



Final Results 2004 / 2005

25 August 2005

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Year in Review

- 2004 market momentum lost in the second half
- Good progress made on key areas under our control
 - Working capital
 - Internal cost management in merchants
- PaperlinX has come through a difficult year in a good financial position
- Key long term opportunities progressed
 - Pulp project
 - Merchanting synergies
 - Brands

Strategic Position

- A well diversified earnings base
- World's only global fine paper merchant
- Unique Australian manufacturing with key long term strategic advantages
 - Reflex brand
 - Local supply
 - Long term customer contracts
 - High quality fibre supply
- Scope for increased returns
 - Global and regional synergies in paper merchanting
 - Cost reductions and strategic manufacturing investments
 - Continued structured working capital reduction

Economic Background

- European economic performance was subdued, volumes were weak and average prices were below the prior period
- First half economic performance improved in USA with woodfree coated paper demand increasing - underpinning announced selling price increases in the USA
- Australian pricing was weak in
- All major markets saw reduced demand in second half
- Significant currency movements have negatively impacted profits
 - Impact on Australian paper selling prices
 - Affecting export earnings from Australia
 - Translation of foreign currency earnings
- Higher international oil prices and freight rates have increased underlying industry cost base
- No signs yet of cyclical upturn

Coated Woodfree Paper Demand – Apparent Consumption

Period change versus prior year

	1 st half	2 nd half	Turnaround
US	+ 15.8%	- 4.6%	- 20.4 pts
Europe	+ 4.8%	- 0.2%	- 5.0 pts

Source: Risi, Cepifine, PaperlinX estimates

US – apparent consumption

Europe – deliveries to W Europe

- Weaker second half consumption in both US and Europe
- PaperlinX volumes were at or ahead of both the US and European market growth (excluding restructuring)

Result Summary

- x Weak global demand for paper leading to declining prices in Europe and Australia
- x Manufacturing issues on M4 / Impact of Maryvale fatality
- x Australian manufacturing profit impacted by strong A\$ and lower A\$ priced import competition
- ✓ Paper selling price rises in the USA and Asia
- ✓ Merchant synergy targets exceeded
- ✓ Lower working capital, working capital / sales ratios and strong cash flow achieved
- ✓ Improving returns in paper merchanting:
 - Based on internal focus, productivity gains, synergy benefits
 - Reflects success of merchanting acquisitions
 - European acquisition strongly earnings per share accretive
- ✓ Overall volume growth ahead of market growth
- ✓ Positive impact of Australian Tax Consolidation
- ✓ Sound balance sheet ratios

Financial Summary

		12 months to June 2004	12 months to June 2005	Change
Revenue	\$m	6,212	7,574	+ 22%
Operating Earnings (PBIT)	\$m	190	185	- 3%
Net Profit after Tax excluding ATC	\$m	109	92	- 16%
Net Profit after Tax including ATC	\$m	109	169	+ 55%

Australian Tax Consolidation (ATC) benefit \$77m

Key Financial Measures

		12 months to June 2004	12 months to June 2005
Working Capital	\$m	1,417	1,234
Working Capital / Sales	%	18.6	16.3
Operating cash flow	\$m	403	273
Return (PBIT / Average funds employed)	%	7.5	6.4
Earnings per share (before goodwill amortisation)	cps	28.6	42.3
Final dividend per share	cps	14.0	12.0
Total dividend per share	cps	27.5	25.5

