

MANAGING DIRECTOR'S ADDRESS

PAPERLINX LIMITED

ANNUAL GENERAL MEETING

TUESDAY, 26 OCTOBER 2004

MELBOURNE, AUSTRALIA

I am pleased to be here today and to have been a part of PaperlinX for the last nine months. We are a young and dynamic company with a clear record of disciplined growth over the past four years.

The acquisition of Buhrmann's Paper Merchanting Division completed in November 2003 saw PaperlinX achieve a global merchant position and provide an improved balance in our earnings streams. We have a strong manufacturing base in Australia with clear strategic advantages in this market, and we are now the world's leading fine paper merchant.

In fact, today we are a company with almost 10,000 people in 31 countries. We have over 100,000 customers, and deal with most of the world's major paper makers. Our paper merchants sell over 4 million tonnes of paper per year and our manufacturing in Australia produces another 800,000 tonnes of paper a year. That is a lot of paper, and a lot of opportunity. We are excited to be involved with a product that is so versatile, so woven into the way we live our lives and communicate among each other while still being natural, recyclable and sustainable.

Having achieved this position, our priorities are now centered around improving the returns from this relatively new platform and lifting our profits and earnings per share from 2004 levels.

Since joining PaperlinX, I've had the opportunity to meet with a wide range of our customers, suppliers and employees. It's clear from these discussions that the disappointing result that has been reported for 2004 is not fully reflective of the

commitment and hard work of our people, the efforts to provide superior solutions for our customers, nor the major strategic steps forward that the company has made over the past year.

TRADING CONDITIONS:

As the Chairman has already indicated, 2004 was a difficult year, with a number of major external factors impacting on our operating results. Weak international paper demand meant low international paper selling prices and surplus supply of paper from international markets appearing in export markets around the world.

For our Australian focussed paper manufacturing business, Australian Paper, the strength of the Australian dollar further exacerbated this situation, resulting in an increase in low priced imports of paper into Australia and hence the need to lower the selling prices we charged for the paper we manufactured to remain competitive.

The stronger Australian dollar has also had an impact on the translation of earnings from our overseas businesses and reduced our export receipts for paper exported from Australia, partially mitigated by the reduced cost of imported pulp. The total impact of these factors on our 2004 operating profit was \$A60 million.

In addition to these market factors Australian Paper's Packaging Papers business was negatively impacted by our inability to produce a sack kraft product that was able to meet the rising market expectations. As a consequence, volumes and selling pricing for sack kraft fell with a full year impact of \$A25 million.

Since the end of the fiscal year we have announced a complete rebuild of our sack kraft paper machine to complement the semi-extensible unit installed last year. This will ensure that we can produce world class product for both our domestic customers and export markets. Due to successful negotiations with suppliers this project will now be completed by the September quarter of 2005, three months ahead of previous expectations. Other capital investments are being developed and reviewed to lift returns, improve product offerings to our customer base and strengthen our long term

strategic position from an environmental, customer satisfaction and sustainable returns perspective.

For our merchanting business, the acquisition of Buhrmann's paper merchanting division was completed in November, and we have worked closely with our new colleagues to ensure a smooth integration. In an operational sense, this integration is now complete.

Our European acquisitions met or exceeded our expectations last year. Buhrmann's ex-merchants met our target operating profit and exceeded our earnings per share expectation for the 8 months since ownership, while The Paper Company, acquired only two years ago, has achieved our year three target of 15% return on funds employed by the end of year two, a year ahead of plan. Importantly, these improvements have been driven by a focus on strong customer relationships combined with the benefits of PaperlinX core processes and global alliances, all achieved in a difficult market environment. This focus on existing businesses, global leverage, and productivity will ensure that PaperlinX can produce sustainable earnings growth, while retaining the added benefit of enhanced leverage to any improvement in market conditions.

A key feature of the year has been the successful integration of Buhrmann's paper merchanting division. We continue to focus on realising all the benefits that can be gained from our global paper merchanting platform. We have integrated reporting systems and management processes and we are well on track to generate at a minimum the €12 million of synergies targeted by year 3 at the time of the offer to acquire the business was made. These benefits are being realised while recognising a fundamental respect for the customer relationship, and those that build these relationships as the basis of value creation in all of our merchants globally. We are also delivering structural benefits resulting in a positive impact on earnings per share from the Buhrmann merchanting acquisition.

So to summarise the major accomplishments in Fiscal 2004:

- we have become a global merchant and improved the balance to our business streams;

- we completed the acquisition of the ex Buhrmann Merchants;
- these businesses are performing strongly and have exceeded EPS targets in the first 8 months;
- synergy benefits are on track and the integration is operationally complete;
- The Paper Company acquisition undertaken two years ago is performing ahead of plan; and
- we are addressing the Sack Kraft issues and expect to achieve top quartile product performance when the upgrade is complete.

CORE OPERATING PRINCIPLES:

With our new business portfolio largely in place, PaperlinX's management team have developed seven Core Operating Principles to give guidance to all employees and to help our decision-making on a day-to-day basis. They provide a common direction for PaperlinX and we believe they will encourage alignment across our businesses and people.

