EVENT MANAGER: Hello, ladies and gentlemen. Thank you for holding and welcome to your project Lynx conference call hosted by Mr David Shirer. Throughout the conference call your lines will remain on listen only until the question and answer session begins, at which time I will advise how to ask questions. Should you require assistance at any time during the conference call, please key *0 and a conference co-ordinator will be happy to assist you. I'd now like to hand the call over to David. Please go ahead.

MR SHIRER: Thanks, Alan, and good morning, and thanks, everybody, for joining the call. The purpose of the call this morning is to cover the transaction announced yesterday involving Australian Paper. I would like to bring to your attention the disclaimer on forward-looking statements in the presentation. It's also worth noting that we haven't released our half-year results and won't be releasing them till the end of next week, so I'm afraid we won't be able to provide any additional colour on the half-year numbers, but we look forward to discussing the transaction with you.

The aim today is to run through the transaction, the financials, where the company looks going forward, and then move to a Q&A session. So I'll hand over to Tom and Mark who are going to work through the presentation. Thanks.

MR PARK: Thanks, David. Mark and I will take you through it in turn here and we'll move relatively quickly through the slide pack that was provided last night, and I hope everybody has a chance to read it. I'm on slide 3, the introduction.

The divestment of Australian Paper to Nippon Paper Group was announced yesterday, both up in Japan and down here. We are seeing a $700 million total value, which includes the cash up front, assumed liabilities that will be picked up by Nippon and the earn-out structures which we'll give you comment on later on. 600 million cash on settlement and a deposit in the bank. Settlement is expected by mid year and there is a write-down in the neighbourhood of 600 million, which will be firmed up over the next week, anticipated to be included.

This clearly is a major step in the transformation of PaperlinX. It is consistent with our stated strategic direction to be the leading global paper merchant. It does, obviously, allow increased focus on our core operations and certainly reduces earnings volatility in a period of substantial economic volatility around the world. Our financial position is strengthened. Now, the pro forma debt that we've got in here of 340 million, Mark will give you some commentary on that later but, effectively, you can see that it substantially pays down debt in the Group and gives us some level of flexibility and surety in an uncertain global economic environment, and for that we feel good.

The manufacturing business does become part of a substantial regional business, which is Nippon Paper, and there is certainly broader opportunity and potential for investment as they look at how they choose to run the portfolio. I have to say that I think it is positive for all parties – for Nippon, for PaperlinX and also for our employees. I think Nippon has every appearance to be a good quality, classy company and I think it'll create the opportunities for our people, for the brands and for the products. So, effectively, what we are talking about here is the best risk-weighted outcome, hopefully, for PaperlinX shareholders.

Just briefly, the scope of the transaction – and I think you can read it so I won't go through everything here, but the revenue is in the neighbourhood of $900 million that's being divested, and production capacity of 275,000 tonnes of communication papers and 310,000 tonnes of packaging papers. We are selling the Maryvale mill which also includes, obviously, the recently-completed pulp mill upgrade which is tracking well, and the Shoalhaven mill; also some of the businesses that we have brought together and combined, I think reasonably effectively – PaperlinX office, PaperlinX printing and publishing papers, Dalton Web, and our export trading arm, PPM.

It does exclude the Tasmanian operations in Burnie and the Wesley Vale mill. I'll give you some commentary on that later on. And it's important to note that, in the package of agreements, there are several long-term commercial relationships. There are distribution and off-take agreements which include some take-or-pay aspects from the businesses that will be providing product through into the Nippon Group from Tasmania. The merchants – effectively, it's more or less a status quo in terms of the distribution agreements between our merchants and Australian Paper, and so we will retain some exclusivities for those products where we had exclusivities previously. There are also transition agreements – things like IT and payroll, potential for growth of our partnership both in this part of the world and possibly elsewhere. And the pulp supply, which is now feeding down into Tasmania, particularly into the Burnie operations, will be supplied at cost from the recent pulp mill upgrade. So that obviously keeps those operations in Tasmania supplied effectively.

If I look at slide 5, effectively, manufacturing consolidation is a reality globally and it is important to move at this point in time. I think you can read the fundamental slides there, but there is a clear global trend too, which we're seeing in North America, Europe and Asia for greater consolidation. For us, effectively, I think it's a "participate or be sidelined", and the opportunities to find somebody where this business sits intelligently and appropriately – there are only so many fits, and I think, fortunately, Australian Paper has identified and found somebody who makes sense for them and makes sense for the purchaser. It also gives some greater certainty in the structure for Australian Paper and yet it's a good fit for Nippon Paper as well and, as I pointed out, I think it's a good fit for our employees at the same time.

