

NOTICE OF ANNUAL GENERAL MEETING

The seventh Annual General Meeting of PaperlinX Limited (the Company) will be held in the Park Hyatt Melbourne Hotel Ballroom, 1 Parliament Square (off Parliament Place), Melbourne, Victoria 3002 on Friday, 20 October 2006 at 11.00am. Registration will commence at 10.00am.

Ordinary Business

1. Financial statements and reports

To receive and consider the financial statements, Directors' Report and Auditor's Report for the year ended 30 June 2006.

2. Election of Directors

To re-elect Directors in accordance with the Company's Constitution:

- (a) Mr A F Guy retires and, being eligible, offers himself for re-election.
- (b) Dr N L Scheinkestel retires and, being eligible, offers herself for re-election.

(Information on these Directors is set out in the attached explanatory notes.)

3. Remuneration Report

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

'That the Remuneration Report for the year ended 30 June 2006 (as set out in the Directors' Report) be adopted.'

(The vote on this resolution is advisory only.)

Special Business

4. Increase in aggregate cap of Non-executive Directors' remuneration

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

'That the aggregate maximum sum available for remuneration of Non-executive Directors is increased by \$335,000 from \$750,000 per year to \$1,085,000 per year.'

Voting exclusion statement on item 4:

The Company will disregard any votes cast on this resolution by a Director of the Company or an associate of a Director.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides (and the acknowledgment box on the proxy form in relation to item 4 is marked).

The Chairman will vote any undirected proxies in favour of the resolution.

5. Renewal of Partial Takeovers Provision in the Constitution

To consider and, if thought fit, pass the following resolution as a special resolution:

'That pursuant to sections 136(2) and 648G of the *Corporations Act 2001* (Cth) (the 'Corporations Act'), Rule 97 of the Constitution of the Company is renewed.'

Information for Shareholders

Attendance at the meeting and questions in advance

If you are planning to attend the meeting, please bring the Chairman's letter and proxy form with you to facilitate registration.

In addition to being given a reasonable opportunity to ask questions at the meeting, shareholders are invited to submit questions in advance. They may be submitted in writing or through the Contact Us form on the PaperlinX website at www.paperlinx.com.

Voting

For the purposes of voting at the meeting, the Directors have determined that persons holding shares in PaperlinX Limited that are listed for quotation on the Australian Stock Exchange at 7.00pm in Melbourne on 18 October 2006 will be treated as shareholders of the Company.

Appointment of proxies

A proxy form accompanies this Notice of Annual General Meeting.

A shareholder entitled to attend and vote is entitled to appoint not more than two proxies. A proxy need not be a shareholder. Where the Chairman is appointed proxy, he will vote in accordance with the shareholder's directions as specified on the proxy form or, in the absence of a direction, in favour of the resolutions contained in the Notice of Meeting.

Where a shareholder wishes to appoint two proxies, an additional proxy form may be obtained by contacting the Company's Share Registrar, Computershare. A shareholder appointing two proxies may specify the proportion or number of votes each proxy is appointed to exercise. If a shareholder appoints two proxies and does not specify each proxy's percentage of voting rights, the rights are deemed to be 50 per cent each. Fractions of votes are to be disregarded.

To be valid, the proxy form, and any authority under which the form is signed, must be received by Computershare prior to 11.00am, Wednesday, 18 October 2006. Proxies may be returned by mail in the reply paid envelope provided or by hand to 452 Johnston Street, Abbotsford, Victoria 3067 or by facsimile +61 (0) 3 9473 2555.

By order of the Board



James Orr
Company Secretary

Melbourne
19th September 2006

EXPLANATORY NOTES

Item 1 – Financial statements and reports

The financial statements of the Company and its controlled entities for the year ended 30 June 2006 and the Directors' Report and Auditor's Report are set out in the PaperlinX Full Year Financial Report 2006. No vote will be taken on these.

Item 2 – Election of directors

Rule 63 of the Company's Constitution requires one-third of the Non-executive Directors of the Company to retire by rotation every year; however, they are eligible for re-election.

This year two Directors, Mr A F Guy and Dr N L Scheinkestel are required to retire; however, being eligible they each offer themselves for re-election.

Profiles of both Directors follow:



A F (Andrew) Guy
LLB, MBA, FAICD
(Non-executive Director) Age 58

Appointed a Director in March 2001. Experienced commercial lawyer and former Director of Spicers Paper Limited. Currently a Director of Djerriwarrh Investments Limited (from December 1989), Aviva Australia Holdings Limited (from June 2003), Australian Institute of Company Directors (from September 2001) and Anglicare Victoria (from August 1997). A former managing partner in the law firm Arthur Robinson and Hedderwicks. Chairman of the Safety & Environment Committee and a member of the Remuneration & Human Resources Committee.



