Address given by the

Chairman of PaperlinX Limited,

David E. Meiklejohn, at the

Annual General Meeting in

Sydney, Australia on

25 October, 2005

Introduction

Over recent months, in the Annual Report and separately, I have addressed a number of communications to shareholders to provide commentary and factual information on our earnings, our financial position and our strategic direction. These communications have been designed to keep shareholders informed on relevant issues and in some cases to clarify and rebut some misleading commentary on our Company.

My comments today will draw largely from the information we have provided previously and will be expanded and updated as appropriate.

Our results for 2005 demonstrate that it was another tough year for the PaperlinX Group overall. The decline in overall earnings is attributable essentially to a further reduction in the profit of our domestic paper manufacturing business, Australian Paper.

As indicated separately the pulp and paper industry globally has demonstrated a cyclical pattern in demand, pricing and profitability over many decades. Over the past two years the cycle in Australia has been negative - selling prices have fallen, supply offerings from overseas manufacturers have increased dramatically, demand in Australia has remained steady. This cyclical downturn in the paper industry occurred last in Australia in 1996/1998 at which time the profits of the then PaperlinX and Australian Paper also fell substantially.

For PaperlinX today the profit downturn in Australian Paper in 2004 / 2005 has been ameliorated partly by the growth in the earnings from our less cyclical paper distribution businesses.

In 2000 the Board recognised the vulnerability of PaperlinX to the negative impacts of the paper cycle and implemented a strategy to expand and grow our global paper merchanting operations. The success of this strategy has been demonstrated in

2005 when the merchanting businesses underpinned our total Group result and our dividend by contributing the majority of our operating earnings. As I have indicated to shareholders, if the Board had not followed this merchanting strategy and simply maintained the portfolio of businesses at the demerger in 2000, PaperlinX today would have made virtually no profit, would have paid no dividend and the share price would most likely have been substantially below the current level.

Within the context of these comments, today I plan to comment on:

- The results for the year ended 30 June, 2005;
- Our strategy going forward;
- Corporate Governance and the Sustainability Report;
- The results for the September quarter;
- The outlook for the immediate period ahead.

The 2005 year in review

As I indicated in the Annual Report, the 2005 financial year saw a continuation of the challenging economic conditions which have now adversely affected our domestic manufacturing and merchanting businesses for the past two years. Due to the strong relative appreciation of the Australian dollar against the US dollar, the selling prices of paper imported into Australia have reduced significantly and Australian Paper has been forced to reduce domestic selling prices to meet competition even though costs continue to increase.

As a consequence, the overall results for PaperlinX for 2005 were down on 2004. Profit after tax excluding the Australian Tax Consolidation benefit was $91.5 million compared with $108.5 million last year, a reduction of 16%. However, earnings before interest and tax of $184.9 million was only 3% behind the prior year.

Merchanting and Paper Trading increased operating earnings from some $148 million in 2004 to $186 million in 2005 (up 26%) while the profit from Australian Paper fell from $66 million last year to $22 million only in 2005 (down 66%).

In looking at the results of the two halves of the 2005 year, we see two different stories driven by different market trends. In July / December 2004 market activity in Europe particularly showed positive signs of recovery and we were optimistic that growth and improvement in volumes and selling prices would continue into the second half.

Unfortunately this did not eventuate as economic conditions in most European countries slowed, competition intensified and selling price increases did not eventuate. Volume trends versus prior year in the first half and the second half in the US and in Europe for coated woodfree paper demand showed a dramatic turnaround of 20 percentage points in the US and 5 percentage points in Europe and led to the pricing weakness in the second half that I mentioned.

We also considered that some softening of the Australian dollar against the US dollar was possible before 30 June which would have benefited Australian Paper's pricing and volume mix. Again this did not happen to the degree necessary to give any real profit benefit in the 2005 financial year. Accordingly, the overall results for the January/June 2005 half were disappointing and did not meet our expectations for the half or for the year.

On a more positive note management has made gains in a number of the areas which are under their control. Good results have been achieved in reducing costs and working capital, operating cash flow of $273 million for the year was sound and Group gearing of net debt to net debt plus equity was down to 33% at 30 June 2005. The return on funds employed from our global merchanting operations improved to a creditable 10.3% and above our cost of capital.

