M J Fothergill	54%	46%
D M Goldthorp	54%	46%
D M Lamont	52%	48%
R F O'Brien	53%	47%

(1) Employment ceased 8/7/06.

2.3 Remuneration Strategic Positioning

The Board aims to position executive Total Fixed Remuneration (TFR) at the median of the relevant market, but to provide higher levels of at risk (or 'variable') remuneration through the short-term incentive (STI) and the long-term incentive (LTI) plans, so that total remuneration will only be above average if the Company performs well. Further information on the STI and LTI plans is provided below.

The TFR for direct reports to the Managing Director is reviewed annually by the Remuneration & Human Resources Committee on the basis of recommendations from the Managing Director and remuneration information provided by an independent consultant for similar roles in relevant local and international businesses.

The TFR for the Managing Director is reviewed annually by the Nomination & Governance Committee based on advice from an independent consultant.

3. Performance-reward Link

3.1 Short-term Incentive

The short-term incentive plan for executives provides for annual target cash bonuses up to 40 per cent of TFR if financial and individual performance targets are met, and a maximum payment of up to 70 per cent of TFR on the achievement of exceptional performance.

The short-term incentive plan for the Managing Director provides for an annual target cash bonus of up to 50 per cent of TFR if financial and individual performance criteria determined by the Board are met, and a maximum payment of up to 100 per cent of TFR on the achievement of exceptional performance.

The incentive payment for the Managing Director for 2005/06 of 55 per cent comprises a nil payment for financial performance criteria, a maximum payment of 10 per cent for safety performance improvements throughout the Group and an above target payment of 45 per cent for strategic achievements during the year. The strategic achievements include restructurings to improve long-term profitability and returns, acquisitions which will improve short-term results and the programme of major initiatives which are largely aimed at improving efficiency and reducing costs.

Group or divisional financial targets represent up to 60 per cent of the maximum payment. For 2005/06, the financial measures selected by the Board as the best indicators of PaperlinX's annual financial performance were earnings before interest and tax (EBIT) and/or net profit after tax (NPAT) and economic profit (EP). EP is defined as the net financial return from operating activities, less the costs associated with financing those activities, and is measured using the formula:
EP = EBIT – (average funds employed x cost of funds).

Individual targets represent the remaining portion of the potential payment, and can be a combination of financial targets, people management, health and safety performance, environmental targets, implementation of business and strategic plans and effective leadership and management.

For 2005/06, the maximum STI opportunity, the amount paid and the amount forgone for each of the disclosed executives is shown in Table 2.

Table 2: STI – Maximum opportunity, percentage paid and payment forgone

Executive	Maximum potential STI opportunity (% of TFR)	Actual percentage STI paid (% of TFR)	Actual percentage STI payment forgone (% of TFR)
T P Park	100%	55%	45%
D G Abotomey [1]	70%	20%	50%
C B Creighton	70%	40%	30%
E de Voogd	70%	21%	49%
M J Fothergill	70%	26%	44%
D M Goldthorp	70%	25%	45%
D M Lamont [2]	70%		
R F O'Brien	70%	27%	43%

(1) Employment ceased 8/7/06.
(2) Incentive payment of $200,000 agreed at hire date.

3.2 Long-term Incentives

The long-term incentive programme for the top 26 senior executives in PaperlinX worldwide is now comprised of performance rights plus performance options to provide enhanced incentives for them to improve the share price and shareholder value over the long term. The plans are subject to performance hurdles and will only deliver rewards to executives if shareholders have also gained significantly. Performance rights comprise the majority of the entitlements and are supplemented by a relatively modest number of performance options.

Performance rights are granted to executives and senior managers, subject to the achievement of specified performance criteria as set out below. Each vested performance right entitles the executive or manager to one fully paid ordinary share of PaperlinX Limited, subject to exercise restrictions.

Performance options provide executives with the opportunity to purchase PaperlinX shares at a pre-determined exercise price. The exercise price will be the volume weighted average price for PaperlinX ordinary shares on the Australian Stock Exchange (ASX) over the 30-day period prior to 30 June at the commencement of the relevant performance period. Upon the achievement of the specified performance criteria set out below, each vested performance option can be converted into one fully paid ordinary share of PaperlinX Limited, subject to exercise restrictions.

The performance criteria for performance rights and performance options are the same as those approved by shareholders at the Company's Annual General Meeting in October 2004 for the Managing Director.

No amount is payable by executives on the grant of the performance rights or performance options.

Performance rights and performance options will lapse to the extent that the performance criteria are not met at the end of the relevant performance period.

Under the plan rules the Board has discretion either to cancel or to allow some or all of the performance rights or performance options to vest in certain defined circumstances.

The shares relating to the performance rights and performance options are purchased on-market, as required, and held in trust for distribution to participants if the performance criteria are satisfied.

Performance Measures and Hurdles

The LTI performance hurdles used by PaperlinX are relative total shareholder return (TSR), and earnings per share (EPS) growth. Each hurdle applies to 50 per cent of the grant to each executive.

Relative Total Shareholder Return

The Board considers relative TSR to be a suitable LTI performance measure because executives will only be able to exercise performance rights and performance options subject to this test if shareholders have received returns on their investments in PaperlinX that compare favourably with those that could have been obtained in other Standard & Poor's (S&P)/ASX 200 companies. Under this criterion, the 'total shareholder return' of PaperlinX is measured relative to the total shareholder return of all stocks which have been included in the S&P/ASX 200 for the whole of the measurement period (Comparators).

Both PaperlinX's TSR and the Comparators' TSRs will be based on ASX share price movements plus dividends paid on the shares (on a pre-tax basis) notionally reinvested to purchase additional shares at the market price prevailing on the date the shares begin trading 'ex' the relevant dividend.

If PaperlinX does not perform in the top 50 per cent of the Comparator group, executives do not receive any benefit (i.e. performance rights or performance options) in respect of this criterion. PaperlinX needs to perform in the top 20 per cent for executives to obtain the maximum benefit. Pro rata arrangements apply for a ranking between these two points.

Earnings Per Share Growth

Earnings per share growth has been selected as an LTI performance measure because it is a fundamental indicator of the Company's financial performance. For executives to obtain the maximum benefit under this criterion, earnings per share growth over three years must equal or exceed the aggregate growth in the Consumer Price Index (CPI) over the three years plus 5 per cent. No benefit accrues if the earnings per share growth over the period is 50 per cent or less of the aggregate growth in CPI plus 5 per cent. Pro rata arrangements apply for performances between the 50 per cent and 100 per cent results.

3.3 Senior Management Long-term Incentive Plans

Details of grants of performance shares/rights and performance options that can be earned by executives under the LTI plans, subject to the achievement of the TSR and EPS performance criteria mentioned above, are set out in Table 3.

Table 3: Maximum potential entitlement

	Performance shares	Performance rights			Performance options	
Name	For period 1/7/03–30/6/06 (1)	For period 1/7/04–30/6/06 (1)	For period 1/7/04–30/6/07	For period 1/7/05–30/6/08	For period 1/7/04–30/6/07 (2)	For period 1/7/05–30/6/08 (3)
T P Park	600,000 (4)		90,215	390,430	**100,000** (5)	100,000
C B Creighton		51,280	51,280	82,880	**34,190**	55,250
E de Voogd	93,333	20,270	55,270	93,260	**36,850**	62,180
M J Fothergill		49,210	49,210	81,660	**32,810**	54,440
D M Goldthorp	105,000	14,990	49,990	92,410	**33,330**	61,610
R F O'Brien	105,000	6,280	41,280	74,610	**27,520**	49,740
Former executive Director						
D G Abotomey (6)	105,000	27,680	62,680	113,210	**41,790**	50,000

(1) *No entitlement has been earned based on performance for this period and the entitlement has lapsed.*
(2) *Performance options issued at an exercise price of $4.85; allocation date 30/11/04; exercisable, subject to satisfaction of performance conditions, after measurement period ending 30/6/07; expiry date 30/11/14.*
(3) *Performance options issued at an exercise price of $2.77; allocation date 26/8/05; exercisable, subject to satisfaction of performance conditions, after measurement period ending 30/6/08; expiry date 26/8/15.*
(4) *For the period 1/2/04 to 30/1/07 to coincide with Mr Park's commencement date of 1/2/04.*
(5) *Incorrectly shown as 90,280 in 2004/05 Report.*
(6) *Employment ceased 8/7/06. All entitlements lapsed at that date.*

Figures in blue indicate performance shares/rights that have lapsed as at 30 June 2006.
Figures in bold indicate options for which the exercise price is in excess of the share price as at 30 June 2006.

3.4 Senior Management Option Plan

In addition to the above, the Company has issued options to certain executives over a specified number of shares at fixed exercise prices as set out in Table 4.

Table 4: Senior management option plan

	Number	Exercise price $	Date of grant	When exercisable	Expiry date
Executives					
C B Creighton	50,000	$3.50	19/4/01	19/4/04 (1)	19/4/11
	8,300	$4.12	13/9/01	13/9/04 (1)	13/9/11
	8,000	$5.13	20/9/02	20/9/05 (1)	20/9/12
E de Voogd	150,000	$4.64	25/11/03	25/11/06	25/11/13
M J Fothergill	50,000	$5.13	20/9/02	20/9/05 (1)	20/9/12
D M Goldthorp	150,000	$3.13	14/4/00	14/4/03 (1)	14/4/10
	25,000	$3.32	20/11/00	20/11/03 (1)	20/11/10
D M Lamont	150,000	$2.77	28/2/06	28/2/09	28/2/16
R F O'Brien	150,000	$4.76	18/6/03	18/6/06 (1)	18/6/13
Former executive Director					
D G Abotomey (2)	200,000	$3.13	14/4/00	14/4/03 (1)	1/7/08
	35,000	$3.32	20/11/00	20/11/03 (1)	1/7/08

(1) Vested and exercisable as at 30 June 2006.
(2) Employment ceased 8/7/06.

The exercise price of the options was calculated based on an average price of PaperlinX shares in the relevant period prior to the options being granted. Each option entitles the holder to purchase one fully paid ordinary share in the Company at the exercise price. Options cannot be exercised for three years from the date of being granted, except on termination of employment. Options do not entitle the holder to participate in any dividends or share issues of the Company.

In the year ended 30 June 2006, some options became exercisable by the executives referred to above; however, no options were exercised by them during or since the end of the financial year up to the date of this Report.

Options outstanding at 30 June 2006 have been independently valued, as at the grant date, in the range of $0.33 to $0.92. The total value of options outstanding at the date of this Report in relation to the executives specified above, based on those valuations, was $438,022. These values have been determined using an appropriate valuation model (either Monte Carlo simulation model or Black-Scholes formula, as appropriate) incorporating assumptions in relation to the following: the life of the option; the vesting period; the volatility in the share price (range of 20 per cent to 25 per cent); the dividend yield (range of 5.25 per cent to 5.5 per cent) and the risk-free interest rate (range of 4.5 per cent to 5.6 per cent).

4. Relationship Between Executive Remuneration and PaperlinX Performance (not subject to audit)

The PaperlinX variable remuneration plans provide incentives for executives and also ensure that total annual remuneration is related to the extent to which performance hurdles under the STI and LTI plans are satisfied. The profit before interest and tax, net profit after tax and economic profit performance measures used in the STI plan and the earnings per share growth and relative total shareholder return performance measures used in the LTI plan provide a strong link between executive remuneration and PaperlinX earnings and shareholder wealth.

Table 5 shows the relationship between PaperlinX NPAT and EP or return on average funds employed (ROAFE) performance and the average percentage bonus paid in relation to those measures under the STI plan in each of the past five years (based on payments made to five executives employed for the full year in which performance was measured).

Table 5: Relationship between PaperlinX performance and STI payment

Year	NPAT ($m)	EP ($m)	ROAFE	Average bonus paid as a percentage of fixed remuneration in relation to NPAT performance	EP or ROAFE performance
2005/06	$65.4	$(159.7)		0%	0%
2004/05	$89.6 (1)		6.4%	0%	0%
2003/04	$108.5		7.5%	0%	0%
2002/03	$132.1		12.3%	3.1%	6.5%
2001/02	$123.0		12.6%	14.7%	8.4%

(1) Excluding the Australian Tax Consolidation gain.

