CHAIRMAN'S ADDRESS
PAPERLINX LIMITED
ANNUAL GENERAL MEETING, SYDNEY
25 OCTOBER, 2001

INTRODUCTION

PaperlinX has now completed its first full year of operation as an independent company and the published Annual Report provides a comprehensive summary of the corporation and its activities. June 2001 saw us reach the end of the prospectus forecast period and PaperlinX has delivered on the promises and projections which were formulated over 18 months ago.

My plan today is to provide a brief summary of what I see as the more important highlights of the year ended 30 June 2001, to comment on the important issues of corporate governance and board responsibility and to provide some comments on the results for the September 2001 quarter and on the outlook for the period ahead.

However before addressing these issues I would like to make some comments on PaperlinX and its businesses. Although PaperlinX has only just concluded its first full year as a listed entity, our operating businesses have a long history.

The PaperlinX of today represents the amalgamation of four well established operating entities:

- the substantial pulp and paper manufacturing operations contained within the Maryvale Mill in Gippsland;
- the fine paper manufacturing and merchanting business acquired from North Limited 7 years ago. This business traded as APPM;
- the paper merchanting business of Spicers Paper operating in Australia and overseas. and
- the paper merchanting business of Coast Paper in Canada.

The core of each of these businesses has been operating and trading for over 60 years and each has maintained and grown their operations through many 'boom and bust' periods.

These businesses are now merged as PaperlinX and provide an established business base with experienced management, a broad spread of customers and excellent underlying business fundamentals. Thus although PaperlinX is neither insulated nor excluded from the impact of global economic fluctuations, the experience of our businesses is that we can ride through difficult times and more often than not emerge with a better focus on the opportunities ahead of us.

I will comment later on the outlook and opportunities for PaperlinX but felt that in these uncertain times I should draw your attention to the long standing nature of the businesses which make up this relatively new company.

YEAR IN REVIEW

The year to June 2001 was one of consolidation and expansion.

Early in the year the Board approved a number of major strategic priorities which were incorporated in a detailed strategic plan. Management then reviewed existing and potential assets and investments to determine those that were core or were strategically important to achieving this plan. They then commenced a process of disposing of businesses which were non-core and commenced the acquisitions which fitted our longer term growth strategy.

I will comment further on these later.

Turning then to a specific review of the 2001 year, I will follow the report card included **in** our Annual Report and include comments on non-trading events which have carried into the September quarter.

RESULTS

As I have indicated earlier, the first full year of operation of PaperlinX as a separate entity has been very successful. The company has delivered the financial results which were promised and ended the year with a strong underlying financial base.

Profit before interest and tax was $200.4 million and profit after tax was $105.6 million, which, after adjusting for the acquisition of the balance of Spicers Paper Limited during the year, were in line with Prospectus forecasts.

All business segments delivered on our expectations. The manufacturing arm, Australia Paper, again achieved record production volumes, which was in addition to numerous other achievements at all the mills including achieving ISO 14001 environmental accreditation.

The merchanting business grew significantly during the year with the move to 100% of Spicers Paper in January 2001 and the purchase of Coast Paper in May. These acquisitions put the business in a sound position to achieve improved results from strengthened supplier alliances, rationalisation of logistics and warehousing and reduced overheads. These important steps will allow management to improve the strategic alignment with major international suppliers and to reduce operating costs while retaining a focus on high growth market segments and improving profits through superior customer service.

Although PaperlinX will continue to consolidate its strong and important Australian manufacturing and merchanting base, a major objective is to expand the paper merchanting businesses internationally over the coming year as opportunities arise.

During the past year, the return on average funds employed rose to 11.8%. Earnings per share of 37.2 cents allowed us to declare dividends for the year of 27 cents per share, fully franked.

ACQUISITIONS, DIVESTMENTS AND GROWTH

As I have indicated, early in the year the Board approved the strategic direction for PaperlinX and management then moved to implement the agreed steps of the plan.

Two major acquisitions were made during the year.

SPICERS

After many months of planning, negotiation and market action, in January 2001 we successfully completed the purchase of the 58% of Spicers Paper Limited that we did not own. Although a number of undertakings had to be given to the ACCC to facilitate this merger, this was a key strategic step for PaperlinX, providing a sound platform for the international growth of our merchanting business.

COAST PAPER

In May 2001 we purchased Coast Paper in Canada to complement our existing US paper merchanting business, Spicers Paper Inc. This acquisition further strengthened PaperlinX's position as a major independent paper merchant in North America.

While these growth moves were being implemented, management was actively pursuing the disposal of a number of businesses such as the plantations in Gippsland, Edwards Dunlop and Commonwealth Paper and the chemical trading business.

PaperlinX will look to utilise the funds from these divestments in conjunction with its strong balance sheet to drive returns higher. Although the divestments are earnings dilutive in the short term, the Board and management believe it is prudent to divest before we re-invest for higher returns as it allows PaperlinX to review its options from a position of financial strength, and to maintain maximum flexibility in investment decisions. As the international expansion progresses, a larger proportion of PaperlinX's earnings will be generated outside of Australia which will reduce the group's franking capability. However returns to shareholders should be enhanced by improved earnings.

