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PaperlinX Limited recently reported net profit of $109 million for the year ended June 2004, down 18 percent from the previous year. Where are we in the paper cycle and how is PaperlinX positioned, in both merchanting and manufacturing, in relation to the cycle?

MD & CEO Tom Park
The 2004 result was disappointing and does not fully reflect either the benefits gained from the acquisition of Buhrmann Merchants or the hard work of our employees around the world. The second half was particularly badly hit, as we flagged at the mid-year results release, and we continued to see pressure in most of our markets. However, the underlying economic indicators are beginning to improve in the US and Europe, and we're seeing paper prices beginning to move forward. Paper price rises started in Asia during 2004 and we're now seeing increases in some key paper grades across North America. In Europe paper makers have announced their intention to increase prices in the September/October period. This is all giving support to the 3 to 6 percent price increases we've announced in Australia to be effective in August/September.

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European paper makers' attempt to raise prices in April was unsuccessful. How confident are you that they'll be able to implement the September price increases?

MD & CEO Tom Park
The European industry hasn't been successful in increasing paper selling prices for several years now, reflecting to a certain degree the poor demand environment

during that time. However, there has been an increase in demand and shipments across the European market over recent months. Equally, we're heading into the stronger demand season, so there's a better than average chance the proposed increases will stick at some level. It will also be underpinned by the strength in the North American market, where we have seen an increase in advertising pages since May and increases in jobs as well, which has led to price increases in that market and an improving floor for the pricing in Europe.

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The volatility of the Australian dollar, which averaged US$0.71 in the June 2004 year compared with US$0.59 in the previous year, had a negative impact of $60 million on PaperlinX's 2004 profit before interest and tax. Can you comment on how PaperlinX is positioned should the Australian dollar remain at or above its current level of around US$0.70 over the current year ending June 2005?

MD & CEO Tom Park
The Australian dollar in itself wasn't the major issue. Typically our exchange impact is roughly balanced between our pulp imports, which are in US dollars, and our paper exports from Australia. In normal circumstances the impact is more or less neutralised. However, what we saw last year was low global demand for paper, resulting in low global pricing, while the high Australian dollar meant that Australia was identified as a high returning market by overseas manufacturers who were looking to maintain production levels. Our Australian manufacturing operation then had to match those import prices, which effectively saw us reducing paper selling prices in Australia. The strength of our brands in Australia did help to mitigate some of the impact, and will provide a solid base for this business going forward.

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Analyst forecasts for PaperlinX's 2005 earnings range from $136 million to $158 million. What's your level of comfort with this range?

MD & CEO Tom Park
We've given fairly clear guidance to the market for both Australian Paper and our paper merchanting businesses. For Australian Paper, we've indicated that coming out of the trough of the second half of 2004 we're seeing some improvement, which should lead into a stronger second half in 2005. So overall our Australian Paper profits should be at a similar level to last year. In our paper merchanting operations around the world, we're seeing a continuation of the strengthening of those businesses.

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PaperlinX's Merchanting business generated EBIT of $147.5 million in 2004, up from $92.0 million despite an 8.5 percent fall in average selling prices globally. What's the outlook for prices in the current year and what scope is there to further improve gross margins?

MD & CEO Tom Park
I've already commented on prices. On gross margins, our first priority is to look at our own operating costs. We're seeing good progress on realising synergies

across our merchanting businesses, particularly in our acquired businesses. And as I said before, we're also beginning to see some price increases in the US and prospectively in Europe, and that should lift our cash margins, contributing to an improved EBIT margin.

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Much of the increase in Merchanting reflected the contribution of the European paper merchanting business acquired from the Buhrmann NV Group in November 2003. Your target for the Buhrmann business is to achieve EBIT return on funds employed (ROFE) of 15 percent within three years post-acquisition. To what extent will reaching the target depend on an improvement in general market conditions?

