



## 2008 Final Results

21 August 2008

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# Presentation Sequence

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- Introduction and Overview
- PaperlinX 2008 Final Result
- Paper Manufacturing
- Paper Merchanting
- Summary and Outlook
- Questions and Answers

# Market Overview

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- Demand conditions inconsistent
  - Weak in the UK and US with negative momentum
  - Stable in Australia, continental Europe
  - Healthy in Asia
- Input cost increases have continued to impact global paper manufacturers forcing restructuring and consolidation – a number of closures in recent weeks (US and Europe)
- Supply/demand balance appears to be tightening on the back of solid Asian demand and global capacity reductions
- Weak US dollar has held back European coated paper prices, though major September increase in market at present
- US coated paper pricing remains healthy in a weak market
- Australia and New Zealand pricing recently implemented in market

# Results – Context

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- Average A\$/US\$ Exchange Rate moved from 0.786¢ in 2007 to 0.896¢ in 2008 (up 14%)
- 2008 a transition year
- PaperlinX has continued to invest against defined strategic initiatives, impacting funds employed, interest costs and returns in 2008 (benefits in 2009)
- Asset sales have funded restructuring costs

# Results for 2008 – Key Points

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- Underlying Merchant earnings have held up with returns of 11.4% ROAFE and a 2.8% EBIT margin
- Manufacturing has faced continued input cost pressures and the impact of currency on price partly mitigated by improved mix, costs and domestic sales, but has been impacted by increased pulp mill upgrade costs
- Strategic initiatives are on track to exceed the 2009 target of an incremental \$100 million pa operating profit (over 2005) by up to an additional \$25 million pa (around \$40 million benefit vs 2008 run rate)
- The pulp mill upgrade has faced further delays
  - Capital cost increase to around \$340 million (10% on prior estimate)
  - 6 to 7 months full benefit expected in 2009
  - Annualised benefit of \$40 - \$50 million expected
    - \$8-10 million run rate from components already commissioned
- Canadian and Italian acquisitions exceeding targets
- The refinancing of our short term debt, along with the sale of European properties and the issue of Step-up Preference Securities (SPS) in 2007

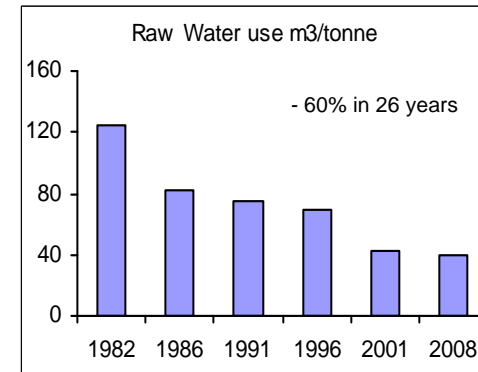
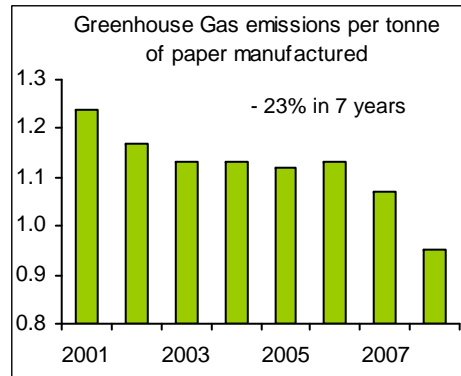
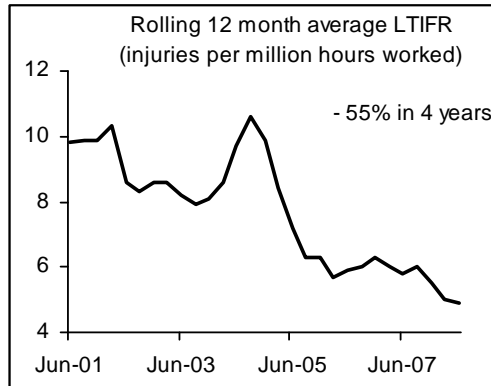
# Results for 2008 – Financial

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- Revenue of \$7.5 billion (down 5% on prior year) and volume of 4.3 million tonnes (down 1%)
- Underlying EBIT of \$154.4 million compares with \$197.7 million (down 22%)
- Reported EBIT of \$160.4 million (down 14%) included net one-off items of \$6.0 million (\$12.2 million in 2007)
- Reported after tax profit of \$72.2 million (pre SPS distribution), down 10% versus \$80.1 million in 2007
- Year end working capital reduced by \$59 million versus June 2007
- Average working capital/sales reduced to 18.0% (from 18.3% prior)
- Return on average funds employed of 5.7%
- Earnings per share of 10.1 cents (post SPS distribution)
- Final dividend per share of 3.5 cents, unfranked

# Results for 2008 – Non Financial

- Improved safety record (LTIFR down 15% on last year and down 55% in 4 years to 4.9 per million hours worked)
- Improving trend for CO<sub>2</sub> and water per tonne of paper manufactured