Table 6 shows the relationship between PaperlinX's earnings per share growth performance and relative total shareholder return ranking and the value of performance shares/rights and performance options that have vested or become exercisable in relation to these performance measures as a percentage of fixed remuneration in each of the past five years.

Table 6: Relationship between PaperlinX performance and LTI vesting

Year	EPS growth (% of target)	TSR ranking (percentile)	Value of equities vested or exercisable as percentage of fixed remuneration in relation to EPS performance	TSR performance
2005/06	<50%	<50th	0%	0%
2004/05	<50%	<50th	0%	0%
2003/04	<50%	50th	0%	15.1%
2002/03	<50%	50th	0%	1.2%
2001/02	100%	62nd	9.5%	11%

The variation in rewards, from year to year, results from the earlier plans having different performance and design conditions depending on the level of the participating executive. Effective 1 July 2004, all plans are the same in design and have the same performance conditions as the plan approved for the Managing Director by shareholders at the 2004 Annual General Meeting.

5. Service Agreement Provisions

PaperlinX has entered into service agreements with all of its executives, none of which are for fixed terms. Details of the periods of notice required to terminate the contract and the termination payments provided under each contract are outlined in Table 7. Actual payments will depend on local legal requirements. This reflects the differences in the practices of businesses acquired around the globe and conditions that were in place prior to acquisitions. Payment in lieu of notice is calculated using the executive's TFR or notional base salary. In addition to the specified termination payments, on termination all executives are entitled to receive their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

The Company may terminate the employment of any of the disclosed executives summarily without notice or payment in lieu if the executive is found guilty of serious misconduct, becomes of unsound mind, becomes insolvent or is declared bankrupt.

Table 7: Service agreement provisions

Executive	Company notice/payment period	Executive notice
T P Park	12 months	3 months
D M Goldthorp	12 months	1 month
D M Lamont	12 months	3 months
R F O'Brien	12 months	1 month
C B Creighton	12 months up to 25 years' service 15 months if 25 up to 30 years' service 18 months if 30 up to 35 years' service 24 months if 35+ years' service	3 months
E de Voogd	6 months	3 months
M J Fothergill	18 months	6 months

6. Non-executive Director Remuneration

6.1 Policy on Non-executive Director Remuneration

The Directors' aggregate fees are within the $750,000 cap previously approved by shareholders.

We are seeking shareholder approval to increase the cap by $335,000 to $1,085,000. Commentary on the reasons for this increase is included in the Notice of Meeting.

The remuneration of individual Non-executive Directors is approved by the Board as a whole on the recommendation of the Nomination & Governance Committee, and having regard to the principles that the remuneration should:

- Be competitive with other listed Australian companies to attract and retain suitably qualified and experienced Non-executive Directors.
- Reflect the complexity of the PaperlinX Group arising from its international operations.
- Provide additional remuneration for the responsibilities of specific Non-executive Directors in chairing the Board and its committees.

Non-executive Directors do not receive any performance-based remuneration.

It is a policy of the Board that each Non-executive Director increases their shareholding in the Company progressively so that their holding is at least equal in value to one year's fees. Details of shareholdings are included in the Directors' Report on page 51.

6.2 Non-executive Director Fees

The current base fee per annum for Non-executive Directors is $92,000 for a Director and $265,000 for the Chairman of the Board. In addition, the Chairman of the Audit Committee and the Chairman of the Remuneration & Human Resources Committee each receive an extra fee of $10,000 per annum. The Chairman of the Safety & Environment Committee receives an extra fee of $5,000 per annum.

6.3 Non-executive Director Retirement Allowance

All current Non-executive Directors have entered into agreements with the Company whereby retiring allowances are paid upon retirement or death. This retirement benefit, which excludes superannuation entitlements, is based on the average annual emoluments of the relevant Director over the three years preceding retirement.

The Board intends that, subject to shareholder approval being obtained to an increase in the aggregate cap of Non-executive Directors' fees, the retirement scheme will be terminated and accumulated retirement entitlements at 31 December 2006 will be frozen and held in individual accounts for Directors until retirement. Revised remuneration arrangements will apply for Non-executive Directors from 1 January 2007.

The accumulated accrued amount of retiring allowances for Non-executive Directors has been fully expensed to profit over the past five years.

7. Directors' and Senior Executives' Remuneration – 2005/06

Details of the nature and amount of each element of the remuneration of each Director and senior executive of the Company who receive the highest remuneration and other key management personnel are set out in Tables 8 and 9. All Directors and senior executives are employed by PaperlinX Group companies. No one is employed by PaperlinX Limited.

Table 8: Directors' remuneration

	Short-term benefits					Post-employment benefits		Long-term benefits	Termination benefits		Total
	Salary and fees $	Short-term incentives $	Non-cash benefits $	Discretionary share purchase $	Other income $	Superannuation contribution $	Directors' retiring allowances – annual accrual excluding superannuation [1] $	Equity plans [2] $	Contract payout $	Restraint payment and annual and long service leave $	Total $
Directors											
D E Meiklejohn											
2006	265,000					24,840	82,896				372,736
2005	265,000					24,840	117,778				407,618
T P Park											
2006	1,596,528	892,238	33,559					177,844			2,700,169
2005	1,528,000	386,250	32,608					122,500			2,069,358
A F Guy											
2006	87,300			9,700		8,730	53,947				159,677
2005	87,300			9,700		8,730	58,607				164,337
B J Jackson											
2006	71,400			30,600		9,180	32,929				144,109
2005	102,000					9,180	56,583				167,763
N L Scheinkestel											
2006	102,000					9,180	34,225				145,405
2005	102,000					9,180	52,007				163,187
D A Walsh											
2006	92,000					8,280	33,415				133,695
2005	92,000					8,280	56,292				156,572
L J Yelland											
2006	64,400			27,600		8,280	32,125				132,405
2005	64,400			27,600		8,280	48,025				148,305
Former executive Director											
D G Abotomey											
2006 [3]	651,788	157,631	88,576			113,123			799,804	313,368	2,124,290
2005	622,369	186,362	55,065			99,579		17,150			980,525
Total											
2006	**2,930,416**	**1,049,869**	**122,135**	**67,900**		**181,613**	**269,537**	**177,844**	**799,804**	**313,368**	**5,912,486**
2005	**2,863,069**	**572,612**	**87,673**	**37,300**		**168,069**	**389,292**	**139,650**	**0**	**0**	**4,257,665**

(1) Accrued but not paid until retirement.

(2) The value of shares included as remuneration in this table represents the proportion of the value of the maximum potential number of shares per annum to which each executive Director may become entitled under the Company's long-term incentive plans as set out above, which is calculated based on an estimate of the probability of the performance criteria being achieved. The value of options is calculated using an appropriate valuation model and allocated evenly over the vesting period.

(3) Resigned as a Director of PaperlinX Limited 31 December 2005. On leave until 8 July 2006 when employment with Paper Australia Pty Ltd ceased.

Accumulated retiring allowances excluding superannuation as at 30 June 2006: D E Meiklejohn – $775,659; A F Guy – $253,050; B J Jackson – $295,338; N L Scheinkestel – $294,651; D A Walsh – $255,069; L J Yelland – $265,383.

Table 9: Senior executives' remuneration

	Short-term benefits				Post-employment benefits	Long-term benefits	Termination benefits		Total
	Base remuneration (salary and fees) $	Short-term incentives $	Non-cash benefits $	Other income $	Superannuation contribution $	Equity plans (1) $	Contract payout $	Restraint payment and annual and long service leave $	Total $
Company executives (excluding Directors)									
C B Creighton									
President – North America									
2006	500,318	355,586	48,854		123,021	48,840			1,076,619
2005	467,143	207,359	31,589		13,901	2,140			722,132
E de Voogd									
Chief Executive Officer – PaperlinX Europe									
2006	551,736	168,346	57,661		192,694	79,059			1,049,496
2005	542,915	171,461	48,564	193,130	184,628	42,149			1,182,847
M J Fothergill									
Group General Manager – Merchanting Australasia									
2006	485,840	170,188	70,191		111,345	49,306			886,870
2005	466,394	151,044	37,082	172,375	107,115	10,667			944,677
D M Goldthorp									
Chief Operating Officer – Australian Paper									
2006	568,667	172,500	26,292		188,438	64,917			1,020,814
2005	505,187	167,066	30,071		79,815	17,150			799,289
D M Lamont (2)									
Chief Financial Officer									
2006	275,255	200,000 (3)			28,887	6,667			510,809
R F O'Brien									
Executive General Manager – Human Resources									
2006	426,591	141,429	72,079		46,925	67,547			754,571
2005	410,097	134,570	80,453		45,111	42,150			712,381
Total									
2006	**2,808,407**	**1,208,049**	**275,077**	**0**	**691,310**	**316,336**	**0**	**0**	**5,299,179**
2005	**2,391,736**	**831,500**	**227,759**	**365,505**	**430,570**	**114,256**	**0**	**0**	**4,361,326**

(1) The value of shares included as remuneration in this table represents the proportion of the value of the maximum potential number of shares per annum to which each executive may become entitled under the Company's long-term incentive plans as set out above, which is calculated based on an estimate of the probability of the performance criteria being achieved. The value of options is calculated using an appropriate valuation model and allocated evenly over the vesting period.

(2) Commenced employment with PaperlinX Group on 13 February 2006, therefore no 2005 details included in total, distorting the year on year comparison.

(3) Agreed incentive payment at hire date.

Corporate Governance

PaperlinX supports and is committed to the principles of best practice in corporate governance, applied in a manner that is appropriate to the Company's particular circumstances.

The Board has established a framework of processes and guidelines for the governance of the Company that includes policies and monitoring procedures, internal control systems, a business risk management programme and standards for ensuring lawful and ethical conduct.

The Board regularly reviews the content and application of the governance framework, the composition and performance of the Board and the membership and operation of the committees of the Board with a view to achieving the highest standards of Board performance and corporate governance.

PaperlinX considers that its corporate governance practices substantially comply with the ASX Corporate Governance Council's best practice recommendations in all material respects.

PaperlinX's Guidelines for Board Operation and Management are posted on the Company's website along with other information about the Company's corporate governance practices.

Role of the Board and Management

Management and control of the business and affairs of the Company is vested in the Board under the Company's Constitution. In particular, the Board has the overall responsibility for the conduct and governance of the Company including its strategic direction, the review of the strategic plans established by the management team and the monitoring of performance targets.

The Board does not itself manage the business of the Company. Within the scope of the governance framework established by the Board, management is delegated to the Managing Director and it is his responsibility to manage the business, subject to the oversight and supervision of the Board.

Responsibilities of the Board

The Board, amongst other things:

- reviews and approves management's plans for conducting and developing the Company's business;
- approves any material changes to plans that have previously been approved by the Board;
- places limits on the extent to which management can commit resources or dispose of assets or raise funds without specific approval;
- reviews monthly reports from the Chief Financial Officer covering financial performance against budget and reasons if there are any material variations and trends;
- regularly reviews reports from the Managing Director and other executives covering all material aspects of the Company's business and operations, including key areas of risk and importance; and
- monitors the performance of senior members of management.

Matters that are reserved to the Board and are not within the authority delegated to the Managing Director include:

(a) Appointment and remuneration of the Managing Director and general approval of policies relating to any sub-delegation by him.
(b) All matters relating to the issue of securities of the Company.
(c) Adoption of annual business plans and budgets and approval of longer-term strategic plans for the Company and all business units.
(d) Acquisition and disposal of major capital items.
(e) Major external borrowings and commitments as agreed with the Chief Financial Officer.
(f) Major guarantees of third parties and subsidiaries.
(g) Approval of Directors' Reports and financial statements for release to shareholders and the ASX.
(h) Approval of the Annual Report and any other significant report or release to the ASX or shareholders. Any press releases that relate to price sensitive information require approval by the Chairman who will liaise with the Board as necessary.
(i) Declaration of dividends.
(j) Approval of appointment of the Company Secretary and the most senior executives who report directly to the Managing Director and approval of the terms of appointment and remuneration of those executives.
(k) Approval, oversight and review of:
  - audit functions and their performance, including the appointment of internal and external auditors;
  - control and corporate governance functions and their performance; and
  - human resources and remuneration policies and performance.

