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15 November 2012

PAPERLINX 2012 ANNUAL GENERAL MEETING: CHAIRMAN'S AND INTERIM CHIEF EXECUTIVE OFFICER'S ADDRESSES & CHAIRMAN'S COMMENTS ON ITEM 2 - REMUNERATION REPORT

CHAIRMAN'S SPEECH

I would like to provide an overview of the Company's results for the year and the economic background in which we operate. Before doing this, though, I think it important to make a few comments about the recent changes that have taken place at Board and senior management level.

The New Board and Executive

The Board you see in front of you this morning is very new. We will each be submitting ourselves to you for election later in the meeting, at which time we will each make a few remarks about ourselves. Andrew Price joined the Board on 1 September this year. Robert Kaye and I joined on 27 September. The previous Board retired on 27 September with the exception of Mike McConnell, who remained on the Board until yesterday. So currently we are a small team of three, which is the minimum under the Company's constitution. Three directors is not a sustainable number in the longer term, and we will soon consider adding another independent director with particular regard to chairmanship of the audit committee.

The two most senior executives are also new to their roles. Dave Allen is acting as Interim CEO following the departure of Toby Marchant on 31 July this year. Dave headed the largest of the Company's four regions before expanding his role to assume the Interim Chief Executive Officer role. Richard Barfield joined us as Chief Financial Officer on 1 June 2012 bringing extensive experience in senior operational and finance roles in UK and Europe. In the Melbourne corporate office, Michelle Wong was promoted to the Company Secretary role on 1 July this year.



Your new Directors moved into their roles promptly, and quickly updated ourselves on the Company's main issues. Andrew Price, who has a depth of experience in the industry, has already spent some time in the UK and Continental Europe assessing the European situation first hand. A new plan of action has already been developed, which I will detail later. Your new Board is prepared to provide a higher level of assistance to management and is adopting a greater degree of scrutiny of operations. I can assure you that we are all working well together as a team, with a shared degree of urgency to improve the Company's fortunes.

The Year in Review

The 2012 financial year was another difficult year for your Company. The downturn in demand for paper, which has been evident for some time, clearly emerged as a structural issue rather than just a cyclical impact of the GFC. With hindsight, this may have been obvious, but as someone with a good deal of experience in forecasting and strategic planning, I would remark that the actual timing of major structural change is always difficult to predict.

The paper industry is clearly a casualty of the digital revolution, as are the media and communications industries in general. The digital revolution was forecast by Wall Street in 1999, perhaps ten years too soon. Much of its impact has only emerged in the last couple of years. It is now biting hard. Our principal business as paper merchants is being squeezed along with our major customers in the printing industry and our suppliers, the paper mills.

The natural response to such change is a period of industry consolidation. This can be horizontal, through mergers of competitors, or vertical, between suppliers and customers. PaperlinX has participated in both types of activity in the past year. We have also been beneficiaries of other consolidation activity in which we did not play a direct part, for instance competitors merging or exiting which has resulted in stronger margins for all. We expect to see a good deal more such activity in the industry over the next few years.

So far we have been mainly a seller, exiting from eight of the 26 countries in which we previously operated, because the businesses could not be restructured cost effectively, did not hold major market positions or had limited diversified opportunities. The sales of our businesses in Italy, USA, South Africa and five countries in South Eastern Europe were achieved at good earnings multiples given the current market conditions. This enabled a reduction in borrowings and provided cash which will fund the costs of re-structuring in some of the remaining countries.

A number of our operating companies had been acquired many years earlier at prices which had involved a level of goodwill. It became clear that in most instances this goodwill was no longer justified given the current market conditions and the 2012 year saw substantial write-



downs, otherwise known as impairment charges, which were a major factor in the Company's statutory after-tax loss of \$267 million dollars. At 30 June 2012 the only goodwill remaining on the balance sheet is in New Zealand and Canada.

Results

The Statutory loss after tax of \$(266.7) million dollars is clearly a most unsatisfactory figure. I will mention a few of the major components, then I will pass over to Dave Allen later for a more detailed review of the year.

Volumes of paper sold declined in all major markets, particularly in Europe. The overall decline was about 7 per cent. The average selling price was virtually unchanged, so this fall in volume passed straight through to revenue.