In light of our overall profitability we declared a final dividend for the year of 10 cents plus a 2 cent special dividend to recognise the one-off profit benefit to PaperlinX of the Australian Taxation Consolidation. Our dividend policy going forward will be to target a pay out ratio of around 70% of operating earnings after tax. From 2006 our earnings will be determined under the new International Accounting Standards which may introduce more volatility into our reported earnings.

Future Strategy

As we have indicated, the Board is confident that the Company is following the correct strategic path for both of our business streams and that we have a sustainable long term future as we move through the current low levels of the earnings cycle.

We will continue to grow volume, earnings and earnings per share in merchanting through disciplined management of our existing businesses and further expansion in markets where we can further realise consolidation benefits. Merchanting has been a strong growth engine for PaperlinX and our shareholders.

In manufacturing we will focus our resources to build on or secure our strategic competitive advantages for the future to sustain the value of our investments through the cycle and to provide increased shareholder value for our investors.

There is no positive action that we, as a corporation, can take that will impact relative exchange rates and we have very little impact on global paper selling prices and demand. Accordingly the Board and management are directing their focus on matters that we can influence and control.

For Australian Paper we have committed capital to improve our product quality, to reduce costs and to build on our existing competitive advantages. We have upgraded our Maryvale No.1 machine to improve the quality of our sack kraft product and are confident that this project will improve our profitability and returns in the short term. Recently we announced details of the Maryvale Pulp Mill and bleach plant upgrade which has been under review and planning for some time. This project will provide substantial improvement in costs and quality and will also improve environmental performances. We are also focussed on narrowing our product portfolio to ensure that we direct our manufacturing capacity towards products that can provide an adequate return to our business through the total paper cycle.

In merchanting we will continue to seek opportunities to grow our global operations through either organic growth or by strategic acquisitions. PaperlinX is already the largest global fine paper merchant in the world, but we are only number one in a relatively small number of major markets and thus have substantial opportunity ahead of us. We will also continue to look for opportunities to reduce costs and will manage our working capital efficiently to maximise our overall cash flow.

The global paper industry is in a difficult stage around the world because of weak demand and excess capacity. In Australia the position is compounded by the relative strength of the Australian dollar versus the US dollar. Despite these factors, which are outside our control, PaperlinX is in the top quartile in returns within our industry worldwide. This reflects the strong performance of our management and our positive strategic direction in a difficult environment.

The Australian Shareholders Association has chosen to criticise the Board and management without apparently understanding the factors affecting either our businesses or the industry worldwide. While our relative performance in the Australian share market has not been as good as we would have liked recently, we are doing all that we can to improve our relative position, as well as keeping our shareholders informed on what has happened and what we are doing strategically to position ourselves for the future. Contrary to the views of the Shareholders Association, I consider that we have a committed and competent Board and management team, we have sound risk and financial management controls and we have a conservative but sound hedging policy to protect ourselves where possible against adverse currency movements.

Corporate Governance

As indicated in the Annual Report the Board supports and is committed to the principles of best practice in Corporate Governance. Further, we consider that our corporate governance practices comply substantially with the ASX Corporate Governance Council's best practice recommendations.

The Board meets regularly, both in Australia and overseas and we ensure that all Directors have a sound understanding and knowledge of the Company's operations and strategic direction and opportunities. Our sub-committees, which are comprised of Non-executive Directors only, meet regularly and ensure that all of the matters required by the individual Charters are considered and dealt with appropriately. We have a process of self evaluation of Board and committee performances and address any issues that may be identified by these assessments.

Later in the meeting we will consider the Company's Remuneration Report and I will comment on this report at that time. However I would like to comment at this time on the one area that we do not currently comply strictly with the governance recommendations which is the Non-executive Directors retiring allowance.

As detailed in the Annual Report the Board will not extend the scheme to any new Directors but has presently retained the retirement scheme for existing Directors. I wish to confirm that the Board does intend to terminate the scheme for existing Directors and did consider giving effect to this termination this year. However, as is the case with other companies terminating their Non-executive Directors retirement schemes, implementation of this change will require an increase in the total fee pool to allow Directors fees to be increased to compensate for the loss of the retirement benefit. The Board did not consider that it was appropriate to seek shareholder approval this year for an increase in the total fee pool. However we do commit to terminating the retirement scheme in 2006 subject to shareholders approving the relevant increase in the fee cap at the 2006 Annual General Meeting.