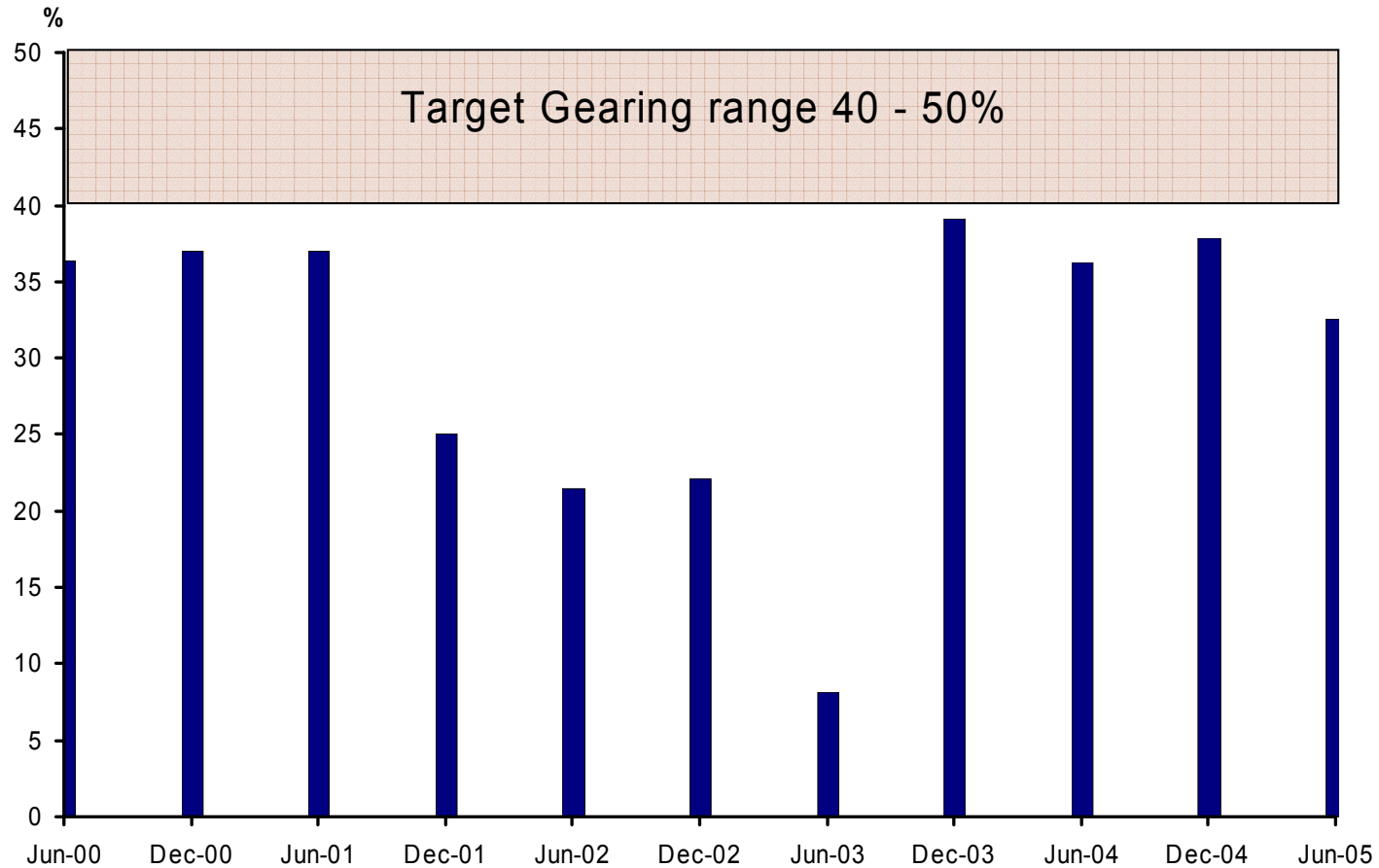
Dividend

- Final dividend for year of 12cps, unfranked
 - Brings total dividend to 25.5cps
 - Made up of 10 cps operating dividend and 2cps from ATC benefit
- Operating dividend set at sustainable level
 - Payment ratio aiming at 70% of reported earnings per share
- Total dividend reflects
 - Cyclically low manufacturing earnings
 - Strong financial position of Group
 - Benefit of ATC
 - Strong cash flow
- Supported by growth in paper merchanting

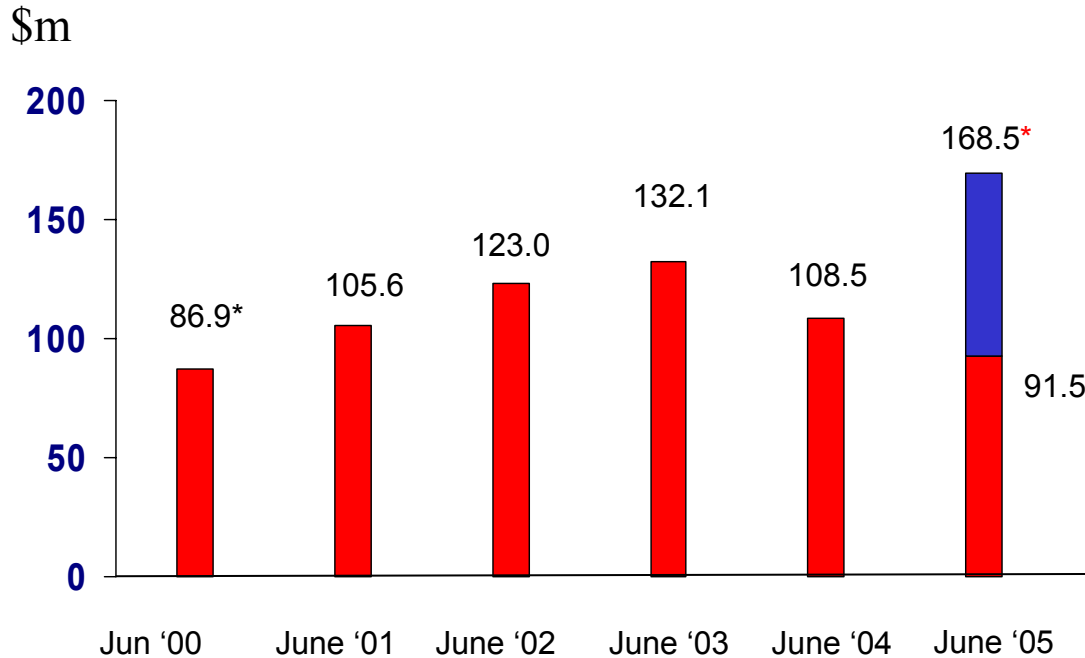
Financial Highlights

- ✓ Strong cash flow - \$273 million
- ✓ Solid financial position – 33% debt/debt plus equity
- ✓ Balanced debt structure both in currency exposure and term
- ✓ Substantial headroom to fund company needs
- ✓ Increase in funding availability completed
- ✓ Strong internal cost control and improved productivity
- ✓ Capital expenditure at 83% of depreciation over past 5 years
- ✓ Australian tax consolidation benefit of \$77m