- Maryvale pulp mill upgrade will provide positive environmental outcomes
- Launch and growth of environmental brands (Revive<sup>®</sup>, Reflex 100<sup>®</sup>, Envi<sup>®</sup>)
- Australian Paper a member of The WWF Australia Forest and Trade Network
- All fibre used in manufacturing has environmental certification (FSC or PEFC)
- Participated in the Carbon Disclosure Project
- Member of the FTSE4Good Index for 3<sup>rd</sup> consecutive year
- Continued lift in training for our people – Leadership and Strategic selling



# Financial Summary

		12 months to Jun 2007	12 months to Jun 2008	% change
Sales Volume	'000 tonnes	4,313	4,254	(1)
Sales Revenue	\$m	7,839	7,485	(5)
Underlying EBIT	\$m	197.7	154.4	(22)
Reported EBIT	\$m	185.5	160.4	(14)
Reported Earnings after Tax	\$m	80.1	72.2	(10)
EBIT/Average funds employed	%	7.0	5.7	(1.3)pts
Earnings per share (after SPS distribution)	cps	16.4	10.1	(6.3)cps
Final dividend (unfranked)	cps	6.0	3.5	(2.5)cps
Total dividends for fiscal year	cps	11.0	6.5	(4.5)cps

# Major Business Initiatives – Update

Upgrade of Maryvale PM1	Complete, in market. Pricing favourable
Closure of Shoalhaven PM1 and PM2	Complete
Spicers Canada acquisition	Complete, returns exceeding expectations
PaperlinX Office	Complete, domestic copy paper share growth
European portfolio changes	Exit France, Sweden, Portugal, Finland Acquisition in Italy (exceeds expectations)
Warehouse integrations	Toronto, Barcelona, Australia
Maryvale wood yard outsourcing	Completed and transferred to Price
The Delivery Company	On track, 12 sites operational
Netherlands restructure	Exceeding expectations. Living Office now operational
European IT platform	On track, 3 Units completed, 2 Unit's in progress
Maryvale pulp mill upgrade	On track for targeted returns. Output and EBIT upside potential, though capital cost higher and benefits delayed
Growth of own brands	+3% Europe, +7% North America
Strategic sourcing alignment	On going

# Additional Strategic Initiatives: EBIT Impact

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To proactively address the impacts of weak markets and the delayed pulp mill upgrade benefits, these existing and additional initiatives are in place for 2009.

- Deliver strategic initiatives with net benefit up to \$125 million (vs 2005) from \$81 million in 2008 (\$40 million improvement in 2009)
- Expand non-paper contribution at superior margins
  - yoyo™(closed loop office paper recycling) launched in UK, NL
  - Expand Sign and Display platform
  - Industrial Packaging acquisitions exceed plan in UK
  - Non-paper delivered 17% of gross profit in 2008
- Complete European property sales to fund restructuring charges
  - expect over \$20 million profit with first half bias
- Profit Protection Plan to deliver net \$30 million expense saving and fuel surcharge benefit in 2009 to mitigate fuel costs and market softness
  - Headcount, discretionary spend, shared services, fuel surcharges

# Additional Strategic Initiative

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- Seeking potential investors for all or a share of Australian Paper
  - Potential investors currently performing due diligence, though no decision to sell at present
  - In event that offer made and accepted, probable that long term carrying value may not be achieved at this point in the business cycle, though “through cycle” valuations support carrying value
  - Will evaluate offers in light of overall value and alternative uses of funds in near and medium term

# Pulp Mill Upgrade: Progress Summary

## The Pulp Mill Upgrade will be a key contributor to improving returns

- **Status**

- Major 4th shut completed substantially reducing commissioning complexity
- Wood yard completed; transferred to operator (Price)

- **Benefits**

- Benefits from work already completed; \$8-10 million/year
- In line for targeted annualised benefit of \$40-50 million (no change)
- At today's exchange rates and pulp prices, costs avoided is even greater
- 6 - 7 month full benefit - >\$30 million in 2009 over 2008

- **Capital Costs**

- Project capital cost has been under ongoing pressure, now expected to cost \$340 million (10% above prior estimate) due to delays in completion

- **Returns**

- Project returns remain at 12% plus

- **Risks**

- Industrial relations
- Labour costs and productivity
- Weather

- **Review**

- An independent review completed; supported benefits

# Pulp Mill Project: Assumptions Update

	<u>At Announcement</u>	<u>August 2008</u>	<u>Change on Feb</u>
Pulp Price (long run average)	\$US520/mt	\$US550/mt	No change
Pulp Price (spot)		\$US800/mt	Increased \$50/t
US\$/A\$ (long run)	0.7000	0.7000	No change
US\$/A\$ (spot)	0.7468	0.87	3¢ lower
Production Volume	80,000 mt	>90,000 mt	No change
Timing	Fiscal 2009	Sep/Oct commissioning	+2 months
Savings	\$30-35 million pa	\$40-50 million pa	Unchanged. \$8-10 million pa already commissioned
Capital Costs	\$203 million + ancillary	\$340 million + ancillary	+10%
Returns	+12% ROAFE*	+12% ROAFE*	No change

