

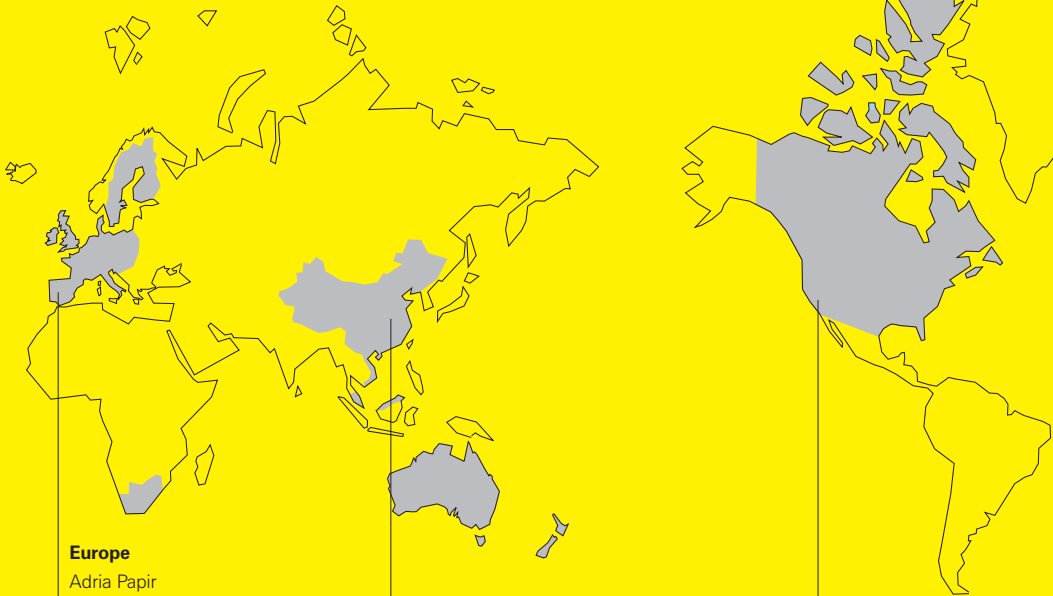
WE  
KNOW  
PAPER!

**PaperlinX**

ADDRESSES GIVEN BY THE  
CHAIRMAN AND MANAGING DIRECTOR

ANNUAL GENERAL MEETING  
FRIDAY 20 OCTOBER 2006  
MELBOURNE, AUSTRALIA

# PAPERLINX GLOBAL PAPER PLATFORM



## Europe

Adria Papir  
Alpe papir  
Axelium  
Bratislavská  
Papierenská Spoločnosť  
Budapest Papir  
BühmannUbbens  
Caledonia  
CC&CO Group  
ContactHorne Paper  
Deutsche Papier  
DM Paper  
DRiem Papier  
Epacar  
Finwood Papers  
Howard Smith  
Paper Group  
Mercator Papier  
Ospap  
Paper Products Marketing  
PaperNet  
PaperNet Austria  
PaperNet Denmark  
Polyedra  
Proost en Brandt  
Robert Horne Group  
The M6 Paper Group  
The Paper Company  
Udesen  
Union Papelera

## Australasia

Australian Paper  
Dalton Fine Paper  
Dalton Web Papers  
Paper Products  
Marketing  
PaperlinX Office  
Spicers Office Papers  
Spicers Paper  
Winpac Paper

## North America

Coast Paper  
Kelly Paper Company  
Paper Products  
Marketing  
Papier Turgeon  
Spicers Canada  
Spicers Paper Inc

# CHAIRMAN'S ADDRESS 2006

**ADDRESS GIVEN BY THE  
CHAIRMAN OF PAPERLINX LIMITED,  
DAVID E. MEIKLEJOHN, AT THE  
ANNUAL GENERAL MEETING IN  
MELBOURNE, AUSTRALIA ON  
20 OCTOBER 2006**

# CHAIRMAN'S ADDRESS 2006

## Introduction

The 2006 year for PaperlinX saw a continuation of the negative downturn in the pulp and paper industry cycle globally. As a consequence, our businesses in Australia continued to experience depressed selling prices and high levels of supply offerings from overseas manufacturers. These factors contributed to a further reduction in the profit of our domestic paper manufacturing business, Australian Paper, while the earnings from our total global merchanting operations also showed a slight fall on prior year.