In terms of value – maybe just a little bit of my own commentary here – I really do think we've got a – struck a transaction that has fair value for both parties. Clearly, there are positives in the Australian Paper business from the change in currency and, certainly, the domestic pricing that's flowing on from that and also, the pulp mill upgrade which is commissioned and has had a good start-up, and we'll give commentary for that at the half-year result. But the cyclicality and the negatives from the weak global demand and pressure on export pricing are also putting negative pressures on the business. And I think what we've struck here with the earn-out is an opportunity for us to participate in the upside of the business as it is currently strengthening for us here in Australia. But we feel the value is probably at an equilibrium point and this transaction makes strategic sense for us as an organisation.

If I go to slide 7, you can see the progression of PaperlinX over time as it's moved from a manufacturing operation to a leading global paper merchant, and I think this is the major step forward.

On slide 8, the volatility of our earnings – which you can see on that slide it doesn't show 2009 which will see an improvement, clearly, in the earnings of Australian Paper – but certainly the volatility, due to the nature of a manufacturing operation with high fixed costs, has put different levels of stress on the business over time and, clearly, the volatility on paper merchanting is less than the cyclicality that typically has been experienced on the manufacturing side which has been magnified by currencies, over time.

I'm going to hand over now, with that brief prelude, to Mark who will just give you some commentary on the transaction. Mark.

MR HOOPER: Thanks, Tom. What I'd like to do over the following slides is drill down in a little more detail on some of the transaction metrics. Most of you will have seen the headline number of in excess of 700 million. The break-up of that, you can see there on the slide – approximately 600 million cash on settlement. There was 10 per cent actually paid into escrow yesterday. There is a finance lease that will be assumed by Nippon Paper as part of the transaction, and you've got the earn-out structure on top of that. I think, just to provide some colour around the earn-out structure, we do believe that the level has actually been set at a realistic level where there's good prospects for us to get upside from that. And, in that sense, it's a good point where there's obviously a strong incentive for Nippon to ensure that the project performs and, correspondingly, for us to gain some of that upside if that comes to pass. So we do think that there's good reason to think that that's realistically something we can expect to benefit from going forward based on where we currently see likely performance for the project.

In terms of the expected write-downs that we've flagged for the market, the reason it's just an approximate level at this stage – we haven't worked through all of the details with the auditors exactly on how the accounting treatment is going to work. But I guess the simplest way to think about it is the AP assets, when you back out Tasmania in total are circa about 1.3 billion in total. And if you look at what I just described in terms of proceeds from the transaction, you can back off from that – the 600 up front plus the assumption of the finance lease liability.

One of the variables in what is ultimately booked as a loss is what of the earn-out is ultimately booked up front and what is recognised over time, so that's one of the things that we'll have to work through with our auditors. But assuming none of the earn-out was recognised up front, the write-down would be in the order of 600 million. It can only be something less than that as the most likely outcome.

In terms of some transaction metrics that – we did actually spend quite a bit of time trying to work out whether there's anything sensible we can say to you. It's a little difficult because historically sort of earnings multiples – you know, because of the performance of the project – don't sort of make a lot of sense. In terms of consensus in the market, it's obviously a good multiple. I think that probably says more about the view of the project rather than the multiple per se. But I think, even with where we expected earnings to be, I think we feel comfortable that we've realised a good multiple relative to what you could expect for this type of asset.

On the next slide, we've listed some of the key conditions that are applicable to the sale. There's naturally a FIRB approval process which we believe has either commenced or will commence very shortly. One of the critical things we require is approval from our banks and note holders. Given we're in discussions with banks and note holders as part of seeking a waiver for the December breach, we had kept both of those parties reasonably informed on progress in relation to this transaction, so I would anticipate there's a reasonably smooth transition to the discussions that'll take place on this particular topic. Obviously, it sort of opens up a broader debate about how we might want to best structure our debt going forward and what terms and conditions that they're looking for but, you know, my expectation is that will be a reasonably co-operative process and one that we can sort of work through, you know, as I say, in good spirit with both of those parties.

