

CHAIRMAN'S ADDRESS
PAPERLINX LIMITED
ANNUAL GENERAL MEETING, MELBOURNE
23 OCTOBER, 2002

INTRODUCTION:

PaperlinX is now established as a substantial independent public company and has delivered sound returns to shareholders. The growth initiatives implemented by management during 2002 have further reinforced PaperlinX's position as a leading international paper merchant and distributor while maintaining its position as the leading Australian manufacturer of communication papers and high performance packaging papers.

Today I will comment on:

- the results for the year ended 30 June 2002,
- the topical and important issue of corporate governance generally and specifically the sound corporate governance regime we have in PaperlinX,
- the results for the September 2002 quarter, and
- the outlook for the immediate period ahead.

REVIEW OF THE YEAR:

As detailed in the Annual Report, the year to June 2002 provided solid results in a period when the underlying demand for advertising and promotional print material in all markets was depressed. The year also saw further significant progress in the strategy adopted at the genesis of PaperlinX which is to sustain our strong and profitable regional Australian Paper business while continuing to grow in key markets as a major international paper merchant.

Early in the year the company completed the sale of a number of businesses that were either non-core (Australian Paper Plantations and Amtrade) or were divested for competition reasons (Edwards Dunlop and Commonwealth Paper). As I indicated last year these businesses were contributing positive earnings to the group and as such the divestments were earnings dilutive in the short term. However the re-allocation of the funds from these sales into higher yielding businesses will be positive for earnings and as such will further improve shareholder returns. Specifically the funds have been applied to the growth of our international paper merchanting businesses with the acquisition of L P Turgeon in Canada and Bunzl Fine Paper in the UK and Ireland.

Management also undertook and completed major restructuring of the paper merchanting business in Australia and New Zealand and the stationery and envelope business in Australia. The substantially lower costs resulting from these restructures have already had a positive impact on earnings and the businesses are now better positioned to yield improved returns even in flatter market conditions.

Australian Paper which primarily serves the Australian and New Zealand markets with communication and high performance packaging papers continued to reduce costs and to improve operating efficiencies and provided an excellent profit result. A major achievement for this business was the granting of an unconditional major hazard facility licence to the plant at Maryvale for five years by the Victorian WorkCover Authority.

RESULTS:

For the 2002 year PaperlinX has delivered very good results and solid returns to shareholders despite the impact of divestments and a difficult trading environment caused largely by weaker economic conditions.

Profit before tax of \$176.9 million was up 12% on the previous year and profit after tax of \$123.0 million was an increase of 16%.

This commendable overall result reflects a strong performance from Australian Paper's communication paper business through record paper production and sales volumes, generally stable selling prices and the lower cost of imported pulp. The packaging papers business was adversely impacted by lower domestic demand in the first half of the year and lower selling prices in export markets.

Earnings in the merchanting and paper trading businesses were higher than in the prior year reflecting the benefit of acquisitions. However, weak global economic conditions impacted adversely on business spending on promotions and advertising which in turn reduced volume demand for printed materials. The highly competitive trading environment in all markets resulted also in lower selling prices which impacted negatively on margins.

The return on average funds employed by the group rose to 12.7%. Earnings per share increased to 38.2 cents on a higher capital base which allowed the company to declare total dividends for the year of 27 cents per share with the interim dividend fully franked and the final dividend 75% franked.

As a result of the proceeds from divestments, a constant focus on working capital and a strong cash flow PaperlinX's balance sheet finished the year in a strong position. All financial ratios were within prudent levels and demonstrate the underlying financial strength of the company.

To assist in funding the acquisition on Bunzl Fine Paper, PaperlinX raised \$175 million of equity in July and August 2002 which has maintained balance sheet strength and flexibility.

ENVIRONMENT AND SAFETY:

The board and management continue to have a high level of commitment to the environmental management and performance of PaperlinX and our Annual Report and company website provide a detailed account of our objectives and performance. Management has a key focus to ensure that we balance the protection of the environment, the safety and health of our employees and our relationships with the communities in which we live and work while providing the products and services our customers demand and delivering the high level of returns our shareholders expect.

Similarly the board and management have focussed on further intensifying development of our safety policies and practices at all operations. This focus has contributed towards a general improvement in our overall safety performance.

Unfortunately this improvement was marred by the death of a respected and valued long term employee who was killed in a tragic accident at our Maryvale mill in March 2002. This resulted in an independent extensive review of all our operations to ensure safety practices and procedures are at the highest possible levels.

The board and management are committed to providing a safe working environment at all of our sites so that people who work for PaperlinX can rightly expect to return safely to their homes at the end of each working day.

