

INTERIM FINANCIAL REPORT

OF

PAPERLINX SPS TRUST

(ASRN 123 839 814)

31 DECEMBER 2008

INTERIM FINANCIAL REPORT
FOR THE PERIOD ENDED 31 DECEMBER 2008

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PaperlinX SPS Trust

Directors' Report

The Directors of Permanent Investment Management Limited, the responsible entity of PaperlinX SPS Trust ("the SPS Trust"), present their report together with the interim financial report of the SPS Trust for the period 1 July 2008 to 31 December 2008 and the auditor's review report thereon. This interim financial report is the second interim financial report prepared by the SPS Trust since it was registered as a Managed Investment Scheme on 14 February 2007.

Responsible Entity

Permanent Investment Management Limited ("the Responsible Entity") has acted in the capacity of Responsible Entity of the SPS Trust since it was established under a trust deed dated 07 February 2007.

The registered office and principal place of business of the Responsible Entity and the SPS Trust is Level 4, 35 Clarence Street, Sydney, NSW 2000.

The names of the Directors of the Responsible Entity holding office during the half year ended 31 December 2008 and until the date of this report were:

Jonathan Westaby Sweeney <i>Chairman</i>	Director from 12 December 2002 to 31 December 2008
Michael John Britton <i>Director</i>	Director since 11 July 2003
Vicki Lee Allen <i>Director</i>	Director since 15 June 2007
Eugene Quass <i>Director</i>	Director from 27 February 2006 to 13 February 2009
David Grbin <i>Director</i>	Director since 22 July 2008
John Atkin <i>Director</i>	Director since 27 January 2009

PaperlinX SPS Trust Directors' Report (cont.)

Principal activities

The SPS Trust was established for the purpose of issuing a new security called PaperlinX Step-up Preference Securities (PSPS). The PSPS are perpetual, preferred units in the SPS Trust and on 30 March 2007, 2,850,000 PSPS were issued at an issue price of \$100 per security raising \$285 million. The PSPS are listed on the ASX under "PXUPA".

The SPS Trust issued 1 ordinary unit at an issue price of \$100 per unit to PaperlinX Limited.

The SPS Trust is a registered managed investment scheme and the SPS Trust is domiciled in Australia.

The SPS Trust did not have any employees during the period.

Review of operations

Results

The SPS Trust's net profit from operations for the current period was \$14,881,848 (2007: \$12,887,418).

The distribution by the SPS Trust declared and paid on 31 December 2008 was \$14,881,848 (2007: \$12,887,418) representing a distribution of \$5.2217 (2007: \$4.5219) on 2,850,000 (2007: 2,850,000) fully paid preferred units.

The distribution on the 1 ordinary unit for the period ended 31 December 2008 was \$NIL (2007: \$Nil).

Interests of the Responsible Entity

The Responsible Entity, its associates and other trusts or schemes under the management of the Responsible Entity have not held any units in the SPS Trust during the financial year. Set out below are the fees paid or payable by the SPS Trust to the Responsible Entity, or any of its associates, during the half year period:

	2008 \$000	2007 \$000
Responsible Entity		
- Management fees	46	67
- Custody fees	20	-
	66	67

Events subsequent to balance date

The SPS Trust is a controlled entity of PaperlinX Limited and has an investment in preference shares issued by PaperlinX SPS LLC. The income earned by the SPS Trust from this investment is ultimately sourced from PaperlinX (Europe) Limited, a controlled entity of PaperlinX Limited. In addition, PaperlinX (Europe) Limited is a guarantor to certain borrowings of PaperlinX Limited and its controlled entities (collectively "the PaperlinX Group").

The PaperlinX Group announced on 19th December 2008 that it would potentially breach certain borrowing covenants at 31 December 2008. At 31 December 2008, the PaperlinX Group had breached certain borrowing covenants relating to its syndicated banking facility, US Private Placement Notes and other banking facilities. Subsequent to 31 December 2008, and based on the ASX announcement made by PaperlinX Limited on 16th February 2009, a waiver of the covenant breaches has been negotiated with the lenders and the US Private Placement Noteholders for the period ended 31 December 2008 until 31 March 2009, subject to certain conditions. As part of the conditions of this waiver, the PaperlinX Group must gain approval from its lenders and the US Private Placement Noteholders before declaring dividends or making distributions on its ordinary shares or step-up preference securities issued by the SPS Trust, during the default period. Furthermore, the PaperlinX Group is in negotiations with its lenders and the US Private Placement Noteholders regarding its future borrowing covenants and to obtain approval for the sale of the Australian Paper manufacturing operations.