Management believe that there are significant opportunities for growth in international paper merchanting. However we will be cautious and any proposals will be tested against the potential returns from other uses of capital which could include returning funds to our shareholders. As a Group we will continue to take a long term view on investment on behalf of our shareholders.

SAFETY AND ENVIRONMENT

The Board is disappointed that the company has not achieved its safety objectives for the year. After two years of substantial improvement in safety performance, there was an increase in the number of injuries suffered by our employees this year. This is unacceptable and a number of steps have been taken to improve this performance in 2002.

PaperlinX continues to be proud of its environmental management and performance and the Annual Report again reinforces the commitment that the Board and Management have to this important area. As we have said before, the PaperlinX operations are committed to being environmentally responsible and are continually seeking ways to improve performance. The Annual Report provides a more detailed account of our objectives and performance.

PaperlinX's manufacturing division, Australian Paper, is focussed on improving efficiencies in raw material use, minimising chemical use and maximising recycling within the production process. The company's environmental policy has a strong commitment to continuous improvement in our environmental processes and performance. Last year we indicated that we were aiming to achieve ISO 14001 environmental accreditation at all of our paper manufacturing sites, and as I have already mentioned this major goal has been achieved.

CORPORATE GOVERNANCE

The businesses of PaperlinX are well established and have a sound track record of performance and achievement. The Company has a solid management team led by our Managing Director, Ian Wightwick, and they have wasted no time in addressing the priorities for establishing the business platform for growth.

During this time the board has also been diligent and active and we have formally adopted and implemented our governance guidelines for board operation and membership which are underpinned by a comprehensive committee structure. The committees meet regularly and address relevant risk management issues as well as audit, compliance, environment and safety issues etc. To ensure that individual directors better understand our operations, over the past 12 months the board has visited many of the major operating sites and businesses both in Australia and overseas. We will continue this program in 2002 to ensure that we meet our requirement that the board visit each major site and operation at least once every 2 years.

The board also keeps the underlying financial fundamentals of the company under continual surveillance by monitoring regularly balance sheet movements and relevant financial statistics and indices. At our board meetings we have full access to senior management and through the financial audit process meet with both internal and external auditors.

I think that you will agree that the process we have in place ensures that your board is involved with and close to the business fabric of PaperlinX and all of its operations. We are also being careful to ensure that the growth aspirations and plans are supported by a longer term financially viable structure.

SEPTEMBER QUARTER AND OUTLOOK

We are fortunate that PaperlinX has the strong business base in Australia and New Zealand that I have referred to previously and has an excellent niche position in the North American paper distribution market. It is also a great advantage to have completed the strategic moves involving acquisitions and divestments which have strengthened PaperlinX's market positions and improved underlying financial fundamentals. As a result the Company is not currently in the middle of any major acquisitions or restructuring which could be adversely affected and has manageable debt levels and a strong cash flow.

For the September quarter the results for the PaperlinX Group overall were ahead of the results in the corresponding period last year. These sound September 2001 quarter results reflect the benefits of the Spicers and Coast Paper acquisitions.

However as indicated in the Annual Report, since the beginning of this calendar year, the key printing customers of PaperlinX's merchant and distribution businesses have seen a marked and progressive fall-off in advertising and promotions due to diminishing business and retail confidence worldwide. This has now been exacerbated by the tragedy of 11 September.

This market decline has, in turn, impacted the demand for printing papers. The result is that the underlying profit from our merchant and distribution businesses is behind our expectations. Until business conditions return to more normal levels, these below expectation results could well continue but will be offset to the greatest degree possible by the substantial cost reduction programs already underway.

As a result of receiving proceeds from disposals during the quarter, PaperlinX's financial position has further strengthened as compared with 30 June. At 30 September, 2001 total debt was $550M, gearing measured as debt to debt + equity was 32% and interest cover was 5.8 x times.

As I indicated the results to date have been boosted by the acquisitions made during the year. However I should point out that the businesses which have now been sold provided some $425M of sales and $23M of profit before interest and tax in the 2000/2001 reported results. Obviously the lower debt levels and consequent lower interest bill will partially compensate this loss of operating earnings.

The challenge for management in the short term is to achieve synergies from the acquisitions that have been made and to use the strong underlying balance sheet and cash flow strength of PaperlinX to replace the operating profit foregone as a result of divestments with new acquisitions and projects which will improve overall profitability and returns.

CONCLUSION

In conclusion I must say that although the performance of PaperlinX to date has been most satisfactory there are substantial challenges ahead. However I assure shareholders that the Board's focus is on maintaining the positive momentum of the past 12 months and on steadily growing shareholder value over the years ahead.

I congratulate Ian Wightwick and his management team on the achievements to date and again thank my fellow directors, the company's shareholders and all of the people who work for PaperlinX for their continuing support.