

From the Office of the Chairman
PaperlinX Limited
ACN 005 146 350
307 Ferntree Gully Road, Mt Waverley
Victoria 3149 Australia

25 July, 2005

Dear Shareholder,

On 28th April 2005, PaperlinX advised the Australian Stock Exchange that the forecast profit after tax for the 2005 financial year would be around 20% less than the profit of the prior year (excluding the impact of Australian tax consolidation). We will announce the actual results for the year ended 30th June 2005 on Thursday 25th August 2005, and our results for 2005 will be consistent with or better than the April guidance for reported profit, with strong operating cash flow in the second half.

I would now like to take this opportunity to clarify a number of matters which have received some media and investment advisor commentary since the announcement in April.

As background to my comments, it is important to note that PaperlinX's earnings are linked to a number of cyclical economic factors. These include overall economic demand and paper selling prices in the regions in which we operate (in particular Australia and more recently Europe), and the level of the Australian dollar against the US dollar which can have a major impact on our Australian manufacturing business. Profits for the 2005 fiscal year were negatively affected by these cyclical economic and currency factors. These have moved against the company in unison; European and Australian paper demand and paper prices have been low and the Australian dollar moved to its highest level against the US dollar since 1997.

My first comment is that the changed profit outlook for the 2005 year happened relatively quickly. At the start of the second half of the 2005 financial year, based on the first half activity, we were optimistic that paper selling prices and volumes in Europe and Australia would improve. Unfortunately, these improvements did not eventuate and this had a significant negative impact on our earlier estimated result for the year. Further, we considered that some softening of the Australian dollar against the US dollar was possible which would have benefited Australian Paper's pricing and volume mix for the second half of this year. Again this did not happen to the degree necessary to give the anticipated profit benefit in the 2005 financial year. Australian Paper's operating performance was also negatively affected by a number of factors and these reduced the profitability of this business.

Secondly, the underlying financial position of the PaperlinX group is very sound with substantial operating cash flows and access to more than enough funding for current needs without any requirement for equity raisings. We have more than sufficient credit lines to meet our medium term debt needs.

Thirdly, our merchanting acquisitions in Europe have been very successful. Our merchanting operations retain leading market share positions in key markets around the world and the return on funds employed for merchanting for the 2005 financial year are forecast to be over 10%, which is good given current conditions. The integration of Buhrmann's Paper Merchanting Division in Europe, which was acquired in the previous financial year, has progressed well and has been substantially earnings per share accretive in 2005. Our strategic move to establish the only global paper merchant has clearly created value for the group, and offers opportunity for further value creation in line with our strategic targets.

Unfortunately, the significant positive contribution to our group earnings generated in 2005 from our recent investments in Europe was not sufficient to compensate for the substantial drop in our Australian Paper earnings. This drop was due to the various impacts associated with the appreciation of the Australian dollar and to the negative profit impact of the operating factors referred to above.

Your Board is confident that the company is following the correct strategic path for both of our business streams, and has a sustainable long term future as we move through the current low levels of the earnings cycle. We wish to assure you that we are doing all that we can within the company to maximise the returns our company can generate, even in the current market conditions.

The stock market's reaction to the revision of the 2005 year earnings expectations was severe, with the share price being marked down significantly from previous levels. Whilst some share price weakness was to be expected, the Board believes that the share price fell to a level well below the underlying value of PaperlinX in the medium term and it has been pleasing to see some recovery.

On behalf of the Board, I thank you for your support for PaperlinX. We will provide you with a further update in conjunction with the announcement of our results for the 2005 year.

Yours sincerely

A handwritten signature in black ink, appearing to read 'David Meiklejohn', with a long, sweeping horizontal line extending to the right.

David Meiklejohn
Chairman