Other than the above, there has not arisen in the interval between the end of the financial period and the date of this report any items, transactions or events of a material and unusual nature likely, in the opinion of the Responsible Entity, to affect significantly the operation of the SPS Trust, the results of those operations, or the state of affairs of the SPS Trust, in the current financial period.

PaperlinX SPS Trust
Directors' Report (cont.)

Lead Auditor's independence declaration

The lead auditor's independence declaration is set out on page 13 and forms part of the Directors' report for the period ended 31 December 2008.

Rounding off

The SPS Trust is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Sydney this 26th day of February 2008.

This report is made with a resolution of the Directors of Permanent Investment Management Limited



Vicki Allen
Director

PaperlinX SPS Trust
Interim Income Statement

For the period ended 31 December	2008	2007
	\$000	\$000
Investment income		
Dividends received	15,033	13,031
Interest income	7	13
Total investment income	15,040	13,044
Expenses		
Management fees	(46)	(67)
Custody fees	(20)	-
Auditors' remuneration	(15)	(15)
Unit registry fees	(30)	(22)
Legal fees	-	(16)
Other operating costs	(47)	(37)
Total expenses	(158)	(157)
Profit attributable to unit holders	14,882	12,887

PaperlinX SPS Trust
Interim Statement of Changes in Equity

For the period ended 31 December	2008	2007
	\$000	\$000
Total equity at beginning of period	285,000	285,000
Net profit for the period	14,882	12,887
Distributions on step-up preference securities	(14,882)	(12,887)
Total equity at end of period	285,000	285,000

PaperlinX SPS Trust
Earnings per Security

For the period ended 31 December	2008	2007
Earnings per Security (\$)	5.2217	4.5219

The interim income statement, interim statement of changes in equity and the earnings per security are to be read in conjunction with the condensed notes to the financial statements set out on pages 7 to 11.

PaperlinX SPS Trust
Interim Balance Sheet

	<i>Note</i>	As at 31 December 2008 \$000	As at 30 June 2008 \$000
Assets			
Current assets			
Cash and cash equivalents		158	56
Other receivables		<u>34</u>	<u>24</u>
Total current assets		<u>192</u>	<u>80</u>
Non current assets			
Investments		<u>285,000</u>	<u>285,000</u>
Total non current assets		<u>285,000</u>	<u>285,000</u>
Total assets		<u>285,192</u>	<u>285,080</u>
Liabilities			
Current liabilities			
Trade and other payables		<u>192</u>	<u>80</u>
Total current liabilities		<u>192</u>	<u>80</u>
Net assets		<u>285,000</u>	<u>285,000</u>
Equity			
Step-up preference securities	3	285,000	285,000
Ordinary units on issue	4	*	*
Total Equity		<u>285,000</u>	<u>285,000</u>
* \$100			

The interim balance sheet is to be read in conjunction with the condensed notes to the financial statements set out on pages 7 to 11.

PaperlinX SPS Trust
Interim Statement of Cash Flows

For the period ended 31 December	2008	2007
	\$000	\$000
Cash flows from operating activities		
Payments from suppliers	-	252
Payments to suppliers	(56)	-
Interest received	7	13
Dividends received	15,033	13,031
Net cash flows from operating activities	14,984	13,296
Cash flows investing activities		
Acquisition of investments	-	-
Net cash flows from investing activities	-	-
Cash flow from financing activities		
Step up preference security distributions	(14,882)	(19,452)
Net cash flows from financing activities	(14,882)	(19,452)
Net increase in cash and cash equivalents	102	(6,156)
Cash and cash equivalents at the beginning of the period	56	6,638
Cash and cash equivalents at the end of the period	158	482

The interim statement of cash flows is to be read in conjunction with the condensed notes to the financial statements set out on pages 7 to 11.

