NEWS RELEASE

ASX RELEASE

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PaperlinX Limited
ABN 70 005 146 350
307 Ferntree Gully Road
Mt Waverley Victoria 3149
Australia
Tel: +61 3 8540 2211
Fax: +61 3 8540 2255

MARKET UPDATE

PaperlinX Limited ("PaperlinX") has today completed the sale of its Australian manufacturing business, Australian Paper to Nippon Paper Group, Inc ("Nippon Paper").

Key points of today's announcement are:

- $600 million initial purchase price received today
- $500 million initial debt reduction
- Lenders grant permanent waivers for previous covenant breaches
- Essential principles for future funding finalised
- 2009 earnings outlook

PaperlinX Chairman, David Meiklejohn said, "This sale completes a major step in the transformation of PaperlinX and the receipt of the $600 million initial purchase price today strengthens our financial profile at a time of volatility and uncertainty in global economic markets."

PaperlinX Managing Director, Tom Park said, "This divestment allows us to concentrate on our core paper merchanting business. There has been continued deterioration across all markets during the year and this has impacted full year performance. We have, however, successfully completed a number of key activities over the past year as we have worked to keep ahead of the sharp deterioration in the global economic environment and its impact on our industry, including property sales, an equity raising and significant internal cost reductions."

"PaperlinX is now moving from a period where we have had high internal demand for capital for the completion of the pulp mill at Maryvale, to a period where we expect to be able to further secure our future through tight working capital management and ongoing debt reduction."

In addition to the sale proceeds, PaperlinX will share in an earn-out arrangement that allows it to participate in positive earnings growth of the divested operations over the next three years. This is capped at $100 million over that period and is a 50:50 sharing of EBITDA above an agreed target level.

As previously reported the sale excludes the two Tasmanian mills at Burnie and Wesley Vale. A detailed review of these operations is expected to complete by the end of June 2009. Potential outcomes of the review include retention of the existing business, partial closure, closure or sale.

PaperlinX recorded an impairment in the carrying value of the fixed assets of Australian Paper of $(567.5) million in its interim results released in February. A loss on sale adjustment of approximately $(150) million will be reported in the 2009 accounts.

In agreement with PaperlinX's key lenders, a $500 million immediate pay down in debt owing to those lenders will be made. A further $70 million (representing approximate net asset adjustments) is expected to be received in 90 - 120 days and will also be used to further pay down debt owing to those lenders.

As a part of these pay down arrangements, the terms to apply to the balance of the key lenders' debt must be agreed and documented by 31 August, with the essential principles to govern those terms having been agreed. These principles include requirements for debt owing to PaperlinX's main lending syndicate to be extended or repaid by February 2011 and PaperlinX's outstanding US notes to be redeemed on new maturity dates falling in August 2013, August 2014 and August 2015. Permanent waivers by all applicable lenders in relation to covenant breaches at December 2008 and March 2009 have been confirmed. PaperlinX must gain approval from its lending syndicate and holders of its US notes before declaring dividends or making distribution payments on its ordinary shares and PaperlinX SPS Trust securities.

Current business conditions remain difficult, with weak economic conditions impacting sales volumes in all markets. This has been exacerbated over recent months by significant inventory reductions throughout the supply chain. The 20-25% approximate reduction in sales volumes versus the prior year being experienced in the second half from the above factors has impacted operating earnings, with full year divisional EBIT (reported EBIT before Corporate and significant items) expected to be 30-35% lower than in the prior year, while reported EBIT before significant items will be further reduced by around $95 million in costs relating to ongoing corporate overheads, previously announced FX losses and bank/note holder charges, consultants costs for lenders and related waiver fees.

Demand is expected to increase as economic activity improves; however the inventory replenishment cycle is expected to begin earlier. Mill capacity reductions, both temporary and permanent, have helped reduce the impact of demand weakness on market pricing, while cost reductions and mix improvements within PaperlinX have partially mitigated margin impacts.

"This has been a complex transaction to undertake, especially in such turbulent markets. I would like to thank all those who have worked so hard to get to this point. I would also like to wish Australian Paper well under the new ownership of Nippon Paper and thank the people in Australian Paper for their support through this unsettling period," Mr Park said.

For further information, please contact:

Shareholder enquiries:
Mr David Shirer
Executive General Manager Corporate Affairs
PaperlinX Limited
Ph: +61 (3) 8540 2302
Ph: +61 (407) 512 521

Media enquiries:
Mr Angus Urquhart
Hinton & Associates
Ph: +61 (3) 9600 1979
Ph: +61 (402) 575 684
aurquhart@hintons.com.au