CORPORATE GOVERNANCE:

The issue of corporate governance reform has recently been receiving much attention from our media and corporate legislators.

As I reported to you last year in PaperlinX we have established corporate governance processes to ensure that the board is involved with and is close to the business and financial fabric of PaperlinX and all of its operations. Our corporate governance practices are detailed in the Annual Report and we have stringent measures in place to ensure that these procedures are observed.

Your board is comprised largely of independent non-executive directors, there are no vested interests represented on the board and each non-executive director brings specific skills and experience to our deliberations. When PaperlinX was formed we established a Code of Ethics for the board and Corporate Governance Guidelines for the operation of the board.

While management of the company is delegated to the Managing Director and his executive team, the board is very active in establishing policy, evaluating and approving the strategic direction of the company and overseeing operations. The board and its sub-committees meet regularly and have established a reporting framework to ensure that appropriate standards and business practices are followed. Senior executives attend board and sub-committee meetings and report on their particular areas of responsibility and the non-executive directors meet regularly without management to discuss the overall performance of the management team.

The annual report provides details of our sub-committee structure. The Audit and Compliance, Governance and Nomination and Human Resources committees are comprised exclusively of non-executive directors and meet regularly. The Audit and Compliance committee has established procedures to ensure the independence of our auditors. In addition this committee meets with the external auditors separately from management at least twice a year to obtain an open appraisal from the auditors.

Substantial media attention has also been given recently to the issue of options and shares to senior managers.

PaperlinX has in place appropriate share and option incentive arrangements which we believe provide sound long term incentives in accordance with the best remuneration practices. Your board recognised early the potential problems associated with incentive arrangements based on options and, at the year 2000 Annual General Meeting, shareholders approved an incentive arrangement for the Managing Director which provided for him to earn rights to fully paid shares if performance criteria were met. These criteria relate to comparative total shareholder return performance and growth in earnings per share.

This performance share rights concept and the hurdle criteria as approved by the shareholders were also adopted for the senior management group with the accounting policy being that any shares earned by this group would be purchased on market and the cost of such shares expensed against profit. An appropriate charge was accrued against earnings in each of years 2001 and 2002. The board has now extended this arrangement of performance share rights to approximately the top 50 managers and the cost of any shares earned and purchased on market for this group will be expensed against profit with effect from the current financial year.

I point out again that PaperlinX implemented this arrangement some two years ago and has been absorbing the cost of the arrangement since then. It is essential that some consistency in accounting for the cost of shares and option incentives is applied across all corporations, either voluntarily or by legislation, so that all published profit results reflect a uniform approach to expensing the cost of both short term and long term incentive arrangements.

I do not intend to elaborate any further on these issues except to say that although the board supports the thrust of the Federal Government's CLERP 9 reform proposals, we are very satisfied with the existing governance and incentive arrangements within PaperlinX. We will continue to expand the disclosure of relevant corporate governance matters in the annual report.

SEPTEMBER QUARTER AND OUTLOOK:

As I have mentioned, the weak underlying activity in all of our markets has depressed demand for advertising and promotional print material although there are some tentative but inconclusive signs in some markets that demand is beginning to improve. Despite the persistence of these weaker demand conditions, PaperlinX has continued to benefit from the spread of its businesses across key global economies.

For the September 2002 quarter overall sales and earnings were ahead of budget and ahead of the results for the corresponding quarter last year. The current results reflect the addition of Bunzl Fine Paper on 1 July 2002. The integration of Bunzl is proceeding satisfactorily and we remain confident of achieving our target returns from this business. The Managing Director will speak more on this later in the meeting.

Australian Paper has continued to perform strongly with imported pulp costs stable, albeit at higher levels than last year, and some selling prices increasing. The benefits of these selling price increases together with those announced by the Australian merchanting businesses will not flow through until later in the year.

In summary, the immediate outlook continues to be uncertain but we are encouraged that conditions seem to have at least flattened out. PaperlinX is well placed to respond quickly to any improvement in economic activity and the strong underlying balance sheet and cash flow provides the ability to capitalise on any growth opportunities if and when they arise.

CONCLUSION:

In the year to June 2002 PaperlinX has produced sound returns for our investors and I again assure shareholders that the board's focus remains firmly on growing shareholder value over the years ahead.

I again congratulate our chief executive, Ian Wightwick and his management team on delivering the results to date and again thank my fellow directors, the company's shareholders and our customers for their continuing support and congratulate all of the people who work for PaperlinX for delivering the growth and results of the past year.

David E Meiklejohn
23 October, 2002