PaperlinX Gearing



Key Results – Net Profit After Tax



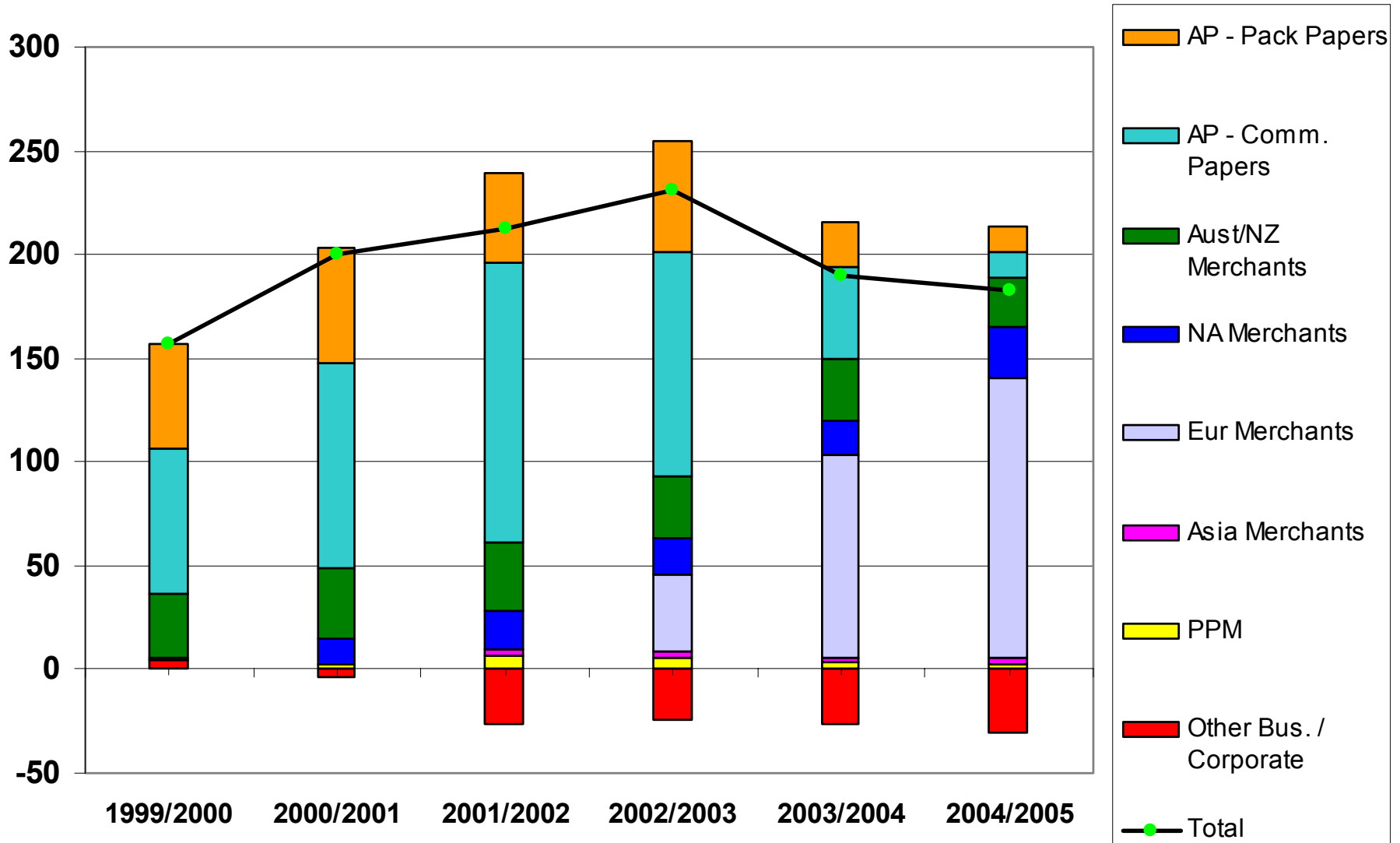
* *proforma*

* *includes ATC benefit*

Key Variances in 2004/05:

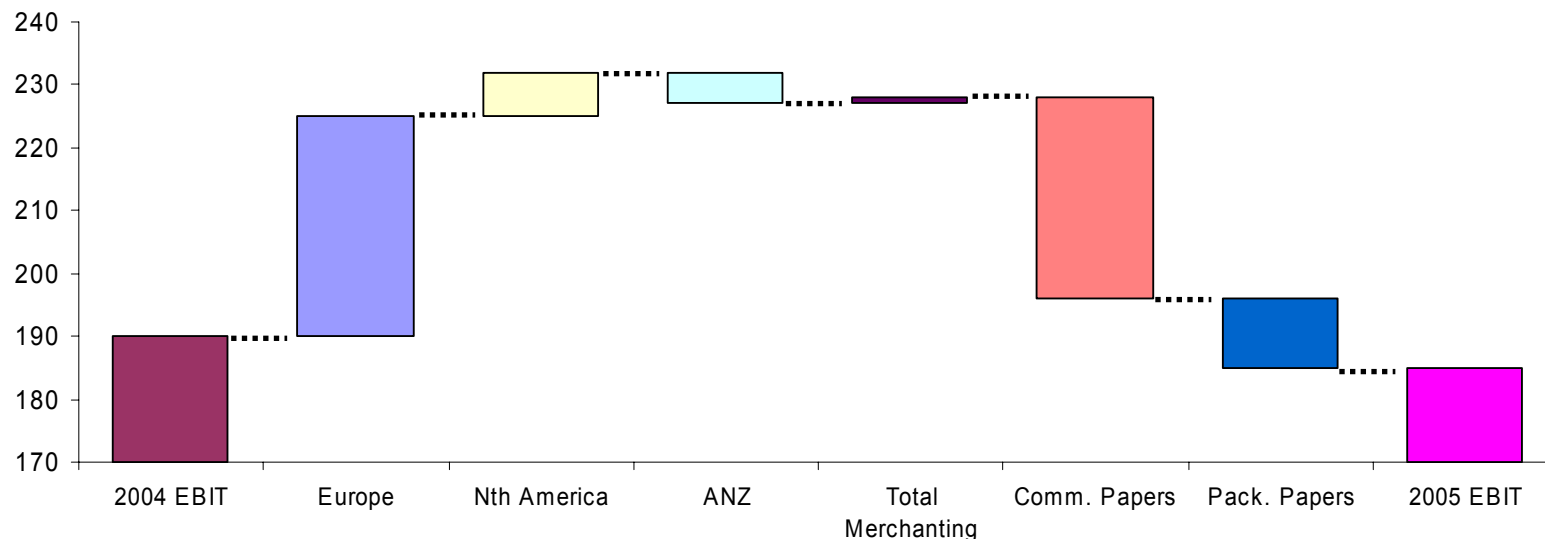
- Solid returns from Paper Merchanting
- Weak European and Australian demand
- Generally soft international paper selling prices
- Impact of stronger Australian and Canadian dollars
- Manufacturing issues
- ATC benefit