During the past year we have provided information to our shareholders and to our investors on the strategic initiatives we have underway and we have provided benchmarks against which our progress can be measured. Our Annual Report provides disclosure of and commentary on these actions and opportunities and demonstrates that we are investing current capital and forgoing short-term earnings to provide improved long-term profitability and returns for our shareholders. I am encouraged by the progress that we have made and the positive momentum we have across the Group, both in Australia and overseas.

The overall results for PaperlinX for 2006 reflect the adverse trading conditions in most of our major markets that have continued for some three years. However, as we have previously indicated, the expanded platform of businesses we have developed continues to provide some balance in our earnings profile. The substantial earnings from our paper merchanting operations partially ameliorate the depressed profitability of our domestic manufacturing operations.

PaperlinX operates in a tough and competitive global environment where many of the macro-economic factors which affect our businesses are largely outside the control of individual paper manufacturing and distribution companies. Accordingly, your Board and management have focused on issues that are within our ability to influence and control and which will reshape our businesses to provide longer-term sustainable returns. During 2006 we have either implemented or started to implement a number of important programmes and projects which we have listed in the Annual Report and I will comment on later. However, I again emphasise that the implementation of these programmes has had and will have a negative impact on the 2006 and 2007 earnings but will improve our underlying cost base for the future.

My comments focus on:

- The results for year ended 30 June 2006;
- Some aspects of our future strategy;
- Corporate governance;
- Workplace safety;
- The results for the September quarter;
- The outlook for the immediate period ahead.

## The 2006 Year in Review

As already mentioned, our results for the year were impacted negatively by movements in key external factors including global over supply of paper caused by excess manufacturing capacity, depressed selling prices, a continued weak US dollar and rising input costs for items such as oil, chemicals and wood pulp.

The overall after tax result for PaperlinX for 2006 was \$65.4 million, compared with \$89.6 million in 2005, excluding the Australian Tax Consolidation benefit in 2005. Earnings before interest and tax was \$152 million compared with \$180 million last year.

The paper merchandising businesses provided a very creditable result of \$190 million, compared with \$194 million in the prior year, while profit from our paper manufacturing business, Australian Paper, fell from \$12 million last year to a loss of \$4 million after net one-off costs of \$13 million. Excluding these one-off costs which relate largely to restructuring and profit improvement programmes, underlying operating earnings for Australian Paper were a positive \$9 million.

Whilst a number of our regional businesses have been impacted by the negative external factors, the overall results of recent years demonstrate that our paper merchandising business has continued to deliver less volatile results. Accordingly our early strategic decisions to expand our paper merchandising operations globally to underpin the Group's profit and cash flow have been successful as the majority of today's earnings is being contributed by merchandising. Further, the 11.5 per cent return on funds employed from paper merchandising underpinned the overall Group return of 6.2 per cent which is in the top quartile compared with our international sector peers.

Our strategic responses to the current economic environment have been focused on improving longer-term returns from our merchandising and manufacturing businesses and this has required us to make some significant decisions during difficult economic trading conditions. We have initiated projects to improve and strengthen our core businesses, we have exited businesses where we do not have competitive advantage and we have acquired businesses which will improve our market position and profitability in the longer term.

The important initiatives which are outlined in the Annual Report include:

- The substantial project to upgrade the pulp mill and bleach plant at Maryvale;
- The closure of a paper machine at the Shoalhaven mill;
- The acquisition of the Cascades merchandising business in Canada;
- The restructuring of our merchandising operations in the Netherlands;
- The significant rationalisation of our logistics operations in the UK.