PaperlinX SPS Trust

Condensed notes to the financial statements

1. Accounting policies

(a) Reporting Entity

PaperlinX SPS Trust, (the 'SPS Trust') is a registered Managed Investment Scheme under the Corporations Act 2001. The financial report of the SPS Trust is for the period 1 July 2008 to 31 December 2008. The comparative period reflects the period of 1 July 2007 to 31 December 2007.

The financial report was authorised for issue by the Directors of the Responsible Entity on 26th February 2009.

(b) Statement of compliance

The interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the Corporations Act 2001.

The interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the annual financial report of the entity as at and for the year ended 30 June 2008.

(c) Uncertainties on Valuation of Investment and Going Concern Basis of Accounting

The SPS Trust is a controlled entity of PaperlinX Limited and has an investment in preference shares issued by PaperlinX SPS LLC. The income earned by the SPS Trust from this investment is ultimately sourced from PaperlinX (Europe) Limited, a controlled entity of PaperlinX Limited. In addition, PaperlinX (Europe) Limited is a guarantor to certain borrowings within the PaperlinX Group.

The PaperlinX Group announced on 19th December 2008 that it would potentially breach certain borrowing covenants at 31 December 2008. At 31 December 2008, the PaperlinX Group had breached certain borrowing covenants relating to its syndicated banking facility, US Private Placement Notes and other banking facilities. Subsequent to 31 December 2008, and based on the ASX announcement made by PaperlinX Limited on 16th February 2009, a waiver of the covenant breaches has been negotiated with the lenders and the US Private Placement Noteholders for the period ended 31 December 2008 until 31 March 2009, subject to certain conditions. As part of the conditions of this waiver, the PaperlinX Group must gain approval from its lenders and the US Private Placement Noteholders before declaring dividends or making distributions on its ordinary shares or step-up preference securities issued by the SPS Trust, during the default period. Furthermore, the PaperlinX Group is in negotiations with its lenders and the US Private Placement Noteholders regarding its future borrowing covenants and to obtain approval for the sale of the Australian Paper manufacturing operations.

In the event that the PaperlinX Group was unable to renegotiate its borrowing covenants, this may impact the ability of PaperlinX (Europe) Limited to repay its loan to PaperlinX SPS LLC. This would in turn decrease the value of the SPS Trust's investment in PaperlinX SPS LLC. In the event that the SPS Trust was required to write-down its investment in PaperlinX SPS LLC this would in turn create an uncertainty as to the SPS Trust's ability to continue as a going concern.

Should PaperlinX Limited not be able to renegotiate its borrowing arrangements, the Responsible Entity would need to consider what its obligations are under the PaperlinX SPS Terms, and whether this requires the SPS be converted into PaperlinX Limited preference shares.

Notwithstanding the above, the interim financial report has been prepared on a going concern basis, which contemplates the realisation of assets and extinguishment of liabilities in the ordinary course of business.

The Directors of the Responsible Entity have concluded that the combination of factors and circumstances described above represent an uncertainty that may cast doubt on the SPS Trust's valuation of its investment and its ability to continue as a going concern. Nevertheless, based on the management representations from the Officers on behalf of PaperlinX Limited the Directors of the Responsible Entity have a reasonable expectation that the SPS Trust has adequate resources to continue as a going concern for the foreseeable future.

PaperlinX SPS Trust

Condensed notes to the financial statements

(d) Significant Accounting Policies

The accounting policies applied by the entity in this interim financial report are the same as those applied by the entity in its financial report as at and for the period ended 30 June 2008.

As this is the second interim financial report prepared by the SPS Trust, comparative information in respect of the income statement, statement of changes in equity and cash flows have been provided.

Certain comparative information has been reclassified to conform to current year's presentation.

The accounting policies have been applied consistently.

(e) Accounting Estimates and Judgements

The preparation of interim financial reports requires judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Except as described below, in preparing this interim financial report, the significant judgements made in applying the SPS Trust's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial report as at and for the year ended 30 June 2008.