This change would then completely align all of our governance practices with the good governance guidelines.

Sustainability

The Annual Report contains a detailed Sustainability Report which will be commented on further by the Managing Director in his presentation. We consider that this Report again demonstrates our commitment to delivering environmental and social benefits to all of our stakeholders as well as long term sustainable financial returns.

The Board is monitoring the progress and achievements in this area through the relevant Board committees, particularly the Safety and Environment and the Remuneration and Human Resources Committees. These committees and the Board are seeking and monitoring tangible measurable improvements in appropriate areas.

September quarter results and outlook

In announcing the results for 2005, we indicated that market conditions remained challenging as we entered the new financial year and had not improved from the soft market environment experienced in the June quarter.

These market conditions have continued to affect volumes and pricing and the Australian dollar has remained strong. As a result of the negative momentum in the marketplace, our earnings for the September quarter for PaperlinX overall have followed the same trend as the results for January / June 2005 and continue to be well behind the results for the corresponding period last year. However the controllables of working capital, costs and cash management are currently in line with our expectations.

At this point we do not see any improvement in market conditions generally through to the end of this calendar year. However the effect of major cost initiatives and the

Maryvale No. 1 upgrade will have a more visible positive effect on our earnings as the financial year progresses.

In looking ahead I would again note that there will need to be some improvement in our domestic economic environment for Australian Paper to fully deliver our targeted returns through the cycle. In short we need to see a reduction in the volume and pricing pressure of imported paper products and more viable profitable opportunities in export markets.

We recognise the importance of maintaining the profitability and return from our merchanting operations to offset the relatively low profitability of our paper manufacturing business and we will continue to seek to maximise the returns from merchanting through active cost and working capital control.

Conclusion

As our past year's results and my comments today have indicated, we are currently in the midst of a difficult economic period for the paper industry, both in Australia and globally. We believe that the Board and management are addressing the issues under our control which will give us sustainable cost benefits. For the longer term we consider that we are positioning our operations to benefit from any positive change in the paper cycle and I restate that we are committed to doing everything within our control to improve shareholder value for our investors.

I congratulate our management and employees on their commitment and initiatives taken over the past 12 months - it is disappointing that our results do not reflect the substantial efforts of our team. I would also thank my fellow Directors for their continued commitment and support and look forward to support from all of our stakeholders in the year ahead.

David Meiklejohn
Chairman

25 October, 2005

Address given by the
Managing Director of PaperlinX Limited,
Thomas P Park, at the
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International Markets

As you have heard, the past year has been a difficult one for the global paper industry and for PaperlinX. Market demand weakened in the second half of the year as can be seen by the change in growth rates on coated woodfree papers for the first and second half of the year.

In Europe the turnaround in consumption growth was 5 percentage points, and in the US it was 20 percentage points; both resulting in substantial impacts on our businesses.

This weaker market led to reduced pricing in the marketplace, putting pressure on our profits, particularly as these trends firmly established in the last quarter of the financial year. These trends, as seen in European pricing of woodfree coated papers from 1998 to 2005, in combination with the ongoing pressure from a weaker US dollar on our Australian pricing, have continued into this new financial year. Only hindsight will determine if we are at a low point in the paper cycle, but certainly the industry is experiencing a depressed level of capacity utilisation and pricing, particularly in Europe and Australia. We do not see this situation improving through the end of this calendar year which means continued pressure on our first half results.

Strategic response

Our response to these market dynamics has been to pursue a strategy that balances geographic and business risk to optimise returns to our shareholders. We operate in both the merchanting and manufacturing sectors and have operations in 30 countries. As a result our returns have been in the top quartile among global paper companies despite the depressed environment. We are also addressing how we will improve our returns from currently depressed levels even if the market dynamics do not improve, though I should mention that recently there are industry analysts in Europe who do foresee improvements in 2006.

Core Operating Principles

To this end, over the past year and a half we have developed and utilised eight Core Operating Principles to provide alignment and guidance to our decision making at all levels within PaperlinX to strengthen our Company and lift shareholder returns.

