

**Attention ASX Company Announcements Platform.
Lodgement of Open Briefing.**



PaperlinX Limited
307 Ferntree Gully Road
Mt Waverley, Victoria 3149

Date of Lodgement : 16-Aug-2002

Title : Open Briefing. PaperlinX. MD on 16% Profit Growth.

corporatefile.com.au

PaperlinX Limited reported a net profit of \$123.0 million for the year ended June 2002, up 16 percent from the previous year. EBIT was up 6 percent to \$213.1 million. Broadly, what were the drivers of your profit growth?

MD Ian Wightwick

We successfully offset the dilutionary impact of our divestment of the Edwards Dunlop, Commonwealth Paper, plantation and chemical trading businesses with contributions from our acquisitions. We achieved the projected cost restructuring, bringing our costs down and driving down our working capital. Our merchants performed exceptionally strongly relative to others in the sector, both here in Australia, and in Asia and North America.

In the Australian Paper manufacturing sector, we had record production rates and therefore low cost and high efficiency. We were also helped by the low Australian dollar, which meant we could successfully export all the product we couldn't sell in Australia and New Zealand.

Another profit driver was pulp prices – import pulp costs were low and our own pulp manufacturing continued to be cost effective – and that paper prices didn't collapse with the lower pulp prices. And profit also continued to be driven by our emphasis on product development, particularly in the packaging area.

Given that for virtually the whole of 2002 we had pretty tough economic conditions in most of our markets, with lower demand for printing and publishing papers, we believe the results were excellent in all businesses and in all regions, each of which was profitable.

corporatefile.com.au

PaperlinX's EPS was 38.2 cents, up 3 percent from the previous year reflecting a higher capital base as a result of the Spicers acquisition in January 2001. What's the outlook for earnings and EPS for the current year ending June 2003?

MD Ian Wightwick

We're not issuing any forecasts ourselves, but we're comfortable with the current range of analyst forecasts, discounting the extremes. Earnings will depend on the general level of economic performance in North America, the UK and Australasia. If we see a pick-up in confidence, we'd expect to be higher in the forecast range. If we see further depressed activity or stay where we are, earnings won't be as high in the range.

corporatefile.com.au

You acquired UK paper merchant Bunzl Fine Paper (BFP) on July 1, 2002 as a beachhead in European paper merchanting. How has BFP's performance compared with expectations so far and what's the outlook for the current year?

MD Ian Wightwick

Clearly it's early days. But we're exceptionally pleased with the performance against BFP's internal expectations and although BFP acknowledges that Europe, as with most markets, is tight, it's looking to deliver in line with our forecasts.

corporatefile.com.au

What opportunities do you see for BFP in the current environment and how do you propose to develop your European merchanting operations?

MD Ian Wightwick

Firstly, there are opportunities for small bolt-on acquisitions in the UK market. BFP has a market share of around 14 percent in the UK and is quite well represented geographically, with a very good structure, good management and good systems. And there's a number of small companies in the UK that could offer synergy benefits for us.

More importantly, BFP gives us the opportunity to grow our presence in Continental Europe, and thereby get some synergies with the UK platform. There's a lot of potential restructuring activity in the sector in Europe and it's certainly our strategy to look hard at the opportunities there, be they acquisitions, joint ventures or whatever. BFP has certainly raised our profile in Europe, and we've been contacted by a number of people since the acquisition.

corporatefile.com.au

The BFP acquisition was partially funded via your recent placement and a share purchase plan offered to private investors, which together raised about \$175 million. PaperlinX's gearing stood at 27.3 percent at the end of June. Are you adequately funded to pursue expansion by acquisition?

MD Ian Wightwick

Yes. Our balance sheet remains strong after the acquisition. For example, we'd have the capability today to buy something at least the size of BFP without having to go back to the market, should such an opportunity come up.

We felt the recent equity raising was appropriate given the size of BFP. What we wanted to do was leave our balance sheet structured in such a way that if for example, we make a couple of bolt-on acquisitions, we don't end up stretching it.

corporatefile.com.au

There's some concern among investors that you're pursuing acquisitions too aggressively and that the model of building a business as an independent, international paper merchant is not yet proven. Do you believe these concerns are justified?

MD Ian Wightwick

I would absolutely reject those assertions. As we've stated before, we've set ourselves extraordinarily strict guidelines relating to return targets and risk in pursuing our growth strategy. We're looking for well run businesses that are already performing well, have a wide customer base, good systems, good people and the ability to reach our financial targets.

If you look at where we are after the BFP and North American acquisitions, it can hardly be said we've been aggressive. In each of the European and North American markets we've got a share of only about 3 percent. If we were very dominant in those markets and aggressively pursuing further growth, you might question our ability to retain market share. But with 3 percent of the market, we have lots of opportunities.

On concerns about the independent merchant model, it's not a new concept. Spicers has been an independent merchant for years and was certainly not influenced by the 41 percent shareholding we owned at the time. I believe independence is a significant advantage. One of the reasons we're doing so well in the US is that we're not allied to a paper company. We're not bound to one particular range of products and can choose the best products to represent to printers, to publishers, designers and graphic designers.