During the six months ended 31 December 2008, the following estimates and judgements have been applied:

Investment carrying value

The SPS Trust has invested in preference shares issued by PaperlinX SPS LLC, a controlled entity of PaperlinX Limited. Investments are initially recognised at fair value plus directly attributable transaction costs. Subsequent to initial recognition investments are measured at fair value with movements in fair value recorded in the income statement. The fair value of this investment is determined with reference to the underlying cash flows receivable from PaperlinX SPS LLC. Refer to note 1 (c) for comments in relation to the uncertainty that exists in respect of the carrying value of the investment.

Fair value information

The SPS Trust's financial instruments / investments are carried at fair value on the balance sheet. Usually the fair value of the financial instruments / investments can be reliably determined within a reasonable range of estimates.

Fair value estimates are made at a specific point of time, based on market conditions and information about the financial instrument / investment. These estimates are subjective in nature and involve uncertainties and matters of significant judgement (e.g. interest rates, volatility, estimated cash flows, etc.) and therefore, cannot be determined with precision.

For certain other financial instruments / investments, including other receivables and payables, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments / investments.

The carrying amounts of all the SPS Trust's financial assets and liabilities at the balance sheet date approximated their fair values.

PaperlinX SPS Trust

Condensed notes to the financial statements

2. Segment reporting

The primary activity of the SPS Trust is to invest in preference shares issued by PaperlinX LLC, a wholly owned subsidiary of the PaperlinX Group. The trust is domiciled in Australia.

3. Step-up preference securities

All preference securities in the SPS Trust are of the same class and carry equal rights. Under the SPS Trust constitution, each unit represents a right to the underlying assets of the SPS Trust.

	31 Dec 2008	31 Dec 2007
	\$000	\$000
Opening balance	285,000	285,000
Issue of 2,850,000 securities at \$100 each	-	-
Closing balance	<u>285,000</u>	<u>285,000</u>

The SPS Trust was established for the purpose of issuing a new security called PaperlinX Step-up Preference Securities (PSPS). The PSPS are perpetual, preferred units in the SPS Trust and on 30 March 2007, 2,850,000 PSPS were issued at an issue price of \$100 per security raising \$285 million. The PSPS are listed on the ASX under "PXUPA".

Distributions on the PSPS are at the discretion of the Responsible Entity, subject to the PaperlinX Group obtaining approval from its lenders and note holders, and are paid on a floating rate, unfranked, non-cumulative, discretionary and semi-annual basis. Distributions are therefore only paid after declaration by the Responsible Entity. If a distribution is not paid in full, the distribution does not accumulate and may never be paid on the PSPS. If a distribution is not paid in full, PaperlinX Limited will be prohibited from paying dividends or making other distributions on any class of its share capital until such time as scheduled distributions are paid by the PaperlinX SPS Trust, in accordance with the SPS Trust constitution, which includes the SPS Terms. The distribution rate is the 180 day bank bill swap rate plus a margin of 2.40%. The first periodic remarketing date is 30 June 2012 and provides the PaperlinX SPS Trust with the following options:

- conduct a remarketing process to establish a new margin and add or adjust such other terms of the PSPS as it may request, to apply until the next remarketing date;
- realise PSPS (redeem for cash, exchange for PaperlinX Limited ordinary shares or resell to a third party); or
- begin paying distributions at the step-up margin on the PSPS.

PaperlinX SPS Trust
Condensed notes to the financial statements

4. Ordinary units on issue

There is 1 ordinary unit issued by the SPS Trust to PaperlinX Limited which represents a right to the underlying assets of the trust. This right ranks after the preferred securities.