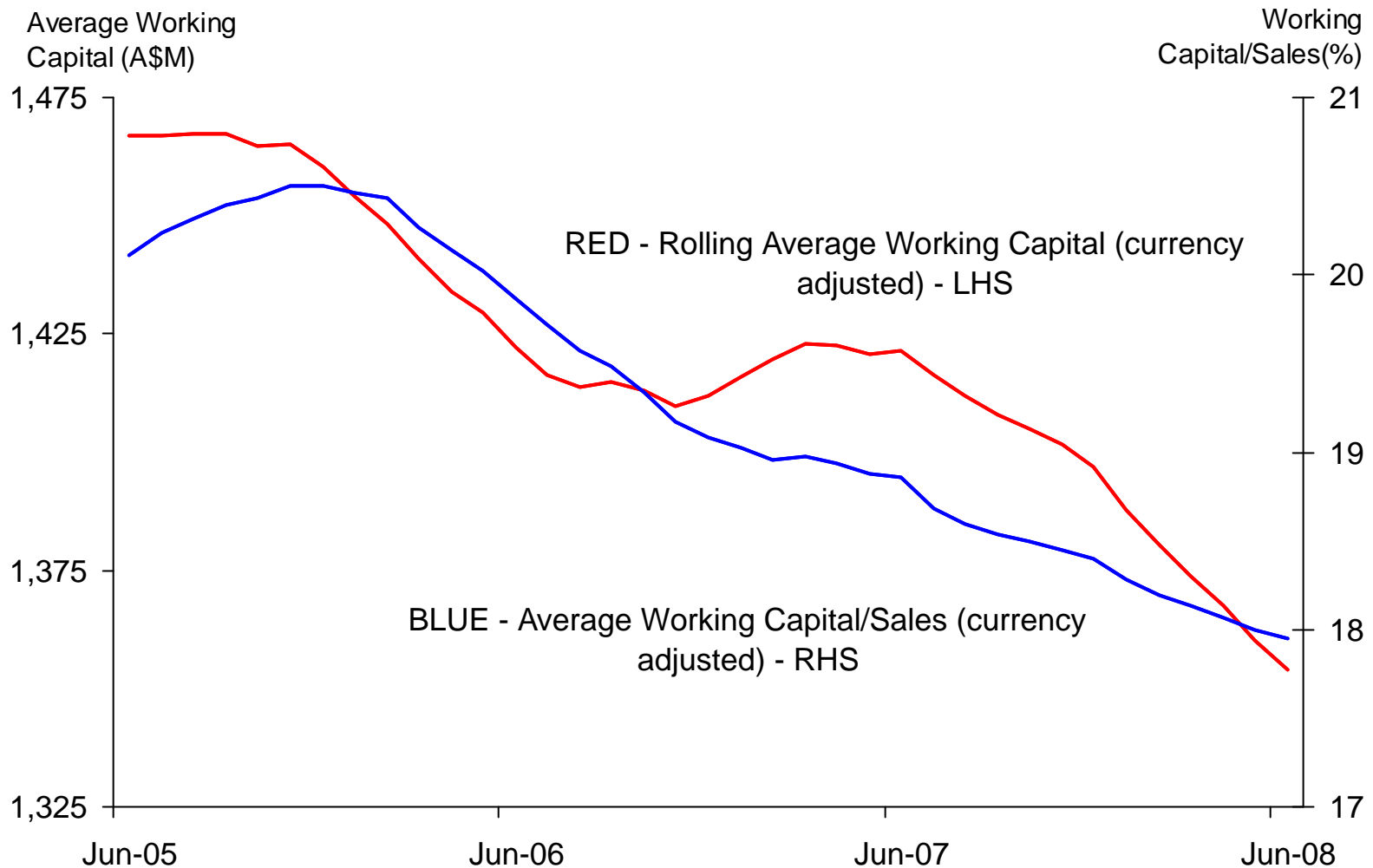
\* Based on long term averages

# Key Financial Measures

		12 months to Jun 07	12 months to Jun 08
EBIT / Sales	%	2.4	2.1
Net Interest cover	X	2.5	2.0
Net interest expense	\$m	70.9	60.0
Effective Tax Rate	%	30.1	28.0
EBITDA	\$m	287	254
Operating cash flow	\$m	143	113
Capital Expenditure	\$m	177	326
Net tangible assets per share	\$	2.58	2.59
Net Debt / Net Debt & Equity	%	24.3	28.7