Our Core Operating Principles are:

- Focus resources on strengthening existing businesses

Building the strength of our manufacturing and merchanting businesses requires dedication and focus. There is a great deal of future opportunity for improvement and growth from our existing business platform as we find creative and innovative solutions to building our businesses.

- Productivity to provide funds to improve sustainability and growth

Investments in our facilities, our systems, our brands and our people all need funding; we need continuous productivity to provide the funds to support these investments that will make us a stronger company for the future.

- Actively prioritise activities based on value creation for our customers, our suppliers and for PaperlinX

We all must seek to add value for our customers, our suppliers or for PaperlinX as a whole, and find alternative options for those activities that don't achieve this.

- Fully leverage our global opportunities

By supporting each other and other businesses in the PaperlinX group, we will fully benefit from our combined people and business resources and fully leverage our global opportunities. Recent appointments in the areas of operational excellence and strategic sourcing will further support this principle.

- Invest in our people and their skills

Supporting and developing our people and their skills makes for a stronger and more capable company. We are increasing our investments in these areas.

- Compliance is mandatory

There is a line that divides what is right and wrong. Our people must understand it and not cross it in relation to competitive behaviour, employee safety or environmental issues in particular.

- Results oriented teamwork/success as a team

Small groups of people, well focussed on a problem, will almost always help each other to find a better result. The ideas and leverage of our people from around the world working together is a major component of our future success.

These operating principles also give an insight to our shareholders into how we intend to drive the best possible performance from our company. It is by combining focus and a clear vision with striving for best practice in all that we do across the group that we seek to be recognised as the leading international paper company by our customers, suppliers, employees and shareholders alike.

SHAREHOLDER VALUE:

With these operating principles as guidelines, there are two key ways we intend to improve the returns our business can generate and the value we create for our shareholders. The first is to optimise the management of the capital we employ in the business. This includes constant attention to the working capital employed in our business, and disciplined approaches to minimise this capital. Last year we saw a 10% reduction in comparable working capital across the business.

We also have clear acquisition criteria, reflected in the nature of businesses acquired and the plans we develop for the improvement in returns of acquired companies.

And finally we assess our capital investment opportunities to create sustainable competitive advantage and returns over time. All of these disciplines are important, and serve to manage our funds employed to optimal levels.

The second way to improve returns is to grow our earnings. We have seen that this is also impacted by external factors. But there are a lot of opportunities under our control. We need to continually improve productivity across all parts of our company. This will provide the funds to invest more in supporting and growing our key strategic advantages.

We need to continually invest in our brands, be they our merchant brands like “Hello” which is the leading coated paper grade in Europe or our mill brands like “Reflex”, Australia’s leading copy paper.

Sometimes this investment also comes in the form of deepening customer and supplier involvement, increases in employee training, or investments in the newest equipment and technologies.

We believe that a good way to measure our financial performance in a way that is both meaningful to our employees, and can be shown to drive shareholder value is to look at our returns on the funds we employ in our businesses. We seek to lift the average return on funds employed in our business over time for both of our business streams. The rapid improvement in returns on funds employed from The Paper Company in the UK after acquisition two years ago is a good example of our model in practice because earnings were grown over the period and the funds employed in the business were reduced at the same time. This then results in the creation of increased economic profit for our business and increased value for our shareholders.

We will deliver our financial model in a sustainable manner with the support and active partnering between our employees, our customers and our suppliers. A good example of this partnering in action is the recently agreed longer term arrangement for Australian Paper to supply over 40,000 tonnes per year of high quality copy paper including 50% recycled copy paper, to Corporate Express in Australia and New Zealand.

THE FUTURE:

Looking forward at our two business streams we believe both have clear opportunities for improvement. For Australian Paper, we can lift returns through investment of productivity savings into areas of strategic advantage such as product quality, branding, manufacturing process improvements and technology.

Projected improvements in global demand and global pricing of paper expected through 2005 would further enhance Australian Paper's returns from the low levels in the second half of last year, with expectations that momentum into the second half of this financial year will see a full year Australian Paper profit similar to last financial year.

In Merchanting, though we are a global fine paper merchant, our paper merchanting model is built on a network of local merchants. This combines the best of entrepreneurial management, close to their customers' needs, with a global business of scale that can create valuable alliances with international suppliers, invest in brands and systems and optimise the benefits of best practice in a way that has not been seen before.

This is leading to continued strength in our merchandising business with solid profit expectations for the current financial year; in addition to the benefits of having the ex-Buhrmann businesses for a full year.

CONCLUSION:

It has certainly been a challenging year in our industry, but we have created a unique business model that will allow us to increase returns despite external impacts. And it will allow us to take maximum advantage of what appears to be some improvements in the external environment.

We have our business platform largely in place following successful strategic acquisitions over the past four years, we have clear operating principles communicated across our company to provide guidance in our decision making, and we have an active and disciplined working model for creating improved returns and increasing shareholder value.

With this base, I look forward to working with the team at PaperlinX towards being recognised as the leading international paper company by our customers, suppliers, employees and our shareholders.