	31 Dec 2008 \$000	31 Dec 2007 \$000
Opening balance	-	-
Issue of 1 unit at \$100 each	-	-
Closing balance	-	-
* \$100		

5. Distributions on step-up preference securities

	31 Dec 2008		31 Dec 2007	
	\$000	Dollar per unit	\$000	Dollar per unit
Distribution for period 1 July 2007 to 31 December 2007 paid on 31 December 2007 (Distribution rate 8.97%)	-	-	12.887	4.5219
Distribution for period 1 July 2008 to 31 December 2008 paid on 31 December 2008 (Distribution rate 10.36%)	14,882	5.2217	-	-
	14,882	5.2217	12.887	4.5219

6. Distribution on ordinary units

	31 Dec 2008 \$000	31 Dec 2007 \$000
Distribution for period 1 July 2007 to 31 December 2007	-	-
Distribution for period 1 July 2008 to 31 December 2008	-	-

PaperlinX SPS Trust
Condensed notes to the financial statements

7. Earnings per security	31 Dec 2008	31 Dec 2007
	\$	\$
Net profit	14,881,848	12,887,418
Number of securities	2,850,001	<u>2,850,001</u>
Earnings per security	<u>5.2217</u>	<u>4.5219</u>

8. Contingent Liabilities

At the date of this report, the Responsible Entity is not aware of any contingent liabilities or contingent assets that relate to the SPS Trust. (2007:Nil)

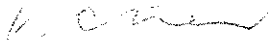
Directors' Declaration

In the opinion of the Directors of Permanent Investment Management Limited, the responsible entity of PaperlinX SPS Trust ('the SPS Trust'):

- (a) the financial statements and notes, set out on pages 4 to 11, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the SPS Trust as at 31 December 2008 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001, and
- (b) there are reasonable grounds to believe that the SPS Trust will be able to pay its debts as and when they become due and payable.
- (c) the financial statements and notes, set out on pages 4 to 11, are in accordance with the provisions of the Constitution of the SPS Trust.

Dated at Sydney this 26th day of February 2009.

Signed in accordance with a resolution of the Directors of Permanent Investment Management Limited.



Vicki Allen
Director



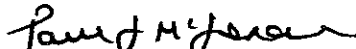
Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Permanent Investment Management Limited, the responsible entity of PaperlinX SPS Trust.

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2008 there have been:

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


KPMG


Paul J McDonald
Partner

Melbourne
26 February 2009



Independent auditor's review report to the unitholders of PaperlinX SPS Trust

We have reviewed the accompanying interim financial report of PaperlinX SPS Trust ('the SPS Trust'), which comprises the interim balance sheet as at 31 December 2008, income statement, statement of changes in equity and cash flow statement for the interim period ended on that date, a description of accounting policies, other explanatory notes 1 to 8 and the directors' declaration.

Directors' responsibility for the financial report

The directors of Permanent Investment Management Limited (the Responsible Entity) are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the SPS Trust's financial position as at 31 December 2008 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of the SPS Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of PaperlinX SPS Trust is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the SPS Trust's financial position as at 31 December 2008 and of its performance for the interim period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

Paul J McDonald

Partner

Melbourne

26 February 2009

Appendix 4D

(Rules 4.2A.3)

Name of Entity PAPERLINX SPS TRUST

ASRN 123 839 814

For the half year ended 31 December 2008

(Previous Corresponding Period 31 December 2007)

Results for announcement to the market	2008 A\$'000	2007 A\$'000		% Change
Net profit/(loss) for the period	14,882	12,887	Up	15.4
Total	14,882	12,887		
Distributions	Amount per security			Franked Amount per security
Interim distribution – current period	\$5.2217			N/A
Interim distribution – previous corresponding period	\$4.5219			N/A
Record date for determining entitlements to the distribution	24 December 2008			
Date distribution is payable	31 December 2008			
Commentary on results for the period				
Refer to attached Directors' Report for explanation of results				
	31 December 2008			31 December 2007
Net tangible asset backing	\$100			\$100
Net Assets	\$285,000,100			\$285,000,100
Number of securities	2,850,001			2,850,001
Details of Entities Over Which Control Has Been Gained or Lost				
Nil				

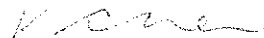
Information on Audit or Review

This report is based on accounts to which one of the following applies

<input type="checkbox"/>	The accounts have been audited.	<input type="checkbox"/>	The accounts have been subject to review.
<input type="checkbox"/>	The accounts are in the process of being audited or subject to review.	<input type="checkbox"/>	The accounts have <i>not</i> yet been audited or reviewed.

A copy of the review report is included in the half year accounts attached.

Sign here:


.....
(Director)

Date: 26th February 2009

Print name:

Vicki Allen