There is a limited number of third party approvals that we also need. Probably key amongst those are around the wood supply agreements that we've got with the Victorian government and various other suppliers. We have obviously done a reasonably comprehensive review to try and make sure we've got all of those covered.

We've also undertaken to do an environmental report on the Shoalhaven and Maryvale sites. That's in use as they currently are. I don't think we expect that's a material issue, but you would also expect for a buyer of these sorts of assets to want to make sure that those obligations were well understood early in the piece. So that would be something that would commence reasonably early in the piece and, as I say, our expectation is there will be no material issues out of that, but you can well understand a buyer wanting to go through that process.

There will be a reasonably complex process there of physically pulling PaperlinX into essentially two different businesses going forward. Obviously, a lot of the infrastructure within the business is shared, particularly around sort of corporate activities, and particularly IT support which is going to be quite an exercise. So there is quite a bit of work to be done and we've already sort of started planning for that over the last few weeks in expectation we might reach a successful conclusion. It will fit reasonably neatly into the broad timetable that Tom has outlined, but there is a reasonable amount of work to physically split these two businesses.

One of the really important features of the transaction from a PaperlinX perspective is there is no funding condition to the deal which I think, in the current market we've living in, is quite a big plus. You know, Nippon have available committed facilities to fund this transaction. That's obviously an important part of a process we went through to ensure that they could fund this acquisition. So, not having that funding condition there and having established they have committed facility puts PaperlinX in a terrific position to be in, as I say, given the current state of the world.

The next few slides go into a few of the more detailed financial statistics. What we've done on slide 14 is to take our pro forma December balance sheet and just make some high-level adjustments to show you the indicative impact. I guess the most critical line on that slide is really about the movement in net debt from nominally a billion and 60-odd at December down to 338. That probably implies a greater level of science than there is actually in that number. But, in very broad terms, the difference between the two is the 600 cash that we get up front, the 90 million-odd lease obligation that will be assumed by Nippon, and there's probably another sort of 20 to 40 million in other small adjustments that are slightly favourable to us in the final structure of the deal. So that takes you down just in excess of $700 million in terms of net debt position.

I guess the other point I'd make about that estimate is December has traditionally been the high point in our funding cycle for working capital, so we would expect that net debt figure to further decrease in the period out to June, which would be in line with our normal expectations. And I guess the other point to make is that that's pre any impact from the earn-outs that may flow beyond that time.

In terms of more specific financial implications, which are covered on slide 15, obviously, from what we've just been talking about, debt is reduced substantially. Gearing is down below 20 per cent, as I say, at what is traditionally a high point in terms of our working cap funding cycle. Interest cover has clearly improved from what it was. I think, in terms of trying to think about how interest cover might look going forward, as I've commented to quite a few people previously, month end is the low point in our debt cycle because we traditionally receive most of our receipts in the second half of the month and we make most of our payments in the first part of the month.

But I think, in terms of average debt, it is - even though, as I flagged, we'd expect June to drop further, you'd still expect to be around that 350 to $400 million immediately post this transaction. So, you know, applying an interest rate of circa sort of 7 to 8 per cent, you'll end up with an interest bill of, you know, we estimate something in the order of sort of 30 to $35 million immediately post this transaction.

So, whilst we can't comment specifically on any sort of future earnings, you can see that, in terms of an EBIT cover of 2, you need something like $70 million to leave you reasonably well covered. And I think we feel, you know, more than comfortable we can deliver something comfortably in excess of that. So it's a, you know, much improved position from where we find ourselves at the moment. Equally, your leverage position improves just as a natural consequence of the lower level of debt that you're showing on the balance sheet.

You take some of the cyclicality out of the business, which Tom referred to earlier. And, you know, there is this opportunity to have a bit of a fundamental rethink about how we might want the funding structure to work for the business going forward, because, you know, whereas previously we were looking to fund potentially almost two different businesses where you had a manufacturing business which is very fixed asset intensive and a merchanting business that's quite working capital intensive, having just a merchanting business now allows us to, I think, have a good think about whether there are more appropriate structures to actually look at in terms of how the business is funded going forward. That's not meant to imply anything specific in terms of what we've thought of. I just think it's a great opportunity to think, you know, whether the traditional approach to take is still appropriate or whether there's better ways of structuring that.