PaperlinX Group PBIT (A\$m)



Key Operating Earning Changes

Key Operating Earning Changes



Net EBIT impact in 2005 of:						
Restructures	↓		↓	↓	↓	↓
Costs	↑	↑	↑	↑	↓	↓
Volume	↑	↑		↑	↓	↓
Price	↓	↑	↓	↓	↓	↓
Exchange		↓	↓		↓	↓

↑ Increased EBIT
↓ Decreased EBIT

Key Financial Statistics

		June 2004	June 2005
Sales volume (including commission sales)	Million Mt	3.9	4.6
Sales revenue	\$m	6,212	7,574
Profit before interest, income tax, depreciation and amortisation	\$m	300.7	307.7
Profit before interest and income tax	\$m	189.7	184.9
Profit after tax, before goodwill amortisation (excl ATC)	\$m	126.0	111.6
Profit after tax before ATC	\$m	108.5	91.5
Profit after tax including ATC	\$m	108.5	168.5
Return on average shareholders equity (incl. ATC)	%	6.2	9.4
Net Interest cover	X	3.9	2.7
PBITA / Average funds employed	%	8.2	7.1
PBIT / Average funds employed	%	7.5	6.4

Financial Summary

		June 2004	June 2005
Earnings per share, before goodwill amortisation	cps	28.6	42.3
Earnings per share (before goodwill and ATC)	cps	28.6	25.0
Earnings per share	cps	24.7	37.8
Dividend	cps	27.5	25.5
Dividend franking	%	0	0
Net Operating Cash Flow	\$m	403	273
Capital Expenditure (excluding acquisitions)	\$m	55	86
Capital Expenditure (including acquisitions)	\$m	1,178	131
Net tangible assets per share	\$	3.15	3.21
Shareholders Equity (30 June)	\$m	1,813	1,812
Net Debt / Equity	%	57.0	48.2
Net Debt / Net Debt & Equity	%	36.3	32.5

Australian Tax Consolidation (ATC)

- Australian legislation enacted 2003
- Parent companies and wholly owned Australian subsidiaries
- PaperlinX elected to consolidate from 1 July 2003
- Reset cost base of certain depreciable assets
- Required a restatement of deferred tax balances in the balance sheet
- Resulted in net tax adjustment of \$77m through the profit statement

Australian International Financial Reporting Standards (AIFRS)

- Does not impact operations, strategy or business performance
- All Australian companies required to report under AIFRS from first reporting period after 1 January 2005. i.e. for PaperlinX the year 1 July 2005 to 30 June 2006.
 - Opening entries are in balance sheet 1 July 2004
 - Comparatives are prepared for the prior year (i.e. 1 July 2004 to 30 June 2005)
- May result in future reported earnings volatility predominantly due to
 - Impairment testing
 - Defined benefit pension plan
 - Financial instruments (from 1 July 2005)
- PaperlinX results for 2005 are based on existing reporting standards
 - 2005 results are restated under AIFRS for comparative purposes for the 2006 reporting year.

Changes Impacting PaperlinX from AIFRS

Major changes

- Impairment testing of non-current assets
- Defined benefit retirement plans
- Equity based Remuneration - share options and shares
- Non amortisation of goodwill
- Business combinations / acquisitions

Minor changes

- Reclassification of computer software to intangibles
- Financial instruments
- Income Tax

Adoption of AIFRS areas of impact:

- (i) Opening transitional balance sheet entries at 1 July 2004
- (ii) Annually through profit and loss

AIFRS Key Impacts

Impairment charges

- Decrease in retained earnings of \$169.9 million at 1/7/2004
- Decrease in net profit after tax of \$11.7 million for 2004 / 05

Defined benefit Retirement plans

- Decrease in retained earnings of \$37 million at 1/7/2004
- Decrease in net profit after tax of \$0.3 million in 2004 / 05

Non Amortisation of Goodwill

- Increase in net profit after tax of \$20.1 million for 2004 / 05

Non Depreciation of non-current assets

- Increase of net profit after tax of \$7.1 million for 2004 / 05

Business Combinations

- Decrease of net profit after tax of \$8.8 million for 2004 / 05

Overall

1/7/2004 retained earnings reduction \$204 million

2004 / 05 net profit after tax increase \$1.4 million

For more details please refer to the PaperlinX Stock Exchange release. Full details in the Financial Report