The statutory figures are based on translation back into Australian dollars. The strength of the Australian dollar when compared to last year led to a further 6 per cent fall in revenue when overseas results were translated, so overall sales revenue was down 12 per cent.

In the financial statements the reported underlying EBIT for the group was a negative \$(19.2) million dollars compared with a positive \$17.4 million dollars the previous year.

In addition, the Company reported a number of significant items in its statutory loss. These included asset impairment charges (\$125.9) million dollars and the losses on the sale of the Italian and US businesses of (\$62.4) million dollars. In addition, provisions of \$28.4 million dollars were made for re-structuring costs, mainly in Europe.

The significant items already mentioned took their toll on the Company's balance sheet, but we lowered our net debt position after repayment of debt through asset sales. In addition, a currency option which had been held to hedge the Australian financing of UK debt was closed out to realise \$39 million dollars in cash. Net debt reduced over the year from \$172 million dollars to \$148 million dollars, with a further reduction of \$88 million dollars due in the current year from settlement of the asset sales announced earlier.

To complete the picture, I can report a couple of positive items. Firstly, there was an improvement in employee safety, in regard to lost time due to injury. We must not forget the human side of our business and this is welcome news.

Secondly, the diversification from the traditional paper business into other products such as transit packaging and sign and display materials is gaining momentum, although it is not sufficient at this stage to offset the tough conditions in the paper market. I will return to this in a minute.



Actions Underway

There are a number of actions the Board is quickly progressing. The Board is fully committed to ensuring PaperlinX's cost base is recalibrated to be ahead of the structural decline curve. Previously announced restructures are well progressed. However, market conditions have continued to be weak and the Board is initiating further restructuring which I will discuss shortly.

One thing is clear to us all. Our overall business in Europe is seriously underperforming. The 'old' economies of Europe have been hard hit economically, and it is widely believed that there will be little overall growth for some years ahead. Coupled with this, Europe is faced with fragmented markets, and strong institutional barriers to rationalisation.

In contrast, in Australia, New Zealand and Canada the competitive scene is one in which a good deal of consolidation has already taken place and combined with our cost cutting initiatives has resulted in these regions being profitable, even though there is still room for further improvement. Learnings from these profitable regions will be applied to our European companies.

Importantly, the Board has appointed Andrew Price as an Executive Director. The scope of his role is to work with management to add weight to the re-structuring efforts in Europe. The role is provisionally planned to last for six months, but may be extended. Andrew intends to relocate to Europe for this period. The terms of Andrew's remuneration during this time are still being finalised, but will involve a modest fixed component together with an incentive related to potential improvements in the share price.

New Restructuring Initiated

Our first priority is to stem the losses and turn the Company around. A significant re-structuring plan was announced a few months ago, and is well underway. The Board has now approved a further re-structuring and cost reduction initiative in the UK which will reduce employee numbers by 150, in addition to the 50 previously announced, and save \$13 million dollars per annum on a full year basis. Together with initiatives previously announced, this will involve a drop of more than 12 per cent in employee numbers in the UK. The up- front cost of this initiative is \$3 million dollars with payback to occur during the current financial year.

The next step is to roll out similar initiatives in several of the European countries, particularly Germany and the Netherlands, where we are suffering trading losses. As volumes of sales have fallen, we are committed to reducing the levels of costs to make every business viable. If we do not believe it is possible to realise appropriate returns from additional restructuring then we will consider further asset rationalisation.



As I said earlier, given the structural change in the demand for paper since the GFC, there are now too many players in a number of markets, and we expect further consolidation to take place as it has already done, for instance, in Australia and Canada. We have significant positions in most of the markets in which we operate, and are prepared to play a role in whatever rationalisation takes place.

Step-Up Preference Securities

Whilst the Directors and Management are clearly focused on improving the fortunes of the company, they are well aware of the difficulties of our capital structure, given the competing views of Hybrid holders and Ordinary shareholders. While subscribers to the hybrids a few years ago expected a steady income stream, this had to be sacrificed in the face of the Company's short term cash flow problems. Some hybrid holders have suggested creative solutions and the Board is actively listening to all of these suggestions. We are taking our responsibilities to hybrid holders very seriously and have formed a Committee of the Board chaired by Robert Kaye to deal with all matters associated with the Hybrid.