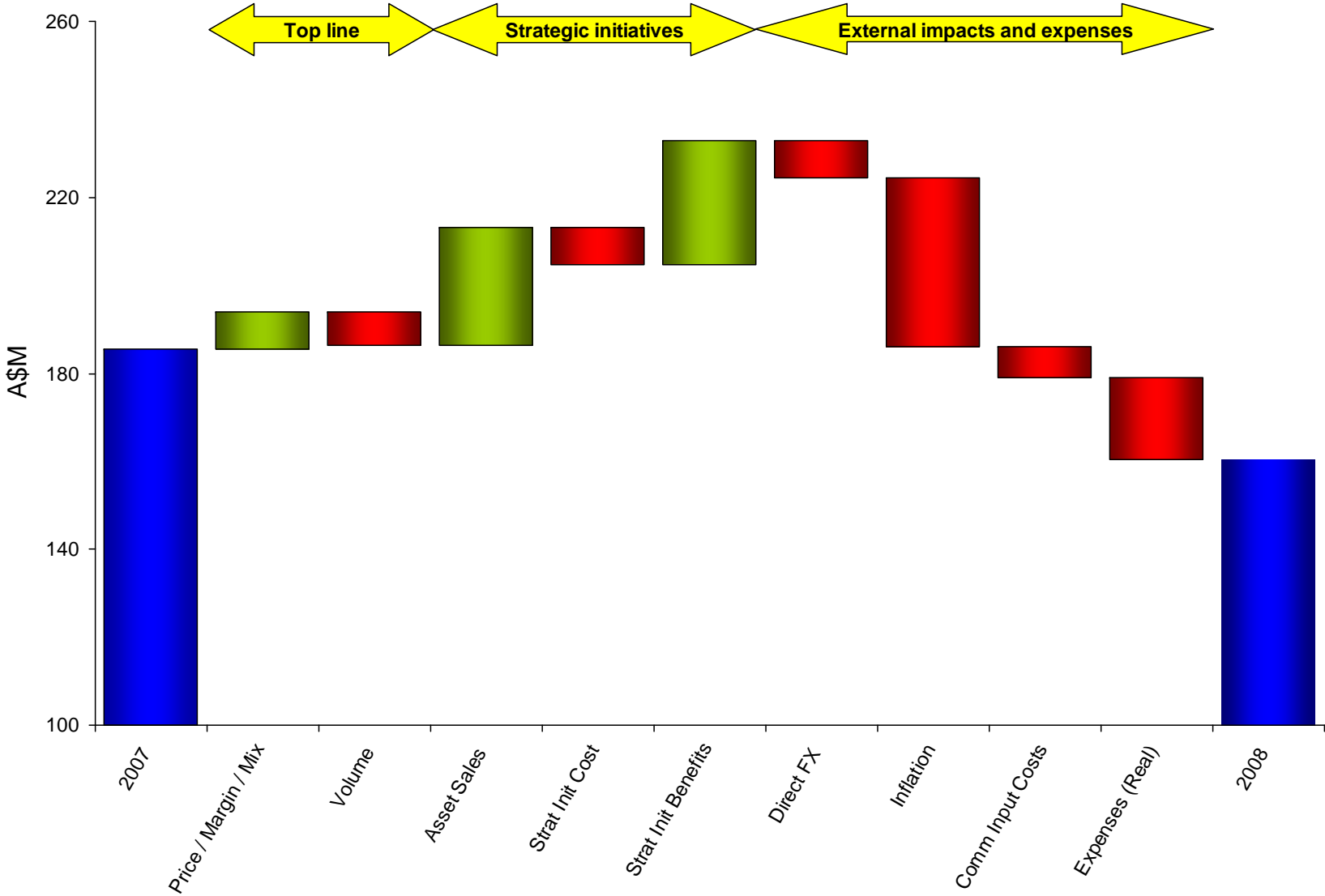
# Working Capital Trend

Average working capital to sales reduced to 18.0% vs 18.3% in F'07 and 20.1% in F'05. Currency adjusted reduction from 18.9% to 17.9%





# Key Variances to EBIT



# European Asset Sales Status

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- Around \$47 million profit from net property actions over past two years has helped fund one-off restructuring costs
- Package of sales of non-core assets
  - European property assets
  - Book value of around A\$140 million
  - To fund growth and restructuring activities
  - Sales to date of \$101 million, contributing profit before tax of \$35 million
- Further sales in progress with expected EBIT benefit of \$20 million plus

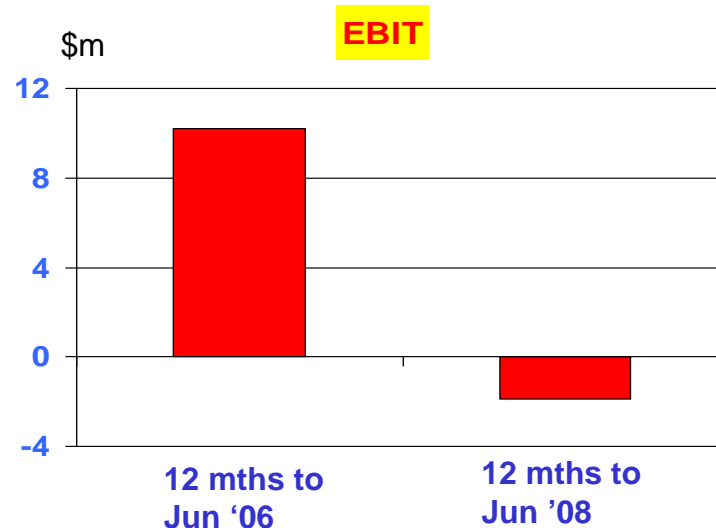
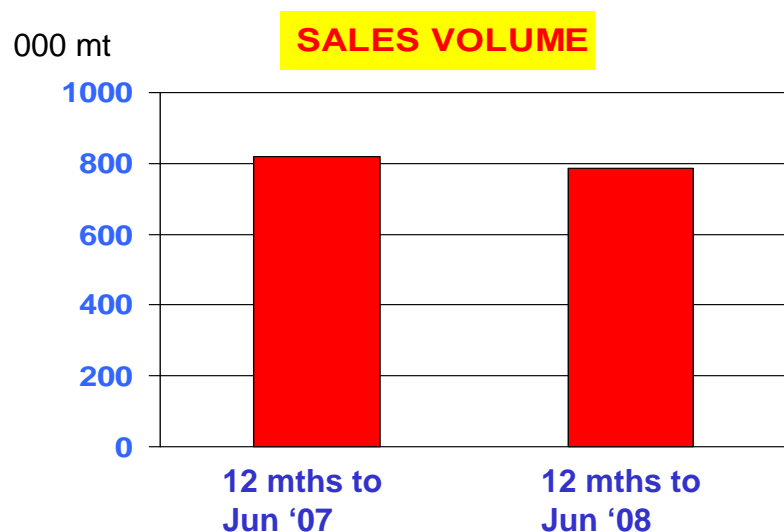
# Funding Initiatives