MR PARK: Thanks, Mark. I'm not going to go through all the rest of the slides here, but I just do want to make a few comments to you on the Tasmanian operations. Effectively, we will be looking at how we manage those businesses going forward, and we will be doing a strategic review over the next several months with several possible outcomes. One is no change to the existing business model and, effectively, that supported by some of the other agreements that we have reached for pulp supply, for off-take from Tasmania through into Australian Paper and some of the transitional services. So, effectively, we have secured the agreements there to allow that to progress. But also we could be looking at a partial closure or a reduction of our operational footprint, could be mill closures or it could be a sale. So, in reality, there are multiple opportunities there and we will value it as we go forward. But the securing of the Maryvale pulp supply at cost to the Tasmanian operations was quite critical there.

PaperlinX, after the transaction, we'll talk about in more detail at a later stage but, quite clearly, we are a very substantial global paper merchant - $6.5 billion in sales with very important customer and supplier relationships and the fundamental directions we've talk about in the past we very much believe in and intend to continue.

Our strategic focus is then very much on merchanting and, again, if you look at the layers of value presentation we've given in the past. I think they give you a very clear view of where we're looking to go, and we've pretty well tracked ourselves against the strategic directions over time.

I will say that this reducing expenses and improving efficiency – and I'll give commentary on our profit protection measures that I flagged in the full-year results previously on how we're going through the half, but I think the guys have done a good job there.

On the outlook, I will just go through these very quickly. But, certainly, we are seeing the paper manufacturers in Europe supporting pricing, particularly the increases back in the first half and the increases come through in January into February through both permanent and temporary reductions in capacity which, as we all know, is a change over the past six months or so, and it's very, very positive.

The increases in Australia, fundamentally driven by the weaker Australian dollar – and we're seeing that same thing in the UK, quite frankly, because the pound has fallen versus the euro. So they are both supported by a fundamental dynamic of currency. We are seeing prices under pressure and, quite frankly, volumes and demand are very much under pressure in the United States. And the capacity reductions that we're seeing there I think will partially mitigate that and, hopefully, stop any kind of a rapid fall in pricing. But there's an awful lot of pressure there. And the demand situation in the US, particularly – I mean it's certainly around the world, but in the US and the UK – has been quite weak.

One thing that is worth noting, and there's more and more commentary on this and it is worth making sure that you get it into your estimate, because the inventory drawdown through the pipeline has magnified the apparent reduction in demand or consumption or shipments or whatever number you may be looking at. And, as that inventory basically is worked out of the pipeline, I think we could expect to see some level of stabilisation above the type of numbers that appeared in December and January.

Our cost reduction programs are certainly accelerating and, again, I'll make commentary on that later when we release our half-year results. But I said I felt good about that. I said we'd do well, and I think that's exactly how we're tracking. And our diversification of non-paper in sign and display or industrial packaging continues to grow.

So just, in summary, this is a major step in the transformation of PaperlinX. There's still some work to be done to complete this transaction, but it is a major step forward. It significantly strengthens our financial position in a very volatile market and enhances our focus and the ability and the amount of time we have to spend on our global paper merchanting platform.

I do feel that Nippon is a quality purchaser and there are certainly future relationship opportunities to work with them and I feel good about that. This has been a long process. We've tried to be fairly open and transparent during the course of it, and I think we've ended up and landed in the right place for both PaperlinX, for Nippon, for our employees and, hopefully, for our shareholders. And, as a result, I think there are some positive opportunities going forward as well for our employees.

So I know we've gone quite quickly through all that but I think, probably, the meaningful thing right now is to open it up for questions, if we could.

QUESTION: Could you just give some further details on the earn-outs, where they kick in, and whether they are looked at on an annual basis, or is it at the end of the three years?

MR HOOPER: It's an annual test. I can't give you the exact details of where they kick in, but it's an annual test and it's capped at the 100 mill.

QUESTION: And does it vest a third, a third, a third?

MR HOOPER: No, it's cumulative, so if we're fortunate enough to return that whole 100 in the first year, it will kick in in the first year.

QUESTION: A quick question on Tasmania, and then a couple of questions for Mark if possible, please. In relation to Tasmania, could you just run through the production and capacity of this facility and also your net pulp import requirements, please?

MR PARK: Well, the net of import requirements first off – you're referring to the pulp. And, effectively, the arrangement here will have the pulp going to Burnie at cost, and we haven't given an indication but it's in the neighbourhood of 40 to 50,000 tonnes, so that will be very beneficial in that regard.

