

## **M.D.'S PRESENTATION TO THE AGM 2001**

Ladies and Gentlemen,

I am pleased to report to you today on behalf of your management team and all fellow-PaperlinX employees.

PaperlinX's business is well balanced between our international paper merchandising and distribution businesses serving the printing, publishing, office supply and related market sectors, and our strong Australian Paper manufacturing operations serving predominantly the Australian and New Zealand communication and packaging paper markets.

PaperlinX now has 4,000 employees selling products in over 40 countries – we are truly an Australian-based, international company!

Last year I commented on the extensive effort in achieving our establishment as an independent public company.

The work being undertaken within PaperlinX has continued apace. The following are the highlights of the year just past:-

- We achieved our Prospectus forecast with operating earnings of \$200m and net profit after tax of \$106m on a revenue of \$2.4b. (As mentioned by the Chairman, our forecasts were prepared over 18 months ago – a very long way ahead for such a detailed and very public budget!). The pleasing aspect was that this result was well balanced across our entire group.
- We completed the tasks associated with the acquisition of the balance of Spicers Paper, involving negotiations with Spicers Board, preparing the Bidders Statement, and finally dealing with the issues raised by the ACCC.
- Over the period from April through to October, we successfully integrated and restructured both Spicers Australia and New Zealand paper merchandising and distribution businesses with the existing PaperlinX merchants who as you will recall were Dalton Fine Paper, Tomasetti Paper House and Paper House Xpress. I am particularly pleased with the harmonious way our people came together.

The new Australian merchant businesses, highly focussed on our key market sectors are: -

- Spicers Paper servicing the large general printing industry predominantly with imported papers.
- Dalton Fine Paper also servicing the large general printing industry, predominantly with Australian Paper's products.

- Spicers Office Papers directed to selling photocopy and related grades sourced from both our Australian Paper manufacture, as well as from imports to the major resellers (wholesale and retail stationers).
- Dalton Web servicing the large web fed publishers with both Australian Paper grades as well as imports.
- We completed the acquisition of Coast Paper Canada and the subsequent work to achieve synergy benefits with our existing Spicers Inc. USA paper merchanting and distribution business.
- We satisfactorily finalised the large amount of preparatory work and negotiations leading to the recent divestments of Australian Paper Plantations, Edwards Dunlop and Commonwealth Paper and our Amtrade chemical trading business. We are working on identifying opportunities to divest Spicers envelope businesses.
- We achieved record paper production volumes and gained ISO 14001 Environmental Certification for all paper manufacturing plants within Australian Paper.

At this point, it is appropriate for me to acknowledge the substantial effort by all of our people within PaperlinX to achieve so much, and so successfully.

### **The Current Year and Beyond**

Last year I commented on the then rising imported pulp costs and subsequent increasing paper prices. This did not last long! Prices for internationally traded pulp began to fall in October 2000 and steadily declined through to June this year. Subsequently pulp prices have again commenced to rise.

The good news is that international paper prices held up remarkably well. Our company benefited from being over 70% self-sufficient from its own pulp manufacturing, and from a very disciplined approach to managing market margins.

There are some heartening signs for the global pulp and paper industry which have the potential to reduce substantially the historic swings in paper prices.

Only 15% of the 350 million tonnes of pulp produced globally is in fact traded! The balance is integrated directly into paper production. Trading of such marginal tonnage should not cause paper prices to swing as though 100% of pulp produced is traded!

The recent spate of “mega-mergers” of pulp and paper companies throughout the world had dampened dramatically swings in paper supply through existing capacity being rationalised rather than being increased, and downtime being taken when there is surplus supply.

Both our Australian Paper manufacturing and international merchanting and distribution operations will benefit from these stabilizing trends.

Our strong balance sheet is of major benefit as we pursue our growth vision.

We will continue to explore opportunities to extend our paper merchanting and distribution businesses in North America. We have an excellent base from which to grow either by adding modest greenfield expansions (as we recently did in Kansas City), or by acquiring existing merchants which meet our strict criteria for profitability and the potential to achieve significant synergies with our existing businesses.

We are also looking at opportunities to enter the European paper merchanting and distribution market by acquisition. This industry is in transition and there **are** opportunities for PaperlinX. However, we are being very careful to research thoroughly potential acquisitions or partnerships to ensure these fit our global strategic objectives, as well as adding long term value to PaperlinX shareholders.

In South East Asia we are focussing on improving the returns from our existing paper merchanting and distribution businesses by reducing costs and improving operating efficiencies, as well as aiming to improve margins.

Australian Paper, our strong regional paper manufacturing business, is achieving excellent profits. Although we do not contemplate adding new capacity, there is excellent potential for improved earnings by gaining more saleable tonnes from improved machine efficiencies and from a more profitable product mix. We will also continue to explore appropriate strategic alliances for Australian Paper, for example, co-generation (and hence achieve lower energy costs), and with international pulp and paper suppliers.

Australian Paper will continue to promote Australia's and New Zealand's leading office paper brand – *REFLEX*.

### **Triple Bottom Line**

We are often asked whether PaperlinX intends to broaden its objectives toward the so-called "Triple Bottom Line" approach.

When we look at PaperlinX's current multiple objectives, it can be seen that this Triple Bottom Line concept is, in fact, not new to us.

### **Financial**

As mentioned by the Chairman and earlier in my address, growing shareholder wealth is our primary objective.

### **Environmental Objectives**

Protecting our precious environment has always been of primary concern to PaperlinX, whether involving the sourcing of our raw materials and paper imports or the processes involved in our paper manufacturing.

There is substantial detail on this subject in our Annual Report.

As a new initiative, we are in the process of participating in the Victorian Government's Packaging Covenant, and our Board has recently approved two substantial new projects, the first being a process improvement in our Maryvale pulping plant aimed to reduce further the generation of any unacceptable odours, and the second, an improved waste management at Australian Paper's Maryvale site which will include enhanced re-use of waste product.

### **Social Objectives**

Without doubt, our own people are our most valued resource.

Their safety, training and development are the priority of all levels of management. We all felt disappointed at the slippage of our previous excellent safety performance achieved after so many years of co-worker co-operation and plain hard work. That we can slip back, is testament to the vigilance and continuous improvement we must exercise at all times. This year, we will re-launch our "**Mutual Care – No Injuries**" program!

Our people concerns do not end with our employees, however. Australian Paper's manufacturing plants are in regional Australia. We deliberately involve the local community in all we do at each Mill including public communication facilitated by our "Mill Open Days". Nowhere is this better developed than at Maryvale where last year we signed our third Environmental Improvement Program, the result of a joint community, local government, EPA and Mill effort.

Apart from being important employers in these regions, we are active participants in the wider community including providing support for local businesses, sporting clubs and other worthy causes.

On a National level, we were a co-founder, and we are a current supporter of the Australian Pulp and Paper Research Institute (where advanced education and research is undertaken), we are a major supporter of Leadership Victoria (where selected young people undergo advanced and socially broad leadership training), we are a participant in our second joint government/CSIRO/ industry-sponsored Co-operative Research Centre major project, we commission a wide range of other research and we support many print and design award programs for students.

### **Summary**

It has been an exciting and rewarding year for PaperlinX. We plan for this progress to continue as we build on our solid platform as an international paper merchant and distributor, and a strong regional paper manufacturer.

Thank you.