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- Refinancing of multi currency debt completed in February 2008
- Active balance sheet management
  - Step-up Preference Security issue
  - Domicile of debt
  - Other options being explored

# Paper Manufacturing

		12 months <u>Jun 07</u>	12 months <u>Jun 08</u>	Change <u>%</u>
Sales Volume	'000 tonnes	818	785	(4)
Sales Revenue	A\$m	1,016	973	(4)
Underlying Earnings before Interest & Tax	A\$m	20.8	8.2	(61)
Net One-off Costs	A\$m	(10.6)	(10.1)	
Reported Earnings before Interest & Tax	A\$m	10.2	(1.9)	
Return on Average Funds Employed	%	1.1	(0.2)	



# Paper Manufacturing

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- Volumes down due to Pulp Mill shuts (exports reduced)
- Growth in domestic copy paper market share and volumes (Reflex<sup>®</sup> up 6.3%)
- ENVI<sup>®</sup> carbon neutral papers receiving strong support
- Currency held back pricing and lowered export earnings
- Higher input costs and currency impacts
- Improved operating efficiencies, mix and supply chain benefits
- Average working capital down 1% (shut impacted)
- Production tonnage records set post the May/June Pulp Mill shut and final commissioning substantially simplified
- Pricing implemented at start of fiscal 2009

# Pulp Mill Upgrade: Progress Update

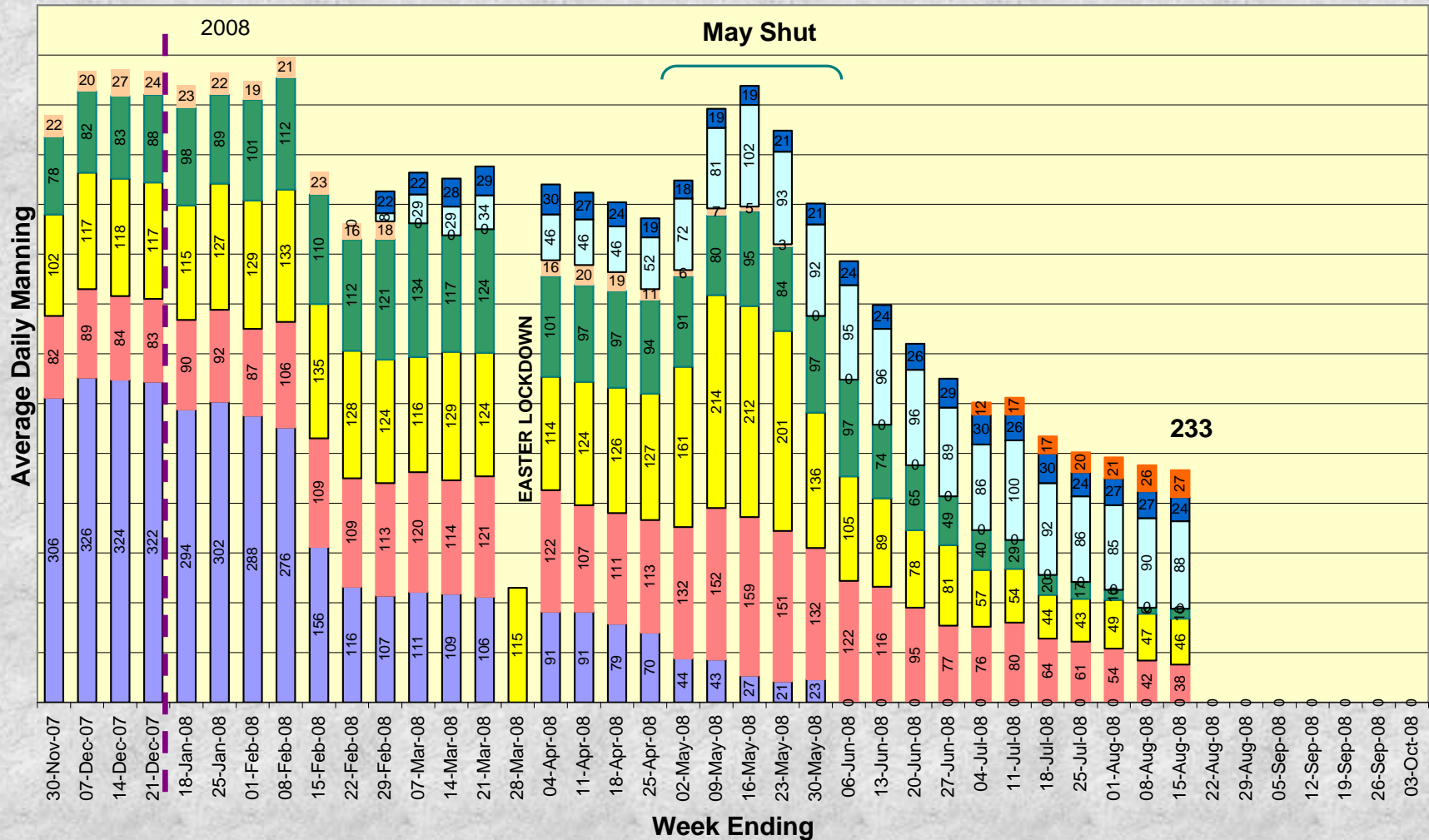
	Practical Completion Status
Woodyard	✓
Continuous Mill (Excluding pressure screens)	✓
Batch Mill	✓
Wet Lapping Machine	✓
Bleach Plant	Sep - Oct 2008
Chemical Preparation (Mechanical Completion awaiting commissioning w. Bleach Plant)	✓
Evaporators	✓
Recovery Boiler # 6	✓
Precipitators	✓
Recausticizing Plant	✓