There are other projects and initiatives planned for 2007 and the costs of these will be offset to some extent by the cost and profit benefits delivered from the actions taken in 2006.

In respect of continuing operations, management continues to focus on reducing costs and managing working capital. Sound results were achieved in these areas in 2006. Balance sheet gearing remains satisfactory, although interest cover remains below our preferred level.

As I indicated last year, our dividend policy is now to target a pay-out ratio of up to 70 per cent of operating earnings after tax and the total dividend for the year of 10 cents per share reflects this ratio. The Board activated the Dividend Reinvestment Plan to assist shareholders to acquire additional shares in PaperlinX without cost and the initial take-up was some 27 per cent of shares and 15 per cent of shareholders.

## Future Strategy

PaperlinX intends to continue the strategy previously outlined to shareholders which revolves around strengthening and improving our Australian manufacturing base and building on and expanding our successful global paper merchandising platform. The Board continues to be of the view that this is the correct course of action even though we continue to bump along what we hope is the lower level of the paper cycle.

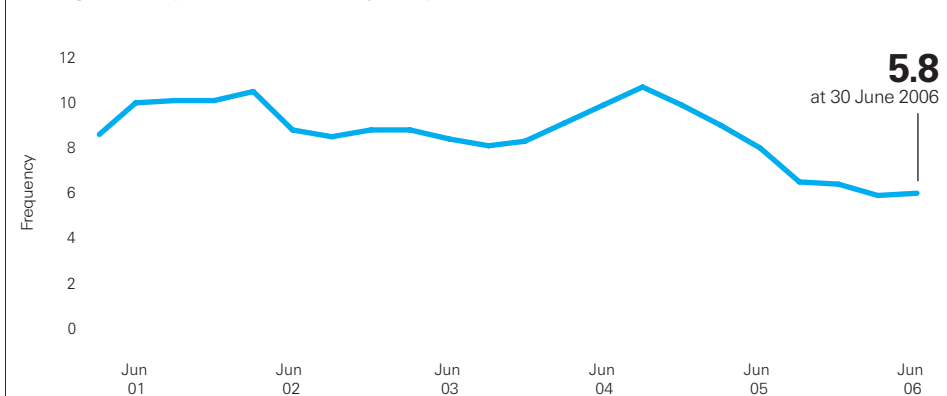
We recognise that the reduced levels of profitability and cash flow over the past year or two have restricted our ability to progress our strategy at the pace we would have liked. However, while the Board has approved that management proceed with key initiatives it is maintaining close surveillance of the underlying financial fundamentals and financial health of the Group overall. The Board and management will continue to monitor this underlying financial position to ensure that we keep all commitments within our financial capability.

## Corporate Governance

As I have indicated previously, PaperlinX is committed to the principles of best practice in corporate governance and we continue working towards ensuring that our corporate governance practices comply with all relevant best practice guidelines.

Last year I indicated that we did not comply with the governance recommendations on Non-executive Directors' retiring allowances and indicated that we would take action on this matter this year. Accordingly, we have proposed a restructuring of the Directors' remuneration arrangements which involves terminating the existing Non-executive Directors' retirement scheme and adjusting cash remuneration to compensate for this change. Shareholders have been asked to vote on a specific resolution on this matter.

**Rolling Quarterly LTIFR (Lost time injuries per million hours worked)**



## **Workplace Safety**

As indicated in the Annual Report, the Board and management are committed to providing a safe workplace for all of the people who work for PaperlinX. Through the Safety and Environment Committee, the Board monitors progress against safety programmes and targets throughout the world and we deal with safety and workplace issues as a priority in our Board meetings.

There are a number of key measures used to assess workplace safety across the Group and we review these carefully region by region. In addition, we have a commitment to the wellbeing of our employees and programmes are being implemented to increase the awareness of the personal benefits of a balanced lifestyle.

To ensure that the senior management, including the Chief Executive, give proper emphasis to this issue, we have included specific safety targets in the short-term incentive arrangements for the senior management group so that the short-term incentive payments reflect the success or otherwise of this important matter.

