



# Final Results 2005 / 2006

22 August 2006

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# Presentation Sequence

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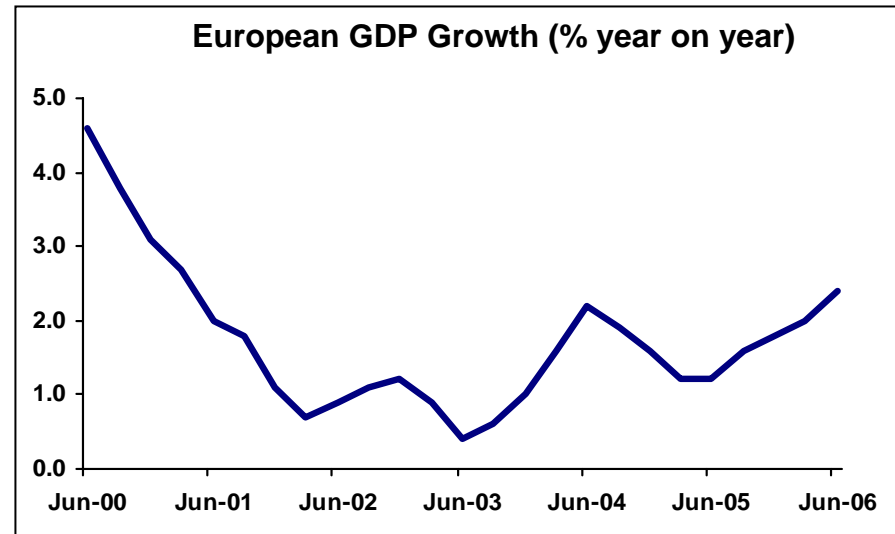
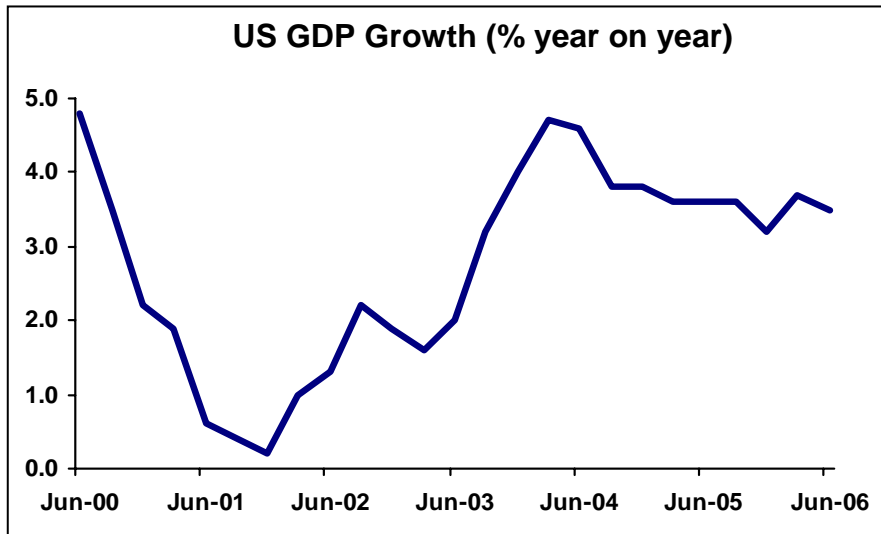
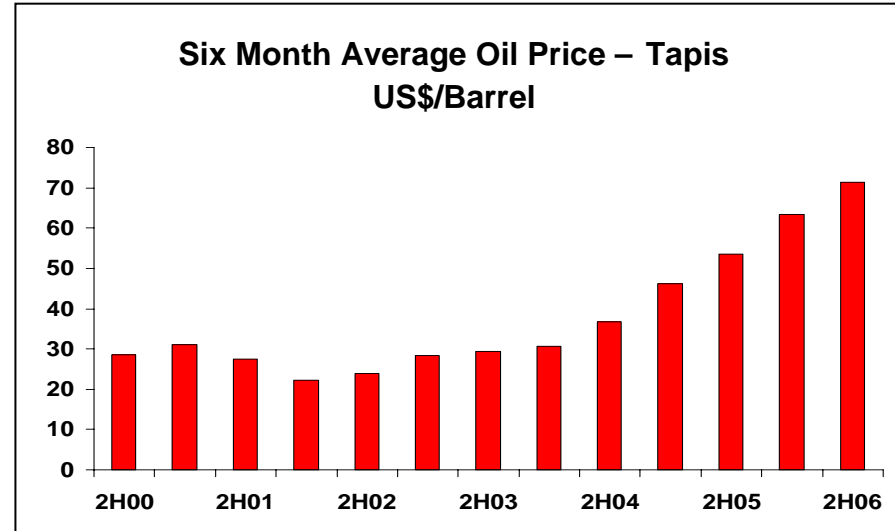
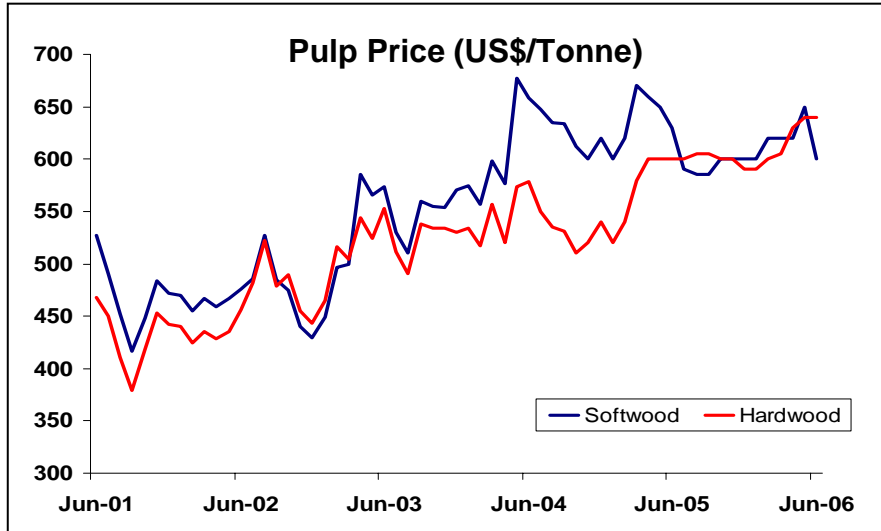
- Introduction and Overview
- PaperlinX 2006 Final Result
- Paper Merchanting
- Paper Manufacturing
- Summary and Outlook
- Questions and Answers