MR SHIRER: In terms of production the total is about 235,000 tonnes. There's about 80,000 tonnes of uncoated wood-free, and the balance is coated – different amounts of film-coated offsets and other coated papers.

MR PARK: Some of the uncoated feeds, though, through to the coated products and some of it feeds through into the Reflex brand.

MR SHIRER: So, specifically, if you like, we have – number 4 machine at Burnie has about 50,000 tonnes of capacity. The major grade there is uncoated wood-free, and Burnie number 10 has a 90,000 tonnes of capacity. Again, the major grade there is uncoated wood-free. Of the Burnie capacity, about 60,000 tonnes goes down to Wesley Vale for coating. In Wesley Vale, we have about 80,000 tonnes on number 11 machine, which is – the major grade there is film-coated offset. And the number 12 machine there is an off-machine coater with a capacity of about 75,000 tonnes. And we also make about 40,000 tonnes of mechanical pulp down at Wesley Vale as well.

QUESTION: Of those volumes, do you have any associated customer contracts that tie you into continuing manufacturing in Tasmania?

MR PARK: We certainly have arrangements with various customers, though it's in terms of the reels, and that business would continue to go through what's called the 4P business, and then the sheets which would go through our own merchants. I've laid out the future opportunities which we'll take a look at in a strategic review, but there's no decision has been made at that point.

QUESTION: A couple of questions financially for the business going forward. First of all, on the tax rate, the effective tax rate going forward – you're obviously conscious of the business reorganisation and the write-down of the book losses. There should be some possibility for some tax-effective transfer pricing changes.

MR HOOPER: It's probably a little too early to call. I guess the important thing to realise is we haven't paid tax on our Australian activity for some time now and there will be no tax impact out of this sale, because we've got accumulated losses from an income perspective and, from a capital perspective, it's below its tax value. So there's been no impact out of that and I think, in terms of sort of giving you a sort of a firm view of a tax rate for the Group going forward, it's probably just a little early.

I mean, in theory, it will be a little higher than it would have otherwise been because, if AP had stayed as part of the Group, we wouldn't have paid tax for the next year or two because we've got the accumulative losses.

QUESTION: Any prospective corporate cost saving with the elimination of the sale of the manufacturing asset?

MR PARK: Clearly, we'll have to take a look at the corporate structure and the overheads involved in that, but that's one of those activities that we'll be taking a look at over the next several months up to completion.

QUESTION: On the net debt included above – on slide 14 you've got 1062 in December 2008 and an estimated pro forma 338 – is that inclusive or exclusive of the hybrids?

MR HOOPER: No, the hybrids are shown as equity in the balance sheet.

QUESTION: The debt seems high at $340 million after the deal. Obviously, that must be subject to the property sales not going through, but is there a blow out in working capital that would reconcile that at this point in time?

MR HOOPER: There's historically about a $200 million difference between June and December working capital positions, so if you go back and have a look at our financials, you see a build up of working capital to December and you see a run down through to June, which is what I – which directly then flows through to debt levels which is, I guess, consistent with the comment I was making earlier about half-year debt levels being that sort of circa 150 to 200 lower than what they are in December.

The other impact on debt in this half year is what's happened with exchange rates. Exchange rates have obviously dropped significantly and whilst for the broader business it's a positive, in terms of our debt position at any particular point in time, collapsing exchange rates obviously have a slightly negative impact.

QUESTION: So, all things being equal in relation to currency and so on, with the seasonality, that net debt of 338 that you've got in your estimated pro forma on slide 14 could be $100-odd million lower just on the working capital seasonality?

MR PARK: If you just track it over the last few years, I think you'll get a feel for the variance between the half and the full year.

MR HOOPER: It's about circa 200, as I say, but you also need to take out whatever component of that was AP historically. So 100 to 150 lower at June. But, as I say, that's slightly misleading because month end is the low point in the cycle. So when you want – you know, in terms of trying to think about an average debt position, you know, it's probably – you've probably got to add that back. So that's why I said before, in terms of trying to do an estimate of where levels might sit, you've probably got to think of a slightly higher level of debt than at June half year.

QUESTION: The previously slated European property sales, are they still continuing, conscious of the manufacturing sale being made?