## **The September Quarter Results and Outlook**

In August 2006 when we announced the results for the past year we indicated that there were few positive signs that the economic fundamentals affecting our business were improving. I confirm that this situation has not changed and the negative headwinds of excess global capacity which is depressing paper prices, higher input costs and the ongoing effects of a weak US dollar have continued to impact our businesses in the current financial year. There do appear to be some positive developments that could lead to improved capacity utilisation rates globally for both coated and uncoated grades which in turn could have positive impacts on pricing, but we believe it is premature to predict any sustained improvement in these factors.

However, in this environment PaperlinX is benefiting from the strategic initiatives I have previously commented on and as a consequence the earnings for the September quarter for PaperlinX overall and for each of our merchandising and manufacturing businesses are ahead of the corresponding period last year.

In the longer term there needs to be significant capacity rationalisation across Europe to underpin long-term paper pricing and we do acknowledge the recent progress made in this area. With regard to our manufacturing business in Australia, as we have indicated previously there needs to be an overall improvement in the external economic environment for Australian Paper to fully deliver targeted earnings and returns through the paper cycle.

Within the above context the Board and management will continue to focus on the staged implementation of strategic initiatives to improve the underlying earnings of PaperlinX, recognising that there will be some short-term costs associated with some projects.

## **CHAIRMAN'S ADDRESS 2006** CONTINUED

### **Conclusion**

As is evident from my comments, we have yet to see any significant easing in the external pressures that have impacted us over recent times. However, we do see positive momentum occurring across the Group as our people respond to the challenges facing them. Our staff and employees are well focused and have clear targets and have made good progress in the areas within their control. I am confident that this will continue.

On behalf of the Board I recognise the substantial effort of our management and employees over what has been another difficult year. I also acknowledge the contribution made over the past six years by Darryl Abotomey, our foundation Chief Financial Officer, who retired as a Director during the year and I wish him and his family all the best for the future.

I thank my fellow Directors for their support and commitment and we look forward to working for and with our shareholders in the year ahead.

A handwritten signature in black ink, appearing to read 'David Meiklejohn', followed by a long, sweeping horizontal line that extends to the right.

**David E. Meiklejohn**

Chairman

20 October 2006

# MANAGING DIRECTOR'S ADDRESS 2006

**ADDRESS GIVEN BY THE  
MANAGING DIRECTOR OF  
PAPERLIX LIMITED,  
THOMAS P. PARK, AT THE  
ANNUAL GENERAL MEETING IN  
MELBOURNE, AUSTRALIA ON  
20 OCTOBER 2006**

# MANAGING DIRECTOR'S ADDRESS 2006

## Introduction

As you have heard, the difficult external environment that has impacted our earnings so much over the past few years continued through 2006 and into this financial year. Internally, however, we are beginning to see the benefits from our range of strategic initiatives to improve our business. These initiatives are doubly important in tough times; they help mitigate negative external impacts and they release funds to support our future growth. But these initiatives are not short-term expediences. They are clearly aimed at building long-term value for PaperlinX and its shareholders. Our people have had a clear focus on these actions, guided by our core operating principles, and have made good progress. I will give you an update on these projects and why they are so important to our Company.

Before I talk about the many things we are doing, however, first I will comment on the situation the paper industry currently finds itself in. The paper industry can be viewed in three layers: paper manufacturers, paper distributors and paper converters. Each has its own structural issues and opportunities, with each sharing one common driver – demand for paper. Of all the drivers for the paper industry, demand is probably the least volatile. Demand does vary year by year and region by region, but tends to follow long-term trend lines driven by factors such as gross domestic product, retail spending and employment.