(l) Approval, oversight and review of the Company's risk management framework, including:
  - environmental protection policies and performance; and
  - workplace and public safety policies and performance.

(m) Approving any major donations proposed by the Managing Director.

Operation of the Board

The Company has a majority of independent Non-executive Directors. The Chairman is an independent Non-executive Director.

Currently there are seven Directors – six Non-executive Directors and one executive Director. All of the Non-executive Directors are independent (in accordance with the definition in the ASX Good Corporate Governance Recommendations) and have no business or other relationships that could compromise their independence. If a potential conflict of interest should arise, the Director concerned is required to inform the Chairman and Board accordingly and, if appropriate, leave the Board meeting while the matter is considered. Directors keep the Board advised of any interests that could potentially conflict with those of the Company. The Board assesses the independence of Directors on an annual basis and as changes in Directors' interests occur.

Other than the Managing Director, all Directors are subject to re-election by rotation every three years and Non-executive Directors are only expected to serve on the Company's Board for terms of up to 11 years. Directors' appointment and election/re-election dates are as follows:

Director	Date appointed to Board	Last AGM at which elected
D E Meiklejohn	07/12/1999	2004
T P Park	01/02/2004	2004
A F Guy	02/03/2001	2003
B J Jackson	16/02/2000	2005
N L Scheinkestel	16/02/2000	2004
D A Walsh	27/07/2000	2005
L J Yelland	16/02/2000	2005

For the purposes of proper performance of their duties, after consultation with the Chairman, all Directors have the right to seek independent professional advice at the Company's expense.

The Board conducts annual reviews of the internal guidelines relating to corporate governance, Board membership and operation and committee structures. This process ensures the highest standards of governance and effectiveness are maintained.

The Board includes a mix of Directors with a range of skills, experience and expertise to promote Board effectiveness.

At the date of this Report, there are no vacant positions on the Board. Were a vacancy to exist or if it were considered that the Board would benefit from the services of a new Director, the Nomination & Governance Committee would (with external advice if appropriate) seek to identify the qualities and competencies required to enable the Board to fulfil its responsibilities and recommend candidates with the appropriate expertise and experience.

The performance of the Board, its committees and individual Directors and key executives is evaluated annually. A review of the performance of individual Non-executive Directors, including the Chairman, is conducted annually. Non-executive Directors meet regularly without management present.

Non-executive Directors are paid fixed fees that are not dependent upon the Company's performance. Details of Directors' and executives' remuneration, including in relation to share and option plans and policies relating thereto, are covered in detail in the Remuneration Report section of the Directors' Report.

The Company has entered into formal Deeds of Appointment with each of the Directors. These Deeds set out the key terms and conditions of the Director's appointment and detail the Company's corporate expectations of them. Under the Deeds:

- Non-executive Directors must retire at the Board meeting following their 70th birthday.
- Non-executive Directors are entitled to certain retirement benefits, approved by shareholders, which accrue annually. The Board has determined that any new Non-executive Directors will not be entitled to retirement benefits and it is proposed that the current arrangements will be phased out. More information regarding the retirement benefits is contained in the Remuneration Report section of the Directors' Report.

The skills, qualifications and experience of the Directors of the Company in office at the date of this statement are set out in this Concise Annual Report on pages 48 to 49.

Company Secretary

All Directors have access to the Company Secretary. The Company Secretary, who is also the Company's General Counsel, assists the Board with advice on compliance, corporate governance and related matters.

The Company's current Company Secretary is:

J K (James) Orr, LLB, BComm
James joined the Company in March 2006 and is responsible for all legal and Company secretarial matters. Former roles include company secretarial and legal positions with Sigma Co Ltd, Newcrest Mining Ltd, Westar Pty Ltd, Kinetik Energy Pty Ltd, AUSI Pty Ltd and Japan Australia LNG (MIMI) Pty Ltd.

In addition, the Company has an alternate secretary, Peter Essex (whose details follow), who is able to act in that capacity when the Company Secretary is absent.

P W (Peter) Essex, BCom, FCPA
Peter was appointed a Company Secretary of PaperlinX Limited in 1999. He joined the Amcor Group in 1980 and has held various management positions in Amcor and PaperlinX.

Board Committees

To assist in the execution of its responsibilities, the Board has established the following committees:

- Nomination & Governance
- Audit
- Remuneration & Human Resources
- Safety & Environment

All Committees have written Charters, which are set out in full on the Company's website (www.paperlinx.com). The committees operate principally in a review or advisory capacity, except where powers are expressly conferred on or delegated to a committee by the Board. Each committee reports to the full Board following a Committee Meeting.

Details of the number of committee meetings and the attendance record of members in the year ended 30 June 2006 are set out in the Directors' Report on page 51.

Nomination & Governance Committee
The current members of the Nomination & Governance Committee are all independent Non-executive Directors:
- D E Meiklejohn, Chairman
- B J Jackson
- N L Scheinkestel
- D A Walsh

The Nomination & Governance Committee's primary responsibilities are to make recommendations to, and assist, the Board in connection with the appointment and performance of Directors, corporate governance, the appointment and remuneration arrangements of the Managing Director and related matters.

Audit Committee
The current members of the Audit Committee are all independent Non-executive Directors:
- N L Scheinkestel, Chairman
- B J Jackson
- D E Meiklejohn
- D A Walsh

The Audit Committee comprises members of diverse backgrounds who are financially literate.

The Managing Director, Chief Financial Officer, relevant senior staff and the internal and external auditors are invited to Audit Committee meetings at the discretion of the Committee.

The Audit Committee's primary responsibilities are to make recommendations to and assist the Board in relation to:
- financial reporting, including adequacy of disclosures and application of accounting policies;
- the external audit;
- maintenance of an effective framework of business risk management including compliance, internal controls and the internal audit; and
- the insurance programme.

The Audit Committee is responsible for the procedures for appointing the external auditor and rotating external audit engagement partners.

The Audit Committee annually reviews the independence of the external auditor and obtains confirmation from the auditor that, in their professional judgment, they are independent.

As a matter of general policy, the auditor is not engaged for non-statutory audit services. In special circumstances the auditor may, however, provide non-audit services that do not derogate from the auditor's independence. Various authority levels for non-audit work undertaken by the Company's auditors have been established by the PaperlinX Board depending upon the estimated cost of the non-audit work.

The Audit Committee monitors the integrity and implementation of the Company's internal compliance and control systems. These include a comprehensive quarterly compliance reporting system, an operational risk management programme and an internal audit function.

The auditor attends the Company's AGM and is available to answer questions about the conduct of the audit and the preparation and content of the Auditor's Report.

Remuneration & Human Resources Committee
The current members of the Remuneration & Human Resources Committee are:
- B J Jackson, Chairman
- A F Guy
- D E Meiklejohn
- L J Yelland

The Remuneration & Human Resources Committee's primary responsibilities are to make recommendations to, and assist, the Board in relation to human resources and remuneration policies and practices for the Company.

Remuneration levels are set competitively to attract suitably qualified and experienced senior executives. The Remuneration & Human Resources Committee also considers independent advice on appropriate remuneration packages and policies.

The Company has remuneration policies that link remuneration paid to key executives and corporate performance. These policies are summarised in the Remuneration Report section of the Directors' Report on page 52.

The Committee's role also includes responsibility for share option plans, incentive performance packages and succession planning, including reviewing recruitment, retention and termination policies.

Safety & Environment Committee
The current members of the Safety & Environment Committee are:
- A F Guy, Chairman
- D E Meiklejohn
- N L Scheinkestel
- L J Yelland

The Safety & Environment Committee's primary responsibilities are to make recommendations to, and assist, the Board in relation to safety (including occupational health and wellbeing) and environment matters generally.

Safety and environmental audits are conducted by safety and environment managers within the PaperlinX Group as part of the PaperlinX Operations Management System, which supports the various external safety and environment certifications.

Key issues arising from safety and environmental audits are presented to the Safety & Environment Committee on a quarterly basis and the Committee visits Group operations on a regular basis.

Risk Oversight and Management

PaperlinX has a comprehensive risk oversight and management regime that involves a detailed analysis of the material risks to the business of the Company worldwide and operates at various levels underpinned by specific systems and procedures. As part of this programme, material risks are identified and assessed, as are procedures and other actions for managing and mitigating them.

The responsibility for monitoring specific areas of compliance has been delegated to committees of the Board and these responsibilities are set out in the individual charters for each committee. The Audit Committee has responsibility for and oversees the implementation of the organisation risk assessment programme, which is formally reviewed twice yearly.

The risk oversight and management policies and procedures are reviewed periodically and are updated where necessary. Copies of policies are made available internally via the Company intranet and in hard copies at every site.

In addition, every business has operational manuals, procedures and training that are designed to ensure safe operations at all levels in compliance with the law.

Monitoring of implementation and compliance with risk oversight and management policies is conducted through:

- regular internal management reporting;
- reporting at Board and committee meetings by relevant managers;
- site visits by the Board and senior management;
- internal and external audits; and
- training.

The effectiveness of the risk oversight and management regime is the subject of the annual certifications by the Managing Director and Chief Financial Officer. The Company commissions audits by experts in relation to environmental liabilities, safety processes and procedures, and other specific risk areas as required.

Group Internal Audit

The Group internal audit function provides further assurance in relation to the Company's internal controls, risk management and integrity of financial reporting.

Group internal audit has unrestricted access to review all aspects of the Company's worldwide operations. Group internal audit uses the organisation risk assessment programme in planning the annual internal audit plan.

Group internal audit also reviews and prepares post-completion reports in relation to major investments undertaken by the Company.

Oversight of the Group internal audit function is performed by the Audit Committee, which receives regular reports from Group internal audit on its work and reviews in detail reports that have been rated as deficient.

Ethical and Responsible Decision-making

The Board recognises the need for the highest standards of ethical conduct by all Directors and employees. The Board has adopted a code of ethics that sets out the fundamental ethical values to guide, and be observed by, Directors in their participation as members of the Board and its committees.

The Company has a set of core operating principles and has also established ethical values and professional standards of behaviour for all Officers and employees in the conduct of the Company's affairs. These are set out in employee handbooks and Company policies, which are distributed to all business units to ensure employees are familiar with their contents. The core operating principles are also posted on the Company website.

The Company has numerous policies designed to prevent fraud and illegal practices and to encourage and protect persons who report suspected fraud or illegal activities. The Reporting Improper Conduct (Whistleblower) policy is posted on the Company website.

Trading in Company Securities by Directors, Officers and Employees

It is a policy of the Board that each Non-executive Director increase their shareholding interest in the Company progressively so that their holding is at least equivalent in value to one year's fees. Under the Company's Constitution, each Director must hold a minimum of 1,000 shares in PaperlinX Limited. Directors' relevant interests in PaperlinX shares at the date of this Report are shown on page 51.

The Board has established policies to be observed by Directors and senior managers in relation to buying and selling and dealing in the Company's shares.

The overriding principle is that Directors and senior managers cannot deal in the Company's shares at any time when they are aware of price sensitive information that is not public. Subject to that overriding principle, Directors and senior managers will ordinarily be permitted to deal in the Company's shares:

- in the period between 48 hours after release of the Company's annual results to the ASX and 14 days after the Annual General Meeting;
- in the period between 48 hours after release of the Company's half yearly results to the ASX and 14 days thereafter; and
- by participating in offers or entitlements made available to shareholders generally, subject to compliance with relevant ASX Listing Rules.

Disclosure Policies

The Company has established policies and procedures designed to guide compliance with ASX Listing Rule disclosure requirements, and to ensure accountability at a senior management level for that compliance.

The Continuous Disclosure policy sets out vetting and authorisation processes designed to ensure any relevant information requiring disclosure to the market:

- is made in a timely manner;
- is factual;
- does not omit material information; and
- is expressed in a clear and objective manner.

Senior managers of the Company are aware of the need to advise the ASX of any information that may have a material effect on the price or value of PaperlinX's securities.