MD & CEO Tom Park
We expect to be able to realise the target based primarily on factors that are under our own control. If the market improves, that would be favourable, but we're seeing good progress on our synergies, which are on or ahead of schedule, and good operational integration across these businesses.

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PaperlinX's UK merchanting operation, The Paper Company, increased sales volumes 3 percent and reached its target ROFE of over 15 percent in 2004, the second year since acquisition. To what extent can this be attributed to external factors such as the UK market environment and to what extent to internal factors such as better than expected efficiencies?

MD & CEO Tom Park
There were three fundamental areas that helped The Paper Company achieve its excellent result. First was through improved internal performance. It lifted volumes and EBIT, and reduced overhead costs through a clear focus on internal processes and working capital management. Second was the benefit of our global processes. For example, as a result of an improved safety performance, The Paper Company saw insurance premiums reduce. Third was the flow-back of synergies of the Buhrmann merchant acquisition. All of this shows the benefits of acquiring good companies with good people and then applying our core operating principles in the management of both the business and our people.

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Are the internal drivers of the UK performance transferable across your other merchanting operations?

MD & CEO Tom Park
Yes, they are. Our systems in safety management, debtor management and other core processes have been introduced across the Group, and benefit all our operations around the world. In addition, we have opportunities to achieve operational excellence by sharing best practice across the group, as well as to leverage strategic supplier alliances around the world, all of which will benefit our operations globally. The Paper Company's a very good example of the implementation of the opportunities we have across our businesses, including the Buhrmann merchanting businesses.

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In 2004, your Australian Paper Communication Papers manufacturing operation suffered from increased import competition and lower prices, with EBIT falling 59 percent to $44.8 million on the back of a 9 percent drop in revenue to $715 million. Doesn't the sharp fall in margins underline the limits of brand strength in a commodity market like paper? What's your level of commitment to Australian paper manufacturing?

MD & CEO Tom Park
We've got a strategically sound business in Australia with strong brands and strong local advantages. It's underpinned by three key strategic advantages – the strength of the Reflex brand, our local supply capabilities, and our Amcor packaging paper contract. Our strategy is to focus on strengthening our existing businesses as we go forward.

Last year's results certainly reflected the weak international paper demand and the strong Australian dollar, but notwithstanding that we continued to see strong marketplace support for the Reflex brand, where we invested to improve the quality and make it "whiter and brighter." It's important to note that whilst our returns were down in Australian Paper, they compared well with its peer group globally.

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In the Australian market, what are your demand and pricing assumptions for the current year? To what extent does your expectation of a flat full-year result, with some improvement in the second half, depend upon the recently announced price rises being accepted?

MD & CEO Tom Park
The Australian paper price rises are fundamentally justified by the strengthening of the global market, which is raising the water level and allowing us to increase paper prices here. We're assuming those price increases will be effectively implemented and will benefit the second half of 2005. We're beginning to see an improving trend in the prices of a number of key paper grades around the world and that is also encouraging for our second half outlook.

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Australian Paper's Packaging Papers business booked EBIT of $21.6 million, down 60 percent on revenue of $254 million, down 8 percent. You expect Packaging Papers' earnings to remain at 2004 levels until a $32 million upgrade in the sack paper machine is completed in October 2005. What level of confidence do you have that the upgrade will enable you to regain your lost market share in the domestic sack and bag market, or obtain better pricing in export markets?

MD & CEO Tom Park
We've taken a hard look at the markets for sack kraft paper. We've concluded that it's a good market for us to be in and therefore we've made the decision to invest, to secure our position as a top quartile global producer of sack and bag papers.

We’re confident that when we realise the specifications we’re targeting our customer base will strengthen.

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What’s been the major issue in the sack and bag business and why is it taking so long to rectify?