The key driver of volatility in recent years has been too much manufacturing capacity. This has led to too much supply into global markets, with paper manufacturers often holding prices down to sell their surplus production. With paper internationally priced off a US dollar benchmark, currency relativities have also resulted in negative regional variances as in Australia, but the net impact has been lower

prices and reduced earnings for most in our industry. Higher input costs for pulp, fuel and chemicals have further reduced returns for paper manufacturers, and in fact all of these negative factors have severely reduced the profits of our Australian manufacturing business over the past three years.

But we are now seeing manufacturers in key markets recognising that the solution is in their hands. A significant amount of North American high-cost capacity has been shut and European manufacturers are starting to announce reviews and closures as well. If capacity utilisation improves, it is reasonable to expect pricing to follow. This is the positive environment we have seen recently in North America, but are only just seeing emerge in Europe. This is highlighted by recent announcements by both Stora Enso and M-Real.

Paper distribution, or merchanting, is our other major business stream, and is the area where we have grown significantly in recent years. Despite the difficult market environment, we are delivering an 11.5 per cent return on funds employed in merchanting, exceeding our cost of capital. Paper merchanting is about efficiency, and that is the area where we are making real improvements across our business. We are the largest fine paper merchant in the world with sales of over 4 million tonnes, and we sell to a wide range of converters in many countries, including printers, publishers, office supply companies, corporates and others. Our focus is to build on our strong local customer relationships while leveraging global best practice in areas such as logistics, debtor management, systems, marketing and support for global customers.

So overall our results show that we have not been immune to the external factors impacting our industry and we are well down on our targeted returns as a consequence.

But in this environment our returns remain in the top quartile among global paper companies due to our good mix of businesses, competitive advantages and productivity focus.

## 2006 Group Results

The PaperlinX net profit after tax for the 2006 financial year was \$65.4 million, down 27 per cent on last year's \$89.5 million (excluding the benefit of Australian Tax Consolidation). This result continues to reflect the structural imbalances in global paper supply and demand, along with sharply higher input costs. It also includes significant one-off restructuring and closure costs of \$25 million that we have mostly funded internally through the \$21 million profit on sale of surplus assets. These one-off costs are investments in our future, with significant and growing benefits to earnings planned in future years as I will discuss later.

After a weaker first half, the underlying result in the second half of the year stabilised, showing a modest lift over the second half of the prior year for the company as a whole and for Australian Paper specifically.

Group operating earnings before interest and tax were \$152 million, down 15 per cent on last year. We saw weaker results in our Australian, New Zealand and UK merchanting businesses and in Australian Paper, and a strong performance in North America and Asia reflecting our leverage to any improvements in the external environment. Continued focus on expense management and working capital helped the Company to generate operating cash flow of \$260 million. Working capital was \$88 million lower than last year (excluding the addition of our new Canadian paper merchanting business, Spicers Canada). Reducing working capital from existing business activities allows us to improve returns and to internally fund growth opportunities.

While our current profits are not where we want them to be, and not at a level that allows us to provide the level of returns we have targeted for our shareholders, our progress on our internally generated opportunities is encouraging.

## 2006 Business Performances

I will now look at our operating businesses individually.

### Australasian Merchanting

Overall volumes for our Australian and New Zealand merchanting businesses were 3 per cent lower than last year, primarily due to lower volumes in New Zealand. Market conditions remained highly competitive, with average prices down 2 per cent in Australia and New Zealand. Asian prices on the other hand were up 3 per cent which, combined with market share growth, led to improved earnings. Paper Trading was constrained in volume due to lower exports from Australian Paper, but still grew operating earnings.

### North American Merchanting

Results for our North American merchanting business reflected the stronger market conditions and benefits of several internal initiatives. The acquisition of Cascades Merchanting (now called Spicers Canada) was completed in March, and delivered strong earnings and working capital reductions. The Spicers Canada returns are currently running at over 15 per cent, already exceeding the target we set to achieve by the end of year three. Kelly Paper in the US also performed particularly well with their high-service model. Coast Paper in Canada saw a pleasing improvement in performance resulting from clear management focus despite the Canadian market facing many of the same macro issues seen in other non-US markets. Underlying volumes in North America were up 5 per cent, including strong growth in proprietary brands and sheeter volumes, which were up 15 per cent. Over the past two years, our profits in North America are up 120 per cent, which highlights the upside leverage our business model has to improved market conditions.