# Overview

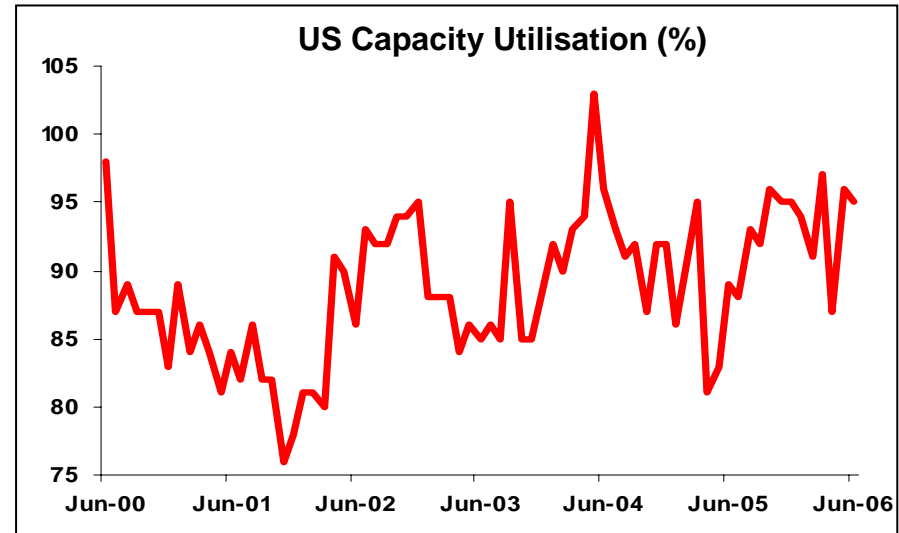
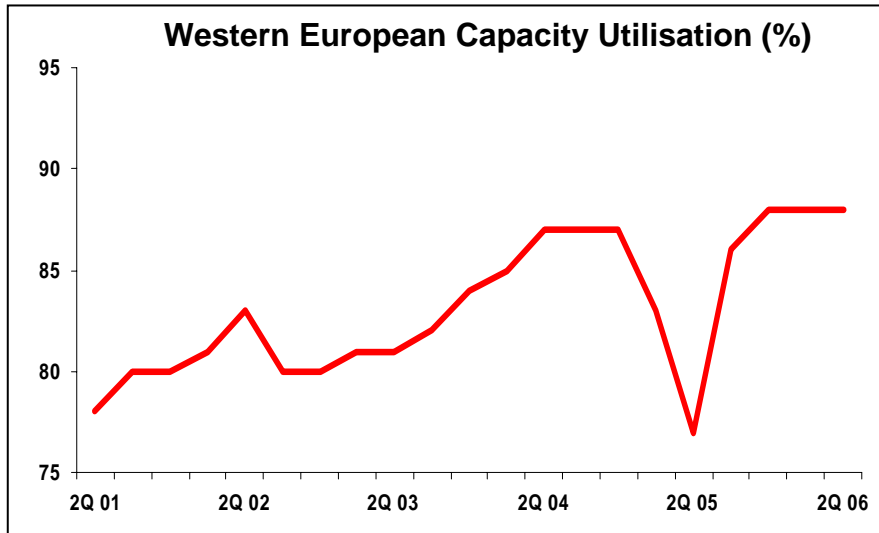
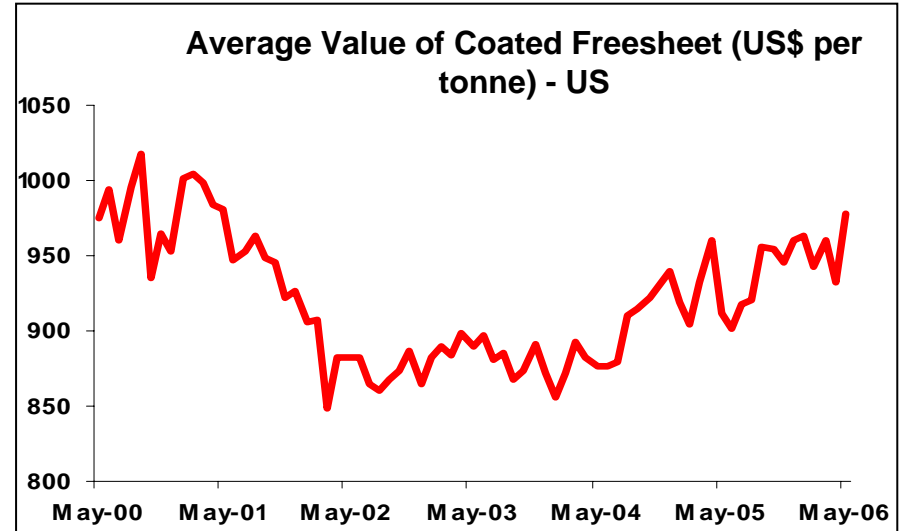
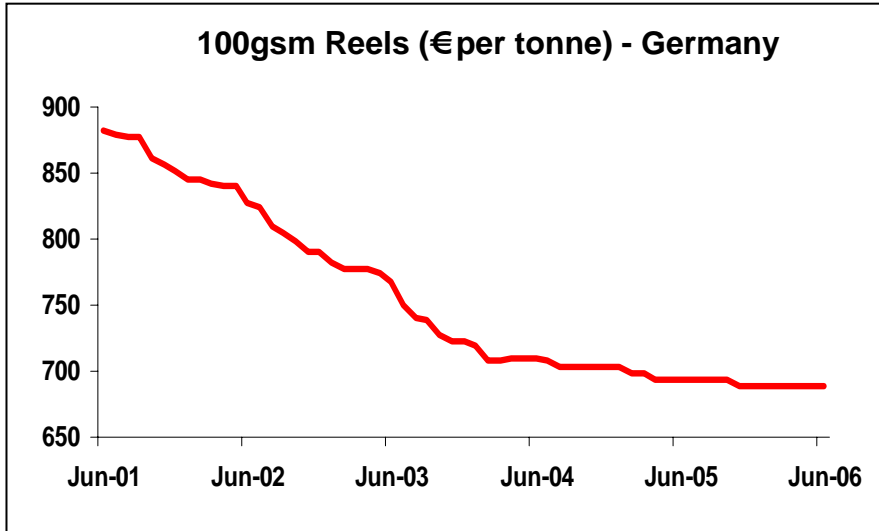
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- Difficult market conditions and rising input costs continued throughout 2006 in most markets impacting on Group earnings overall
- Returns have been maintained in the top quartile of global paper companies as a result of strategic diversification, tight expense management and reduced working capital versus prior period
- Key strategic initiatives highlighted at the interim are on track to contribute over \$35 million in incremental operating earnings in 2007 and over \$100 million per annum in 2009. New initiatives launched.
- While the overall environment has remained difficult and conditions have not eased at this stage, industry sentiment is improving with capacity rationalisation and price rise announcements in Europe, the U.S. and Australia.