I know that we have said a lot about the weak markets we operate in, and I also realise that there are areas where we can do better so I will use the Operating Principles to give structure to a summary of the actions we are taking to improve the performance of our Company.

These Operating Principles have focussed our energies and equally reduced the time and effort put into areas not consistent with our chosen direction. Management actions have resulted from the application of each principle that are making PaperlinX a more competitive global paper company.

The first principle: **Strengthen then build off existing business platforms** has led to a firm recommitment to investing in areas where we have competitive advantage, and reducing investment in areas where we do not.

Over the past two years we have held back capital expenditure to 72% of depreciation as we refocussed our capital programme on more strategic areas that will improve our products, service, or reduce costs to improve our competitiveness.

The $33 million investment in the Maryvale Mill No. 1 paper machine to provide semi-extensible sack kraft paper in the top quartile of global quality is on track, and in final stages of commissioning and early stages of customer trials. We expect benefits from this investment to become apparent towards the end of this half and into the next half, substantially addressing the profit reduction experienced on this line over the past two years due to inadequate product specifications and currency issues.

The $203 million upgrade to the Maryvale pulp mill and bleaching plant is another positive strategic project with investment costs spread over three years. The resulting cost of bleached pulp will be 40% less than the 80 thousand tonnes of bleached pulp we currently import. Overall, by leveraging our existing pulp mill assets and our local source of high quality fibre, we have created a project with strong returns, a positive improvement to our environmental footprint, improved workplace arrangements, and expected improvements to the quality of the communication papers we make at Maryvale.

A third major investment has been to improve the quality of our Australian made copy paper and then advertise the benefits to consumers. The Reflex brand was improved and despite a substantial price differential has seen a strong market share. In total, for the past three months of the recently completed financial year, our Australian manufactured share of the copy paper market grew 10 market share points versus the previous year, with imports to Australia losing share. Among our merchants, we have also strengthened our brands. Last year our branded products grew 10% in Europe, 20% in North America and 23% in Asia.

Finally, we have strengthened our existing merchanting platform following the Buhrmann acquisition two years ago. The integration is complete, we have exceeded our synergy and earnings per share targets, and seen market share growth in the important UK market. Today we are in a position to consider further acquisitions in merchanting to build off our existing merchanting platform, most likely in countries where we already have a presence. We have added significant value to PaperlinX from our merchanting acquisitions and will maintain the same vigorous disciplines in the future.

The second principle is: **Productivity to provide funds to improve sustainability and growth**

We need to and we have generated the funds to invest in our future.

In Europe last year we reduced total expenses by 4% versus the prior year, or more including normal inflation. This reflected the benefits of synergies, cost reductions and business restructurings. As a result, despite European volumes being down by 2% and average pricing falling by 2%, we still managed to improve profit before interest and tax on a pro forma basis.

All businesses have contributed to freeing-up funds for investment. Our working capital to sales ratio has improved from 20% to around 16% in just two years. Every one of our merchanting regions, as well as Australian Paper, improved their ratio this year which contributed to a favourable $183 million reduction in working capital and the $273 million operating cash flow for the Group.

There are also substantial opportunities for PaperlinX to improve further. The investment in a common Information Technology system across Europe will facilitate consolidation of inventories and improve business processes. We are working with our suppliers to identify further shared opportunities and Australian Paper is evaluating the benefits of shifting production between manufacturing lines. We also continue to seek savings in our existing businesses, including the reversal of the $5 million efficiency loss on linerboard manufacturing we experienced last year during the installation of improved machine guarding for safety reasons.

We will never stop seeking productivity savings and reductions in working capital across the Group.

The next principle is: **Simplification**

To support our productivity initiatives we have been simplifying our businesses. In Australia and North America we reduced the number of stock keeping units we carry by 20% from last year. We are reducing the number of brands we carry and the number of suppliers who provide paper to our merchants. Our manufacturing business is reducing the number of specifications it produces, and across the Group we seek to simplify and standardise our processes to save time for our people.

The fourth principle is: **Actively prioritise activities based on value creation for our customers, our suppliers and for PaperlinX**

It is important that we concentrate on areas that add value and reduce time spent on things that don't. The discipline in measuring and practising Value Based Management has been learned from the previous Buhrmann companies and is now being rolled out in Australia. 250 leaders across our Company have been trained in the tools to improve the Economic Profit we create as a Group, in essence the returns we can create for our shareholders above our cost of capital.