## MANAGING DIRECTOR'S ADDRESS 2006 CONTINUED

### European Merchanting

European market conditions were again mixed. Continental European countries were generally more positive than in the prior year, while the UK market weakened as the year progressed, to see overall UK market volumes down 4 per cent for the year. Given the high weighting of the UK in our European business portfolio, we saw overall European volumes slightly lower, with both margins and profits impacted.

We did reduce expenses by 2 per cent, and successfully reduced working capital by 7 per cent as well. Europe will benefit in coming years from a number of key strategic initiatives that will build on the acquisition synergies already successfully achieved.

### Australian Paper

The external pressures on our paper manufacturing business, Australian Paper, have continued and resulted in a \$4.1 million loss on the business overall or only a modest \$9.5 million profit excluding net one-off costs. The closure of the number 1 paper machine at Shoalhaven mill in March was a reflection of our need to make step changes in our business, and will lead to improved returns. We are also investing in areas of competitive advantage including the Maryvale Pulp Mill Upgrade, the consolidation of PaperlinX Office, the growth of our copy paper brands like Reflex™, and in other quality upgrades. Underlying operating earnings have stabilised over the past three halves, and while external costs such as oil, pulp and chemicals remain a risk, we believe we are making the necessary decisions to bring Australian Paper's returns back to an acceptable level with some help from the external market.

# 2006 BUSINESS PERFORMANCES

	Volume	Prices	Costs	Profits
Australian/New Zealand Merchanding	↓	↓	↓	↓
Asian Merchanding	↑	↑	↓	↑
Paper Trading	↓	↑	↓	↑
North American Merchanding	↑	↑	↑	↑
European Merchanding	↓	↓	↓	↓
Australian Paper	↓	↓	↑	↓

*This table shows the direction of changes in key underlying drivers of operating earnings during the 2006 financial year as referred to in the Managing Director's Address.*

## Core Operating Principles

Our core operating principles were prepared to provide guidance to our people in prioritisation and decision-making, and are now clearly reflected in the strategic initiatives identified to strengthen our business in this difficult environment.

Our core operating principles are:

- Strengthen then build off existing business platforms
- Productivity to provide funds to improve sustainability and growth
- Simplification
- Actively prioritise activities based on value creation for our customers, suppliers and for PaperlinX
- Fully leverage our global opportunities
- Invest in our people and their skills
- Compliance is mandatory
- Results oriented teamwork/success as a team.

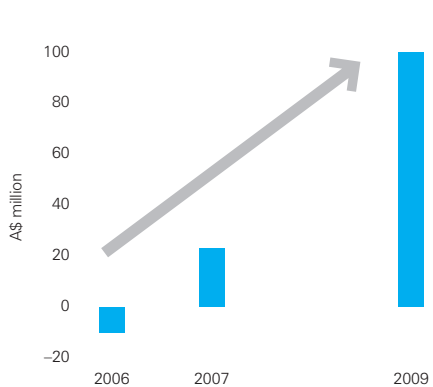
You will see the influence of these guiding principles in the list of strategic initiatives that we have underway at present and in our ongoing focus on reducing expenses and working capital.

## Key Strategic Initiatives

In this difficult external environment, we have followed our operating principles to focus on the things within our control that will build a better and stronger company for the long term. Certainly we have had to address costs and manage our spending to match our current level of earnings, but we have also continued to invest in our people, our service to customers, and in expanding in areas where we have competitive advantages. These investments have been largely funded from reductions in working capital and the sale of surplus assets.

The list of initiatives highlighted at the half year is expected to add at least \$35 million to underlying operating earnings in 2007 and at least \$100 million in 2009. Additionally, two new initiatives were announced in August. These initiatives, while having a one-off cost of around \$12 million in the first half of the fiscal 2007 year, will contribute positively to operating earnings beyond that.