The Managing Director and Chief Financial Officer together with the Executive General Manager, Corporate Affairs and the Company Secretary and General Counsel continuously review all information of which they become aware for the purposes of ASX Listing Rule 3.1. The Continuous Disclosure policy is posted on the Company website.

Chief Executive Officer and Chief Financial Officer Certification

The Managing Director and the Chief Financial Officer provide a written statement to the Board that:

- the Company's financial reports present a true and fair view of the Company's financial condition and operational results in accordance with relevant accounting standards;
- the statement is founded on a sound system of risk management and internal compliance and control, which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Rights of Shareholders and Communications Strategy

The Company is committed to promoting open and effective communication with its shareholders.

The Board aims to ensure that shareholders and the investment market generally are informed in a timely manner of all major developments affecting the Company's business and affairs.

The Company's Concise Annual Report is distributed to all shareholders (except any who specifically request not to receive it). The Concise Annual Report includes relevant information about the operations of the Company during the year as well as a concise financial annual report for the year together with all disclosures required by the Corporations Act. A copy of the Company's full financial report and Auditor's Report will be sent to shareholders, free of charge, upon request.

The Company also produces a half yearly financial report summarising the financial information and review of the operations of the Company during each half year. The half yearly financial report is prepared in accordance with the applicable accounting standards and Corporations Act requirements. It is sent to shareholders and is lodged with the Australian Securities and Investments Commission and the ASX.

At the Annual General Meeting, the Chairman addresses the meeting on the results for the financial year under report and other relevant issues, including developments during the period since the end of that financial year.

Shareholders are encouraged to attend the Annual General Meeting where ample opportunity is given for questions and answers. Questions can be lodged with the Company in advance of the meeting.

The external auditor attends the Annual General Meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report.

The Company maintains a website at www.paperlinx.com.

The website is used to complement the official release of material information to the ASX.

The Company's annual and interim result announcements together with all other relevant announcements made to the market are posted on the website as soon as is practically possible. The website also contains other relevant material including:

- the Chairman's address at the Annual General Meeting;
- material that is posted on the website as recommended in the ASX Good Corporate Governance Recommendations;
- a dedicated Investor Relations section;
- profiles of the Board and senior management; and
- analyst briefings, which are given on a regular basis.

Other Stakeholders

The Board and management recognise the legitimate interests of all stakeholders in the Company, including shareholders, employees, suppliers, customers and the wider community. The Company is committed to policies and practices that are aimed at improving these relationships through mutually beneficial outcomes. Further information about the Company's corporate values, policies and systems of internal compliance and control are set out on the Company's website. More information on the Company's sustainability policies and processes are set out in the Sustainability Report included on pages 29 to 47 of this Concise Annual Report.

Signed in Melbourne this 21st day of August 2006.

David Meiklejohn
Chairman

Thomas P Park
Managing Director and
Chief Executive Officer

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the Directors of PaperlinX Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Peter Jovic
Partner

Melbourne
21 August 2006

FINANCE OVERVIEW

Financial Position

Debt

In February 2006 PaperlinX decreased the size of its multi-currency bank debt facility from US$850 million to US$815 million thereby continuing to ensure adequate financial flexibility and to take advantage of competitive interest rates.

PaperlinX has an appropriate mix of long, medium and short-term debt.

PaperlinX is in a strong financial position with key financial indicators at 30 June 2006 of:

- gearing:
  - net debt to net debt plus equity of 36 per cent
  - net debt to equity of 56.2 per cent;
- interest cover of 2.3 times;
- funds employed are $2,512 million;
- stockholders equity is $1,609 million.

All of the ratios are in compliance with the Group's debt covenants.

Cash Flow and Working Capital

For the year to 30 June 2006, PaperlinX had a strong operating cash flow of $260 million, including the combination of operating earnings, non-cash depreciation and amortisation of $105 million and the benefit of reduced working capital.

Minimising working capital and achieving strong cash flow continues to be a key management focus. All businesses improved their working capital to sales ratios and the Group's working capital efficiency measures for debtors, inventory and creditors all improved on the prior year.

Capital Expenditure

Capital expenditure for the year was $101 million (excluding acquisitions) being 97 per cent of depreciation. PaperlinX's target is for capital expenditure to be approximately equal to depreciation expense. PaperlinX's capital expenditure over the last six years has been below depreciation expense while a number of strategic projects have been considered.

In March 2005 an acquisition of Spicers Canada (previously Cascades Merchanting) was completed in Canada at a cost of A$104.2 million, which has been successfully integrated into our pre-existing Canadian business.

Funding

At 30 June 2006, PaperlinX had net debt of $903 million (prior year $874 million), represented by:

- Interest bearing liabilities $1,358 million
- Cash assets $455 million
- Net debt $903 million

PaperlinX's policy on interest rate risk management is to monitor and, where appropriate, hedge the Company's exposure to movements in interest via a combination of interest rate swaps and fixed rate issuances.

Offshore debt is managed to minimise the translation impact on the Company's Australian balance sheet while optimising the returns to the Company.

PaperlinX actively reviews funding options to achieve the lowest possible cost of funds.

AIFRS

This Financial Report is the first from PaperlinX to be prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

CONCISE FINANCIAL REPORT OF PAPERLINX LIMITED
AS AT 30 JUNE 2006

Contents

The Financial Statements and other specific disclosures have been derived from PaperlinX Limited and its Controlled Entities ('consolidated entity') Full Financial Report for the financial year. Other information included on the Concise Annual Report is consistent with the consolidated entity's Full Financial Report.

The Concise Annual Report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the Full Financial Report.

A copy of the consolidated entity's 2006 Full Financial Report, including the independent audit report, is available to all shareholders, and will be sent to shareholders without charge upon request. The 2006 Full Financial Report can be requested by telephone (Australia: 1800 232 867, Overseas: +61 3 9415 4000) and by email at contact@www.paperlinx.com.au.

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE

	Consolidated	
	2006 $m	**2005 $m**
Revenue	7,392.3	7,582.9
Other income	27.3	4.6
Expenses	(7,267.6)	(7,405.1)
Result from operating activities	152.0	182.4
Financial income	7.3	4.3
Financial expenses	(73.1)	(75.1)
Net financing costs	(65.8)	(70.8)
Profit before tax	86.2	111.6
Tax benefit/(expense)	(21.5)	55.1
Profit after income tax expense but before profit and loss of discontinuing operations	64.7	166.7
Profit and loss of discontinuing operations, net of tax	0.7	–
Profit for the year	65.4	166.7
Profit for the year attributable to:		
Equity holders of the parent	65.4	166.6
Minority interest	–	0.1
	65.4	166.7
Basic earnings per share from continuing operations	14.5	37.3
Diluted earnings per share from continuing operations	14.3	37.1

The income statement is to be read in conjunction with the discussion and analysis on page 70 and the notes 1 to 9 to the Financial Statements, as attached.

STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE YEAR ENDED 30 JUNE

	Consolidated	
	2006 $m	2005 $m
Net foreign exchange differences on translation of overseas subsidiaries	26.7	(44.2)
Actuarial gains/(losses) on defined benefit plans	30.0	(33.9)
Net income recognised in equity	56.7	(78.1)
Profit for the period	65.4	166.7
Total recognised income and expense for the period	122.1	88.6
Total recognised income and expense for the period attributable to:		
Equity holders of the parent	122.1	88.5
Minority interest	–	0.1
	122.1	88.6
Effects of change in accounting policy – Adjustment to comply with AASB 139 Financial Instruments: Recognition and Measurement		
Equity holders of the parent	0.3	–
Minority interest	–	–
	0.3	–

The statement of recognised income and expense is to be read in conjunction with the discussion and analysis on page 70 and the notes 1 to 9 to the Financial Statements, as attached.

BALANCE SHEET
AS AT 30 JUNE

	Note	Consolidated 2006 $m	2005 $m
Current assets			
Cash and cash equivalents		455.1	429.1
Trade and other receivables		1,541.8	1,433.2
Inventories		864.1	811.7
Assets classified as held for sale		19.6	–
Total current assets		2,880.6	2,674.0
Non-current assets			
Receivables		8.9	5.4
Investments		14.1	13.3
Property, plant and equipment		990.8	985.2
Intangible assets		421.6	403.7
Deferred tax assets		74.4	85.2
Total non-current assets		1,509.8	1,492.8
Total assets		4,390.4	4,166.8
Current liabilities			
Trade and other payables		1,172.9	1,041.9
Interest bearing loans and borrowings		221.7	266.6
Income tax payable		9.6	3.8
Employee benefits		41.4	40.9
Provisions		13.8	19.8
Liabilities classified as held for sale		0.9	–
Total current liabilities		1,460.3	1,373.0
Non-current liabilities			
Payables		93.1	119.6
Interest bearing loans and borrowings		1,136.7	1,036.0
Deferred tax liabilities		43.4	33.4
Employee benefits		37.3	38.9
Provisions		10.9	3.2
Total non-current liabilities		1,321.4	1,231.1
Total liabilities		2,781.7	2,604.1
Net assets		1,608.7	1,562.7
Equity			
Issued capital	3	1,691.9	1,691.5
Reserves	4	(45.0)	(71.7)
Retained profits	5	(38.2)	(58.1)
Total equity attributable to:			
Equity holders of the parent		1,608.7	1,561.7
Minority interest		–	1.0
Total equity		1,608.7	1,562.7

The balance sheet is to be read in conjunction with the discussion and analysis on page 70 and the notes 1 to 9 to the Financial Statements, as attached.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE

	Consolidated	
	2006 $m	**2005 $m**
Cash flows from operating activities		
Receipts from customers	7,431.7	7,641.6
Payments to suppliers and employees	(7,113.9)	(7,271.8)
Dividends received	0.8	0.3
Interest received	5.7	4.4
Interest paid	(69.6)	(74.3)
Income taxes paid	(6.1)	(36.9)
Other income received	11.2	10.1
Net cash from operating activities	259.8	273.4
Cash flows from investing activities		
Loans (advanced to)/repaid by other persons	(0.9)	0.9
Acquisition of:		
• Subsidiaries and assets (net of cash and bank overdraft acquired)	(100.9)	(44.6)
• Property, plant and equipment and intangibles	(101.4)	(86.3)
Proceeds on disposal of:		
• Property, plant and equipment	51.1	29.5
Net cash used in investing activities	(152.1)	(100.5)
Cash flows from financing activities		
Dividends paid	(77.8)	(122.3)
Proceeds from issue of shares	–	0.4
Loans (repaid to)/received from other persons	0.2	(3.1)
Proceeds from borrowings	1,156.0	669.2
Repayment of borrowings	(1,171.3)	(711.3)
Principal lease repayments	–	(0.1)
Net cash used in financing activities	(92.9)	(167.2)
Net increase in cash and cash equivalents	14.8	5.7
Cash and cash equivalents at the beginning of the year	427.8	445.0
Effect of exchange rate changes on translation of foreign currency cash flows and cash balances	11.3	(22.9)
Cash and cash equivalents at the end of the year	453.9	427.8

The Statement of Cash Flows is to be read in conjunction with the discussion and analysis on page 70 and the notes 1 to 9 to the Financial Statements, as attached.

DISCUSSION AND ANALYSIS

This discussion and analysis is provided to assist readers in understanding the concise financial report of PaperlinX Limited. The concise financial report has been derived from the full 2006 financial report.

Income Statement

The consolidated profit after tax was $65.4 million compared to the prior year of $89.6 million, down 27 per cent. The prior year profit after tax excludes a $77 million once only benefit arising in that year from the Company's election to enter the Australian Tax Consolidation ('ATC') regime. Prior year including the ATC benefit was $166.6 million.

Earnings before interest and tax ('EBIT') of $152.4 million were down 15 per cent on the prior year. EBIT included a range of one-off items both positive and negative. Profit on sale of surplus property has largely funded the one-off costs associated with the Group's key strategic initiatives highlighted at the half year results. The net impact on reported profit of these items was a loss of $4 million.

