

CHAIRMAN'S ADDRESS

PAPERLINX LIMITED

ANNUAL GENERAL MEETING

TUESDAY, 26 OCTOBER 2004

MELBOURNE, AUSTRALIA

The theme of our 2004 Annual Report focuses on the development of our platform for the future growth and consolidation of PaperlinX. A major and important plank of this platform was effected when we completed the acquisition of Buhrmann's Paper Merchating division, establishing PaperlinX as the world's leading fine paper merchant.

It is evident from our results that 2004 was a difficult year. However, we have weathered many difficult years in the past as the history of PaperlinX extends back some 350 years to the origins of the then Spicers paper business. Some of the Buhrmann businesses we acquired have been operating for over 260 years and our paper manufacturing business has its roots in Australia over 150 years ago. Over this long period there have been many cyclical fluctuations in the paper manufacturing and distribution businesses. We are confident that the strategic steps we have taken, and are taking to establish and develop our platform for the future, will deliver our shareholders sound long term sustainable returns.

This speech will comment on:

- The results for the year ended 30 June, 2004;
- The extension of the business platform into Europe;
- The important topics of Corporate Governance and sustainability;
- The results for the September quarter, and
- The outlook for the immediate period ahead.

YEAR IN REVIEW:

As indicated in the Annual Report, at this time last year we were concluding negotiations to purchase Buhrmann's Paper Merchanting division. This transaction was completed effective 1 November 2003 and was a significant step in our growth strategy. This acquisition largely establishes our initial paper distribution platform for the future which commenced shortly after listing in 2000 with the acquisition of the balance of the Spicers Paper Group that we did not own. Over recent years, in expanding our platform, we have followed a clear and well defined strategy of increasing the absolute size of our fine paper merchanting businesses and moving into new geographic markets. We are now the leading global fine paper merchant which offers us unique opportunities in dealing with our customers and suppliers across many geographic regions.

However, despite this positive strategic progress, the profit performance for 2004 was disappointing. Profit after tax of \$109 million was well down on the previous year and earnings per share was also behind last year.

Although the inclusion of Buhrmann's results for part of the year assisted the results, our earnings overall were negatively influenced by a number of significant factors. The global excess supply of fine paper continued to depress selling prices and this position was not assisted by generally depressed paper demand. Currency volatility also adversely impacted earnings through reduced Australian selling prices, lower export revenue and an adverse translation of overseas earnings. The Managing Director will expand on this issue in his presentation.

These negative factors had a severe impact on the profitability of our paper manufacturing business, Australian Paper, where the profit for 2004 was down some 60% on the prior year. In addition to the negative trading conditions, the results of this business were affected by the need to take down time on some of our paper machines to balance supply and demand and by the fact that our sack kraft production quality was not achieving market requirements.

Conversely, given the generally difficult global market conditions, our fine paper merchants have performed well. Sales volumes have been maintained or improved in all major regions and some gross margin percentages have improved due to a strong focus on productivity, cost reduction and working capital management. We continue to earn good returns on our merchanting business overall.

Also on a positive note our operating cash flow for the year was a healthy \$403 million, well ahead of last year. Active management of working capital has been a major factor in achieving this strong result which has consequently had a positive impact on our balance sheet.

In light of this strong cash flow and the underlying financial strength of PaperlinX, although earnings per share fell the Board decided to maintain the level of dividend for the year at 27.5 cents. Due mainly to the significant reduction in our earnings generated in Australia the dividend was unfranked.

Total shareholder return for 2004 was 12% which takes the returns to shareholders since listing to 91% compared with 33% for the ASX 200 Industrial Accumulation Index.

THE EXTENDED BUSINESS PLATFORM:

As mentioned, we completed the acquisition of Buhrmann's Paper Merchanting division early in the year and have now established PaperlinX Europe as a substantial and profitable arm of the PaperlinX Group. Our global platform enables us to provide customers and suppliers with an unparalleled service offering which improves our competitive position substantially. The final cost for the Buhrmann business was €667 million (A\$1.1 billion) and there was no deferred consideration paid.

The integration of the European businesses into PaperlinX has gone very well and is a testament to our disciplined acquisition criteria and to the detailed due diligence which was undertaken.