N L (Nora) Scheinkestel
LLB (Hons) PhD, FAICD
(Non-executive Director) Age 46

Appointed a Director in February 2000. An experienced company director with a background in international project and structured financing. An Associate Professor at the Melbourne Business School. Currently a Director of Newcrest Mining Limited (from August 2000), AMP Limited (from September 2003), AMP Capital Group (from September 2003), Mayne Pharma Ltd (from November 2005) and Orica Ltd (from August 2006). Previously Chairman of South East Water (July 2002–August 2005) and Director of Mayne Group Ltd (July 2005–November 2005). Chairman of the Audit Committee and a member of the Nomination & Governance Committee and the Safety & Environment Committee.

Item 3 – Remuneration Report

The Corporations Act requires a non-binding resolution to be put to shareholders for the adoption of the Remuneration Report. The Remuneration Report is contained in the PaperlinX Full Year Financial Report for the year ended 30 June 2006. Additional copies of the Remuneration Report will be available at the meeting.

The shareholder vote is advisory only and will not bind the Directors or the Company.

Item 4 – Increase in aggregate cap of Non-executive Directors' fees

Last year we advised shareholders that, in accordance with the ASX Corporate Governance Council guidelines, PaperlinX would terminate the existing Non-executive Directors' (NED's) retirement allowance arrangements and would seek shareholder approval to an increase in the fee cap to allow an appropriate restructuring of the remuneration of NED's. The Board intends that, subject to shareholder approval being obtained to the proposed increase in the fee cap, the retirement scheme will be terminated and accumulated retirement entitlements at 31 December 2006 will be frozen and held in individual accounts for Directors until retirement. An earnings rate equal to the 5-Year Australian Government Bond rate will apply to frozen entitlements until retirement. Revised remuneration arrangements will apply for NED's from 1 January 2007.

Under the PaperlinX Constitution, the current fee cap of \$750,000 does not include the compulsory Superannuation Guarantee Contribution (SGC), but the Directors consider that in accordance with governance guidelines, this compulsory charge should be incorporated in the revised fee cap. The fee cap also does not include the cost of the annual charge for the accrual of individual Director's retirement allowances, which have been separately expensed to profit each year so that the accumulated retirement benefits of NED's are fully funded.

The Board has continued to review annually the tenure of Directors and succession planning for the Board and has agreed to commence progressive retirement of NED's to ensure that the retirement of a number of Directors does not occur at the same time. To allow an overlap between the appointment of a new Director and the retirement of a current Director, an amount is being included in the proposed aggregate fee cap to cover the fee for an additional Director for a period of up to 12 months. The Board intends to maintain the existing number of six NED's for the longer term.

The following table provides information on the current and proposed NED annual remuneration arrangements. The table demonstrates that the annual remuneration of the current six NED's will actually decrease slightly in total and that the increase in the fee cap is only necessary to absorb the current cost of the retirement benefits and the SGC and to provide an additional amount for succession planning arrangements.

	Cash	Retirement allowance & SGC	Total annual remuneration
Current			
Chairman	\$265,000	\$79,500	\$344,500
Non-executive Director	\$92,000	\$27,600	\$119,600
Chairman of Audit Committee	\$10,000	\$3,000	\$13,000
Chairman of Remuneration & Human Resources Committee	\$10,000	\$3,000	\$13,000
Chairman of Safety & Environment Committee	\$5,000	\$1,500	\$6,500
Total	\$750,000⁽¹⁾		\$975,000⁽²⁾

	Cash	SGC	Total annual remuneration
Proposed			
Chairman	\$300,000	\$27,000	\$327,000
Non-executive Director	\$110,000	\$9,900	\$119,900
Chairman of Audit Committee	\$15,000	\$1,350	\$16,350
Chairman of Remuneration & Human Resources Committee	\$10,000	\$900	\$10,900
Chairman of Safety & Environment Committee	\$10,000	\$900	\$10,900
			\$964,650⁽²⁾
Amount for additional Director			\$120,350
Total			\$1,085,000⁽³⁾

⁽¹⁾ Current fee cap.

⁽²⁾ Total remuneration for six Non-executive Directors.

⁽³⁾ Proposed new fee cap.

If the resolution is passed, shareholders will have approved an increase in the Non-executive Directors' remuneration for the purposes of clause 51 of PaperlinX's Constitution and the ASX Listing Rules.

Item 5 – Renewal of Partial Takeovers Provision in the Constitution

Background

The Company's Constitution currently contains Rule 97, which deals with proportional takeovers. A proportional takeover is a bid made for a specified proportion of each shareholder's shares. The inclusion of this rule is intended to assist shareholders in receiving proper value for their shares in the circumstances of a proportional takeover. Broadly, it permits shareholders, in a general meeting, to vote on any proportional takeover offer. If the resolution is rejected the offer is prevented from proceeding.

In accordance with the Corporations Act, Rule 97 expires after three years (23 October 2006) and at that time would cease to have effect. The Directors consider that it is in the interests of the Company's shareholders to have a proportional takeover rule in the Constitution and shareholders are asked to consider this resolution to renew the existing Rule 97 on identical terms.

The operation of Rule 97

If a proportional takeover bid is made for the Company, the existence of the renewed Rule 97 would require a meeting to be convened for shareholders to vote on a resolution to approve the proportional bid. The resolution must be voted on at least 14 days before the close of the proportional bid. If a meeting was called, it would be conducted in accordance with the provisions of the Company's Constitution governing general meetings.