Plant commissioned to date is delivering financial benefits (\$8-10 million/year). Since the May/June Pulp Mill Project shut, Maryvale has produced record levels of pulp.

✓ = Practically complete

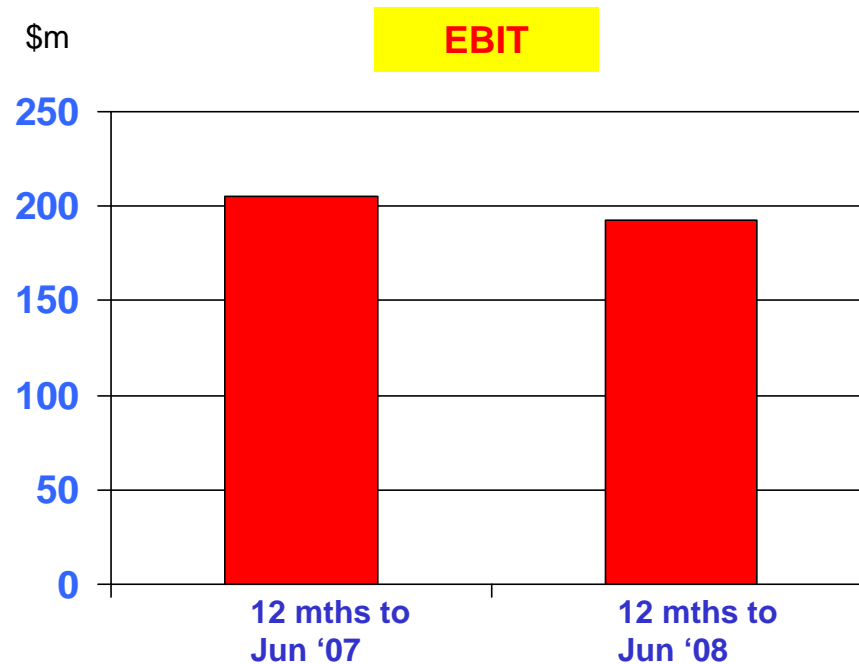
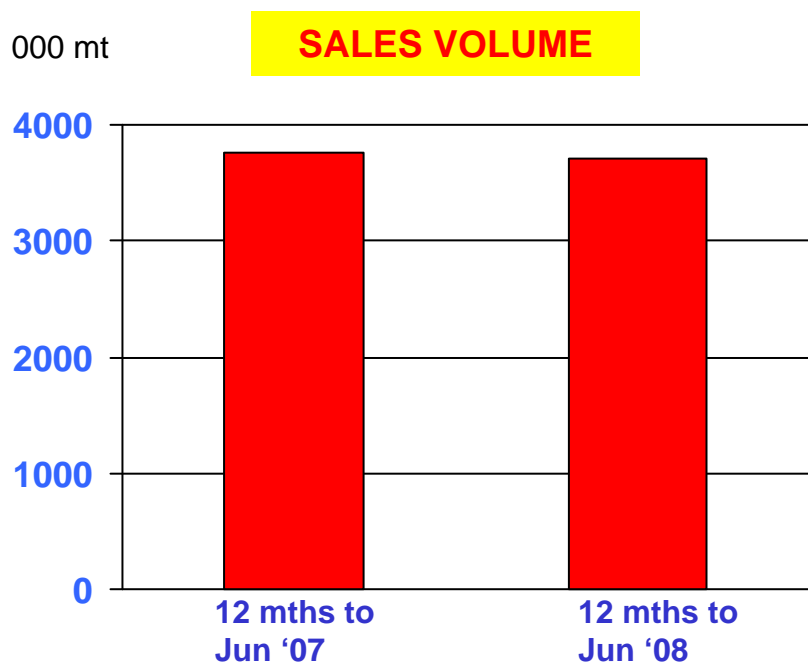
# Australian Paper Group: 2008/09 Budget Pulp Mill Project – What We Are Doing