MR HOOPER: There were three property sales that were scheduled to happen before December that sort of happened in various forms but not in a way that allowed us to book any of those sales. One of those has subsequently completed. It was the smaller of the three properties. The two larger properties which were for sale – there was a document signed before Christmas that was still subject to one internal approval and bank finance, and that process is still continuing today. So we're obviously hopeful that that will complete, but the process has just taken a little longer practically to complete.

MR PARK: One other comment just on the earn-outs, just to put it into perspective more as a judgment thing than a financial thing, obviously, as Mark said, we do expect a substantial contribution from that, but I think it is based on a level that will benefit both parties and it's a realistic base. So there is real incentive on both sides to make that work and to make that as a key feature going forward.

QUESTION: I just wanted to confirm that you will have no ongoing environmental liabilities related to the assets that you're selling, so Maryvale and Shoalhaven. And then, secondly, I was just wondering if you could talk a little bit about the capex of the Group post the sale.

MR PARK: There is a mention here about the environmentals, really looking at it in use, and a process to go forward.

MR HOOPER: They do have an ability to do an environmental review of any impacts in use.

MR PARK: Slide 12 – but that's basically in use and we're currently in compliance, so we're not expecting a material impact as a result of that.

MR HOOPER: And, I guess, in terms of capex levels going forward, I mean, obviously, the more significant user of capex was the pulp mill, so I would think, in terms of capex of the merchanting business going forward, it's probably easiest to think of it as somewhere around about 40-odd million per annum going forward of maintenance-type capex.

QUESTION: A couple of questions on Tasmania. You're obviously undertaking a strategic review of the mills there. I mean if, theoretically, you went down the path of closure, can you comment on estimated costs of that and also, you know, estimated environment liabilities in Tasmania? Second question around the profitability or otherwise – obviously loss making in fiscal '08. How is that business currently trading and what are the drivers behind that?

MR PARK: Look, clearly, as we stated, there are – we'll be looking at a strategic review of Tasmania and there are the four opportunities, or four potential outcomes that I've highlighted in there. You are, I guess, asking, running all the way to the potential closure one, which is not a decision we've made but is a possibility, and if you were to sort of ballpark around that, the net cost of closing Tasmania probably if you thought of something in the neighbourhood of 70 or $80 million probably looks like a realistic net position. I won't go through all the details because they're not completely locked down. But, effectively, that would be an assumption I guess you could start to use for a net position.

In terms of the trading in Tasmania, clearly it's the area that's benefitted most substantially by the currency fall and because those products pretty much compete with imports in coated wood-free so effectively it has obviously improved its profitability as a result of the currency movements. And, frankly, I think I have to say from the launch of ENVI and some of the carbon-neutral grades, which is quite a good initiative as well. So it has improved but, you're right, it has been a loss-making operation for several years, certainly when the currency was much stronger – much higher on the Australian dollar, and that has improved. But we will be taking a look at the operations from all four of those perspectives I mentioned.

QUESTION: Just to confirm on that, that the 70 to 80 – is that an all-up potential number in terms of restructuring costs and environmental issues?

MR PARK: That would be a net/net. I mean, that's an assumption. That's an estimate, but it's a net/net/net number on the total. And, of course, remember that the off-take agreements from Tasmania and the provision of pulp at cost from Maryvale down to Burnie are also put into the structure of the transaction.

QUESTION: A couple of questions here. First, in relation to this earn-out of 100 million, I think – just confirm that this is based on your own estimated for the performance of the manufacturing business.

MR PARK: I don't want to give a forward estimate. What I have said is that we expect a substantial contribution. It's based on a level which should benefit both parties and it's from a realistic base and, therefore, we're not talking about something that we don't expect to be able to achieve the bulk of. But, clearly, it's a cyclical business. It's a tough business, and I don't want to give any forward-looking estimates in terms of that, other than to say that we expect a substantial contribution from that earn-out.

QUESTION: In relation to European sales, you mentioned previously they would expect to achieve maybe 110, 115 million cash from those sales. If you do manage to sell them, could you potentially use those proceeds to maybe buy back some of your hybrids. Is that something that could be on the cards if the hybrids stay at these levels?

MR PARK: I think Mark will give comment here, but we'll be working through with the banks and their lenders and note holders – you know, a fundamental review of our funding and financial structure going forward.