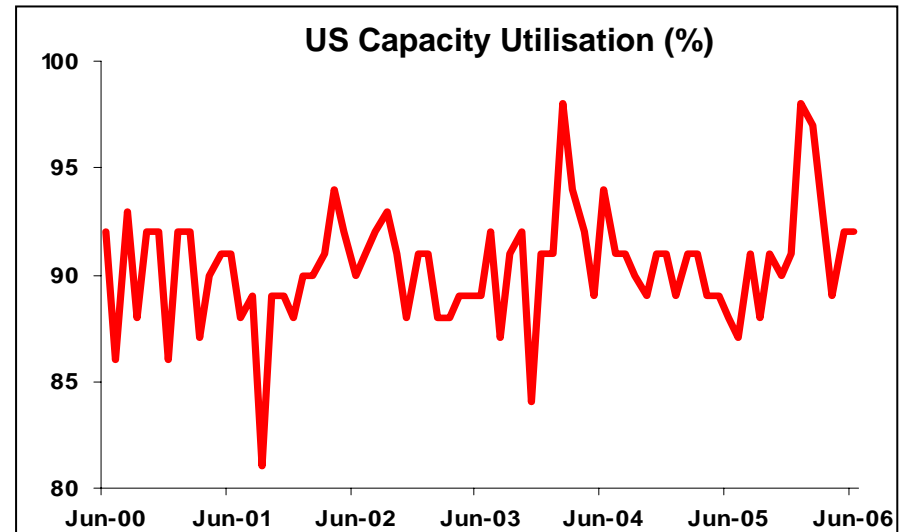
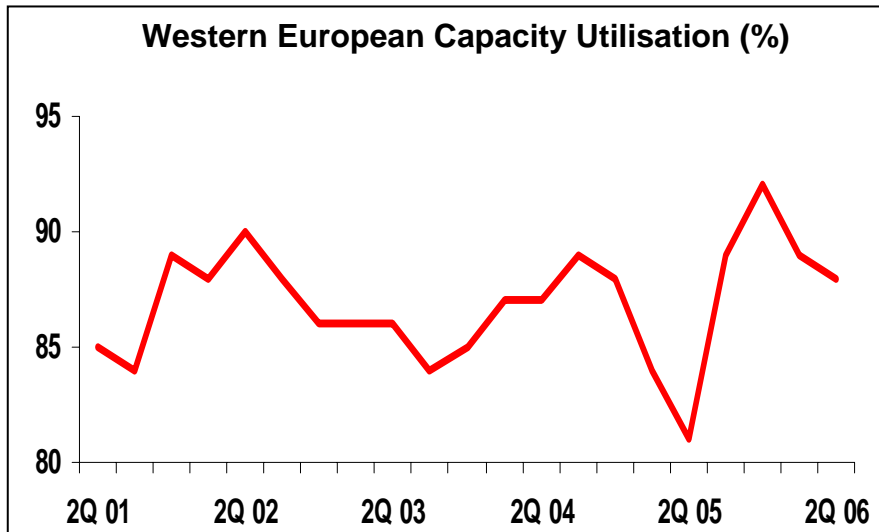
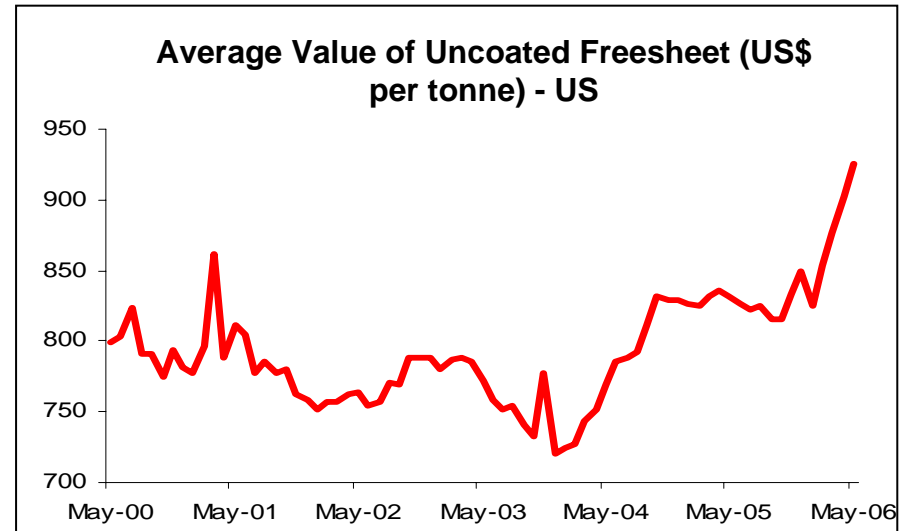
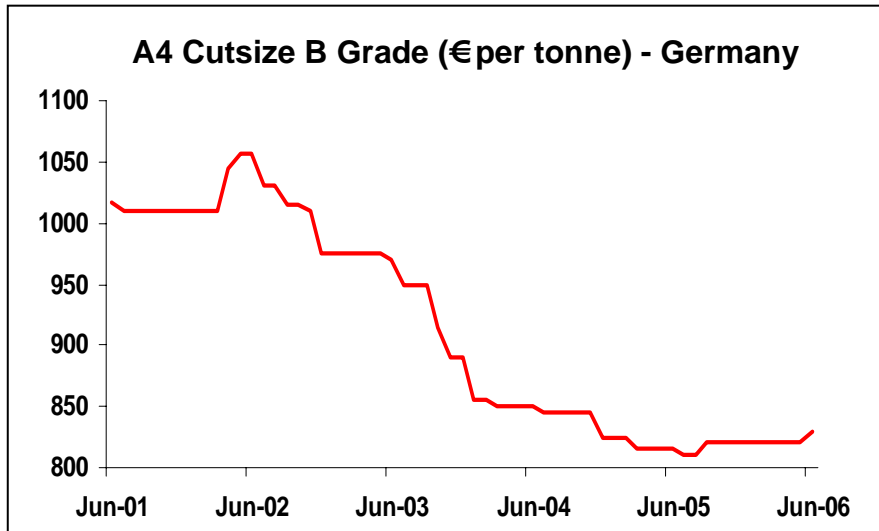
# Macro Economic Environment Challenging



# Coated Woodfree Paper



# Uncoated Woodfree Paper



# Results For Year Ended 30 June 2006

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- Reported profit of \$65.4 million compare with \$89.6 million (excluding ATC) for the year ended 30 June 2005 reflecting a continuation of the difficult macro environment facing the paper industry globally
- EBIT of \$152.4 million (down 15% on prior year) includes one-off gains on sales of surplus assets mostly offsetting one-off restructuring and closure costs
- Second half underlying operating earnings stabilised versus first half and prior period
- Unable to pass through rising Australian Paper input costs in pricing
- Merchant expenses were down 2% on prior year
- Net working capital down \$92 million (excluding currency impacts and acquisitions) contributing to an operating cash flow of \$260 million
- A range of strategic initiatives are underway to improve returns off this base:
  - Consistent with our core operating principles and strategic direction
  - One-off restructuring costs largely covered by profit on non-core asset sales (primarily property).

# Financial Summary

		12 months to Jun 2005	12 months to Jun 2006
Sales Volume	'000 tonnes	4,290	4,248
Sales Revenue	\$m	7,574	7,413
EBIT	\$m	180.1	152.4
Reported Earnings after Tax (excluding ATC)	\$m	89.6	65.4
Reported Earnings after Tax (including ATC)	\$m	166.6	65.4
EBIT/Average funds employed	%	6.7	6.2
Net Debt / Net Debt & Equity	%	35.9	36.0
Earnings per share (excluding ATC)	cps	20.1	14.7
Earnings per share (including ATC)	cps	37.3	14.7
Total dividends	cps	25.5	10.0

# Dividend and Dividend Re-investment Plan

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- Final dividend for the year of 4.5cps, unfranked
  - Brings total dividend to 10.0cps
  - Dividend level consistent with target payout ratio of 70%
  
- Dividend Re-investment Plan implemented
  - Available to all eligible Australian and New Zealand shareholders
  - Priced at market, not underwritten
  - Full details being sent to eligible shareholders today.