**Net Benefit/Cost of Strategic Initiatives\***



*\* In addition to underlying operating earnings which will vary depending upon a range of external factors.*

Not all of our decisions have been either easy or pleasant, but all have been aligned with our strategic direction and been important steps towards the future. I would like to review with you the key projects underway across the group and their current status.

### **Acquisition of Cascades Merchenting in Canada**

We acquired the business, now called Spicers Canada, in March of this year, to build our business scale in Canada. Spicers also brought good people and an innovative business model to the group. The acquisition completed on time for around A\$100 million and has already exceeded its year-three target return of 15 per cent through strong in-market performances and an excellent effort in reducing the working capital needed to support the business. This acquisition highlights the benefit of building on our existing business platforms in established markets, buying good businesses with good people, and applying global best practice in areas such as working capital, debtor and safety management.

We have recently reached agreement on the sale of the Spicers Western Canadian paper merchenting business that was required by the Canadian Competition Bureau as a condition of our acquisition.

### **Exit from the Portuguese Market**

During the year we also exited the Portuguese market where we had a small paper merchenting business that we saw as being unable to achieve adequate returns. As important as growing in markets with opportunity is understanding where we do not have advantages and reallocating the funds tied up into higher returning opportunities.

### **Closure of Paper Machine 1 at Shoalhaven Mill**

It is always a difficult decision to close a paper machine, with the resultant job losses and impact on the local community. However, to improve overall operating efficiency we made the decision to replace unprofitable products made for the export market at Maryvale with products that were previously manufactured on the number 1 paper machine at Shoalhaven. The once-off cost was \$15 million last year. Well done to our people who successful completed this difficult task smoothly and with dignity.

### **Upgrade Maryvale Mill Paper Machine 1**

This paper machine is now successfully producing a world-class quality semi-extensible product which enhances our competitive position in both the domestic market and in the increasingly attractive export markets. We are seeing improving uptake of this product after a slower than expected start and we are seeing incremental benefits in this fiscal year.

### **Maryvale Pulp Mill Upgrade and New Bleach Plant**

This major project to improve paper quality, reduce pulp production costs, replace imported pulp and improve our environmental impact by upgrading the current pulp capacity and bleach plant at the Maryvale Mill is difficult, but on track. The investment of \$203 million will allow us to leverage our local source of fibre while self-manufacturing pulp at an average of 40 per cent less than the cost of importing pulp, while also reducing the cost of currently manufactured pulp by an average of 15 per cent. I will comment on the substantial environmental benefits of this project later on. We expect to see the full benefit in the 2009 fiscal year.

### **Netherlands Integration**

We have three successful merchants in the Netherlands which provides us with opportunities to improve our performance by integrating activities where appropriate, while retaining our distinct customer interfaces. We are building on this platform so that our superior performance and competitive position is retained into the future. Announced integrations are all on track as planned under a new leadership team.

### The Delivery Co (UK)

In the UK, we are undertaking the integration of the individual logistics operations of our four successful UK paper merchants to optimise customer service, maximise efficiency and minimise the environmental impact of distribution activities. I have recently visited the first integrated site in Ipswich which became operational in August. The smooth changeover to The Delivery Company model is a credit to the many people involved in this complex activity.

Customer service benefits will flow from the capability of the combined logistics organisation as it is rolled out across the UK.

### European IT Platform

A key facilitator for future opportunities is the creation of a common IT platform across Europe to support improved inventory and warehouse control in order to improve working capital management, to deliver a range of synergy benefits and to improve service to customers. Our first implementations have been successfully launched in Ireland and will now be progressively rolled out across the rest of Europe.

There are also other important initiatives underway across the Group focusing on areas where we can work with our strategic suppliers to build competitiveness and grow volumes together, or where we can work with global customers to meet their needs for consistent product benefits that we can deliver from our unique global platform. These are areas of real future potential.