It is these skills, applied widely across our Group that saw us actually improve our return on average funds employed in merchanting from 10.1% to 10.3% last year in a particularly difficult market environment, and to achieve a return for the total company in the top quartile of global paper companies, though still well below our targets through the cycle.

The next principle is to **Fully leverage our global opportunities**

This is an area where we have made a great deal of progress over the past year in establishing the right structures for the future, but is also an area where we have substantial future opportunity.

We are now working with our strategic suppliers to enhance our global alliances to a new level of partnership. There is more to be done in this area.

Best practice is being shared across the Group in logistics and warehouse management, leading to service improvements and cost benefit projects in Australia, the UK, and the Netherlands that are all underway.

Global processes such as debtor management or safety management have been effectively rolled out across the Group, resulting in our debtor days reducing by 5 days, and our lost time injury frequency rate reducing by 14%, coincidentally leading to a substantial reduction in insurance premiums.

We are increasing the transfer of our people between countries, evaluating our global branding opportunities as well as supporting our customers on a multi-regional basis.

The next principle is: **Invest in our people and their skills**

PaperlinX has substantially increased the investment in the training and development of our people at all levels of the organisation, including training in leadership skills and economic profit drivers for our top 250 leaders. This is a very conscious effort to improve skills as well as to create opportunities for sharing ideas across functions, between business units and across countries and regions.

Training programmes developed in one region such as "The Power of One", LeaderlinX or Value Based Management are being used across other regions to great effect.

The seventh principle is: **Compliance is a mandatory**

Over the past year we have invested heavily in compliance training around the world to ensure our people know what is right and wrong, and not to cross that line.

Our safety performance has further improved with a 26% reduction in medically treated injury frequency rate (MTIFR) and a 14% reduction in lost time injury frequency rate (LTIFR) and, with further improvements in the early part of this year. Of course none of these improvements compensates for the tragic death of Brett Carroll, a valued employee, during a routine maintenance procedure at the Maryvale Mill earlier in the year. In the well supported programme "Search for the Future", all employees at Maryvale are working together to raise our performance to a higher level.

Our environmental performance also continues to improve as reflected by our four time reuse of water at Maryvale, our 60% reduction in water use per tonne over the past 20 years, the halving of consumption of fossil fuels per tonne over the past 25 years, and our 80 thousand tonnes use of wastepaper each year to reduce Australia's landfill requirements. Going forward we will also target further beneficial impacts from the recently announced pulp mill investment. We expect a 15% reduction in fresh water used, to become Victoria's largest user of recycled water, to reduce greenhouse gases, and to have the fibre for our Maryvale communication papers 100% plantation sourced by 2017. There is a lot of positive momentum in our environmental story.

And finally, the last principle: **results oriented teamwork/success as a team**

These are fundamental beliefs at PaperlinX, they are core skills taught in our training programmes, and continue to provide us with the ideas and commitment to deliver the other seven operating principles I have covered previously.

With these Operating Principles in place and being actioned, it is appropriate to assess how PaperlinX is performing in a very difficult marketplace versus other global paper companies and versus our own aspirations.

Global performance

From this chart you can see that very few in the global paper industry are currently delivering acceptable returns, largely due to excess capacity and generally weak global demand. Several, including ourselves, are also impacted by the relatively weak US dollar. As paper is primarily traded in US dollars, this reduces prices in Europe and Australia.

But in this tough environment, among this group of global companies, you can see that PaperlinX is in the top quartile of returns. This result reflects our balanced merchanting/manufacturing strategy, the benefits of our competitive advantages for Australian Paper, and the positive contributions as our people take actions consistent with our operating principles. If we also look at performance over a five year period, the same picture emerges – top quartile performance.

It is interesting that the paper manufacturing assets of other companies are often valued by the market at higher levels than the market appears to be valuing the

Australian Paper assets because the overseas investors give more value to the expected earnings through the cycle. Several companies actually have minimal earnings and yet retain substantial future valuations. This observation may also explain why we continue to see increasing shareholders from overseas and value focussed investors.

But despite positive relative returns, we are far from satisfied with our returns versus our targets.