# Other Performance Measures

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- Improved safety record (LTIFR down 27%, MTIFR down 26%)
- Environment
  - FSC chain of custody certifications
  - All paper mills retain ISO14001 environmental accreditation
  - Shoalhaven and Maryvale mills achieve FCS chain of custody certification
- Member of the FTSE4Good index
- Supplier awards

# Core Operating Principles

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Our Core Operating Principles have provided guidance to improve our competitiveness and position ourselves for improved returns going forward:

- Strengthen then build off existing business platforms
- Productivity to provide funds to improve sustainability and growth
- Simplification
- Actively prioritise activities based on value creation for our customers, suppliers and for PaperlinX
- Fully leverage our global opportunities
- Invest in our people and their skills
- Compliance is mandatory
- Results oriented teamwork/success as a team.

# Benefits from Strategic Initiatives

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- Significant benefits to operating earnings from strategic initiatives highlighted at the interim result
  - +\$35 million in 2007
  - +\$100 million in 2009
  - These initiatives on track for expected benefits
- Two new strategic initiatives commenced
  - PaperlinX Office
  - Maryvale woodyard outsourcing
    - Complements Maryvale pulp upgrade
    - Includes redundancies and redundant asset write-offs
  - Net \$12 million one-off costs from these in 2007
  - Returns above target levels.

# Major Business Initiatives - Restructurings

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## INITIATIVE

## STATUS

The Delivery Co (UK)

1<sup>st</sup> site operational, roll-out on-plan

Netherlands integration

Management appointed, packaging integrated, on-plan

Closure of Shoalhaven PM1

Completed as planned

Exiting unsustainable markets

Portugal exited

# Major Business Initiatives - Investments

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## INITIATIVE

## STATUS

Cascades acquisition in Canada

Complete, 15% ROFE achieved, small divestments underway

European IT platform

1<sup>st</sup> implementation successful (Ireland), on-track

Growth of own brands

8% growth in merchant brands

Rebuild of Maryvale PM 1

Complete; uptake improving from slow start

Maryvale pulp mill upgrade

On-track / on-cost

Strategic supplier alliances

Alliances established; growth targeted

Expansion into complementary categories

Sign and Display / Industrial Packaging growth

# New Strategic Initiatives

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Two new strategic projects have been initiated (\$12 million one-off costs in fiscal 2007):

## INITIATIVE

PaperlinX Office

Maryvale woodyard  
outsourced

## STATUS

- Management announced
- Business plans initiated

- In principle agreement
- Subject to conditions

## IMPACT

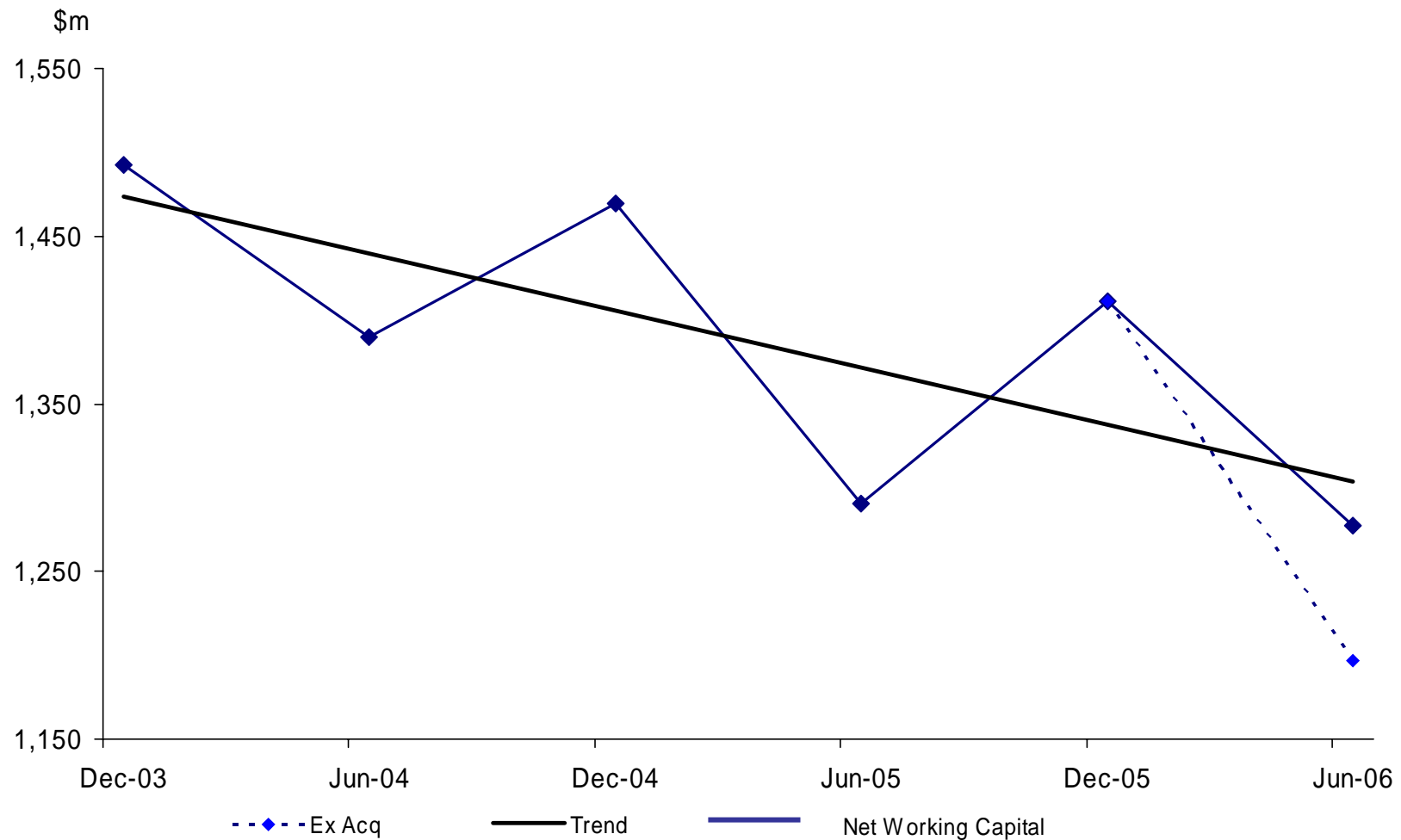
Builds on strength of three existing businesses supplying the Australian office products and stationery markets

Further enhance quality and consistency of pulp to be produced at upgraded pulp facility