I am aware that the previous board had made statements around consideration of a possible capital transaction relating to the hybrid. This Board has made no decision on a transactional restructure.

The Board has decided not to pay a distribution for the six months ending 31 December 2012.

The Longer Term

In the longer term we have to develop a vision of what role we will play in a global economy where paper is a minor commodity and as a communication tool is largely being replaced by electronic alternatives. This is a classic case of re-defining or re-inventing the business we are in.

We need to leverage our key strengths and our diversification into transit packaging and sign and display materials is a good start. Out in the foyer today, you will be able to see some examples of our range of 'diversified' products. We are working with our traditional customers to understand how we can better support them, and we are actively seeking new customers in different industries. There are clearly some opportunities for this Company to expand into the wider logistics and fulfilment industries. We will be considering these opportunities over the coming months as we engage with management, shareholders and other key stakeholders.

Closing Summary

I would like to summarise the situation as follows. Against a difficult industry background your new Board has already commenced decisive action. I have spoken of the UK initiatives already



commenced. The next targets are Germany and the Netherlands. Andrew Price will base himself in Europe to contribute to these efforts. Further industry rationalisation is expected, and as the owner of businesses with significant market positions we are prepared to play a role. In the meantime we will continue to work to strengthen the positions of our already profitable businesses in ANZA and Canada, and to direct the future of the Company towards a much more diversified range of products with growth ahead of them. We are committed to restoring the Company to overall profitability, and to a trajectory of growth. Our goal is to return to profitability by FY 2014 subject to dealing with our businesses in the Netherlands and Germany.

I would like to finish this address by thanking our employees for their commitment over the challenging times we have been facing, and assure them that the Board will be engaging with them to the greatest extent possible to re-build the Company's future.

It is now my pleasure to hand over to our Interim Chief Executive Officer Dave Allen who will discuss the company's strategy and provide an update on the first quarter performance for financial year 2013.

Thank you ladies and gentlemen.

INTERIM CHIEF EXECUTIVE OFFICER'S SPEECH

Thank you Chairman, and good morning ladies and gentlemen. Today I would like to explain the actions we are taking to address the underperformance of our business, particularly in Europe, to restore profitability. I want to assure you that we are doing whatever it takes to put the business back on a sustainable footing.

2012 Results

Before I do that, I need to take you back through the last financial year, which was again a very difficult one for PaperlinX as it transitioned through a Strategic Review in a depressed economic climate against a structural decline in paper demand. As outlined in our Annual Report, we reported a statutory loss after tax of \$(266.7) million dollars, which was driven by a number of factors including our trading losses from our continuing business, the book loss taken on sale of businesses, impairment of non-current assets and restructure costs.

As the Chairman mentioned, the underlying loss before interest and tax was driven primarily by the decline in volume of 7 per cent. Average selling prices increased marginally year on year in constant exchange rates which means our sales revenue declined 6 per cent on constant exchange rates.



In regards to earnings, for North America, Canada delivered positive continuing underlying earnings before interest and tax of 8.4 million US dollars which was ahead of the prior year of \$6.3 million US dollars. Australia, New Zealand and Asia's continuing underlying EBIT of 10.9 million dollars was slightly down from the prior. Europe's continuing underlying EBIT was below prior with a loss of (17.8) million euros versus a profit of 2.6 million euros for the prior corresponding period.

Looking at our performance by region, in Europe, declines in paper demand varied by country but averaged 5 per cent and there was some loss of market share due to the withdrawal from low-margin and high-cash requirement business. The European restructuring programme was underway, but we saw a significant reduction in profitability due to insufficient cost reduction. In North America, the Canadian operation had a successful account acquisition programme, a company brand consolidation to Spicers and growth in its diversified packaging segment.

In Australia, New Zealand and Asia, overall volumes were down 2 per cent but Australia was down 10 per cent, with strong margin and expense control substantially offsetting this decline. In Asia, selling price and margin were under pressure but offset by effective trading expense control. A brand consolidation programme to Spicers was also implemented across this region. The Australian business saw a significant recovery of profitability in the second half of the financial year.

Taking immediate action to restore profitability

I mentioned in August that we would continue to monitor performance of our businesses and take corrective action to address underperformance. We are accelerating our restructuring programme and undertaking aggressive cost management. We have two unprofitable businesses in Germany and the Netherlands and we are undertaking significant restructuring in these businesses to improve their profitability. If however, we see greater value for stakeholders in selling these businesses then we will do so.

