

CHAIRMAN'S ADDRESS

PAPERLINX LIMITED ANNUAL GENERAL MEETING OF SHAREHOLDERS, SYDNEY THURSDAY, OCTOBER 23, 2003 AT 11.00 AM

INTRODUCTION:

2003 was another year of consolidation and growth for PaperlinX.

The Paper Company (formerly Bunzl Fine Paper) was acquired early in the year, was successfully integrated into our international paper distribution business and met our profit and return targets. For the PaperlinX Group overall, sales increased by 22%, profit after tax was up 7% and a profit return before interest and tax on average funds employed of 12.3% was achieved.

PaperlinX has now increased sales and profits in each year since its listing in April 2000. The results for 2003 were achieved in a business environment which continues to be depressed and these results demonstrate that the Company has continued to manage its underlying business activities and its growth strategies in a successful and professional manner.

The theme of this year's Annual Report is Delivery. This theme encompasses the delivery of sound results, the delivery of excellent service and value to our customers, the delivery of a consistent strategy and the delivery of a strong foundation for improvement in long term shareholder value.

Today I plan to comment on:

- the results achieved for the year ended 30 June, 2003
- the growth of PaperlinX and the imminent acquisition of the Buhrmann paper merchandising division
- the results for the September 2003 quarter; and
- the outlook for the immediate period ahead.

YEAR IN REVIEW:

As detailed in the Annual Report, PaperlinX produced an improved result for the year to June 2003 in an environment of low demand for advertising and promotion which are key drivers for fine paper consumption.

Despite the impact of low demand for printing and writing papers in all of our international markets, which was due mainly to persistent economic weakness, PaperlinX enhanced its competitive position, its sales volumes and its market positions in most of its business regions.

As I mentioned earlier, a major highlight early in the year was the acquisition of The Paper Company (formerly Bunzl Fine Paper) in the United Kingdom and Ireland. In this first year we achieved returns from this business that matched our high expectations. We have done this by, firstly acquiring a business that fits our strict acquisition criteria, secondly, by a carefully planned successful integration into the

wider PaperlinX organisation, and thirdly, by having a strong local management team with a focus on operational excellence and cost minimisation.

We are currently concluding the acquisition of another European business, the paper merchanting division of Buhrmann NV. I will comment further on that transaction later and Ian Wightwick will provide an overview of that business and what its acquisition will mean for PaperlinX.

While acquisitions are important and will provide profit growth for PaperlinX as conditions improve in the future, it is important to stress that we have maintained a strong focus on the management of our existing businesses.

PaperlinX's Merchanting business produced a creditable result in the 2003 Financial year, in a challenging market. Apart from the growth due to acquisition of The Paper Company, PaperlinX merchanting has increased sales volume, and improved market share and gross operating margin percentages, although lower international paper prices impacted on absolute profit margins.

Australian Paper, our Australian based manufacturing business, has been impacted in 2003 by a range of economic factors beyond our immediate control, including a significant strengthening of the Australian dollar and consequent lower selling prices for paper in an environment of soft demand in both Australian and export markets. This business is seeking to ameliorate these negative factors by focussing on cost reduction programs and improved productivity.

While earnings were lower in the Communication Papers segment, Australian Paper is actively building on its position in Australia by enhancing customer relationships and reinforcing its strong branding position and reputation for quality products with excellent customer service.

The Packaging Papers business achieved an improvement in earnings. A major initiative during the year was the development of the new semi-extensible sack kraft paper that has enhanced our product range.

Although PaperlinX has had a creditable profit performance relative to its industry peers both in Australia and internationally, management continues to seek ways to improve productivity and profitability. As a consequence there continues to be a focus on reducing costs and on new and existing programs which have set significant stretch targets to improve overall returns.

During the year PaperlinX successfully implemented new transaction and management control computer systems for its Australian Paper operations and also its paper merchanting operations in Australia. These systems will deliver benefits in logistics costs and supply chain management. These state-of-the-art systems were completed on time, within budget, and with no business disruption.

Overall PaperlinX completed the year with a strong underlying financial profile and delivered an overall EBIT return on funds employed of 12.3% which is ahead of the weighted average cost of capital.