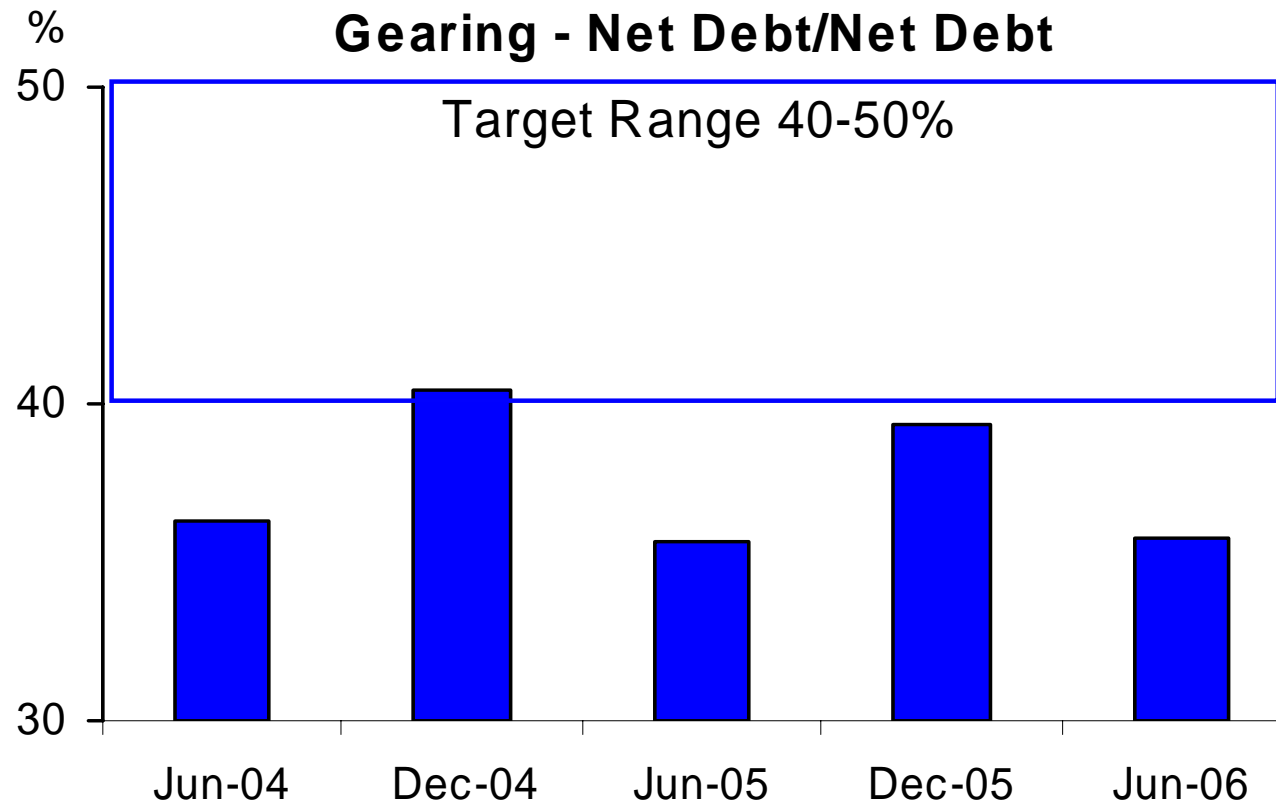
# Key Financial Measures

		12 months to Jun 2005	12 months to Jun 006
Working Capital	\$m	1,223	1,277
EBITDA	\$m	293.0	257.1
Operating cash flow	\$m	273.4	259.8
Net Interest cover	X	2.6	2.3
Net interest expense	\$m	68.5	65.1
EBIT / Average funds employed	%	6.7	6.2
Capital Expenditure (excluding acquisitions)	\$m	86	101
Capital Expenditure (including acquisitions)	\$m	131	202
Net tangible assets per share	\$	2.40	2.49
Net Debt / Net Debt & Equity	%	35.9	36.0

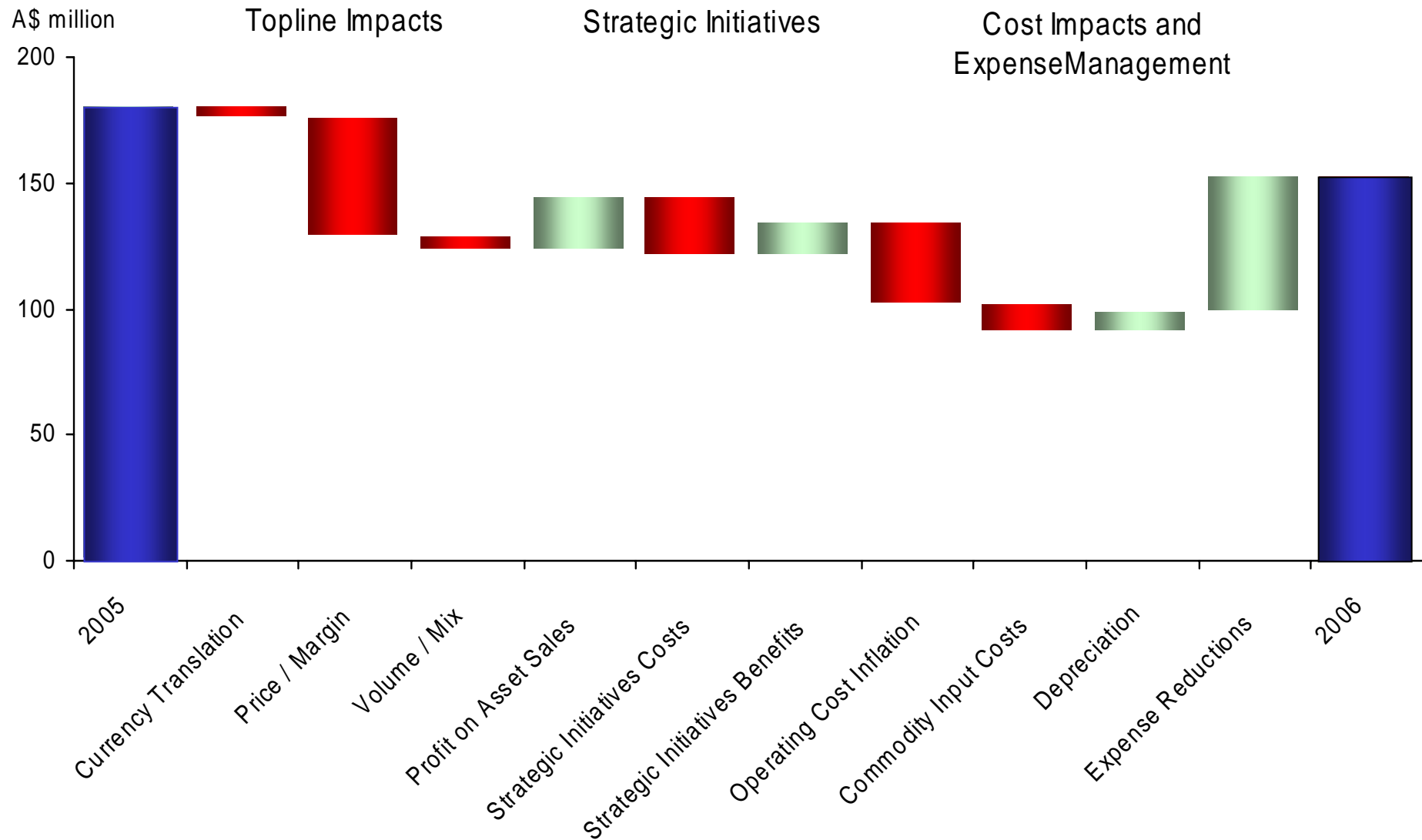
# Net Working Capital – Currency Adjusted