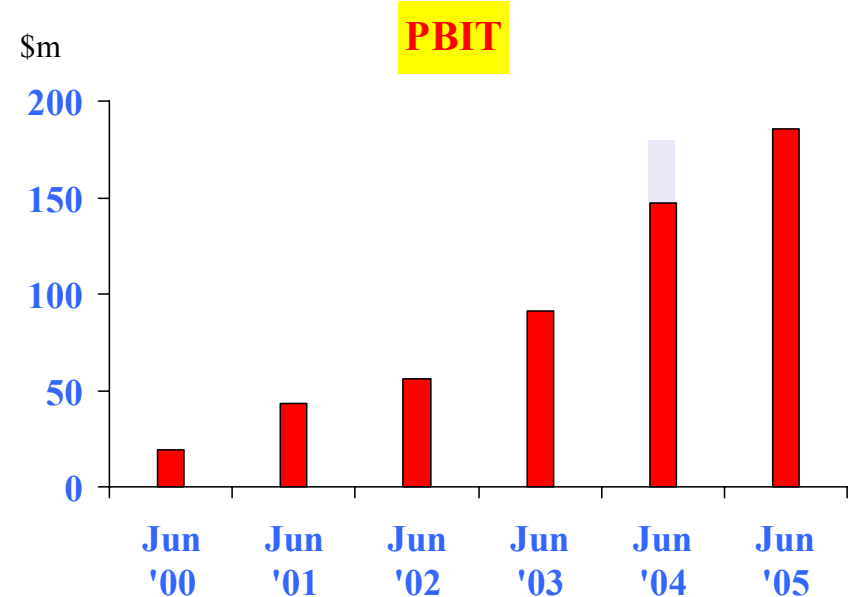
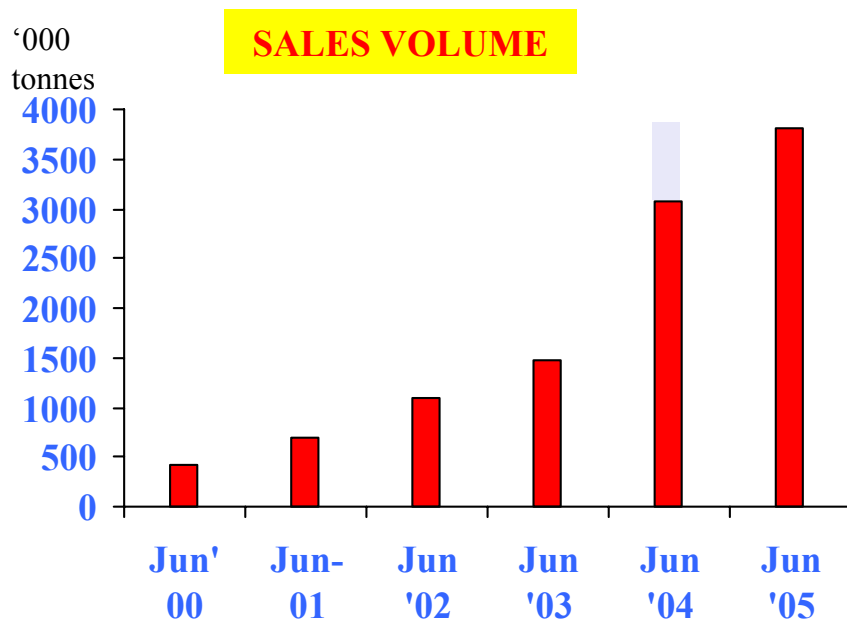
Corporate and Other

		12 months Jun 04	12 months Jun 05	Change %
Sales Revenue	\$m	101	101	nc
Profit before Interest & Tax	\$m	(24)	(23)	nc

- Spicers Stationery and Envelopes
 - Lower average prices due to currency
 - Benefits from brand focus supports sales and PBIT
 - Improved returns
- Underlying corporate costs similar to prior year

Merchanting

		12 months Jun 04 Actual	12 months Jun 04 Proforma	12 months Jun 05 Actual	Change % Actual
Sales Volume	'000 tonnes	3,060	3,848	3,813	25
Sales Revenue	\$m	5,620	7,153	7,035	25
Profit Before Interest & Tax	\$m	148	179	186	26
Return on Average Funds Employed	%	10.1	-	10.3	



Merchanting

- Pro forma volumes down 1%, revenues down 2%, PBIT up 4%
- Acquisitions have exceeded synergy targets and are earnings per share accretive
- Working capital to sales ratio reduced in all regions
- Global platform now integrated
 - Provides opportunity for further synergy benefits in IT, logistics, supply
 - Provides additional growth opportunities based on proven model
- Well positioned to take advantage of industry consolidation to build on leading position

Merchandising – Australia and New Zealand

		12 months Jun 04	12 months Jun 05	Change %
Sales Volume	'000 tonnes	605	607	1
Sales Revenue	\$m	1,050	1,026	(2)
Profit Before Interest & Tax	\$m	29.1	24.0	(17)

- Ongoing pressure on paper selling prices with a 2.5% reduction in average selling price impacting earnings
- Weaker market conditions in the second half
- One-off costs in 2005 relating to successful warehouse consolidations
- Lower returns despite good performance in working capital

Merchanting - North America

		12 months Jun 04 Actual	12 months Jun 04 Proforma	12 months June 05 Actual	Change % Actual
Sales Volume	'000 tonnes	391	404	416	6
Sales Revenue	US\$m	573	616	662	15
Profit before Interest & Tax	US\$m	12.0	13.6	18.2	52

- Proforma volumes up 2.7%, revenue up 7.5% and PBIT up 34%
- Improved market conditions in the USA through most of 2005
- Reduced costs led to improved margins in both the USA and Canada
- Canadian paper selling prices down 3% due to exchange rate
- Volume growth ahead of the market
- Strong performance from Kelly Paper
- Significantly improved return on funds employed