MD & CEO Tom Park
About a year ago we invested $10 million in a semi extensible unit for our Maryvale 1 paper machine to improve the overall quality of our sack kraft paper. While this unit has been effectively installed and will be utilised into the future, overseas products entered the market during this period that had a higher specification than we are able to produce. This has now become the benchmark for our customer base. We had planned to increase our investment in this area on an incremental basis, which in hindsight was not the correct route. After looking at the ultimate market needs, we’ve decided to undertake a major upgrade of the paper machine to produce sack kraft paper that is capable of competing with any product around the world. It’s worth noting that the $32 million investment in the rebuild won’t be completed until the December quarter of 2005 so we won’t have a comprehensive solution for our customers until that point in time.

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Net operating cash flow was $403 million in 2004, partly reflecting a 10 percent reduction in working capital on a comparable basis, adjusted for acquisitions. What further scope is there to reduce working capital given an improvement in the external demand environment?

MD & CEO Tom Park
We have a very strong focus on working capital management which has been and will remain a feature of PaperlinX. We have clear targets on inventory days, debtor days and creditor days that all of our people are working towards. It is a very important part of getting our returns to the levels we target. We did see some benefit in 2004 as a result of the decline in pricing and we’ll see some of that reversed this year, but our core focus on management of working capital will remain.

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PaperlinX had net debt of $1.0 billion at the end of June 2004, down from $1.1 billion six months earlier. Gearing stood at 36.3 percent, near the lower end of long-term targets. You’ve flagged higher capex over the next three years. Which areas will the capex be targeted at and what’s the expected trend in debt and gearing over this period?

MD & CEO Tom Park
A debt to debt plus equity gearing ratio of 40 to 50 percent is certainly appropriate for us and we’re well below that at this point in time.

Our capex over the past three or four years has been running well below depreciation. In fact last year we had $55 million of capex against depreciation of $93 million. Going forward, our depreciation will be in the neighbourhood of

$110 million. We're now looking at a five-year capex plan for our manufacturing business. We've looked at the capital needs across the business and looked to make sure any capital is properly integrated to both reduce costs and increase overall effectiveness. Our capex could go above depreciation in future years though all projects will continue to be measured against strict returns criteria.

We've also indicated previously that we're looking at the potential to increase our self sufficiency in short fibre pulp manufacturing. We're looking at three options. One is manufacturing it ourselves. The second is some form of joint venture or alliance. The third is locking in long-term contracts. We're evaluating these options in conjunction with the other capex projects we're looking at.

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For the full 2004 year, PaperlinX's effective tax rate was 23 percent. What's the likely rate of tax going forward? Is the 2004 tax rate sustainable?

MD & CEO Tom Park
Ultimately the Group tax rate is influenced by the tax rates in the countries where we make our profits. But it's worth noting that contributing to the tax rate realised last year were many sustainable factors, such as the deductibility of goodwill in some of our jurisdictions, which will keep our rates close to the current level in the near term. Additional profits will obviously be taxed at the applicable rates in the countries in which they are earned.

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PaperlinX announced an unfranked final dividend of 14 cents per share, bringing the full-year payment to 27.5 cents, unfranked, unchanged from the previous year's 60-percent franked payment. What's the outlook for the dividend and franking in the current year?

MD & CEO Tom Park
The dividend's obviously a decision made by the board, but we do recognise that for a significant portion of our share register, the dividend's a very important factor. We've tended to have a payout ratio in the neighbourhood of 70 percent through the cycle and we've seen that as a reasonable target.

We don't expect to see our 2005 dividend franked, and beyond that franking will primarily depend upon the profitability of our Australian business.

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What are your management priorities going into 2005 and where do you see the growth opportunities for the company?

MD & CEO Tom Park
Certainly our priority at this point in time is reflected in our first core operating principle – to focus on strengthening our existing businesses and improving returns from the platform we have today. We've created a global platform in paper merchanting and we have a strong manufacturing business in Australia. We're now looking to leverage those to increase returns over time. Longer term,

we see the potential to further expand our merchanting operation, but it's not our number one priority at this point in time.

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Thank you Tom.

For more information about PaperlinX, visit www.paperlinx.com or call David Shirer (+61 3) 8540 2302

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