Sale of Australian Paper

16 February 2009

Presentation Sequence

- Introduction
- Transaction overview
- Financials
- The New PaperlinX
- Questions and Answers

Introduction

- Divestment of Australian Paper to Nippon Paper Group
  - $700+ million total value, including cash, assumed liabilities and earn out structures
  - $600 million cash on settlement
  - Settlement expected before end of June 2009
  - Write down of approximately $600 million anticipated
- Major step in PaperlinX transformation
  - Consistent with stated strategic direction
  - Increased focus on core operations
  - Reduced earnings volatility
- Financial position substantially strengthened
  - Overall debt reduced to around $340 million
  - Flexibility in uncertain global economic environment
- Manufacturing business becomes part of a substantial regional business
  - Broader opportunities and potential for greater investment as part of a bigger portfolio
  - Good fit of products and brands; good opportunities for our people
  - Positive for all parties
- Best risk weighted value outcome for PaperlinX shareholders

Scope of Transaction

- PaperlinX divests Australian Paper to Nippon Paper Group
  - Australian Paper revenue of approximately A$900 million (based on 2008, adjusted for divested activities)
  - Production capacity of approximately 275,000 tonnes of communication papers and approximately 310,000 tonnes of packaging papers per annum
- Transaction includes:
  - Maryvale Mill and Shoalhaven Mill
  - PaperlinX Office, PaperlinX Printing and Publishing Papers (4P)
  - Dalton Web, PPM
- Excludes:
  - Burnie Mill and Wesley Vale Mill
- Ongoing long term commercial relationship
  - A number of distribution and off take agreements including take or pay
  - PPX Merchants remain exclusive distributor for a number of Australian Paper products in Australia and New Zealand
  - Range of transition services (eg, IT, payroll)
  - Potential for partnership growth
  - Pulp supply at cost from Maryvale Mill

Manufacturing Consolidation

- Paper manufacturing is consolidating regionally
- Allows grade rationalisation and specialisation
- Part of long term global trend
- Participate, or be side-lined
- Diminishing optionality as time goes on
- Uncertain future in current structure
- Good fit with Nippon Paper
  - Opportunities are available that do not exist for Australian Paper as a stand alone manufacturing entity

Value

- Recognises balance of possible outcomes
  - Positives from
    - Currency and potential domestic pricing
    - Pulp mill upgrade
  - Negatives from
    - Weak global demand
    - Pressure on export pricing
- Earn-out provides upside balance

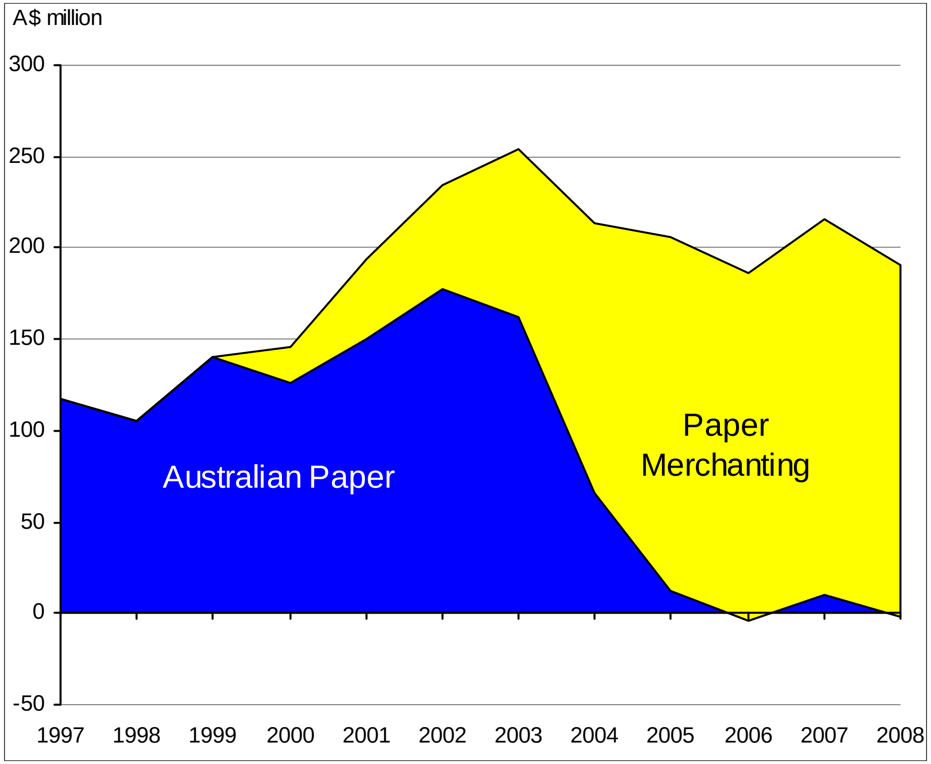
Development of World’s largest Paper Merchant