Merchanting - Asia

		12 months Jun 04 Actual	12 months June 04 Proforma	12 months Jun 05 Actual	Change % Actual
Sales Volume	'000 tonnes	71	77	75	6
Sales Revenue	S\$m	99	108	108	9
Profit before Interest & Tax	S\$m	2.2	2.3	3.7	68

- Stable regional demand with average paper selling prices up 3.5%
- Benefit of restructuring and focus
- Improved margin and reduced working capital
- Improved return on funds employed
- Softening market late in the year

Paper Trading

		12 months Jun 04 Actual	12 months Jun 04 Proforma	12 months Jun 05 Actual	Change % Actual
Sales Volume	'000 tonnes	158	185	190	20
Commission Volume	'000 tonnes	318	328	295	
Sales Revenue	A\$m	131	158	173	32
Profit before Interest & Tax	A\$m	3.6	3.2	2.7	(25)

- Commission based business
- Selling prices and margins under pressure
- Impacted by restructuring costs

PaperlinX Europe

		12 months Jun 04 Actual	*12 months Jun 04 Proforma	*12 months Jun 05 Actual	Change % Actual
Sales Volume	'000 tonnes	1,835	2,576	2,534	38
Sales Revenue	€m	2,092	2,942	2,828	35
Profit before Interest & Tax	€m	57.9	75.1	77.5	34

*Note: 2004 includes The Paper Company for 12 months and PaperlinX Europe for 8 months

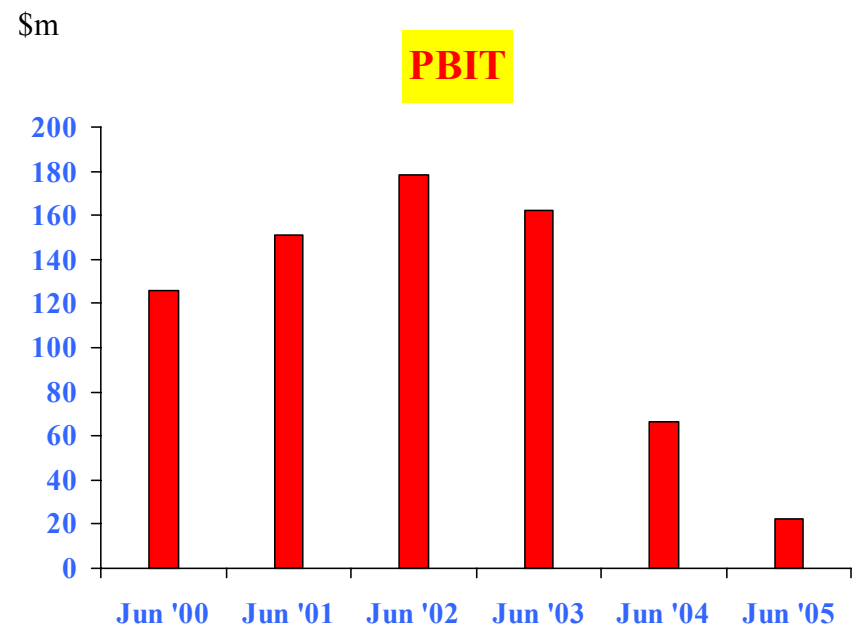
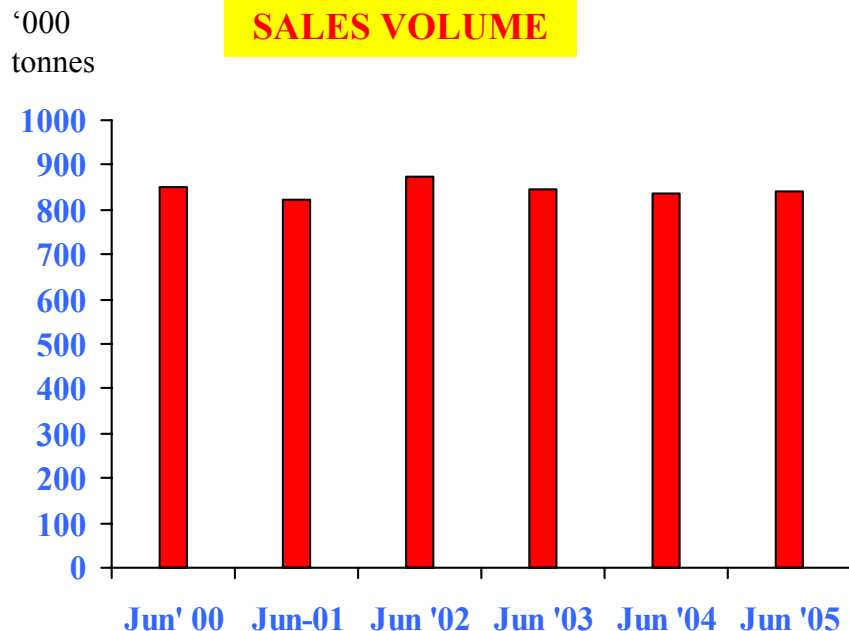
- Proforma volumes down 1.6%, revenues down 3.9% and PBIT up 3.2%
- Weak market conditions prevailed through 2005 on the continent with the UK weakening late in the year
- Average paper selling prices down 2.3%
- Benefits of focus on cost management and working capital
- Strengthened overall market position
- Return on funds employed supported by internal efficiencies.