The Paper Merchanting business achieved EBIT of $190.4 million, down 2 per cent from $194.1 million in the prior year. Earnings include net benefits of $9.4 million, where the profit on sale of surplus property assets has more than offset one-off costs associated with a number of the strategic initiatives being undertaken in the Paper Merchanting business. Underlying operating earnings have been impacted by lower average prices and soft volumes, particularly in Europe (the UK and Netherlands) and New Zealand. Cost increases, while mitigated by management of expenses and other internal initiatives, have also impacted the results.

Return on average funds employed was 11.5 per cent, which is above the Group cost of capital. Overall expenses were reduced by 2 per cent and working capital reductions have continued, with all businesses at lower levels than a year ago.

Operating earnings were impacted by lower earnings in Europe (down 4 per cent in local currency, including one-off benefits) and in Australasia (down 13 per cent), balanced by a strong 36 per cent improvement in North America, which reflected the inclusion of Spicers Canada (formerly Cascades Merchanting) for four months and the leverage to higher paper prices. Mix benefits included in these numbers include growth of core brands (+8 per cent) and an improved stock sales to indent sales ratio in Europe.

Earnings from Australian Paper have remained under significant pressure. EBIT of $(4.1) million included $17.1 million in one-off charges for the closure of the number 1 paper machine at Shoalhaven Mill in NSW and Maryvale PM1 commissioning costs, partly offset by profit on the sale of non-core assets of $3.5 million. They also reflect the continued impact of depressed Australian paper prices, oversupply in global paper markets and higher input costs (up $10.5 million over the past year). Energy costs rose most sharply, up 38 per cent. The current environment has not allowed these cost increases to be passed on. With paper prices down 4 per cent on average, and costs up, average margin per tonne of product sold has fallen 4.4 per cent.

Previous investments to improve the quality of copy paper manufactured at Maryvale Mill have underpinned a 12.3 per cent growth in domestic volume and over five points of market share growth. The upgrade of the number 1 paper machine at Maryvale Mill has been completed. The Maryvale pulp mill upgrade is progressing to plan. The number 1 paper machine at Shoalhaven Mill was closed in March as planned with production being transferred to Maryvale Mill. A conditional agreement has been reached to outsource the Maryvale Mill wood yard, reducing costs and improving efficiency. Additionally, PaperlinX Office has been launched, combining three PaperlinX businesses that service the Australian office products and stationery markets.

Corporate and Other was a net cost of $33.9 million, compared to the prior year net cost of $26.1 million. Corporate costs were at a similar level to the prior year, but a number of small positive one-off items in the prior year were not repeated. Corporate also includes the Stationery and Envelope business, *tudor* Group, which faced pressure from low-priced imports, with reduced pricing affecting margins. Second half earnings saw a significant deterioration.

Net interest reduced to $65.1 million from $68.5 million in the prior year due to lower average debt levels as a result of reduced working capital levels and currency translations.

The Operating Income Tax Expense rose to 25 per cent of profit before tax, from 20 per cent in the prior year (excluding the ATC benefit), reflecting the shift in regional profit mix and the impact of not booking tax losses in Australia.

The net profit after tax translated into basic earnings per share of 14.7 cents from continuing and discontinuing operations.

International Financial Reporting Standards ('AIFRS')

These results are reported against the Australian equivalents to the International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The prior corresponding period results have also been restated.

Balance Sheet

At 30 June 2006, total assets were $4,390 million. The Group's gearing, measured as net debt to net debt plus equity, was 36 per cent, which is stronger than the Group's target range of 40 per cent to 50 per cent. Net debt at June 2006 was $903 million, compared to the prior year of $873 million.

There have been no significant changes in funding arrangements.

Net working capital for the Group at 30 June 2006 was $1,277 million. Adjusted for currency impact ($53 million increase) and acquisitions ($94 million increase), the underlying improvement was $92 million. All three components of working capital, debtors, inventory and creditors improved versus prior period. Working capital is translated to Australian currency from the various local currencies.

Statement of Cash Flows

Cash generated by operations excluding working capital movement was $170 million. Net cash flow from operations after working capital movements was at $260 million.

Capital expenditure in the period was $101 million, which was 97 per cent of depreciation, amortisation and impairment. In the last year PaperlinX has committed to an upgrade of its pulping capacity and associated facilities at the Maryvale Mill at a cost of $203 million over the next three years. Total acquisition costs were $101 million, most notably Spicers Canada.

Note 1. Accounting policies

(1) Basis of preparation of concise financial report

The concise financial report has been prepared in accordance with the Corporations Act 2001, Accounting Standard AASB 1039 Concise Financial Reports and applicable Urgent Issues Group Consensus Views. The Financial Statements and specific disclosures required by AASB 1039 have been derived from the consolidated entity's Full Financial Report for the financial year. Other information included in the concise financial report is consistent with the consolidated entity's Full Financial Report. The concise financial report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the Full Financial Report.

The Financial Report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading and financial instruments classified as available-for-sale.

A full description of the accounting policies adopted by the consolidated entity may be found in the consolidated entity's Full Financial Report.

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy as set out in Note 1(2), are consistent with those of the previous year.

The presentation currency is Australian dollars.

(2) Change in accounting policy

The consolidated entity has taken advantage of the election under AASB 1 to not restate for AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement.

There are no adjustments for 1 July 2004 or the financial year ended 30 June 2005 as previous Australian Generally Accepted Accounting Principles (AGAAP) continue to apply.

As at 1 July 2005, the adjustments to the consolidated entity are as follows:

- Under previous AGAAP, not all derivatives were recognised in the balance sheet. On adoption of AASB 139, all derivatives are recognised at fair value on the balance sheet. The effect on the consolidated entity is to record the fair value of the derivatives on the balance sheet with a corresponding decrease in retained earnings of $0.3 million, net of tax of $0.1 million.
- Debt establishment costs which were capitalised and amortised over the term of the borrowing under previous AGAAP, are recalculated based on the effective interest rate method and recognised as part of the liability rather than as a separate asset. This results in a decrease in assets of $4.0 million, and a decrease in financial liabilities of $4.0 million.

	Consolidated	
	2006 $m	**2005 $m**
Note 2. Dividends		
Interim dividend paid:		
• 5.5 cents per share paid on 5 April 2006, Nil% franked at a rate of 30% tax rate on fully paid shares (2)	24.6	–
• 13.5 cents per share paid on 4 April 2005, Nil% franked at a 30% tax rate on fully paid shares (1)	–	60.2
Final dividend paid:		
• 12 cents per share paid on 28 September 2005, Nil% franked at a 30% tax rate on fully paid shares (1)	53.5	–
• 14 cents per share paid on 30 September 2004, Nil% franked at a 30% tax rate on fully paid shares (1)	–	62.5
	78.1	122.7

PaperlinX Limited has declared a dividend, at the date of this Report, on ordinary shares payable 13 October 2006 – 4.5 cents per share, unfranked on fully paid shares. This dividend has not been provided for in the accounts as at 30 June 2006.

It is expected that the interim dividend in respect of the year ending 30 June 2007 will be unfranked.

(1) Paid out of profits measured in accordance with Australian Accounting Standards and other financial reporting requirements applicable for the year ended 30 June 2005.

(2) Paid out of profits measured in accordance with Australian equivalents to International Financial Reporting Standards and issued by the Australian Accounting Standards Board and the financial reporting requirements applicable for the year ended 30 June 2006.

	Consolidated	
	2006 $m	2005 $m
Note 3. Issued capital		
Issued and paid-up share capital		
446,182,209 ordinary shares	1,694.2	1,694.2
(2005: 446,172,209 ordinary shares)		
Employee Share Plan loans	(2.3)	(2.7)
Total issued capital	1,691.9	1,691.5
Movement in ordinary share capital:		
Balance at beginning of year	1,694.2	1,693.8
10,000 (2005: 27,500) shares issued at $3.32 each pursuant to options exercised	–	0.1
Nil (2005: 55,000) shares issued at $3.50 each pursuant to options exercised	–	0.2
Nil (2005: 23,100) shares issued at $4.12 each pursuant to options exercised	–	0.1
Balance at end of year	1,694.2	1,694.2
Movement in Employee Share Plan loans:		
Balance at beginning of period	(2.7)	(3.1)
Repayments	0.4	0.4
Balance at end of year	(2.3)	(2.7)
Note 4. Reserves		
Reserve for own shares		
Balance at beginning of year	(9.7)	(9.7)
Balance at end of year	(9.7)	(9.7)
Translation reserve		
Balance at beginning of year	(62.0)	(17.8)
Exchange fluctuation on translation of overseas subsidiaries	26.7	(44.2)
Balance at end of year	(35.3)	(62.0)
Total reserves	(45.0)	(71.7)

Nature and purpose of reserves

Reserve for own shares

The reserve for own shares represents the value of shares held by an equity compensation plan that the consolidated entity is required to include in the consolidated financial statements. This reserve will be reversed against share capital when the underlying shares vest in the employee. No gain or loss is recognised in profit or loss on the purchase, sale issue or cancellation of the consolidated entity's own equity instruments.

Translation reserve

The translation reserve records the foreign currency differences arising from the translation of the financial statements of foreign subsidiaries and the impact of transactions that hedge the Company's net investment in a foreign operation, net of tax.

	Consolidated 2006 $m	2005 $m
Note 5. Retained profits		
Balance at beginning of year	(58.1)	(70.4)
Adjustment to comply with AASB 139 Financial Instruments: Recognition and Measurement	(0.3)	–
Balance restated	(58.4)	(70.4)
Net profit attributable to members of PaperlinX Limited	65.4	166.6
Employee share options and rights	2.9	2.3
Actuarial gains/(losses) on defined benefit plans	30.0	(33.9)
Dividends paid	(78.1)	(122.7)
Total retained profits	(38.2)	(58.1)
Note 6. Contingent liabilities		
Contingent liabilities arising in respect of:		
Related bodies corporate:		
• Bank guarantees (trade)	7.3	5.2
Total contingent liabilities	7.3	5.2

The bank guarantees (trade), the beneficiaries of which are third parties, are primarily in relation to the importation of products.

Capital expenditure is incurred annually to enhance environmental performance. There can be no assurance that material new expenditure will not be required as a result of new information or regulatory requirements with respect to known sites or identification of new remedial obligations at other sites.

Under the terms of the ASIC Class Order 98/1418 dated 13 August 1998 (as amended) PaperlinX Limited and certain subsidiaries have entered into approved deeds for the cross guarantee of liabilities with those subsidiaries identified.

Note 7. Segment reporting

Business segments

The consolidated entity comprises the following main business segments, based on the consolidated entity's management and internal reporting system.

Segment	*Description of operations*
Merchanting and Paper Trading	International paper merchant and paper trader supplying the printing and publishing industry and office supplies.
Communication Papers	Manufacture of office papers, graphic papers, converting papers and other speciality and coated papers.
Packaging Papers	Manufacture of packaging papers and industrial papers. Products include kraftliners, sack kraft and light weight bag and industrial papers, sold predominantly to converting customers.
Corporate and Other	Includes stationery and envelopes business and corporate costs.

				Consolidated
	Segment result [3] $m	Segment revenue $m	Segment assets $m	Segment liabilities $m
For the year ended 30 June 2006				
Business segments				
Merchanting and Paper Trading				
• Continuing operations	189.1	6,900.5	3,241.4	1,163.0
• Discontinuing operations	1.3	29.5	19.6	0.9
	190.4	6,930.0	3,261.0	1,163.9
Communication Papers	(9.4)	674.4	635.0	118.7
Packaging Papers	5.3	241.8	298.4	41.6
Corporate and Other	(33.9)	94.4	121.6	46.1
Profit before net interest and income tax	152.4			
Net interest [1]	(65.1)			
Profit before income tax	87.3			
Income tax expense [1]	(21.9)			
Income tax credit – Australian Tax Consolidation [1]	–			
Profit after income tax expense	65.4			
Net profit attributable to minority interests	–			
Inter-segment sales [2]		(527.9)		
Unallocated assets (deferred tax balances)			74.4	
Unallocated liabilities				1,411.4
Total	65.4	7,412.7	4,390.4	2,781.7
For the year ended 30 June 2005				
Business segments				
Merchanting and Paper Trading	194.1	7,035.3	3,054.0	1,045.9
Communication Papers	2.1	699.8	622.9	124.3
Packaging Papers	10.0	242.9	292.2	41.3
Corporate and Other	(26.1)	100.6	112.5	52.8
Profit before net interest and income tax	180.1			
Net interest [1]	(68.5)			
Profit before income tax	111.6			
Income tax expense [1]	(21.9)			
Income tax benefit – Australian Tax Consolidation [1]	77.0			
Profit after income tax expense	166.7			
Net profit attributable to minority interests	(0.1)			
Inter-segment sales [2]		(504.5)		
Unallocated assets (deferred tax balances)			85.2	
Unallocated liabilities				1,339.8
Total	166.6	7,574.1	4,166.8	2,604.1

(1) Interest and income tax expense are not allocated internally to the segments but held centrally.