## PMP Direct Labour (Incl. Subcontractors) - Construction Manning



# Paper Merchants – Total

		12 months <u>Jun 07</u>	12 months <u>Jun 08</u>	Change <u>%</u>
Sales Volume	'000 tonnes	3,764	3,716	(1)
Sales Revenue	\$m	7,159	6,816	(5)
Earnings before Interest & Tax	\$m	205.2	192.4	(6)
EBIT/Sales Revenue	%	2.9	2.8	
Return on Average Funds Employed	%	11.9	11.4	



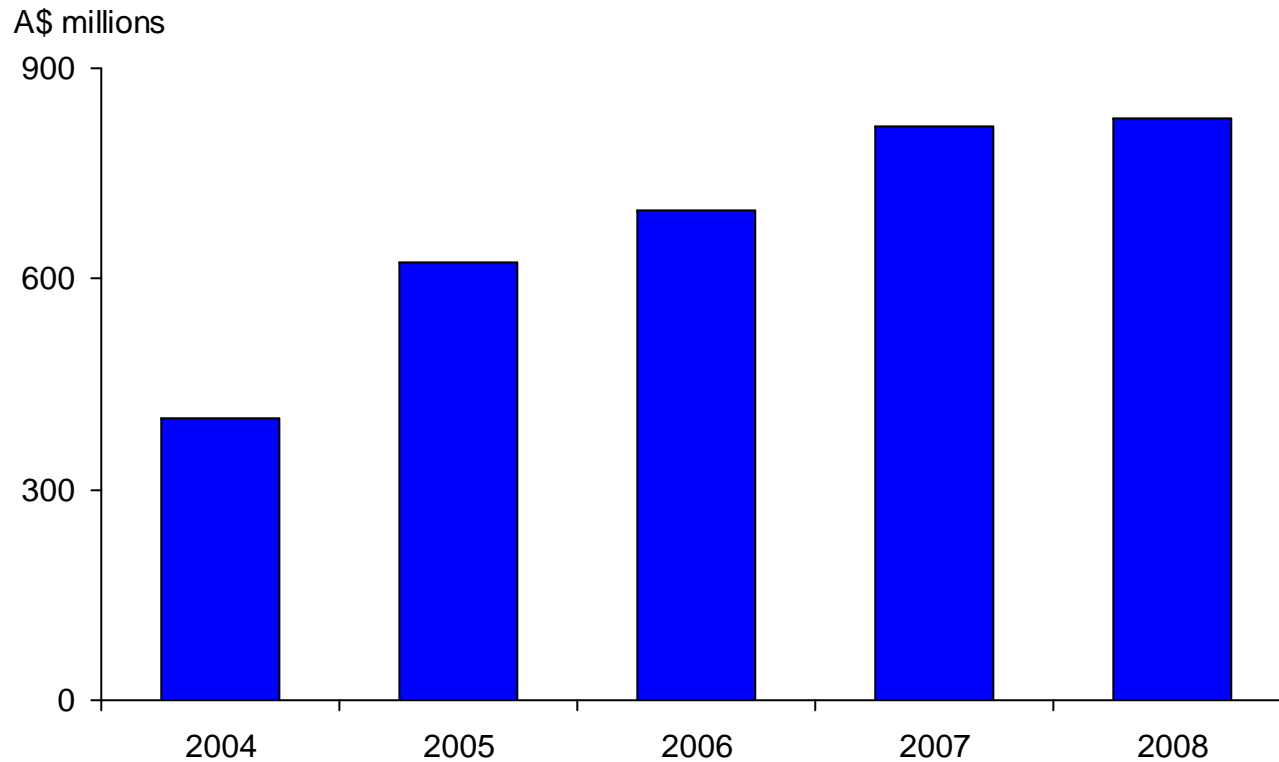


# Merchandising Diversification

## Revenue from Sign & Display, Industrial Packaging and Graphics

- CAGR 20%

- 17% of total Merchandising gross profit in 2008



# Merchandising - Europe

		12 months <u>Jun 07</u>	12 months <u>Jun 08</u>	Change <u>%</u>
NW Europe	'000 tonnes	738	690	(7)
UK & Ireland	'000 tonnes	1,180	1,147	(3)
Central & Southern Europe	'000 tonnes	<u>525</u>	<u>528</u>	1
Total Sales Volume	'000 tonnes	2,443	2,365	(3)
Sales Revenue	€m	2,828	2,743	(3)
Earnings before Interest & Tax	€m	82.8	83.3	1
EBIT/Sales Revenue	%	2.9	3.0	

- Market driven volume reductions – UK and Netherlands
- Price realisations flat reflecting positive mix benefits
- EBIT up marginally; EBIT/Sales up from 2.9% to 3.0%
- yoyo™ closed loop copy paper model launched in UK, Netherlands
- Integrations well progressed: UK logistics, Netherlands consolidation, Barcelona warehouse, Italy
- Common IT platform progressing as planned (Ireland, Germany, UK roll-outs)
- Average working capital to sales reduced from 17.8% to 17.4%

# Merchandising - North America

		12 months <u>Jun 07</u>	12 months <u>Jun 08</u>	Change <u>%</u>
Sales Volume	'000 tonnes	623	645	4
Sales Revenue	US\$m	1,078	1,138	6
Earnings before Interest & Tax	US\$m	40.2	28.9	(28)
EBIT/Sales Revenue	%	3.7	2.5	