Europe - Accomplishments

- Growing market position in UK
- 10% growth in own brand sales
- Completion of restructuring of French business
- Improved German profitability
- Restructuring of Irish businesses
- Portugal business down-sized and realigned
- Small bolt on acquisition in Denmark
- Swedish market exited
- Ongoing synergy opportunities progressed
 - Information Technology
 - Logistics
 - Supply

Australian Paper – Consolidated

		12 months Jun 04	12 months Jun 05	Change %
Sales Volume	'000 tonnes	836	840	0
Sales Revenue	\$m	969	942	(3)
Profit Before Interest & Tax	\$m	66.4	22.3	(66)
Return on Average Funds Employed	%	5.8	2.1	



Australian Paper - Consolidated

- Earnings impacted by exchange related effects
 - Lower domestic prices
- Cost increases from fuel / distribution, wages, raw materials
- Paper machine performance
- Maryvale fatality

Australian Paper - Communication Papers

		12 months Jun 04	12 months Jun 05	Change %
Sales Volume	'000 tonnes	506	522	3
- Australia / New Zealand	%	78	73	
Sales Revenue	\$m	715	700	(2)
Profit Before Interest & Tax	\$m	44.8	12.3	(73)

- Reduced Australian sales volumes and margin
- Increased lower margin exports
- Impact of stronger Australian dollar
 - Lower average Australian paper selling prices – down 4%
 - Reduced imported pulp costs
- Core brand support
 - Relaunch of Reflex and Australian helped turn market share
 - Overall up 10 pts
- Australian paper market softer at end of period

Australian Paper - Packaging Papers

		12 months Jun 04	12 months Jun 05	Change %
Sales Volume	'000 tonnes	330	318	(4)
• Australia / New Zealand	%	81	77	
Sales Revenue	\$m	254	243	(4)
Profit Before Interest & Tax	\$m	21.6	10.0	(54)

- Reduced Australian linerboard demand and overall volume
- Exchange Impact
 - Lower ANZ selling prices for sack and bag
- Operational difficulties on M4 impacted efficiencies
 - New production manager, tail feeding equipment, camera systems

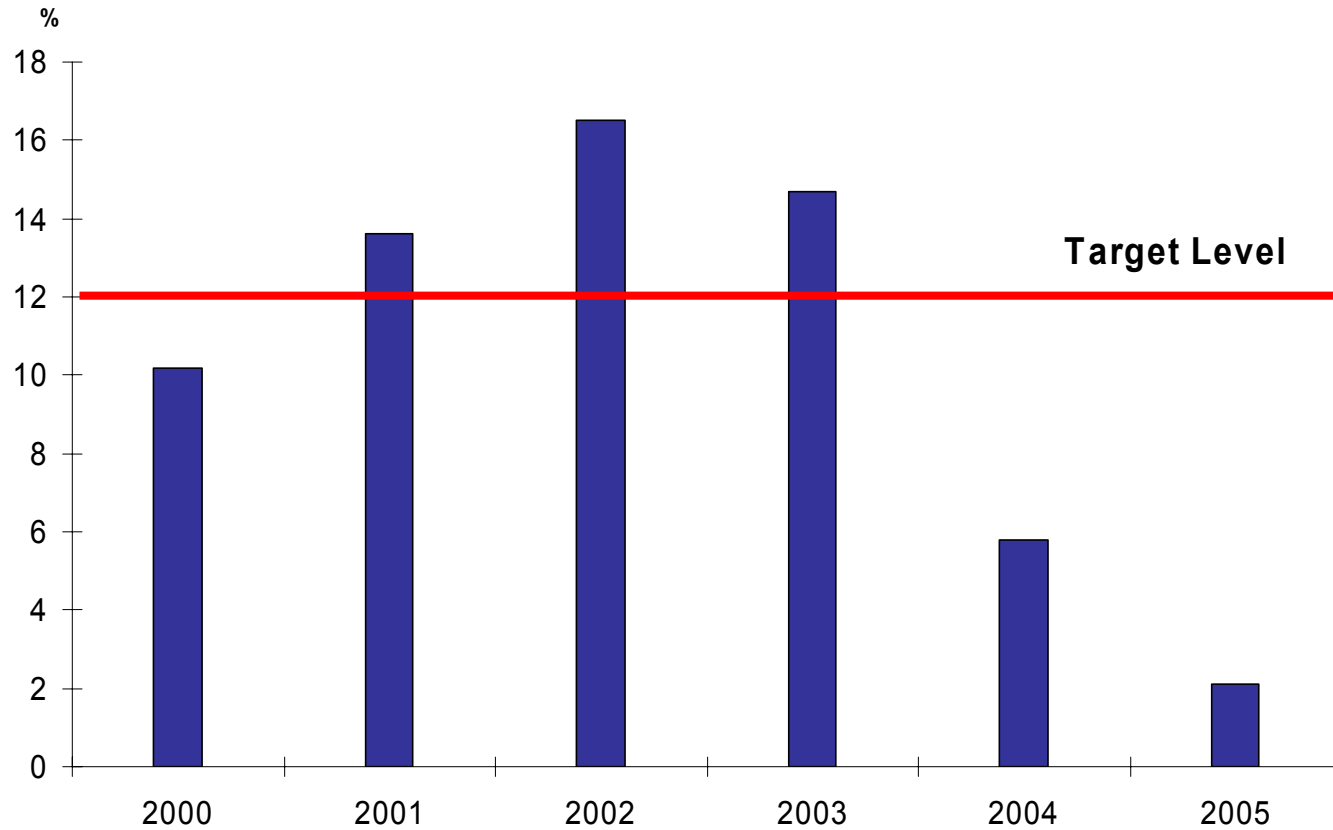
Australian Paper - Consolidated

- External conditions remain difficult
- Structural issues being addressed
 - M4 performance improving
 - M1 semi-extensible upgrade in commissioning phase on schedule
 - Pulp mill upgrade and new bleach plant to improve product quality, cost competitiveness and environmental performance
- Focus on brands and customers
- Evaluate opportunities to optimise production capacity
- New safety programme