Rule 97 provides that for a resolution to be approved it must be passed by a majority of votes, excluding votes by the bidder and its associates.

If a resolution approving the proportional bid is passed, the offer may proceed. If the resolution is rejected, the offer will not proceed.

Rule 97 does not apply to full takeover bids, that is, for all shares in the Company.

Reasons for proposing the resolution

The Directors consider that it is in the interests of the Company's shareholders to have a proportional takeover approval rule in its Constitution as it gives shareholders the opportunity to vote on a proposed proportional takeover bid. If the proposed proportional takeover bid was not subject to such a vote, control of the Company may be acquired by a party holding less than a majority stake without shareholders having the opportunity to dispose of all their shares. This leaves shareholders at risk of becoming part of a minority interest in the Company, which could result in them suffering a loss due to a decrease in share price following reduced opportunities to dispose of their remaining shares. A renewal of Rule 97 will prevent this situation by permitting shareholders to decide whether a proportional takeover bid should be permitted to proceed.

Advantages and disadvantages

The Corporations Act requires this explanatory statement to discuss the potential advantages and disadvantages of the renewal of Rule 97 for both Directors and shareholders.

As the Directors remain free to make recommendations on whether a proportional takeover bid should be accepted, they consider that there are no advantages or disadvantages specific to them as Directors for the renewal of Rule 97. One view, however, is that a renewal of Rule 97 could make it easier for Directors to discharge their fiduciary and statutory duties to the Company and shareholders in respect of a bid, as it allows Directors to formally ascertain the views of shareholders in respect of the bid.

A renewal of Rule 97 enables all shareholders to have an opportunity to study a proportional takeover bid and, specifically, to vote on the proposal. It provides a process for shareholders to express their collective views and to act in a cohesive manner to both increase their bargaining power in the face of a proportional bid and to lessen any coercive effects of the proportional bid. This is important, as a proportional takeover bid may result in a change in control of the Company without shareholders having an opportunity to dispose of all their shares. There is advantage to shareholders in having an opportunity to prevent a proportional takeover bid proceeding if they believe that control of the Company should not be permitted to pass in such circumstances. The very existence of Rule 97 may impact upon the terms of any future proportional bid and lead prospective bidders to structure any prospective proportional bids to be attractive to a majority of shareholders.

On the other hand, it may be argued that a renewal of Rule 97 reduces the possibility of a successful proportional takeover bid, therefore discouraging proportional bids for the Company. It may also deny some shareholders an opportunity to sell securities at what they consider to be an attractive price where the majority of shareholders reject an offer. As a consequence, shareholders may have fewer opportunities to receive an attractive price for their shares from persons seeking control of the Company.

During the period in which the proportional takeover rule has been in effect there have been no takeover offers for the Company announced or made, either proportional or otherwise. As a result, there are no specific examples against which to review the advantages or disadvantages of the existing proportional takeover rule for the directors and shareholders of the Company.

Present acquisition proposals

The Directors are not aware of any proposal by any person to acquire, or to increase the extent of, a substantial interest in the Company or to announce a takeover offer for shares in the Company.

Directors' recommendation

Directors do not perceive the above or any other possible disadvantages as justification for not renewing the proportional takeover approval provisions for a further three years.

Directors recommend that shareholders vote in favour of the resolution to renew Rule 97 of the Constitution.

Extract of Rule 97 – Approval of partial takeover bids

- 97.1 Where offers have been made under a proportional takeover bid in respect of shares in a class of shares in the Company the registration of a transfer giving effect to a contract resulting from the acceptance of an offer made under the takeover bid is prohibited unless and until a resolution (in this Rule referred to as an Approving Resolution) to approve the proportional takeover bid is passed in accordance with this Rule.
- 97.2 Where offers have been made under a proportional takeover bid in respect of shares in a class of shares in the Company:
- (a) a person (other than the offeror or an associate of the offeror) who, as at the end of the day on which the first offer under the proportional takeover bid was made, held shares in that class is entitled to vote on an Approving Resolution and, for the purpose of voting, is entitled to one vote for each of the shares held in that class; and
 - (b) the offeror or an associate of the offeror is not entitled to vote on an Approving Resolution.
- 97.3 An Approving Resolution is to be voted on at a meeting, convened and conducted by the Company, of the persons entitled to vote on the Approving Resolution.
- 97.4 The provisions of this constitution that apply in relation to a general meeting of the Company apply, with modifications as the circumstances require, in relation to a meeting that is convened to vote on an Approving Resolution and apply as if the meeting was a general meeting of the Company.
- 97.5 An Approving Resolution that has been voted on in accordance with this Rule is to be taken to have been passed if the proportion that the number of votes in favour of the resolution bears to the total number of votes on the resolution is greater than one-half, and otherwise is to be taken to have been rejected.
- 97.6 This Rule ceases to have effect on the third anniversary of the date of the adoption or last renewal of this Rule.

Share Registry

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