However earnings per share for 2003 was adversely impacted by the Company maintaining a low gearing in anticipation of further growth by acquisition. Early in the year we commenced a share buy-back program but this was terminated when the Buhrmann transaction emerged. As a result we completed the year with a higher level of shares on issue than would have been the case if the acquisition transaction was not being negotiated. On the positive side our low gearing has allowed us to fund this new acquisition with a lower level of new equity than would otherwise have been the case. This will have a positive impact on the growth in earnings per share in the years ahead.

ACQUISITION OF BUHRMANN PAPER MERCHANTING DIVISION:

In June 2003 PaperlinX announced that it was making an offer for the paper merchanting division of Buhrmann NV, a Dutch based office products company.

The indicative price of €746 million was based on the balance sheet of the business at 31 December, 2002 and this price and the whole transaction was subject to appropriate due diligence. This intensive due diligence process was undertaken by a team composed of PaperlinX executives and external advisors and took almost 3 months to complete.

On 9 September, 2003 we announced that following the due diligence the amount actually payable by PaperlinX at completion is estimated to be approximately €635 million plus transaction costs estimated at some €20 million. There is a further deferred consideration of €26 million payable if agreed earning targets are met for calendar year 2003. Thus, including costs, the total funds invested initially are estimated to be approximately €655 million.

This is a very satisfactory outcome for PaperlinX and its shareholders and represents a major strategic step for future growth. The acquisition will change our company in important and fundamental ways as a significant proportion of earnings will now be generated from our paper merchanting business and the European market becomes a major part of that business.

The Board and management are confident that this business has significant potential and the due diligence confirmed that the acquisition should increase PaperlinX's earnings and earnings per share by significant amounts over the next 3 years.

As part of the funding for this acquisition PaperlinX raised some \$390 million by issuing approximately 87 million new shares to institutional and other shareholders. We were heavily oversubscribed for both the institutional placement and the share purchase plan and both had to be scaled back. In the case of the share purchase plan we accepted applications for \$150 million of shares rather than the target \$120 million we had announced previously. Although we closed the share purchase plan on 8 August, 2003 we were unable to formally allot the shares until we were certain that the Buhrmann transaction would proceed and this did not occur until 29 August, 2003. We stress that this delay was not due to any inefficiencies in the administration of the share purchase plan but rather was attributable to the lack of certainty regarding completion of the transaction.

As a result of this strong equity support and the lower price that was negotiated, our balance sheet gearing ratio of debt to debt plus equity will now be approximately 40% which is comfortably within our target range.

As I have indicated, the acquisition of the Buhrmann paper merchanting division is a significant step in our strategy of building a substantial international fine paper merchant business. This acquisition creates a multi continent fine paper merchant with operations across Australasia, Asia, Europe and North America. The Buhrmann business complements our existing merchanting and Australian Paper manufacturing businesses, diversifies our earnings base, delivers enhanced shareholder value and positions PaperlinX strongly for the future.

ENVIRONMENT AND SAFETY:

PaperlinX is committed to responsible management of environment and safety matters.

In respect of the environment, we manage our operations and business activities to comply with the laws and regulations of the countries in which we operate. In addition PaperlinX is seeking to continually improve its environmental performance and has programs in place to maintain the highest possible level of environmental awareness within the company.

Within Australian Paper one of our key objectives as a paper manufacturer is to ensure that our raw materials are produced in an environmentally responsible manner. The company manufactures a wide variety of pulp, the main raw material for paper manufacture. We apply the internationally recognised environmental standard of ISO 14001 to our own manufacture of pulp. Moreover, we require all our external pulp suppliers to have an internationally recognised equivalent level of independent accreditation. Through this independent environmental assessment, the highest international standards of environmental responsibility are applied to our major raw material, whether it is manufactured by the company or purchased from another supplier.

In respect of safety, the safety programs are designed to continually assess and improve safety performance as well as to empower every employee at every level to suggest and make safety improvements. The company has developed a single set of performance standards for occupational health and safety which are applied worldwide and all sites now operate within this set of performance standards. These standards are underpinned by the "Work Safe Together" program which the company introduced this year.