Major step in PaperlinX’s progression as the leading global paper merchant

- **2000** – Listed as primarily an Australian Manufacturer
- **2001** – Acquisition of balance of Spicers Paper (Australia, US, Asia)
- **2002** – Acquisition of Coast Paper (Canada)
- **2002** – Acquisition of Bunzl Fine Paper (UK)
- **2003** – Acquisition of Bührmann Paper Merchanting Division (Europe)
- **2006** – Acquisition of Cascades Fine Paper (Canada)
- **2009** – Divestment of Australian Paper Manufacturing

Reducing Earnings Volatility

Reported Divisional EBIT – AP and Merchants only



- Earnings volatility driven by manufacturing
  - High fixed costs
  - Isolated regional position
  - Import / currency exposure
- Positive earnings growth shared in 3 year earn out

Transaction Overview

Transaction Overview

- Proceeds from the transaction
  - Total value $700+ million, including cash, assumed liabilities and earn out structures
  - $600 million cash on settlement, with 10% paid into escrow on signing
  - $90 million finance lease liability assumed by Nippon Paper
  - Up to $100 million cash earn-out payment based on EBITDA for 3 years post sale
- Earn-out allows participation from cyclical earnings improvement potential and benefits from pulp mill upgrade
- Write down of approximately $600 million subject to final reviews
- Closing expected mid 2009

Transaction Metrics

- EBIT multiples
  - Historic multiples difficult given low recent earnings level
  - 12.0 x average consensus forecast for FY10 ($58.3 million[(1)])

(1) Average of $58.3 million using the following brokers: Macquarie Research, Citigroup, GSJBW, Morgan Stanley, Merrill Lynch and ABN Amro

Conditions

- FIRB approval
- Approval from PPX banks and note-holders
- Limited number of third party approvals
- Completion of environmental report
- Completion of business separation

<u>Funding the deal is NOT a condition</u>

Financials

Pro Forma Balance Sheet Impact

Based on Provisional December 2008 (A$ million)	Dec 2008P	Estimated Pro forma Dec
Total Assets	5,063	3,516
Total Liabilities	2,902	1,978
Shareholders Equity	2,160	1,538
Net Debt (included above)	1,062	338
Gearing (Net debt/net debt + equity)	33%	18%

Assumes all funds received applied to debt reduction
For indicative purposes only, includes estimates

Financial Implications

- Debt reduced substantially
- Gearing reduced below 20%
- Interest cover improved
- Leverage ratio improved
- Earnings cyclicality reduced
- Opportunity to work with lenders on post-transaction funding structure

The New PaperlinX: The Path Ahead

Tasmanian Operations

- Exposed to import competition and currency fluctuations
  - Loss making in fiscal 2008
  - Currently seeing improving earnings position and competitiveness
  - Secure bleached eucalypt pulp supply at cost from new Maryvale pulp upgrade benefits cost base
- Tasmanian Operations review
  - All options to be investigated with decision over the next few months
  - Possible outcomes include
    - No change to business model
    - Partial closure and reduction of operational footprint
    - Mill closures
    - Sale
  - No decision on the favoured alternative has been made at this point of time though operational agreements in place for post-completion (ie. Pulp supply, off take, transitional services, etc)

PaperlinX after the Transaction

- Largest global fine paper merchant with growing non-paper contribution
- Platform in 27 countries
- Strengthened financial position
- Platform for growth over the long term
- Annual sales of about $ 6.5 billion
- Merchanting sales volumes of around 3.6 million tonnes
- Employee numbers 7,200
- Pro forma net debt of approximately $340 million

Merchanting Strategic Focus

- Profitable growth off existing base
  - Customer value propositions
  - In market scale
  - Diversification
- Realise benefits from global merchanting platform
  - Best practice sharing
  - Environmental leadership
  - Supplier alliances
- Productivity / synergy to fund investments
  - Reduce expenses and improve efficiency
- Optimise asset utilisation and balance sheet flexibility
  - Continued improvement in working capital
- Lift people capacity and engagement

Outlook

- Paper manufacturers supporting European prices through significant capacity reductions – both permanent and temporary
- Australian price increases supported by the weaker Australian dollar, as with UK prices (US$/Euro)
- Prices under pressure in the US, though capacity reductions mitigate impact
- Current demand situation weak, particularly in the US and UK
- Significant inventory being drawn out of the entire supply line exacerbating near term reduction in apparent consumption
- Aggressive PaperlinX cost reduction programmes accelerating contribution in the second half
- Diversification into distribution of non-paper is continuing to show benefits and planned to grow faster than the traditional business

Summary

Summary

- Major step in PaperlinX transformation
- Financial position significantly strengthened in volatile environment
- Enhanced focus on global paper merchanting platform
- Quality purchaser with future relationship opportunities
- Positive opportunities for employees

Appendices

About the Buyer

- Nippon Paper Group
  - Annual revenues of US$12b
  - Market capitalisation of US$3.2b
- Goal to strengthen domestic business and grow through expansion of overseas business
- Aiming to become one of the top five pulp and paper companies worldwide by 2015
- Website: www.np-g.com/e

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