# PaperlinX Gearing



# Key Variances to EBIT



# Corporate and Other

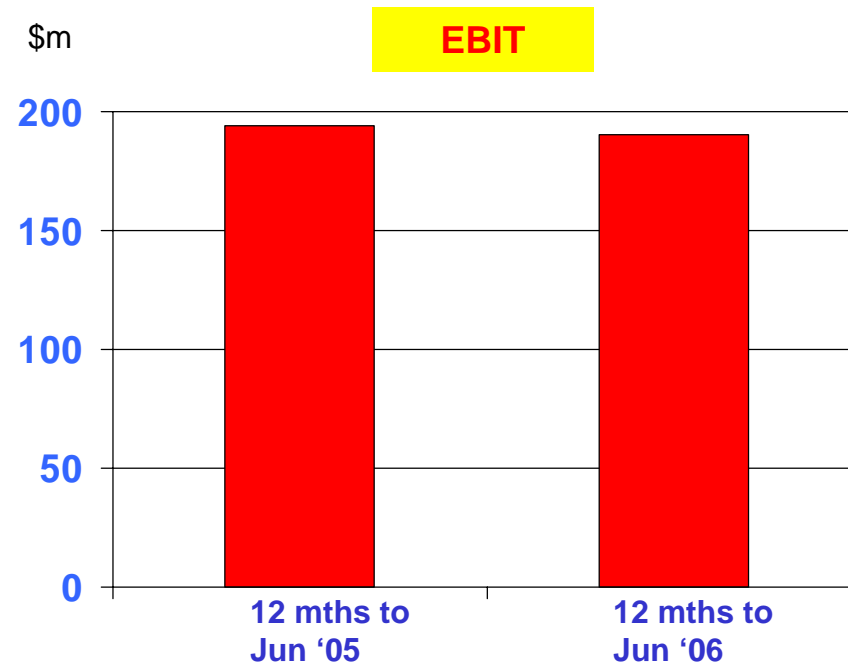
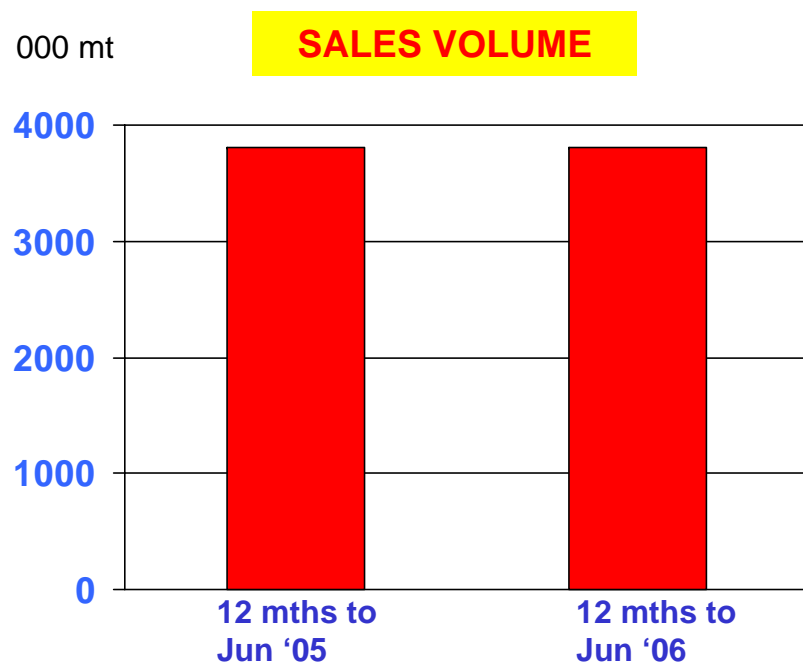
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		12 months <u>Jun 05</u>	12 months <u>Jun 06</u>	Change <u>%</u>
Sales Revenue	\$m	101	95	(6)
Earnings before Interest & Tax	\$m	(26.1)	(33.9)	

- Underlying corporate costs were at a similar level to prior period
- Prior period one-off benefits were not repeated
- *tudor* Group faced pressure from low priced imports, with reduced pricing affecting margins. Second half performance suffered a significant deterioration.

# Paper Merchants – Consolidated Result

		12 months <u>Jun 05</u>	12 months <u>Jun 06</u>	Change <u>%</u>
Sales Volume	'000 tonnes	3,813	3,813	0
Sales Revenue	\$m	7,035	6,930	(1)
Earnings before Interest & Tax	\$m	194.1	190.4	(2)
Return on Average Funds Employed	%	11.8	11.5	



# Merchanting - Europe

		12 months <u>Jun 05</u>	12 months <u>Jun 06</u>	Change <u>%</u>
NW Europe		792	751	(5)
UK & Ireland		1,228	1,183	(4)
Central & Southern Europe		<u>494</u>	<u>505</u>	2
Total Sales Volume	'000 tonnes	2,534	2,458	(3)
Sales Revenue	€m	2,828	2,748	(3)
Earnings before Interest & Tax	€m	77.7	74.5	(4)

- European market remained challenging, with UK economy softer than in 2005
- Lower volume primarily driven by slower UK retail spending, restructurings in France and Germany, as well as first quarter supply restrictions due to Finnish strike and impact of failed mill coated paper price increase in Q4 of fiscal 2005
- Stock to indent ratio improved (1 pt) and branded volumes lifted (+5.4%)
- EBIT includes €7m of net one off gains more than covering one-off costs associated with various restructuring activities.
- Total expenses down 1.9% driven by strong performance in operating expenses and restructuring benefits
- Working capital continued to reduce, with improved performance on all measures

# Merchanting - North America

		12 months <u>Jun 05</u>	12 months <u>Jun 06</u>	Change <u>%</u>
Sales Volume	'000 tonnes	416	509	22
Sales Revenue	US\$m	662	849	28
Earnings before Interest & Tax	US\$m	21.7	29.6	36

- North American markets benefited from paper manufacturers actions to reduce capacity with prices higher, even in fairly modest market growth conditions
- Converted and proprietary branded volumes were up 15% across North America
- Expenses contained (ex sales commission flow on)
- Includes Spicers Canada for 4 months
- Underlying volume up 5%, sales revenue up 8% and EBIT up 17%
- Total earnings are up 35%, and up 120% over the past two years reflecting our leverage to the upside.