Although safety performance continues to improve, the company is committed to further improving performance as far as possible. The continuing roll out of safety programs across all sites and regions will be integral to achieving this goal.

CORPORATE GOVERNANCE:

As indicated in the Annual Report, PaperlinX supports and is committed to the principles of best practice in Corporate Governance. The Board comprises a majority of independent non-executive directors and includes a mix of directors with a range of

skills, experience and expertise to promote board effectiveness. We regularly review the content and application of our governance framework to ensure that we maintain the highest standards of board performance and corporate governance.

Our governance process is underpinned by an effective committee structure. Our committees meet regularly and full reports on committee discussions and deliberations are made to the full board.

I should point out that a number of the issues that have recently received public attention have been part of our governance culture since PaperlinX was formed. For example, we established at the outset that directors should serve on the company's board for a term of up to 11 years only.

The annual report provides full details of the non-executive directors' emoluments. As indicated, all existing non-executive directors have entered into agreements with the company whereby retiring allowances are paid upon retirement or death. In accordance with the practice being adopted by most other companies, the board has determined that this retirement allowance will be retained for existing directors but it will not be extended to any new directors. Details of the individual directors' annual retirement allowance accruals are included in the emoluments table in the annual report.

With the substantial growth and expansion of PaperlinX, the responsibilities of your directors and the time demands of PaperlinX's affairs have grown significantly. Further the continual flow of new bureaucratic edicts on corporate governance is adding to our workload. However all PaperlinX directors are committed to ensuring that the principles of best practice in corporate governance are applied and we will ensure that we continue to act in the best interests of our shareholders.

SEPTEMBER QUARTER RESULTS AND OUTLOOK:

The September quarter has not been an easy one for the paper industry worldwide. Both manufacturers and distributors have continued to face weak demand conditions and depressed international paper prices which have kept margins under pressure.

In addition PaperlinX's results have been adversely affected by the strengthening Australian dollar which impacts negatively the translation of earnings from both our overseas businesses and our export sales as well as effectively reducing Australian paper selling prices in Australian dollars. The appreciating dollar has particularly had a severe impact on our Communications Papers business in Australia over the past 12 months as, in an already soft market, competitive import volumes have increased and domestic prices have fallen. For the year to June 2003 the Communications Papers results were well down on the previous year and this trend has continued. Sales and earnings for this business for the September 2003 quarter are significantly below the results for the corresponding period last year.

The creditable results from PaperlinX's other business segments together with substantially lower interest costs were only able to partially compensate for the negative impact of the strengthening Australian dollar and the reduction in the Communications Papers results. Accordingly, for PaperlinX overall, for the September 2003 quarter sales and earnings were behind both our expectations and the corresponding period last year.

There are some signs of a pick up in paper merchanting activity in some key markets which have been in recession for over two years, most notably the USA. The outlook for the next twelve months remains difficult to predict as expectations of recovery on previous occasions have proved to lack resilience. However, our strategic expansion and our focus on cost management has positioned PaperlinX to benefit from any improvement in activity.

CONCLUSION:

As previously announced our Managing Director, Ian Wightwick, will retire after the acquisition of the Buhrmann paper merchanting division has been completed and the integration is well advanced. I thank Ian for his outstanding efforts over the past few years and will make further appropriate comments when his retirement actually takes place. We are well advanced with the search for Ian's replacement and I will make an announcement on this matter again at the appropriate time.

I should point out however, that Ian is supported by a very competent and experienced management group. We were fortunate to have a solid core team when PaperlinX was listed and have strengthened the management team with additional competent people as we have expanded through acquisitions over the years. In addition we have recruited some very experienced people in Australia and overseas.

I congratulate all of the people who work for PaperlinX on their achievements of the past 12 months and thank my board colleagues for their advice and support.

As often seems the case the immediate year ahead looks to be a challenge but I am confident that we have the business framework and the people to continue to deliver a steady improvement in value to our shareholders in the years ahead.

David E Meiklejohn
23 October, 2003