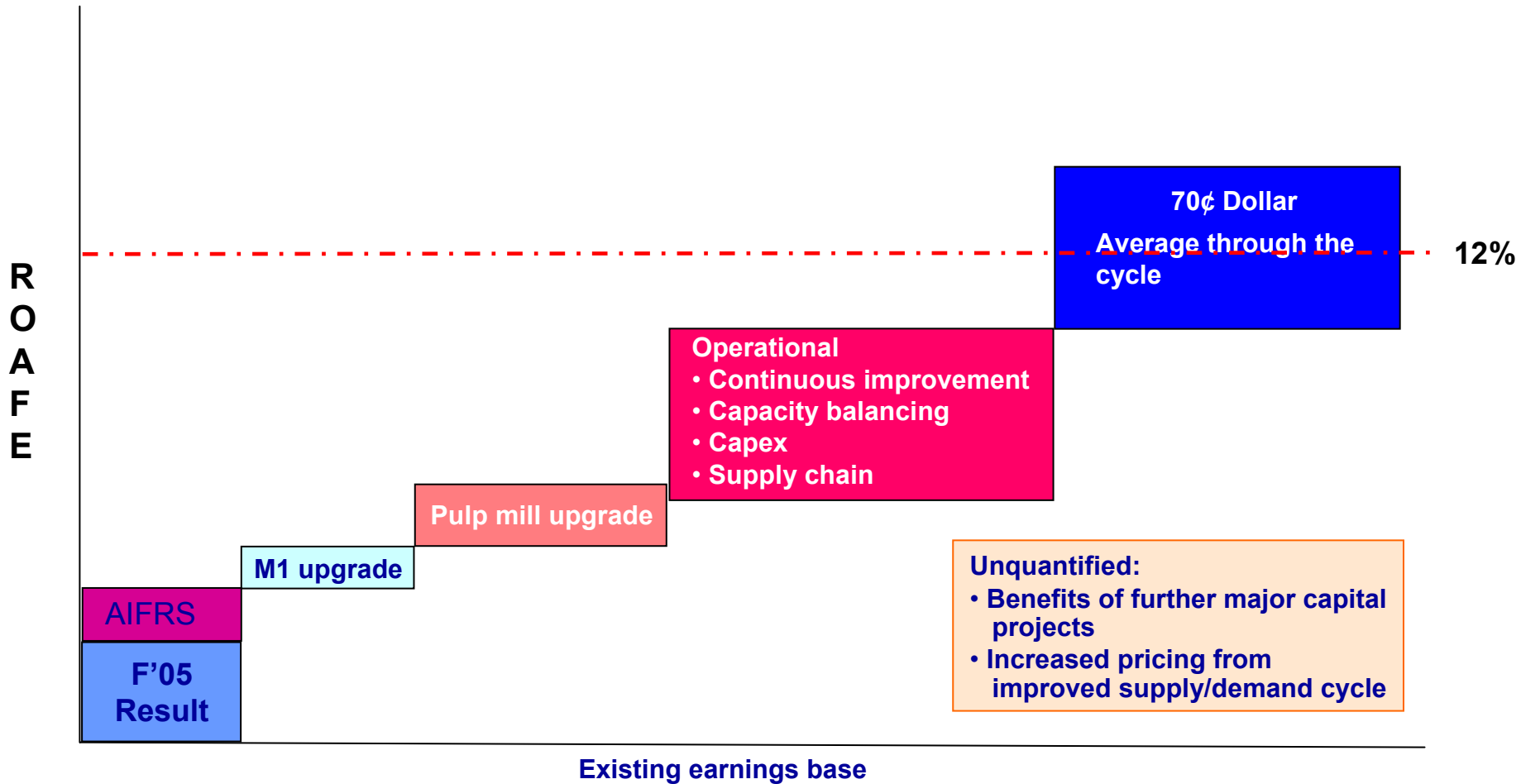
Pulp Mill Upgrade and New ECF Bleach Plant

- Upgrading Maryvale Mill's pulp capacity and replacing the existing bleach plant – total cost \$192 million (plus \$11 million of capitalised interest)
- Upgrade of ancillary services – total cost \$55 million from ongoing capital expenditure budget (\$18.2 million per year over 3 years)
- Underpinning business capacity to meet “through the cycle” return targets
- Improves competitive position both in terms of cost and product quality
- Leverages on strategic advantages
- Improves environmental performance
- Separate presentation to follow providing additional detail

Australian Paper Return on Funds Employed



Actions to achieve 12% ROAFE



Business Outlook - Overall

- First half F'06 reflects continuation of weakened second half F'05 environment
 - Current weak levels of paper demand seen through year end
 - Paper selling prices will be impacted by demand and currency relativities
- Improving trend in domestic sales of Australian made copy paper
- Improvement in returns for paper merchanting
 - Ongoing focus on cost management and working capital
 - Regional and global synergy benefits
- Opportunities to build on merchanting platform
- Structural changes in Australian Paper to improve competitiveness and product quality – no quick fix

Business Focus

- Secure cost and synergy benefits
- Grow brands
- Invest in areas of competitive advantage
- Reduce working capital
- Prioritise activities based on value creation

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