# Merchanting - North America continued

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- Coast Paper benefited from a range of internal management initiatives to be well ahead of the prior period, with improved working capital and expenses
- Kelly Paper also had a strong rise in profit with improved margins as this business continues to compliment the strong Spicers Paper business in terms of market penetration in the US
- Reduced working capital combined with improved operating earnings resulted in a healthy improvement in returns
- Acquisition of Spicers Canada completed in March 2006. Returns already exceeding year 3 15% target with strong earnings performance and working capital reductions.

# Merchanting – Australasia

		12 months <u>Jun 05</u>	12 months <u>Jun 06</u>	Change <u>%</u>
Sales Volume	'000 tonnes	873	846	(3)
Sales Revenue	A\$m	1,288	1,231	(4)
Earnings before Interest & Tax	A\$m	31.1	27.0	(13)

- Following changes to management reporting lines, Australasia has become a new reporting region including Merchanting in Australia/New Zealand, Asia and Paper Trading
- Overall volumes were down 3% with lower volumes in New Zealand and Paper Trading. Prices across the region remained competitive, but stabilised in the second half
- Expenses have been reduced in all businesses, with benefits from prior period restructurings
- Significant progress was made on working capital, down 15%.

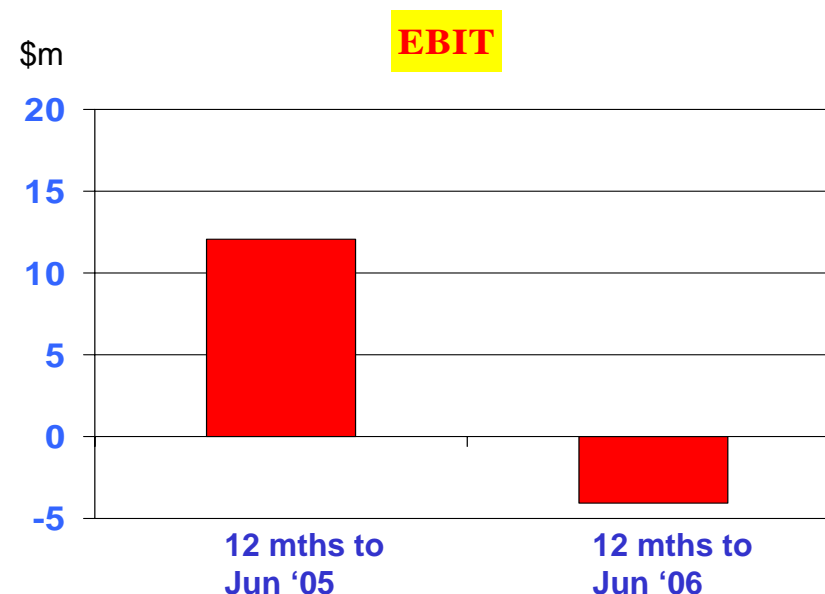
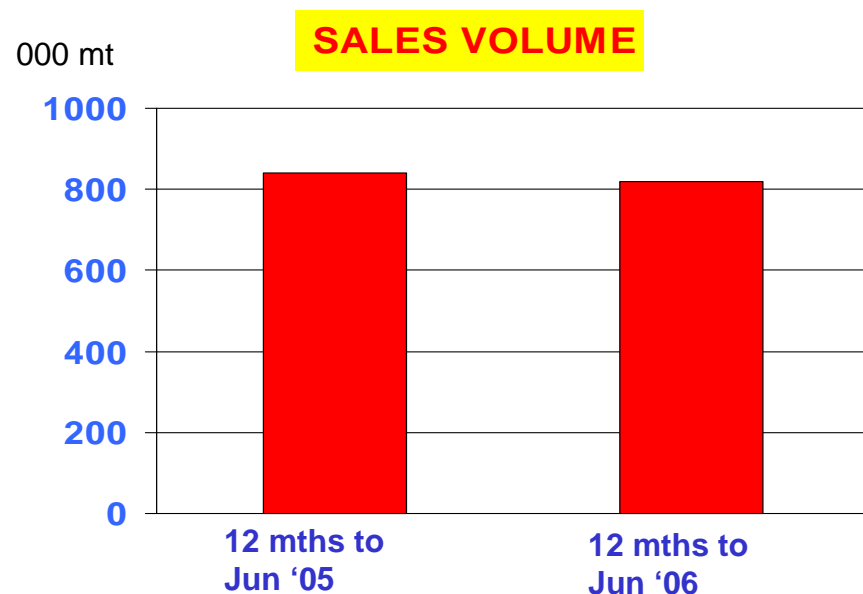
# Merchanting – Australasia continued

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- Strong competition and currency relativities have resulted in average selling prices in Australia being down 0.5% on last year and down 4.7% in New Zealand
- Overall Australian volumes were flat on last year, but New Zealand volumes were impacted by the competitive situation. The New Zealand market stabilised late in the period
- Asian demand was healthy through the whole period, although new regional capacity dampened pricing
- Overall volumes in Asia were up 11% on the back of good gains in market share, and profits grew by 16%
- Supplies of paper for sale in Paper Trading were constrained by Australian Paper's focus on the Australian domestic market and output reductions when cash margins did not justify exports at mid year.

# Australian Paper - Consolidated Result

		12 months <u>Jun 05</u>	12 months <u>Jun 06</u>	Change <u>%</u>
Sales Volume	'000 tonnes	840	817	(3)
Sales Revenue	A\$m	943	916	(3)
Underlying Earnings before Interest & Tax	A\$m	12.1	9.5	(21)
Net One-off Costs	A\$m	0.0	(13.6)	
Reported Earnings before Interest & Tax	A\$m	12.1	(4.1)	
Return on Average Funds Employed	%	1.4	(0.3)	



# Australian Paper - Overall

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- Overall earnings have been under significant pressure due to lower pricing and the inability to recover input cost increases over three years. This remains the key issue for this business
- Operating earnings include a net one-off charge of \$13.6 million for the closure of the number 1 paper machine at the Shoalhaven Mill and Maryvale PM1 commissioning costs offset by non-core asset sales.
- Second half underlying operating earnings stabilised
- Overall volumes were 2.8% lower as export sales have been reduced and production constrained where cash contributions were negative. Domestic sales volumes were in line with last year while exports were down 9%
- Commodity input costs (primarily oil, up 38%) have impacted earnings by \$10.5 million
- The pulp and bleach plant upgrade at Maryvale to improve paper quality, reduce pulp costs and improve environment performance announced in August 2005 is on track and on budget. Completion is expected in fiscal 2008. Returns on this project from the current higher level of pulp price would be significantly higher than originally envisaged.

# Australian Paper – Overall continued

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- The number 1 paper machine at Shoalhaven Mill was closed on schedule in March 2006
- Overall, Australian Paper will need some help from external factors, in addition to the benefits from strategic initiatives, to achieve acceptable returns
- Price rises have been announced to begin to recover increasing input costs to hold further margin deterioration.