(2) Inter-segment sales comprise sales of paper, which are priced on an arm's length basis.

(3) The segment result for the individual business segments is the profit before net interest and income tax.

Note 8. Impact of adopting Australian equivalents to International Financial Reporting Standards

Explanation

As stated in Note 1, these are the consolidated entity's first annual condensed consolidated financial statements prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

The accounting policies in Note 1 have been applied in preparing the condensed consolidated financial statements for the year ended 30 June 2006, the comparative information for the year ended 30 June 2005 and the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidation entity's date of transition).

In preparing its opening AIFRS balance sheet, comparative information for the year ended 30 June 2005, the consolidated entity has adjusted amounts reported previously in Financial Statements prepared in accordance with the previous basis of accounting (previous AGAAP).

An explanation of how the transition from previous AGAAP to AIFRS has affected the consolidated entity's balance sheets, income statements and cash flows is set out in the following tables and the notes that accompany the tables.

The following note details the impact of adoption of AIFRS on the following items:

- Net assets as at 1 July 2004.
- Profit as reported for the year ended 30 June 2005.
- Net assets as at 30 June 2005.

There are no material differences in these amounts to those previously indicated in the Financial Report for the year ended 30 June 2005.

Notes

(i) Defined benefit plans

Under AGAAP, defined benefit plans were accounted for on a cash basis, with no defined benefit obligation or plan assets recognised in the balance sheets. The AASB 1 election to recognise in full actuarial gains and losses at transition date through retained earnings has been adopted by the consolidated entity.

Under AIFRS, the consolidated entity's net obligation in respect of defined benefit superannuation plans will be calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit will be discounted to determine its present value, and the fair value of any plan assets will be deducted. The discount rate is the rate attached to AAA credit rated bonds or the rate attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities.

The calculated surplus or deficit for each plan is required to be recognised in the balance sheets with a corresponding adjustment to retained earnings.

Subsequent to the transition date, the calculated surplus or deficit for each plan is required to be recognised in the income statement, except to the extent that it arises in relation to actuarial gains and losses. Actuarial gains and losses that arise subsequent to the transition date are recognised in the balance sheet as an adjustment to retained earnings.

At 1 July 2004, the impact on transition is an increase in assets of $2.8 million, and an increase in liabilities of $51.5 million less the applicable tax effect of $18.8 million resulting in a decrease in retained earnings of $29.9 million.

For the year ended 30 June 2005, the impact is an increase in employee benefits expense of $1.0 million plus the applicable tax effect of $0.1 million resulting in a decrease in reported earnings of $1.1 million. The impact in relation to actuarial gains and losses, net of tax is a decrease in retained earnings of $33.8 million.

The cumulative impact as at 30 June 2005 is a decrease in retained earnings of $64.8 million.

(ii) Share based payments

Under AGAAP, no expense was recognised for options issued to employees.

Under AIFRS, the fair value of options granted must be recognised as an employee benefit expense with a corresponding increase in equity. The fair value is calculated at grant date taking into account market performance conditions only, and spread over the vesting period during which the employees become unconditionally entitled to the options. The fair value of options granted is independently calculated using a suitable valuation model (currently either the Monte Carlo simulation or Black-Scholes model), taking into account the terms and conditions attached to the options. The amount recognised as an expense is adjusted to reflect the actual number of options that vest except where forfeiture is due to market related conditions.

No adjustments were made for options granted before 7 November 2002. Options granted after 7 November 2002 remaining unvested at 1 January 2004, will be recognised in the opening balance sheet through retained earnings resulting in a nil impact on transition.

At 1 July 2004, there is a $Nil impact in retained earnings.

For the year ended 30 June 2005, the impact is an increase in employee benefits expense of $2.3 million resulting in a decrease in reported earnings of $2.3 million.

The cumulative impact as at 30 June 2005 is a $Nil impact in retained earnings.

(iii) Employee Share Plan loans

Under AGAAP the interest-free loans to employees in accordance with the terms of the Employee Share Plan were recorded as an asset and repaid over time via the associated dividend stream.

Under AIFRS, the value of such loans is required to be reclassified against share capital.

At 1 July 2004, the impact on transition is a decrease in non-current assets of $3.4 million and a decrease in issued capital of $3.4 million.

During the year ended 30 June 2005, the Employee Share Plan loans are reduced either by dividends paid on the shares, so issued, or in certain circumstances in accordance with an agreed schedule of repayments, which does not exceed three years.

The cumulative impact as at 30 June 2005 is a decrease in non-current assets of $2.7 million and a decrease in issued capital of $2.7 million.

(iv) Reserve for own shares

Under AGAAP, the cost of shares purchased on-market, and held in a trust to satisfy the terms and conditions of the Performance Share Plan, is recorded as an asset and amortised over the applicable vesting period.

Under AIFRS, the cost of the shares are recorded as a negative reserve and not amortised to profit.

At 1 July 2004, the impact on transition is an increase in assets of $5.1 million (being the accumulated amortisation as at 30 June 2004) to a total of $10.2 million. The reinstated asset amount is then reclassified in the balance sheet resulting in a decrease in assets of $10.2 million and a decrease in reserves of $10.2 million.

The increase in assets of $5.1 million less the applicable tax effect of $1.5 million results in an increase in retained profits of $3.6 million. The impact of shares allocated to employees is an increase in reserves of $0.5 million and a decrease in retained profits of $0.5 million.

For the year ended 30 June 2005, the impact is an increase in employee benefit expense of $1.0 million less the applicable tax effect of $0.3 million resulting in a decrease in reported earnings of $0.7 million.

Note 8. Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

The cumulative impact as at 30 June 2005 is an increase in retained profits of $2.4 million and a decrease in reserves of $9.7 million.

(v) Impairment of non-current assets

Under AGAAP, the carrying amounts of non-current assets valued on a cost basis, were reviewed at reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeded its recoverable amount the asset was written down to the lower amount, with the write-down recognised in the income statement in the period in which it occurs. Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

Under AIFRS, the carrying amount of the consolidated entity's non-current assets, defined benefit assets, deferred tax assets, goodwill and indefinite life intangible assets (brand names) is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset is tested for impairment by comparing its recoverable amount to its carrying amount.

The major differences between AGAAP and AIFRS are as follows:

- the impairment test is performed at a cash generating unit level, and
- the cash flows must be discounted.

Goodwill, which is not amortised under AIFRS and intangible assets (brand names) that have an indefinite useful life are tested for impairment annually.

If there is any indication that an asset is impaired, the recoverable amount is estimated for the individual asset. If it is not practical to estimate the recoverable amount for the individual asset, the recoverable amount of the cash generating unit to which the asset belongs is determined.

A cash generating unit is the smallest identifiable group of assets that generate independent cash inflows. Each cash generating unit must be no larger than a segment.

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or its cash generating unit exceeds its recoverable amount.

Impairment losses recognised in respect of a cash generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to reduce the carrying amount of the other assets in the unit pro rata based on their carrying amounts. The discount rate used equates to the consolidated entity's pre-tax weighted average cost of capital, being 9.5 per cent.

At 1 July 2004, the impact on transition is a decrease in property, plant and equipment of $241.5 million less the applicable tax effect of $58.6 million resulting in a decrease in retained earnings of $182.9 million.

For the year ended 30 June 2005, the impact is a decrease in property, plant and equipment of $12.4 million less the applicable tax effect of $3.7 million resulting in a decrease in reported earnings of $8.7 million.

The cumulative impact as at 30 June 2005 is a decrease in property, plant and equipment of $253.9 million less the applicable tax effect of $62.3 million resulting in a decrease in retained earnings of $191.6 million.

The impairment losses relate wholly to certain mills in the Communication Papers industry segment of the Australian Paper manufacturing business. The impairment losses arise as a consequence of lower cash generation due to the impact of depressed Australian paper selling prices as a combined result of a strong Australian dollar and an oversupply in global paper markets.

(vi) Income tax

On transition to AIFRS, the balance sheet method of tax-effect accounting was adopted, rather than the liability method applied currently under AGAAP.

Under the balance sheet approach, income tax on the profit and loss for the year comprises current and deferred taxes.

The provision for income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided will be based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent it is no longer probable that the related tax benefit will be realised.

Difference in book value of assets and tax value of assets

At 1 July 2004, the impact on transition is an increase in deferred tax liabilities of $0.2 million and a decrease in retained earnings of $0.2 million.

For the year ended 30 June 2005, the impact is an increase in deferred tax liabilities of $0.4 million and a decrease in reported earnings of $0.4 million.

The cumulative impact as at 30 June 2005 is a decrease in retained earnings of $0.6 million.

Tax losses

At 1 July 2004, the impact on transition is an increase in deferred tax assets of $5.9 million and an increase in retained earnings of $5.9 million.

For the year ended 30 June 2005, there is no impact.

The cumulative impact as at 30 June 2005 is an increase in retained earnings of $5.9 million.

(vii) Trade discounts and rebates

Under AGAAP, trade discounts and rebates were brought to account in the profit when received or when able to be reasonably determined.

Under AIFRS, trade discounts and rebates are deducted in determining the purchase cost of inventories.

At 1 July 2004, the impact on transition is a decrease in inventories of $4.7 million less the applicable tax effect of $1.3 million resulting in a decrease in retained earnings of $3.4 million.

For the year ended 30 June 2005, the impact is an increase in reported profits of $0.2 million.

The cumulative impact as at 30 June 2005 is a decrease in retained earnings of $3.2 million.

Note 8. **Impact of adopting Australian equivalents to International Financial Reporting Standards** (continued)

(viii) Non-amortisation of goodwill

Under AGAAP, goodwill was amortised on a straight-line basis over the period the benefits are expected to arise not exceeding 20 years.

Under AIFRS, amortisation of goodwill is prohibited and is replaced by annual impairment testing focusing on the cash inflows of the applicable cash generating unit.

At 1 July 2004, there is no impact on transition.

For the year ended 30 June 2005, amortisation expense decreases by $20.1 million less the applicable tax effect of $Nil million resulting in an increase in reported earnings of $20.1 million.

The cumulative impact as at 30 June 2005 is an increase in intangibles of $20.1 million and an increase in retained earnings of $20.1 million.

(ix) Non-depreciation of non-current assets

Under Australian GAAP, the non-current assets impaired as at 1 July 2004 on transition to AIFRS were depreciated during the year ended 30 June 2005.

Under AIFRS, non-current assets impaired as at 1 July 2004 whereby the resultant net written down value is nil at that date, are not subject to depreciation during the year ended 30 June 2005.

For the year ended 30 June 2005, depreciation expense decreases by $2.2 million less the applicable tax effect of $0.6 million resulting in an increase in reported earnings of $1.6 million.

The cumulative impact as at 30 June 2005 is an increase in property, plant and equipment of $2.2 million less the applicable tax effect of $0.6 million resulting an increase in retained earnings of $1.6 million.

(x) Disposal of foreign denominated subsidiary

Under AGAAP, the assets and liabilities of self-sustaining foreign operations were translated at the rates of exchange ruling at reporting date. Equity items and goodwill are translated at historical rates. The income statements are translated at an average rate for the year which approximates the exchange rates ruling at the date of the transactions. Foreign exchange differences arising on translation are recognised directly in the translation reserve until disposal of the operation, when it is transferred directly to retained earnings.