The major paper suppliers also support the independent model, even those who have a merchanting operation. They know they've got to have their products represented by independents. And at the same time, most of the suppliers are under pressure to pursue scale in their manufacturing operations and get their production costs down. They're not set up for the detailed logistics of merchanting.

corporatefile.com.au

Merchanting and Paper Trading generated EBIT of \$57.9 million in 2002, up from \$43.0 million previously. EBIT margin fell to 2.6 percent from 3.0 percent previously. To what extent do the lower margins reflect lower paper prices and what's the outlook for prices and margins in the current year?

MD Ian Wightwick

Lower prices certainly squeezed margins, even though they held up relatively well compared with past downturns in the demand cycle. Yet our merchants were profitable in all areas and the margins of some were at the top end of merchants worldwide.

The outlook is somewhat more positive in Australia. Two of our competitors have recently announced price increases and our merchants won't be far behind them, reflecting price increases from most of our overseas suppliers and Australian Paper, who's in the process of increasing prices. We'd expect to see margins improve for our Australian merchants as the price increases take effect in the next one to two months.

Overseas, the outlook for margins depends very much on the economy. The US is still patchy. And until the economy and demand pick up there, we don't foresee any major opportunity for stronger prices in coated papers, the key product segment. In the UK and Europe, a major competitor announced price increases in May, which BFP followed, and to a large extent those increases have held. There are signs that these economies could pick up later in the financial year and while we don't see any immediate opportunity for further increases in prices, we certainly don't foresee any dramatic fall.

corporatefile.com.au

EBIT from your North American merchanting operations rose to \$19.7 million from \$10.1 million previously, reflecting geographic expansion in the US and the acquisition of Canadian paper merchants Coast Paper in May 2001 and LP Turgeon in April 2002. EBIT margin fell to 2.1 percent from 2.4 percent. What factors will drive growth in your market share in North America going forward and can you continue to grow market share without further eroding margins?

MD Ian Wightwick

It's important to say we haven't set out to achieve market share growth by being a price cutter. We're not driving just for market share per se. We're driving for returns. Obviously returns will come from growing our business as long as we're able to get the synergies and benefits through to the bottom line. Ultimately, growth is important but it's all about doing it profitably.

And we've grown organically as well as through acquisition. For example, we started a merchanting business from scratch in Kansas City that's had great growth and while it started with a low base of sales, we had a very low cost of entry. We believe we've been able to win market share at our competitors' expense because a number of the major publishers and printers value our independence and the wide range of papers, both domestic and offshore, we offer. Spicers, the brand under which our North American merchants operate, is the quintessential customer-focused merchant. It has a reputation for reliability and rapid, customised service.

corporatefile.com.au

How would you characterise the current trading environment in merchanting in the Australian and New Zealand markets and how do you expect it to be affected by recent consolidation in the sector?

MD Ian Wightwick

We need to see more business confidence to return to more normal levels of demand, particularly in the area of promotions and advertising. We do see some very early signs of recovery. There are good bookings for the months ahead in the web-fed publishing area, which is usually the early-cycle leader in demand for high-value coated paper for magazines and more expensive promotional activity.

Industry consolidation should see a drive to seek better returns from investments. And the price increases just announced could be a reflection of that. In our view, there's more potential for consolidation in the sector. All of which should drive a more rational market.

corporatefile.com.au

The Australian Paper communication papers manufacturing business booked EBIT of \$134.8 million in 2002, up from \$97.2 million in the previous year. What's the outlook for earnings in the current year and how might they be affected by recent increases in pulp prices?

MD Ian Wightwick

Pulp price increases will raise some of our costs. But don't forget we make 70 percent of our own raw material, and only import 30 percent. As I said earlier, Australian Paper has announced price increases, of 3 to 5 percent, mainly for uncoated offset papers and copy paper, and will look to increase coated paper prices in the current year. Obviously, pulp prices can't continue to rise unless world demand takes off, so with the paper price increases and the maintenance of the export markets we developed last year, we don't see any major threat to the profitability of the communications paper sector.

corporatefile.com.au

The Australian Paper packaging papers business was affected by industrial trouble at its main client, Amcor, in the first half but recovered to some degree in the second half, reporting a full-year EBIT of \$43.2 million, down 20 percent. What's the outlook for packaging papers for the current year?

MD Ian Wightwick

The outlook's for improved conditions going forward. We've seen a drive in the distribution chain for packaging that more effectively withstands the rigours of handling. And our products are right in the sweet spot of that, with high strength and low basis weights. And there's every sign those trends will continue as we go forward.

On top of that, in the third quarter of 2003 we'll install a new semi-extensible sack kraft paper unit supplying paper for multiwall sacks, not only for cement, which is the traditional use, but also for high performance packaging suitable for food contact, a market Australian Paper is developing. There's growing demand for this

product in Australia and New Zealand and particularly in Southeast Asia, where we see export opportunities at excellent prices.

corporatefile.com.au

PaperlinX paid a 75 percent-franked final dividend of 14 cents per share, unchanged from the previous year. The full-year dividend payment was 27 cents, unchanged, and equivalent to a payout ratio of 71 percent. What's the outlook for dividends and franking for the current year?

MD Ian Wightwick

With our earnings growing offshore, our dividends will continue to be less than fully franked. But the exact amount of franking will depend on how well we do in the various regions. That aside, we don't foresee any dramatic changes in our payment policy as we go forward.

corporatefile.com.au

Thank you Ian.

For previous Open Briefings with PaperlinX, view www.corporatefile.com.au

For more information about PaperlinX, view www.paperlinx.com.au