- Strong like-for-like volume growth versus market (+ 5.5% ex West Canada divestment)
  - US market (- 4.7%) reflects weak economy
- Mill utilisations and pricing solid from capacity closures (price realisations +2%)
- Kelly Paper (smaller West Coast printer customer base) particularly affected by economic downturn and depressed real estate market
- Canadian prices down 5% but margins up
- Toronto warehouse (4 into 1) and IT integrations (Canada, Kelly) completed
- Operating expenses up supporting market share growth
- Average working capital to sales down to 12.7% (from 13.0%)

# Merchandising – Australia, NZ and Asia

		12 months <u>Jun 07</u>	12 months <u>Jun 08</u>	Change <u>%</u>
Sales Volume	'000 tonnes	725	731	1
Sales Revenue	A\$m	1,033	1,005	(3)
Earnings before Interest & Tax	A\$m	13.8	21.0	52
EBIT/Sales Revenue	%	1.3	2.1	

- Volumes up due to strength in Asia
  - Paper trading volumes down due to reduced exports from Australian Paper
- Reported EBIT up 52%, underlying EBIT up 34%. Non-repeat of prior year negative currency impacts in NZ
  - Asia up 37% on volume growth, price realisation, expense control
  - Pressure remains in Australia/NZ (though early fiscal 2009 pricing realised)
- Operating expenses were down 4%, benefiting from warehouse consolidations
- Price realisations down due to Australia and NZ (- 3.5%), despite Asia (+1%)
  - Weak US\$ impacted prices
- Customer consolidations featured in Australia and NZ
- Entry into Sign and Display in Australia (acquired IMedia)
- Average working capital reduced (-15%); average working capital/sales down to 10.2% (from 11.6%)

# 2008 Final Result Summary

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- Net profit of \$72.2 million (down 10%)
- Underlying EBIT of \$154.4 million (down 22%) reflects the cost, currency and pricing pressures faced by Manufacturing and market weakness in UK and US affecting Merchants
- Manufacturing underlying EBIT reflects input cost increases and currency impact on export earnings
- Merchants 11.4% ROAFE, as working capital reductions continue
- Pulp project delay and cost increases, though solid returns remain projected
- Refinancing of short term debt completed

# Business Outlook

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- External conditions deteriorating in near term (market volumes, GDP, advertising) though accelerating industry consolidation and capacity utilisation could see pricing benefits in Europe, North America and Australia/NZ
- Internal focus
  - Strategic initiatives, accelerated expense savings, working capital management, value-based selling and growth of non-paper gross profit, margin management, environmental marketing and safety
- Strategic initiatives to deliver on upside (up to \$125 million net EBIT vs 2005) despite pulp mill delay by 2 months. Up to \$40 million improvement from 2008
- Profit Protection Plan initiatives being implemented (up to \$30 million) to mitigate external conditions
- Further European asset sales underway with expectation of EBIT benefit up to \$20 million to fund restructuring
- Potential investors performing due diligence on all or a share of Australian Paper though no decision to sell at present

# Appendices

# Operating Earnings (A\$)

	EBIT		Sales Revenue		Total Assets	
	June 2008	June 2007	June 2008	June 2007	June 2008	June 2007
	<u>\$M</u>	<u>\$M</u>	<u>\$M</u>	<u>\$M</u>	<u>\$M</u>	<u>\$M</u>
<b><u>Industry Segments</u></b>						
Europe	139.0	139.9	4,573	4,780	2,020	2,148
North America	32.4	51.5	1,275	1,380	457	502
Australia, NZ and Asia <sup>(1)</sup>	21.0	13.8	1,005	1,033	444	462
Inter-merchant Sales	—	—	(37)	(34)	—	—
Total Paper Merchancing	192.4	205.2	6,816	7,159	2,921	3,112
Paper Manufacturing <sup>(1)</sup>	(1.9)	10.2	973	1,016	1,354	1,148
Corporate <sup>(1) (2)</sup>	(30.1)	(29.9)			35	129
Operating earnings before interest & income tax	160.4	185.5				
Net Interest <sup>(3)</sup>	(60.0)	(70.9)				
Income Tax Expense	(28.1)	(34.4)				
Outside Equity Interests	(0.1)	(0.1)				
Inter-segment Sales			(304)	(336)		
Unallocated Assets (deferred tax assets)					68	53
Total	72.2	80.1	7485	7,839	4,378	4,442



# Reconciliation of one-off items for 2008

	June 2008 EBIT (A\$mils)				
	<u>As Reported</u>	<u>Net Property Actions</u>	<u>Business Restructuring</u>	<u>Net One-Offs</u>	<u>Underlying</u>
Paper Merchanting					
ANZA	21.0	(0.3)	(1.6)	(1.9)	22.9
Europe	139.0	34.7	(11.1)	23.6	115.4
North America	32.4	0.0	(2.2)	(2.2)	34.6
Total Paper Merchanting	192.4	34.4	(14.9)	19.5	172.9
Paper Manufacturing	(1.9)	2.4	(12.5)	(10.1)	8.2
Corporate	(30.1)	0.0	(3.4)	(3.4)	(26.7)
<b>Total PaperlinX</b>	<b>160.4</b>	<b>36.8</b>	<b>(30.8)</b>	<b>6.0</b>	<b>154.4</b>

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