# Australian Paper - Communication Papers

		12 months <u>Jun 05</u>	12 months <u>Jun 06</u>	Change <u>%</u>
Sales Volume	'000 tonnes	522	501	(4)
- Australia / New Zealand	%	73	78	
Sales Revenue	\$m	700	674	(4)
Underlying Earnings before Interest & Tax	\$m	2.1	4.3	105

- Paper selling prices in the Australian market remain under pressure (down 2% on average), while input costs rose significantly. Average oil costs were up 38% on the prior year.
- Domestic sales volumes were up 3% on the prior year largely due to improved sales of office papers. The key Reflex<sup>®</sup> brand of copy paper has launched a range of new products including recycled grades. Total office papers sales were up 12%, with market share growth.
- The Shoalhaven and Maryvale Mills have received FSC chain of custody environmental accreditation and will be producing FSC certified grades for the Australian market. Other mills are progressing towards certification.
- Price rises have been recently announced of between 3% and 5% depending upon the grade to begin to recover increased input costs.

# Australian Paper - Packaging Papers

		12 months <u>Jun 05</u>	12 months <u>Jun 06</u>	Change <u>%</u>
Sales Volume	'000 tonnes	318	316	(1)
- Australia / New Zealand	%	77	73	
Sales Revenue	\$m	243	242	0
Underlying Earnings before Interest & Tax	\$m	10.0	5.2	(46)

- The Australian linerboard segment was impacted by lower demand from key customers
- The upgrade of the Maryvale Mill number 1 paper machine was completed during the year with production meeting target specifications
- High second half exports resulted from slower than expected domestic uptake of sack and bag paper, though this position is improving
- Export receipts continue to be depressed by the level of the Australian dollar.

## 2006 Final Result Summary

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- Net profit of \$65.4 million reflects the impact of adverse trading conditions, with average selling prices lower in most areas, supply imbalances remaining in a number of markets, a weak US dollar and increased input costs impacting on manufacturing
- Improvements in North America and Asia highlight the upside potential when pricing stabilises or increases
- Healthy Merchanting ROAFE of 11.5% in historically weak markets reflects reduced expenses (over 2%) and working capital reductions along with integration benefits realised
- Strategic acquisitions and small bolt-ons continue to drive value in merchanting
- Branded volume growth, improved stock/indent ratio, increased domestic copy paper sales all improve mix
- A growing list of strategic projects to improve competitiveness / productivity expected to generate sustainable operating earnings benefit
- Restructuring costs funded by ahead of plan asset sales (warehouses)
- Dividend reflects a 70% payout ratio, unfranked.

# Business Outlook - Overall

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- Challenging market conditions continue into the new financial year
  - Input costs rising
  - overall demand remains modest
  - Industry overcapacity (CWF)
- Continued expense and working capital reductions targeted
- Strong list of productivity/competitiveness projects generated, resourced and on track, with more being added
  - package of initiatives highlighted in February to generate incremental EBIT on track
    - +\$35 million benefit in 2007
    - +\$100 million benefit in 2009
  - Maryvale woodyard and PaperlinX Office new strategic initiatives
    - \$12 million in one-of costs in 2007
- Merchanting growth opportunities are being addressed to leverage the existing global platform and build value
- Announced improvements to industry fundamentals (capacity) and the need to recover escalating input costs support announced pricing in UK/Europe
- Focus remains on improved competitiveness, economic profit and shareholder returns through the cycle.

# Appendices

# Operating Earnings (A\$)

	EBIT		Sales Revenue		Total Assets	
	Jun 2006	Jun 2005	Jun 2006	Jun 2005	Jun 2006	Jun 2005
	<u>\$M</u>	<u>\$M</u>	<u>\$M</u>	<u>\$M</u>	<u>\$M</u>	<u>\$M</u>
<b><u>Industry Segments</u></b>						
Paper Merchancing						
Australasia	27.0	31.1	1,230	1,278	505	532
Europe	123.5	133.8	4,555	4,867	2,187	2,140
North America	<u>39.9</u>	<u>29.2</u>	<u>1,145</u>	<u>890</u>	<u>569</u>	<u>382</u>
Total Paper Merchancing <sup>(1)</sup>	190.4	194.1	6,930	7,035	3,261	3,054
Communication Papers	(9.4)	2.1	674	700	635	623
Packaging Papers	<u>5.3</u>	<u>10.0</u>	<u>242</u>	<u>243</u>	<u>298</u>	<u>292</u>
Total Australian Paper <sup>(2)</sup>	(4.1)	12.1	916	943	933	915
Corporate and Other	(33.9)	(26.1)	95	101	122	113
Operating earnings before interest & income tax	152.4	180.1				
Net Interest	(65.1)	(68.5)				
Income Tax Expense	(21.9)	(21.9)				
Outside Equity Interests	0.0	(0.1)				
Inter-segment Sales			(528)	(505)		
Unallocated Assets (deferred tax assets)					74	85
Total	65.4	89.6 <sup>(3)</sup>	7,413	7,574	4,390	4,167

# Reconciliation of one-off items for 2006

	June 2006 EBIT (A\$mils)				
	<u>As Reported</u>	<u>Net Property Actions</u>	<u>Business Restructuring</u>	<u>Net One-Offs</u>	<u>EBIT Underlying</u>
Paper Merchanting					
Australasia	27.0	0.0	(1.6)	(1.6)	28.6
Europe	123.5	17.7	(6.7)	11.0	112.5
North America	39.9	0.0	0.0	0.0	39.9
Total Paper Merchanting	190.4	17.7	(8.3)	9.4	181.0
Communication Papers	(9.4)	1.5	(15.2)	(13.7)	4.3
Packaging Papers	5.3	2.0	(1.9)	0.1	5.2
Total Australian Paper	(4.1)	3.5	(17.1)	(13.6)	9.5
Corporate & Other	(33.9)	0.0	0.0	0.0	(33.9)
<b>Total PaperlinX</b>	<b>152.4</b>	<b>21.2</b>	<b>(25.4)</b>	<b>(4.2)</b>	<b>156.6</b>

# Australian International Financial Reporting Standards (AIFRS)

- Key changes from 2005 Annual Report

	EBIT		PAT (incl ATC)	
	Audit Adjustment	FY05 Annual Report Est	Audit Adjustment	FY05 Annual Report Est
30 June 2005 under AGAAP	184.9	184.9	168.6	168.6
• Defined benefit plans	(1.0)	(0.7)	(1.1)	(0.3)
• Share based payments	(2.3)	(2.3)	(2.3)	(2.3)
• Reserve for own shares	(1.0)	(1.0)	(0.7)	(0.7)
• Impairment of non-current assets	(12.4)	(16.7)	(8.7)	(11.7)
• Income tax	-	-	(0.4)	(0.3)
• Trade discounts and rebates	0.2	-	0.2	-
• Non-amortisation of goodwill	20.1	20.1	20.1	20.1
• Non-depreciation of non-current assets impaired as at 1 July 2004	2.2	10.2	1.6	7.1
• Disposal of foreign denominated subsidiary	(1.7)	(1.7)	(1.7)	(1.7)
• Business combinations	(8.9)	(8.8)	(8.9)	(8.8)
<b>30 June 2005 under AIFRS</b>	<b>180.1</b>	<b>184.0</b>	<b>166.6</b>	<b>170.0</b>

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