

**CROSS RELEASE PXUPA  
ASX RELEASE****21 August 2013****MARKET UPDATE IN RELATION TO PAPERLINX STEP-UP PREFERENCE  
SECURITIES (HYBRIDS)**

PaperlinX wishes to update the market in relation to the PaperlinX Step-Up Preference Securities (Hybrids). As stated in the Chairman's 2012 Annual General Meeting address, PaperlinX formed a working committee of the Board to deal with all matters associated with the Hybrids. As part of these considerations, PaperlinX has considered a number of alternatives and is now exploring a potential scrip based merger between the Company and the PaperlinX SPS Trust, the vehicle that issued the Hybrids. The Company has appointed Moelis & Company as financial advisor and has been in preliminary discussions with The Trust Company, the responsible entity of the PaperlinX SPS Trust. These discussions are preliminary and non-binding in nature.

The rationale for exploring a potential scrip based merger stems from the complex, sub-optimal equity ownership and capital structure relationship that exists between PaperlinX and the Hybrids and its impact on the value proposition for all stakeholders. It is the Board's belief that a simplification of the capital structure is fundamental in unlocking value for both PaperlinX ordinary shareholders and Hybrid security holders. Notably, addressing the Hybrids would:

- deliver a transparent capital structure;
- accelerate PaperlinX's ability to successfully implement an operational turnaround and introduce company transforming initiatives;
- facilitate participation in potential corporate activity; and
- improve confidence among key stakeholders including customers, suppliers, employees and financiers.

In considering strategic options regarding the Hybrids, it has also become apparent to the PaperlinX Board that there are some misconceptions in relation to the rights of the Hybrids. PaperlinX has therefore compiled a series of questions and answers which are attached to this announcement and available on the PaperlinX website ([www.paperlinx.com](http://www.paperlinx.com)). Investors may also contact PaperlinX directly or The Trust Company, the responsible entity of the PaperlinX SPS Trust, for additional information.

PaperlinX will continue to update the market in accordance with its continuous disclosure obligations.

**For further information, please contact:****Media****Felicity Allen / Miche Paterson****Newgate Communications****+61 413 946 701 / +61 400 353 762****Investors****Wayne Johnston****PaperlinX****+61 3 9764 7393**

## **QUESTIONS IN RELATION TO PXUPA (Hybrids)**

### **1. What are PaperlinX Step-Up Preference Securities?**

- PaperlinX Step-Up Preference Securities (ASX code: PXUPA) (“PXUPAs”) are units in the PaperlinX SPS Trust that are tradeable on the ASX
- The PaperlinX SPS Trust is a registered managed investment scheme and the responsible entity of the PaperlinX SPS Trust is The Trust Company (RE Services) Limited (ACN 003 278 831) (the “Issuer”) which is a subsidiary of The Trust Company Limited (ACN 004 027 749)
- PXUPAs are not a direct investment in PaperlinX Limited (ACN 005 146 350) (“PaperlinX”) and the board and management of PaperlinX have no fiduciary obligations in relation to PXUPA holders

### **2. What are the distribution entitlements associated with the PXUPAs?**

- PXUPA holders are entitled to unfranked, semi-annual, floating rate, discretionary, non-cumulative distributions
  - However, PXUPA holders do not have the right to require the Issuer to pay distributions and if a distribution is not paid in full, the distribution does not accumulate and may never be paid
  - If a distribution is not paid in full, the PXUPA terms of issue state that PaperlinX must not pay dividends, make any other distribution on any class of its share capital or reduce or buy back any of its share capital
  - This restriction will cease to apply under certain circumstances including where scheduled distributions in respect of a 12 month period have been paid to PXUPA holders
  - The Board of PaperlinX has exercised its discretion not to pay distributions since December 2011 and it is the Board’s current intention to continue to not pay distributions for the foreseeable future

### **3. What ability do PXUPA holders have to effect a realisation of their investment?**

- PXUPAs are also perpetual in nature meaning PXUPA holders do not have the right to require the Issuer to realise their investment except in limited circumstances which do not apply at present
- The terms of issue the PXUPA do not contain any provision which gives PXUPA holders the right to force the winding-up of PaperlinX to realise their investment through the exchange of PXUPA for preference shares in PaperlinX
- Further, the PaperlinX Board currently has no intention of initiating the winding-up of PaperlinX Limited
- PXUPA holders can realise their investment by selling on market (subject to ASX liquidity requirements)
- PXUPA securities last traded at approximately \$8.10 per security on 20 August 2013

- PXUPA holders are also permitted to act in accordance with the ASX listing rules in relation to any potential takeover offer submitted by PaperlinX or another third party which may lead to the realisation of their investment in PXUPA

#### **4. Where do PXUPA holders rank in the event of a wind-up of PaperlinX?**

- In the event of the winding-up of PaperlinX, the PXUPAs may be exchanged for preference shares in PaperlinX
- As preference equity, the preference shares would rank ahead of PaperlinX ordinary shares in respect of rights to payment of dividends, but will rank behind all debt/creditor claims including, amongst other things, creditors preferred by law (such as employee entitlements and pension liabilities), secured creditors and unsecured creditors on the winding-up of PaperlinX

#### **5. Where can I find additional information in relation to the PXUPAs?**

- The Responsible Entity (The Trust Company) can be contacted by telephone on +61 2 8295 8100 and 1800 622 812
- We also recommend PXUPA holders continue to monitor ASX announcements released by the Issuer in relation to the PXUPAs

## **QUESTIONS IN RELATION TO PAPERLINX LIMITED**

### **1. Do the PXUPAs restrict PaperlinX in any way?**

- The non-payment of PXUPA distributions also imposes certain restrictions on PaperlinX in relation to its share capital
- Further, addressing the PXUPAs would:
  - deliver a transparent capital structure;
  - accelerate PaperlinX's ability to successfully implement an operational turnaround and introduce company transforming initiatives;
  - facilitate participation in potential corporate activity; and
  - improve confidence among key stakeholders including customers, suppliers, employees and financiers.
- This, in turn, is likely to lead to a greater capacity for management retention and incentivisation

### **2. What has changed since the PXUPAs were issued?**

- Investors should refer to historical and on-going ASX disclosures from PaperlinX in relation to the state of the industry and markets in which it operates, financial and operational performance and board and management changes since the PXUPAs were issued in 2007
- The issue price for the hybrids in 2007 was \$100, although they are now trading at approximately \$8.10. Over that same period, PaperlinX Limited ordinary shares have also fallen from \$3.75 to approximately 6.0 cents.