MR HOOPER: I think as I said earlier, the sort of entire range of the structure of our financial funding comes up for grabs. I think, without trying to pre-empt it, the discussions with the banks and note holders, I think, given that the hybrids technically sit behind them in the sort of – you know, in the sort of security queue or the order of payment queue, I suspect that the banks will all be looking for their debt to be paid down as a priority as part of this process. But, look, the concept of looking at the possibility of buying hybrids back at some stage if they continue to trade at a substantial discount, you know, would be something we would consider in due course.

QUESTION: First of all, following on from an earlier question on Tasmania – if you are to continue manufacturing there, do you anticipate any capex costs that might be needed to, say, get the plant up to sort of scratch or conditions you'd expect?

MR PARK: We've kept our capex to pretty well focus on the things that are quite necessary and to keep the operation safe and sound, but you wouldn't be looking at any major capex going forward at this point in time.

QUESTION: Secondly, Mark, just speaking about a restructure just to realign the business getting ready to shift it over to – some of those portions over to AP, could you give us an idea of sort of cash costs around that and any sort of accounting costs that might come through as a one-off?

MR HOOPER: Do you mean in terms of restructuring and pulling the business to pieces?

QUESTION: Correct.

MR HOOPER: I don't know at this stage. I mean, whilst some preliminary thinking has been done, I don't know that we've sort of got a definitive sort of cost number right at the moment. I don't know if there's any big, lumpy costs we've identified that we have to incur. It's just practically quite a complicated process.

QUESTION: On the dividends, given the waiver you received yesterday, I would have thought it's pretty unlikely that we – with the deal not complete that we'd see a first-half dividend – prospects that you will sort of be back in a dividend-paying position for a second half? And then longer term, following the write-down, any implications that would restrict your ability to pay a dividend once you do have the deal completed?

MR PARK: I think you can make your own calculations on the likelihood of a dividend in the first half, but that's a decision that will be made by the Board. But if you run up the numbers you'll pretty well figure that one out. And, equally, there's commentary that's been made from the bank in terms of the dividend, which was in the statement that was put out yesterday. Going forward, look, when the air clears on the whole thing, we have given judgment in terms of where the Board is as in terms of dividend payout ratios, particularly in the neighbourhood of 70 per cent or so but, clearly, with a prospective write-down this year, you wouldn't expect to see anything this year.

QUESTION: A question for Mark. PP&E at the end of 2008 was about 1.2 bill. I assume most of that related to Australian Paper. If that pretty much goes back to close to nothing, how do we then reconcile the $30 million depreciation charge that runs through the merchanting business? I mean, is that something that's going to disappear or – I mean, what's your expected depreciation for merchanting going forward?

MR HOOPER: I don't think the merchanting charge would change significantly, but the fixed assets post the sale – well, PP&E post the sale falls back to circa 120-odd million, and the bulk of that is warehouses, that – you know, we're still in the process of the ongoing sale program. So there's very little PP&E left on the balance sheet post this deal.

QUESTION: So the majority of it – the 30-odd mill in depreciation and amortisation that runs through the merchanting business, is that principally amortisation of the good will? No, I mean, because it doesn't exist any more.

MR HOOPER: There must be amortisation of capitalised costs in IT and things like that. But, I mean, I guess the short answer to your question is there's no reason to expect that would change post the sale.

QUESTION: You mentioned earlier that you can't comment about earnings, but you did say when we were looking at page 8, around the volatility of Australian Paper that you expected it to improve in '09. Just wondering if you could give us an idea on was it loss making in the first half or was it profitable?

MR PARK: I won't give you a commentary on that. I will tell you, though, what was said previously and that is that, clearly, there has been some pricing that has occurred as a result of the currency movement and we've given comment on the price increase in October and the follow-on in December, which is clearly positive for Australian Paper. The pulp mill upgrade completion in December and it's going to have some value – benefit of that. Even in the first half, we'd indicated that some of the earlier completions were having some benefit in Australian Paper. And going forward, you're looking at the full-year benefit of the pulp mill upgrade coming in and displacing imports of pulp and, additionally, you're looking at the roll-on benefit of some of the pricing that took place in the first half.

QUESTION: So, from that, I'm guessing it doesn't sound like there's a big loss in Australian Paper in the first half.

MR HOOPER: We're not making comments on specific earnings at this stage.

QUESTION: If you keep the Tasmanian paper mills, the sort of profitability underlying just from those two mills going forward?