There is a seismic cultural change underway in PaperlinX and a sense of urgency and profit focus that is a direct result of a new focus on the trading businesses rather than the corporate decision making structure. We are accelerating growth in our diversified businesses through both organic growth and bolt-on acquisitions such as Canterbury Packaging in New Zealand, all against the backdrop of a much leaner, flatter organisational structure.



Asset sales

Looking at divestments in the last financial year, we had to sell some assets to generate funds to restructure the business and improve liquidity. The assets were selected for divestment either because they could not be restructured cost effectively, or did not hold major market positions, or had limited diversified opportunities and could realise good value. Last week, we completed the sale of our businesses in Slovakia, Hungary, Slovenia, Croatia and Serbia. So in summary, we have sold eight businesses to generate \$88 million dollars in cash. PaperlinX is still a leading merchant of paper, communication materials and diversified products and services, with continuing business operations in eighteen countries.

Reduction in debt and improved liquidity

These asset sales have improved our financial position and de-risked the balance sheet. Our net debt reduced to \$148 million dollars at the end of June which included debt repayments related to divested businesses and proceeds from the close-out of a currency option. Since the year end we have received the planned asset sale proceeds as outlined in August and these have provided liquidity to support business requirements and fund announced restructuring. We are continuing to work through the refinancing of our facilities in Europe with current and potential new lenders.

Restructuring update

For several years now we have been focused on recalibrating our cost base to flex to changing market conditions. We have been consolidating warehouses, amalgamating sales branches, centralising customer call centres, and expanding back office shared service functions. We estimate \$37 million dollars of benefits will be realised this financial year. However, weak economic conditions, particularly in Europe, mean that these efforts are insufficient to offset the market decline we now face.

Additional Restructuring given weak trading

A new culture is being driven across the business. We are making the tough calls necessary to put our company on a sustainable footing and we are rapidly implementing a leaner structure. We have begun to' challenge the unchallengeable', as we move towards a more transparent and accountable culture. We are seeing our workforce becoming more focussed and energised to achieve new goals.

As our Chairman outlined earlier, our new Board has taken immediate action to further reduce costs by today announcing rapid implementation of additional restructuring plans in the UK. These changes, in addition to aggressively managing variable costs and cutting discretionary



spending, will bring benefits of \$13 million dollars on a full year basis. By adding this new plan, we are bringing activity-driven costs in line with current demand and further rationalising our core paper business. We are also transferring resources to strengthen our growing diversified business. The plan costs \$3 million dollars to implement and has a net positive impact in financial year 2013.

We are also taking similar action to recalibrate the cost base of Continental Europe to match current demand. If we can't restructure costs to bring benefits, then we will sell businesses that cannot add value. Our operating businesses in Continental Europe operate across different national markets with significantly different challenges so each country is rolling out its own cost reduction programmes.

These new restructuring programmes being initiated by the Board in the UK and Europe will result in an additional 200 headcount reduction. In total, restructuring in the 2013 financial year will see 370 people leave the business.

Growing Diversification

Against the background of a continually reducing paper market, we are putting ever more focus on the diversification initiatives we have underway. Packaging and Sign & Display are the most significant of these initiatives. We are strengthening the roll out of Packaging across the Group where we have a platform for further growth - in the Netherlands, the UK and Ireland, Denmark, Canada, the Czech Republic, Spain, Poland, Australia and New Zealand. With the opportunities presented by expanding online commerce, we are scaling up our packaging efforts by sharing best practice, and making sure we have the right skills and resources to support growth initiatives.

We will expand our Sign & Display, Graphical Supplies, Third Party Logistics and Retail businesses. Third Party Logistics is about using our existing logistics infrastructure where we have spare capacity to provide a third party logistics service as a growth platform. We have a small retail offering in Australia and the UK and we will expand this where viable. Graphical supplies are offered in some of our businesses, and we are looking at how we can roll out this segment more broadly across our Group.

All of our diversification initiatives leverage both the paper merchanting infrastructure, for example call centres and finance services, and the logistics platform, which has capacity and is lower cost than competitors in these new areas we are targeting for growth.



Our diversification programme is primarily organic but where we can achieve high return on capital employed we will seek selective bolt-on acquisitions.