Australian Paper Returns

Our targeted return for Australian Paper is to achieve a 12% Return on Average Funds Employed through the economic cycle. In past years we have achieved a 16% return, but today the return is down at 2%. Over the past two years we have lost around $90 million of profit before interest and tax due to the impacts of currency, supply and demand on pricing, and another $40 million due to rising costs that were not able to be fully mitigated or recovered in pricing.

This chart summarises the benefits we expect to realise over the next three to four years from the activities I discussed earlier to restore returns to our 12% target through the cycle.

The benefit from the new accounting standards is as a result of reduced depreciation following the impairment charges identified in these results.

M1, the pulp mill and bleach plant upgrade, capacity balancing between machines and expected operational effectiveness from the new workplace agreements at Maryvale have all been discussed. We have projects underway to reduce costs and inventory in our supply chains while improving service to our customers.

The expected impact of these combined activities is to improve Australian Paper’s returns to roughly equal to cost of capital but we will need some of the cyclical benefits from an improved supply/demand balance or a strengthened US dollar to be able to fully deliver the 12% target through the cycle.

Lifting our Australian Paper returns from our current position is expected to improve value for our shareholders and is a critical focus for our people.

Merchanting Returns

Our global merchanting business has grown substantially over the past five years with profit before interest and tax up $166 million over that period, or up $94 million in the last two years alone.

Our merchanting growth engine has delivered growth in volume, profit before interest and tax and estimated earnings per share. As addressed previously, there is no reason for this growth to stop as we have both internal and external opportunities in front of us. Seen in isolation, our merchanting business is a growth business and has achieved very positive earnings per share growth for PaperlinX.

Our return target for our merchanting businesses is a 15% return on average funds employed, which is also the target to be achieved for acquisitions by the end of year three.

Our base line return last year was a 10.3% return on average funds employed, which is already above our cost of capital and thus value enhancing for the Group.

The areas to drive improvement to the 15% target have mostly been discussed previously, and are all being addressed currently.

Our challenge is to retain a critical focus on our customers and our existing customer relationships, constantly identifying opportunities to improve the value of our offerings while working together across operating companies to realise the very real benefits from our global scale and capabilities. Our improved results last year led by strong market shares, reducing costs and working capital, and above target synergy benefits indicate that we are delivering on this challenge despite the currently depressed market.

Our people know that we have much to do to realise our targets and stay both ahead of our competition and to be increasingly important to our customers. As such there are several substantial new projects underway to reduce costs and working capital and improve the value we offer our customers. These projects are increasingly across operating companies and across regions and of a multi-year nature due to their size. They may involve one-off costs, but are expected to improve our competitiveness and provide good paybacks.

We continue to modify our business portfolio by restructuring or removing underperforming businesses, expanding off solid business platforms, and strengthening existing businesses with tighter focus, stronger brands and improving service to our customers.

Again, as with the chart for improving manufacturing returns, this chart does not assume a benefit from improved supply/demand balance or higher pricing. We have substantial leverage to the upside if either of these marketplace dynamics do occur as was seen by the 34% improvement in pro forma North American profit before interest and tax and the 65% profit before interest and tax lift in Asia last year where prices did improve.

Conclusions

So the conclusions are that PaperlinX has a clear direction and Core Operating Principles that provide guidance on how we intend to get there.

We are following these principles and have a list of actions taking place that are consistent with them and will add value to our businesses, even in the generally depressed global paper market we currently compete in. Though we don't see a near term lift in market conditions before the end of this calendar year, we do see a clear path to improving returns for both of our business streams over time.

If we did see improved pricing from an improved supply/demand balance, further consolidation among mills to support improved capacity utilisation or a stronger US dollar relative to the Euro or Australian dollar, then we would see upside to our model. These are largely the cyclical factors often referred to in our industry and unfortunately the momentum on most of them is currently negative with paper selling prices falling in Australia and much of Europe, pulp costs rising and the flow on effects of increasing oil prices.

With this platform and the activities underway to improve shareholder value, I look forward to working with the team at PaperlinX towards establishing a position where we are recognised as the leading international paper company by our customers, our suppliers, our employees and by our shareholders.

Thank you.

Thomas P Park
Managing Director
and Chief Executive Officer

25 October, 2005