MR PARK: We haven't given the specifics other than to point out that there is, obviously, an improvement in their overall profitability because a lot of the benefit of that currency movement and pricing has actually flowed through into the products that they produce because they are the most import-competing of all the products that we have. And its imports have actually gone up in Australian dollars because of the decline in the Aussie versus the US. That's flowed through to some of the pricing benefits that have flowed through into the Tassie mills. Historically, though, those mills, they did make money quite substantially several years ago and they've been loss making the last several years and now we're seeing some improvement.

MR HOOPER: And there'll be some improvement in their costs position based on the pulp from flowing through from Maryvale into the Burnie operation.

QUESTION: Just to confirm a couple of little things, you said the tax rate going forward is likely to be a little bit higher, given the tax losses associated historically with AP. Does that mean that a lot of those deferred tax assets will no longer be retained by you guys and will be shifted over to Nippon Paper?

MR HOOPER: Well, I guess, two things. Just to clarify I said that the tax rate will be higher than it would have otherwise been, because I guess AP hasn't been contributing significantly in terms of earnings, so it's not been a big factor in what the effective tax rate has been today. In terms of any – because we didn't have certainty utilising those losses, we hadn't booked anything onto the balance sheet so, as a consequence, there's no sort of particular impact out of this transaction. And even though the legal structure of the sale is the company going – they'll fail the continuity of ownership test, so those losses won't be available for Nippon to use.

QUESTION: Okay. And just the second question is the write-down of circa 600 likely to result in – sort of based on our estimates on sort of negative retained earnings – earn implications for dividends going forward?

MR HOOPER: Well, of course, as you know, you've got the ability to pay dividends out of retained earnings or current year earnings. So what it would mean is going forward, until that sort of went back into surplus, we would need to rely on current year profitability to service any dividend declared by the Board.

QUESTION: One quick question – more a point of clarification than anything. You carry a lot of cash on your balance sheet which, presumably, was part of the working capital in the merchanting business. How much of that cash is netted off against your debt on that 1.062 billion?

MR HOOPER: Net cash at any particular point in time is sort of circa around 250 to 300 million. That's in terms of cash balances floating around in the business, but it's not included in working capital. Working capital is – that cash is netted off against gross debt to give you the net debt figure of 1.062.

QUESTION: So your gross debt's more like 1.4?

MR HOOPER: Yes.

QUESTION: Is that cash actually available to offset against debt or is it part of the business?

MR HOOPER: If you go back to my comments earlier about the cash cycle, typically you collect cash proceeds in the last two weeks of the month and then you would typically have payments in the first week or so. It just literally is how the business tends to work. They collect cash in that last week; hold on to it and pay their bills in the first week of the next month. So it means at any particular month end, the business is sitting on a fair amount of cash, ready to pay bills as part of its normal business cycle.

QUESTION: Secondly, the waivers granted yesterday – is there a minimum duration of those waivers or – subject to – can you renegotiate them at any time? And can you give some clarify around the facilitation fees that you were – and the – for the provision of the security that you mentioned?

MR HOOPER: The waivers relate to the December 31 breach and so, you know, that's all that relates to at this current point in time. It's part of the condition that the banks ask – we were to go from an unsecured lending structure, which is what it's at the moment, to a secured lending structure. So that's part of what needs to be put in place over the next month or so under those arrangements. We haven't given any details about the specifics of the admin charges or the change in margin so, unfortunately, I can't comment on that.

QUESTION: Sure. So as soon as the cash rolls in, then you can reinitiate discussions with your banks.

MR HOOPER: No we're in an unusual situation where, obviously, we're now expecting this sale process to complete over the period, you know, to June. So we would now engage with our lenders on a basis of that completing and what the world might look like afterwards. I guess, in theory, we'll have to allow for the possibility that, for whatever reason it doesn't complete and what, you know - what is a funding structure that the Group can work with if for some unforeseen reason the transaction doesn't complete. So we need to deal with both outcomes as a possibility.

MR PARK: Thanks very much everybody. I know it's kind of come on quickly and you've all got stuff to do today and there's a lot happening this week. We do feel that this is in the direction that we've been in – we've been headed. We feel it's a fair transaction. I hope Nippon feels it's a fair transaction too. I believe they do. I think it's the right thing for our business. I think it's the right thing for our employees. And we're certainly focused on both completion and moving forward into the next stage of ourselves as a leading global paper merchant and certainly in a more healthy financial position in a very volatile environment.