CORPORATE GOVERNANCE:

As indicated in the Annual Report the Board and Management have a strong commitment to best practice in all areas of corporate governance and associated responsibilities. The Annual Report contains extensive commentary on governance issues generally and provides information on the responsibilities of the Board, how the Board operates and on our board committee structures. In the past year we have established a Safety and Environment Committee in addition to our other standing committees.

The report also contains comprehensive information on the remuneration of non executive directors and of the executive directors and senior management group. We have also provided full details of the Managing Director's employment arrangements.

As I mentioned last year the substantial growth and expansion of PaperlinX combined with the increasing emphasis on corporate governance matters is adding significantly to the workload of directors. However, all members of the Board are committed to devoting the time necessary to discharge their governance responsibilities and to understand the operations and strategic direction of PaperlinX.

SUSTAINABILITY:

The Annual Report contains a comprehensive report on sustainability and sets out details of the PaperlinX sustainability charter. This charter sets out our commitment in relation to the environment, our employees, our suppliers, our customers and the communities of which we are a part. The report demonstrates that PaperlinX is committed to delivering long term sustainable financial returns plus environmental and social benefits for all our stakeholders.

We recognise that society's expectations for company performance in areas such as safety and environment and community activities continue to rise. With businesses in more than 30 countries our products and service must address the needs and respect the views of many different groups and individuals. We share the responsibility for

achieving this with our suppliers and believe that together we are creating a sustainable business that is delivering value for our stakeholders.

As we indicated in the Annual Report, PaperlinX is striving to make progress in every area that will help us to be a stronger company in the future. We recognise that we are not perfect and that there will always be improvements we can make. However we are proud of the progress we have made and we are committed to making further progress in these sustainability issues in the future.

SEPTEMBER QUARTER RESULTS AND OUTLOOK:

Profit before interest and tax for the PaperlinX Group for the September 2004 quarter is ahead of the corresponding period last year. However, because of the increased interest cost on the debt raised to partly fund the purchase of Buhrmann, profit after tax for the quarter is a little below the September 2003 result.

Our expectations for the full year have not changed and we are confident that the position should improve as the year progresses. This is the opposite to last years profit trend, and will affect half on half comparisons.

In the second half of the 2004 financial year the negative factors already mentioned led to a disappointing result for PaperlinX. The start to the 2005 year has seen these factors continue, though with some improving underlying trends in the US and in parts of Europe. This has translated into some increases in paper selling prices in the US and to some announced increases to take effect over the next few months in Europe. A global pick up in demand and increases in selling prices underpin our ability to begin to restore the pricing positions for some of our Australian manufactured products as demonstrated by the 3-6% increases announced in Australia in August on many of our communication papers.

With expected strengthening into the second half of the current financial year, we believe that a full year result for the year for Australian Paper at a similar level as achieved for last year is possible.

Our merchants around the world are realising expected synergy benefits and productivity improvements. These businesses are healthy and will benefit from strengthening global demand and prices, although we are cautious in our expectations for significant overall market improvements. Current results from merchanting are satisfactory, and should also improve later in the year as markets strengthen and synergies are realised.

CONCLUSION:

During the year Ian Wightwick retired and the Board appointed Thomas Park as the Managing Director and Chief Executive Officer. I would like to congratulate and thank Ian for his efforts in launching and establishing PaperlinX and wish him a happy and healthy retirement. We were pleased to be able to appoint Tom Park to replace Ian. Tom is an experienced Chief Executive and has a sound understanding of international businesses. He has settled into his position very quickly and is focussing on building on the strategic platform for PaperlinX which has been established over the past 4 years.

We have also announced that Peter Waterworth will retire as both a director and a senior executive of PaperlinX on 1 November, 2004. Peter joined the board following the purchase of the balance of the Spicers Paper Group and has had a career of some 41 years in the paper industry. I also thank Peter for his valuable contribution to Spicers and PaperlinX and wish him well for the future.

I would also like to thank my fellow directors for their commitment and support during the very busy past 12 months. We are confident that PaperlinX has established a solid and sound platform for growth for the future and believe that we can continue to deliver satisfactory returns to our shareholders.