Under AIFRS, each entity maintains its books and records in its functional currency. The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated from the entity's functional currency to the consolidated entity's presentation currency of Australian dollars at foreign exchange rates ruling at reporting date. The income statements are translated at an average rate for the year which approximates the exchange rates ruling at the date of the transactions. Foreign exchange differences arising on translation are recognised directly in the translation reserve.

There are no expected changes in functional currency for the Company or its subsidiaries.

All foreign operations are translated into Australian dollars using the method described above.

On disposal of a foreign operation, under AIFRS the amount recognised in the translation reserve attributable to the foreign operation is included in the calculation of the gain or loss on disposal and recycled through the current year income statement.

At 1 July 2004, there is no impact on transition.

For the year ended 30 June 2005, the impact is an increase in the loss on disposal of subsidiaries of $1.7 million and a decrease in the transfer amount from retained earnings to the exchange fluctuation reserve of $1.7 million.

There is no net impact on the balance sheet as at 30 June 2005.

(xi) Business combinations

Under AGAAP, post acquisition adjustments to goodwill were permitted to be made in subsequent periods, where appropriate.

Under AIFRS, post acquisition adjustments are only permitted to be made within a 12 month period from the date of the acquisition. As a result, any such adjustments booked to goodwill under AGAAP after 31 October 2004 in relation to the acquisition of the Paper Merchanting Division of Buhrmann NV, is adjusted against reported earnings other than in specific circumstances.

The consolidated entity has not elected to apply Accounting Standard AASB 3 Business Combinations retrospectively and hence the impact of the above only affects the AIFRS restated balance sheets as at 1 July 2005 and the AIFRS restated profit for the year ended 30 June 2005.

At 1 July 2004, there is no impact on transition.

For the year ended 30 June 2005, the impact is an increase in expenses of $8.9 million less the applicable tax effect of $Nil million resulting in a decrease in reported earnings of $8.9 million.

The cumulative impact as at 30 June 2005 is a decrease in goodwill of $8.9 million and a decrease in retained earnings of $8.9 million.

(xii) Reclassification of computer software

Under AGAAP, computer software was generally classified as part of property, plant and equipment in the balance sheet.

Under AIFRS, any computer software that is not integral to the operation of property, plant and equipment is classified as an intangible asset, where it is continued to be amortised on the same basis.

At 1 July 2004, the impact on transition is an increase in intangibles of $81.1 million and a decrease in property, plant and equipment of $81.1 million.

At 30 June 2005, the impact is an increase in intangibles of $62.2 million and a decrease in property, plant and equipment of $62.2 million.

(xiii) Revenue disclosures in relation to the sale of non-current assets

Under AIFRS, the revenue recognised in relation to the sale of non-current assets is the net gain on the sale. This is in contrast to the AGAAP treatment under which the gross proceeds from the sale were recognised as revenue and the carrying amount of the assets sold is recognised as an expense. The net impact on the profit or loss of this difference is nil.

Under AIFRS for the year ended 30 June 2005, the consolidated revenue from ordinary activities is $11.2 million lower, the consolidated carrying amount of non-current assets sold disclosed as an expense is $8.2 million lower and the consolidated other income is $3.0 million higher.

(xiv) Reclassification of other income

Under AIFRS, foreign exchange gains are classified as other income. This is in contrast to the AGAAP treatment under which such items are classified as revenue.

Under AIFRS for the year ended 30 June 2005, the consolidated revenue is $0.2 million lower and consolidated other income is $0.2 million higher.

Note 8. Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

The following table sets out the adjustments to the consolidated entity upon adoption of AIFRS as at 1 July 2004.

						Consolidated
1 July 2004	Notes	**Issued capital $m**	**Reserves $m**	**Retained profits $m**	**Minority interest $m**	**Total equity $m**
Net assets as at 1 July 2004 under AGAAP		1,693.8	(18.7)	137.0	1.2	1,813.3
• Defined benefit plans	(i)	–	-	(29.9)	–	(29.9)
• Employee Share Plan loans	(iii)	(3.4)	–	-	–	(3.4)
• Reserve for own shares	(iv)	–	-	3.6	–	3.6
• Shares held in trust, reclassification as a 'negative' reserve	(iv)	–	(9.7)	(0.5)	–	(10.2)
• Impairment of non-current assets	(v)	–	-	(182.9)	–	(182.9)
• Income tax	(vi)	–	-	5.7	–	5.7
• Trade discounts and rebates	(vii)	–	-	(3.4)	–	(3.4)
Total movements		(3.4)	(9.7)	(207.4)	–	(220.5)
Net assets as at 1 July 2004 under AIFRS		1,690.4	(28.4)	(70.4)	1.2	1,592.8

The following table sets out the adjustments to the consolidated income statement for the year ended 30 June 2005.

								Consolidated
	Notes	**Profit before interest, tax, depreciation & amortisation**	**Depreciation & amortisation**	**Profit before net interest and income tax**	**Net Interest**	**Profit before income tax expense**	**Income tax benefit/ (expense)**	**Profit after income tax expense**
30 June 2005 (before tax consolidation adjustment)		307.7	(122.8)	184.9	(68.5)	116.4	(24.8)	91.6
Tax consolidation adjustment		–	–	–	–	–	77.0	77.0
30 June 2005 under AGAAP		307.7	(122.8)	184.9	(68.5)	116.4	52.2	168.6
• Defined benefit plans	(i)	(1.0)	–	(1.0)	–	(1.0)	(0.1)	(1.1)
• Share based payments	(ii)	(2.3)	–	(2.3)	–	(2.3)	–	(2.3)
• Shares held in trust	(iv)	(1.0)	–	(1.0)	–	(1.0)	0.3	(0.7)
• Impairment of non-current assets	(v)	–	(12.4)	(12.4)	–	(12.4)	3.7	(8.7)
• Income tax	(vi)	–	–	–	–	–	(0.4)	(0.4)
• Trade discounts and rebates	(vii)	0.2	–	0.2	–	0.2	–	0.2
• Non amortisation of goodwill	(viii)	–	20.1	20.1	–	20.1	–	20.1
• Non depreciation of non-current assets impaired as at 1 July 2004	(ix)	–	2.2	2.2	–	2.2	(0.6)	1.6
• Disposal of foreign denominated subsidiary	(x)	(1.7)	–	(1.7)	–	(1.7)	–	(1.7)
• Business combinations	(xi)	(8.9)	–	(8.9)	–	(8.9)	–	(8.9)
Total movements		(14.7)	9.9	(4.8)	–	(4.8)	2.9	(1.9)
30 June 2005 under AIFRS		293.0	(112.9)	180.1	(68.5)	111.6	55.1	166.7

Note 8. Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

The following tables set out the adjustments to the consolidated entity upon adoption of AIFRS as at 30 June 2005.

				Consolidated		
30 June 2005	**Notes**	**Contributed equity $m**	**Reserves $m**	**Retained profits $m**	**Outside equity interest $m**	**Total equity $m**
Net assets as at 30 June 2005 under AGAAP		1,694.2	(63.8)	181.1	0.9	1,812.4
• Defined benefit plans	(i)	–	–	(29.9)	–	(29.9)
• Employee Share Plan loans	(iii)	(3.4)	–	-	–	(3.4)
• Shares held in trust	(iv)	–	–	3.6	–	3.6
• Shares held in trust reclassification as a 'negative' reserve	(iv)	–	(9.7)	(0.5)	–	(10.2)
• Impairment of non-current assets	(v)	–	-	(182.9)	–	(182.9)
• Income tax	(vi)	–	–	5.7	–	5.7
• Trade discounts and rebates	(vii)	–	–	(3.4)	–	(3.4)
Total movements as at 1 July 2004		(3.4)	(9.7)	(207.4)	–	(220.5)
• Defined benefit plans	(i)	–	–	(1.1)	–	(1.1)
• Share based payments	(ii)	–	–	(2.3)	–	(2.3)
• Shares held in trust	(iv)	–	–	(0.7)	–	(0.7)
• Impairment of non-current assets	(v)	–	–	(8.7)	–	(8.7)
• Income tax	(vi)	–	–	(0.4)	–	(0.4)
• Trade discounts and rebates	(vii)	–	–	0.2	–	0.2
• Non amortisation of goodwill	(viii)	-	-	20.1	-	20.1
• Non depreciation of non-current assets impaired as at 1 July 2005	(ix)	-	-	1.6	-	1.6
• Disposal of foreign denominated subsidiary	(x)	-	-	(1.7)	-	(1.7)
• Business combinations	(xi)	–	–	(8.9)	–	(8.9)
Total movements to profit		–	–	(1.9)	–	(1.9)
• Disposal of foreign denominated subsidiary (reclassification)	(x)	–	–	1.7	–	1.7
• Repayment of employee share plan loans	(iii)	0.7	–	–	–	0.7
• Actuarial gains/(losses) defined benefit plan	(i)	–	–	(33.8)	–	(33.8)
• Share based payments	(ii)	–	–	2.3	–	2.3
• Impact of exchange rate movements		–	1.8	(0.1)	0.1	1.8
Net assets as at 30 June 2005 under AIFRS		1,691.5	(71.7)	(58.1)	1.0	1,562.7

Note 9. Events subsequent to balance date

Dividends

For dividends declared after 30 June 2006, see Note 2.

Maryvale Wood Yard Outsourcing

The Company has announced conditional agreement to outsource a new wood yard at Maryvale, which will result in one-off costs in the 2007 year of approximately $10 million.

DIRECTORS' DECLARATION

In the opinion of the Directors of PaperlinX Limited, the accompanying concise financial report including the remuneration disclosures that are contained in sections 1 to 3 and sections 5 to 7 of the Remuneration Report in the Directors' Report of the consolidated entity, comprising PaperlinX Limited and its controlled entities for the financial year ended 30 June 2006, set out on pages 66 to 79:

(a) has been derived from or is consistent with the Full Financial Report for the financial year, and:

(b) complies with Australian Accounting Standard AASB 1039 Concise Financial Reports.

In accordance with a resolution of the directors, dated at Melbourne, in the State of Victoria, this 21st day of August 2006.

David E Meiklejohn	Thomas P Park
Chairman	Managing Director and Chief Executive Officer

INDEPENDENT AUDIT REPORT
ON CONCISE FINANCIAL REPORT TO THE MEMBERS OF PAPERLINX LIMITED

Scope

The Financial Report, remuneration disclosures and Directors' responsibility

The concise financial report comprises the income statement, statement of recognised income and expense, balance sheet, statement of cash flows, accompanying notes 1 to 9 and the accompanying discussion and analysis on the income statement, statement of recognised income and expense, balance sheet and statement of cash flows for PaperlinX Limited ('the Company') and its controlled entities (the 'Consolidated Entity') for the year ended 30 June 2006.

As permitted by the *Corporations Regulations 2001*, the Company has disclosed information about the remuneration of Directors and executives ('remuneration disclosures'), required by Australian Accounting Standard AASB 124 Related Party Disclosures, under the heading 'Remuneration Report' in sections 1 to 3 and sections 5 to 7 of the Directors' Report and not in the concise financial report.

The Directors of the Company are responsible for the preparation of the concise financial report in accordance with Australian Accounting Standard AASB 1039 'Concise Financial Reports'. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the concise financial report. The Directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit approach

We conducted an independent audit in order to express an opinion to members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the concise financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore an audit cannot guarantee that all material misstatements have been detected. We have also performed an independent audit of the Full Financial Report and the remuneration disclosures of the Company and its controlled entities for the year ended 30 June 2006. The Remuneration Report in the Full Financial Report also contains information in section 4 not required by Accounting Standard AASB 124, which is not subject to our audit. Our audit report on the Full Financial Report and the remuneration disclosures was signed on 21 August 2006, and was not subject to any qualification.

We performed procedures in respect of the audit of the concise financial report to assess whether, in all material respects, the concise financial report is presented fairly in accordance with Australian Accounting Standard AASB 1039 'Concise Financial Reports'.