Market Update

All our current activities are set against a continuing decline in paper volumes, which is greater than planned in Europe and Australia, New Zealand and Asia [ANZA]. Overall, pricing and margins are stronger in ANZA and Canada, stable in the UK and weaker in Continental Europe versus our plan. We are exerting strong expense control across our Group. Within our diversified segments Packaging is growing strongly and Sign & Display more slowly due to depressed conditions in the retail market.

Immediate Priorities

Our immediate priorities are to drive a cultural change of urgency, transparency and accountability across our Group. This change is well underway and is already resulting in a more operationally focused company that is driving costs out of the Group and concentrating on trading.

We are substantially recalibrating our paper business by completing already announced restructuring plans and accelerating new restructuring plans in both the UK and Continental Europe. If we cannot fix our loss making businesses in the Netherlands and Germany we will sell them.

Furthermore we are driving increased growth in our diversified businesses, particularly packaging to provide an offset to the decline in paper.

My team and our employees throughout the Group are committed to doing what it takes to bring this business back to being a sustainable enterprise. I feel confident I have the full support of the Board to make the necessary hard decisions to restore profitability. I would also like to thank our new Board for their assistance and guidance over the last few weeks as the momentum for change continues and we reshape the Company.

Thank you ladies and gentlemen.



CHAIRMAN'S COMMENTS ON ITEM 2 - REMUNERATION REPORT

I would like to make some brief comments on the Remuneration Report and remuneration practices.

Organisation and management structure

PaperlinX has made a number of changes to create better alignment of its organisational and management structure and employment costs with its current size and circumstances. These changes will continue to be a major priority for the new Board.

As a result of divestments and streamlining of the Corporate Office, the executive team has been reduced by around 50 per cent since the last AGM. The majority of executives and senior managers voluntarily agreed to a temporary salary reduction, of between 7.5 per cent to 10 per cent, during the year.

Incentive Plans

As in previous years, a large proportion of executive remuneration for the financial year 2012 was variable and "at risk", being subject to the achievement of stretching performance targets established under the incentive plan.

As reported in the Remuneration report, a decision was made to not approve short-term incentive payments even though some performance targets had been met in a number of PaperlinX's businesses. However, your new Board has reviewed that decision and has decided that payment should be made to a small number of senior managers. The Board felt that the incentive plan had rightly focussed on key metrics that would help to drive business improvement including the benefits from restructuring.

Where these targets had been achieved, we believed it was entirely appropriate that managers should be rewarded for their efforts and we also want to ensure that "quality" employees are retained and remain motivated and committed to the long and difficult task of turning the business around. We took the view that to invoke the 'exceptional circumstances' provision in the incentive scheme sent the wrong message to employees about the company's future and its obligations to its employees.

As in the previous year, both the long-term incentive plan and the equity component of the short-term incentive plan remained suspended for the financial year 2012.



The financial year 2013 incentive plan will have more emphasis on profit so that it is more directly aligned with shareholders interest.

CEO and Senior Executives

Mr Toby Marchant stepped down as Chief Executive Officer on 31 July 2012. He received a payment based on 12 months of his Total Fixed Remuneration as payment in lieu of his contractual notice period. Toby's termination arrangements were detailed in the Remuneration Report. Dave Allen is performing the role of Interim Chief Executive Officer which includes responsibility for the major re-structuring which is underway. The search for a permanent Chief Executive Officer is deferred due to the recent Board changes and current high level of activities in the Company.

Non-executive Directors

In the early part of financial year 2012, three Non-executive Directors retired from the Board. Retirement payments were made to two non-executive directors under a Retirement Scheme which was closed to new directors in 2006. Recently departed Directors received no retirement payments, other than their superannuation benefits, because they joined the Board after 2006. Directors' fees were reduced by approximately 13 per cent with effect from 1 April 2012, and for the second time in two consecutive years.

As I conclude my brief on the Remuneration Report, I wish to emphasise that I am acutely aware that some shareholders including your current directors had concerns about the payments made to the ex-Chief Executive Officer and a Non-Executive Director by the previous Board. For these reasons, they will be voting against the Remuneration Report. I can assure you that your new Board is reviewing the Company's future remuneration arrangements to ensure that they are in line with good governance and align with shareholders interest.

-ENDS-