We formed our audit opinion on the basis of these procedures, which included:

- testing that the information in the concise financial report is consistent with the Full Financial Report, and
- examining, on a test basis, information to provide evidence supporting the amounts, discussion and analysis, and other disclosures, which were not directly derived from the Full Financial Report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Audit opinion

In our opinion, the concise financial report of PaperlinX Limited and its controlled entities for the year ended 30 June 2006 complies with Australian Accounting Standard AASB 1039 'Concise Financial Reports'.

KPMG

P A Jovic
Partner

Melbourne
21 August 2006

SHAREHOLDING INFORMATION

1. Number of shareholders

There were 73,223 shareholders at 14 August 2006. All issued shares carry voting rights on a one-for-one basis.

2. Distribution of shareholding

Range of holdings	Number of shareholders	% of holders	Number of shares	% of shares
1 – 1,000	34,579	47.22	15,379,337	3.45
1,001 – 5,000	31,048	42.40	72,611,396	16.27
5,001 – 10,000	5,126	7.00	36,526,746	8.19
10,001 – 100,000	2,391	3.27	46,883,439	10.51
100,001 – over	79	0.11	274,781,291	61.58
Total	73,223	100.00	446,182,209	100.00

3. Unmarketable parcels

There were 5,578 members holding less than a marketable parcel of shares in the Company, (i.e. a parcel of shares valued at less than $500).

4. Listing

The Company's shares are quoted on the Australian Stock Exchange.

5. Twenty largest shareholders at 14 August 2006

	Number of shares	% of shares
HSBC Custody Nominees (Australia) Limited	93,339,900	20.92
Westpac Custodian Nominees Limited	74,376,390	16.67
J P Morgan Nominees Australia Limited	62,427,526	13.99
National Nominees Limited	34,604,913	7.76
ANZ Nominees Limited	26,042,009	5.84
Citicorp Nominees Pty Limited	24,108,797	5.40
RBC Global Services Australia Nominees Pty Limited	10,307,026	2.31
Cogent Nominees Pty Limited	6,708,773	1.50
Australian Foundation Investment Company Limited	5,411,757	1.21
ARGO Investments Limited	2,203,100	0.49
CPU Share Plans Pty Ltd	1,983,333	0.44
Queensland Investment Corporation	1,938,000	0.43
M F Custodians Ltd	1,171,437	0.26
Merrill Lynch (Australia) Nominees Pty Ltd	1,148,135	0.26
Triguboff Management Pty Limited	950,000	0.21
Transport Accident Commission	814,544	0.18
Victorian WorkCover Authority	750,056	0.17
Bond Street Custodians Limited Level 26	660,633	0.15
Fleet Nominees Pty Limited	614,343	0.14
The University of Melbourne	607,740	0.14
Total top 20 shareholders	**350,168,412**	**78.48**
Total issued shares	**446,182,209**	**100.00**

Substantial Shareholders as defined by the Corporations Act (holding at least 5 per cent of shares):

Name	No of shares	Percentage held
Maple-Brown Abbott Limited	51,241,490	11.48%
Capital Group Companies, Inc.	26,909,422	6.03%
Franklin Resources, Inc. and its affiliates	23,354,078	5.23%

6. Geographic location of shareholders by registered address:

	Number of shareholders	Number of shares
Australian Capital Territory	1,313	3,356,077
New South Wales	18,413	221,971,856
Northern Territory	124	192,778
Queensland	9,611	25,840,596
South Australia	4,453	12,561,394
Tasmania	1,655	3,158,317
Victoria	30,122	166,837,341
Western Australia	3,682	9,285,836
Total Australia	**69,373**	**443,204,195**
Canada	456	160,348
New Zealand	927	1,382,513
United Kingdom	216	290,974
United States of America	1,762	573,622
Germany	79	36,980
Hong Kong	37	123,284
Singapore	31	84,009
Other	342	326,284
Total overseas	**3,850**	**2,978,014**

7. Unquoted equity securities

Issued pursuant to the PaperlinX Employee Share/Option Plan.

Options

Options over ordinary shares at either no cost or a cost of one cent per option exercisable at prices ranging from $3.13 to $4.85 per share.

The vesting of certain options depends on the achievement of PaperlinX's long-term incentive plan performance conditions.

- Number of employees participating 56
- Number of securities 3,365,430

Performance rights

The Company has issued performance rights to certain senior management. Each performance right gives a contingent interest to one PaperlinX share. The vesting of the performance right depends upon the achievement of PaperlinX's long-term incentive plan performance conditions.

- Number of employees participating 201
- Number of securities 3,519,765

INVESTOR INFORMATION

Share Registry
Shareholders with queries about anything related to their shareholding should contact the PaperlinX Share Registry in Melbourne, Australia:
by telephone (within Australia) 1800 232 867
or (outside Australia) +61 3 9415 4000
by facsimile +61 3 9473 2500.

Alternatively, shareholders may wish to write to:
PaperlinX Share Registry
Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford
Victoria 3067
Australia

Details of individual shareholdings can be checked conveniently and simply by visiting our Registrar's website at www.computershare.com/au/investors. For security reasons, you then need to key in your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) plus company name or ASX code and postcode to enable access to personal information.

Dividends
The Company proposes to pay dividends in September and April. Shareholders should retain for taxation purposes full details of dividend payments.

The following options are available to shareholders regarding payment of dividends:

1. By direct deposit to an Australian bank, building society or credit union account.
2. By cheque payable to the shareholder. Lost or stolen cheques should be reported immediately to the PaperlinX Share Registry, in writing, to enable stop payment and replacement.

Shareholders may choose to have their dividends paid directly into a nominated bank, building society or credit union account anywhere in Australia. Payments are electronically credited on the dividend date and confirmed by a payment advice sent to the shareholder. Request forms for this service are available from the PaperlinX Share Registry.

Shareholders resident in Australia and New Zealand may choose to participate in the Dividend Reinvestment Plan (DRP), effective of the 2006 Final Dividend. Request forms for the DRP are available from the PaperlinX Share Registry.

Tax file numbers
PaperlinX is required to withhold tax at the rate of 48.5 per cent on any unfranked component of dividends or interest paid to investors resident in Australia who have not supplied the Company with a tax file number (TFN) or exemption form. Investors are not required by law to provide their TFN if they do not wish to do so.

Transfer of shares off-market
No stamp duty is payable on off-market transfers.

Annual General Meeting
The Annual General Meeting is normally held in October.

The 2006 Annual General Meeting will be held on Friday 20 October 2006 at the Park Hyatt Melbourne, 1 Parliament Square, Melbourne, Australia at 11.00am.

Stock Exchange listing
PaperlinX shares are listed on the Australian Stock Exchange. All shares are recorded on the principal share register, which is located in Victoria, the state of incorporation of PaperlinX. The Company's ticker code is 'PPX'.

Publications
The Company's Concise Annual Report is the main source of information for investors and is mailed to shareholders in September. The 2006 Full Financial Report can be requested by telephone (Australia 1800 232 867, outside Australia +61 3 9415 4000) or by email at contact@paperlinx.com.au. Other sources of information are:

1. The Chairman's address to the Annual General Meeting, which will be available on the PaperlinX website.
2. The half year Financial Report reviewing the July-December half year, which will be mailed to shareholders in March.

Internet address
A range of corporate information may be obtained from the PaperlinX website at www.paperlinx.com. Investor information is available from the Investor Relations section.

Change of address
Issuer sponsored shareholders should notify the PaperlinX Share Registry immediately, in writing, signed by the shareholder/s, of any change to their registered address. For added security, shareholders should quote their previous address and HIN or SRN. CHESS uncertified shareholders should advise their sponsoring broker or non-broker participant.

Removal from mailing list
Shareholders who do not wish to receive the Concise Annual Report should advise the PaperlinX Share Registry, in writing, and include their HIN or SRN.

Change of name
Shareholders who change their name should notify the PaperlinX Share Registry, in writing, and attach a certified copy of a relevant marriage certificate or deed poll, and include their HIN or SRN.

FIVE YEAR STATISTICAL SUMMARY
YEARS ENDED 30 JUNE

($AUD million except where indicated)		Actual [1] 2005/2006	Actual [1] 2004/2005	Actual 2003/2004	Actual 2002/2003	Actual 2001/2002
Paperlinx consolidated financial performance						
Sales revenue		7,413	7,574	6,212	3,618	2,961
Sales growth (%)		(2)	22	72	22	26
Earnings from ordinary activities before depreciation, amortisation, net interest and income tax		257.1	293.0	300.7	313.2	285.9
Earnings from ordinary activities before interest and income tax		152.4	180.1	189.7	230.9	213.1
Profit from ordinary activities before income tax		87.3	111.6	141.2	190.4	176.9
Profit from ordinary activities after income tax (excluding ATC)		65.4	89.6	108.5	132.1	123.0
Profit from ordinary activities after income tax (including ATC)		65.4	166.6(2)	108.5	132.1	123.0
Financial statistics						
Depreciation and amortisation expense		104.7	112.9	111.0	82.3	72.8
Net interest expense		65.1	68.5	48.5	40.5	36.2
Cash flow from operating activities		259.8	273.4	402.7	234.0	339.4
Capital expenditure – acquisitions		100.9	44.6	1104.1	368.8	15.4
Capital expenditure – plant and equipment		101.4	86.3	54.7	64.4	65.8
Earnings from ordinary activities before interest and income tax by business segments						
Merchanting and Paper Trading		190.4	194.1	147.5	92.0	55.9
Communication Papers		(9.4)	2.1	44.8	108.4	134.8
Packaging Papers		5.3	10.0	21.6	53.9	43.2
Corporate and Other		(33.9)	(26.1)	(24.2)	(23.4)	(20.8)
Total EBIT		**152.4**	**180.1**	**189.7**	**230.9**	**213.1**
Financial position summary						
Current assets		2,881	2,674	3,000	1,607	1,002
Non-current assets		1,510	1,493	1,781	1,372	1,287
Total assets		**4,391**	**4,167**	**4,780**	**2,979**	**2,289**
Current liabilities		1,460	1,373	1,341	567	502
Non-current liabilities		1,321	1,231	1,626	766	574
Total liabilities		**2,782**	**2,604**	**2,967**	**1,333**	**1,076**
Net assets/Total shareholders' equity		**1,609**	**1,563**	**1,813**	**1,646**	**1,213**
Financial ratios						
Basic earnings per share (excluding ATC)	(cents)	14.7	20.1	24.7	36.9	38.2
Earnings per share (including ATC)	(cents)	14.7	37.3(2)			
Earnings per share growth (excluding ATC)	(%)	(26.9)	(18.6)	(33.1)	(3.4)	2.7
Return on average funds employed	(%)	6.2	6.7	7.5	12.3	12.7
Return on average shareholders' equity	(%)	4.4	10.4(2)	6.2	9.3	10.2
Dividend per ordinary share	(cents)	10.0	25.5	27.5	27.5	27.0
Dividend franking	(%)	0	0	0	50	87
Net tangible asset per ordinary share	($)	2.49	2.40	3.15	3.30	3.11
Net interest cover	(times)	2.3	2.6	3.9	5.7	5.9
Gearing (Net debt/net debt and shareholders' equity)	(%)	36.0	35.9	36.3	8.1	21.5
Gearing (Net debt/shareholders' equity)	(%)	56.2	55.9	57.0	8.8	27.3
Other information						
PaperlinX share price:						
• Year's high	($)	3.86	5.46	5.85	5.36	5.66
• Year's low	($)	2.85	2.33	4.42	4.45	3.85
• Close as at 30 June	($)	3.12	3.01	4.85	4.58	4.85
Fully paid ordinary shares as at 30 June	(millions)	446.2	446.2	446.1	411.4	322.7
Weighted average number of shares	(millions)	446.2	446.1	439.9	358.3	322.1
Market capitalisation as at 30 June	($millions)	1,392	1,343	2,163	1,884	1,565
Number of shareholders as at 30 June		73,223	90,889	109,011	109,128	104,562
Employee numbers as at 30 June		9,672	9,369	9,666	4,828	3,831

(1) *Reported under AIFRS.*

(2) *Includes once only benefit of entering Australian Tax Consolidation regime of $77 million.*

CORPORATE DIRECTORY

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Designed and produced by Amanda Roach Design

PaperlinX

CONCISE ANNUAL REPORT 2006

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