Two new strategic initiatives that we highlighted in August of this year are:

### The Creation of PaperlinX Office

PaperlinX Office combines three Australian businesses which service the office products and stationery market in Australia into a single coordinated entity to provide a higher standard of service in a highly competitive marketplace. This new business was launched in August and you will have seen in the Annual Report envelope, a flyer showing you the range of products available. We certainly hope you will support your company by purchasing these products when you have the opportunity.

### Maryvale Mill Wood Yard

We have outsourced the new wood yard facility to be built and managed by Price Inc at our Maryvale Mill in Gippsland, to further enhance the quality and consistency of pulp to be produced at Maryvale's upgraded pulp facilities, while reducing our costs and limiting our own capital investments.

This summary of strategic initiatives underway across your company shows the alignment with our core operating principles and a real desire to invest time and funds now to improve our results for the future. There is more for us to do, but the successful implementation of these initiatives will substantially improve our future leverage to the upside.

### Sustainability

Looking beyond financials and strategic initiatives, we are also progressing in both social and environmental areas that improve our sustainability as a company.

As a global company, we are committed to continuously improving both our social and environmental performance and setting the scene for further improvement.

As examples, our investments in the Maryvale Pulp Mill and Bleach Plant Upgrade, our greater range of recycled and independently certified products and our more efficient merchant logistics integrations that reduce energy use and emissions are all targeted at further improving our environmental performance.

The upgrade of our Maryvale pulp capacity also underpins our move to 100 per cent plantation sourced fibre for communications paper by 2017, while at the same time supporting our move to recycled water for our paper-making activities, reducing emissions and allowing the production of elemental chlorine free pulp.

Our participation in the creation of the Cores and Links Conservation Area in Gippsland, working with our major plantation supplier, the Victorian Government, councils and community organisations is an example of sound conservation, social and commercial outcomes coming together.

We have also continued to achieve environmental certification of our products including Reflex™ which is now Forestry Stewardship Council (FSC) certified along with a growing list of our merchants and Mills which have gained FSC chain-of-custody certification.

Our focus on recycling also continues to grow as seen by our use of 70–80 thousand tonnes of recycled products that would otherwise go to landfill. We are seeing increased sales of products with recycled content and positive employee environmental initiatives across our company.

Overall a good story, reflected in our membership of the FTSE4Good Index.

### Our People

How we bring together and share the collective knowledge and enthusiasm of our people will determine our long-term success. To support our people and grow their skills we must invest in them.

In 2006, we have completed training for around 300 of our most senior managers, building on leadership skills as well as introducing a common approach to growing economic profit to create value for shareholders.

We have an advanced sales training programme underway at present to provide our salespeople with additional tools to be able to better define and communicate our value propositions to our customers and we will continue to roll out new programmes to support the development and growth of our people.

As the Chairman has already mentioned, workplace safety is also a key priority for the Board and for our people at PaperlinX. Our Sustainability Report highlights many of the initiatives occurring across the Group in this area. Our key measures of performance in this area, lost time injury frequency rate and medically treated injury frequency rate were down 27 per cent and 26 per cent respectively on last year with a particularly good improvement in the European businesses and with the shared 'Search for the Future' initiative at our Maryvale Mill.

### Conclusion

This year has been about focus. Focus on our products. Focus on the areas within our control. Focus on our customers and our unique offerings. To be successful we need to be better. Better than we are today and better than our competition. We need to have the best product portfolio, with differentiated products. We need simple and clear value propositions. Our focus this year has moved us well down this path.

While there do appear to be more positive developments occurring within the industry to address some of the structural issues I mentioned earlier, we will remain focused on delivering on the commitments to our shareholders, our suppliers, our customers and to our employees that we can control, regardless of the external environment we operate in.

I would like to thank my fellow employees for the progress we have made this year, and for the courage they have shown in looking for new ways of doing business. The energy and collaboration to identify and deliver better ways of operating is increasingly visible across the Company, and underpins our future success.

Thank you.



### Thomas P. Park

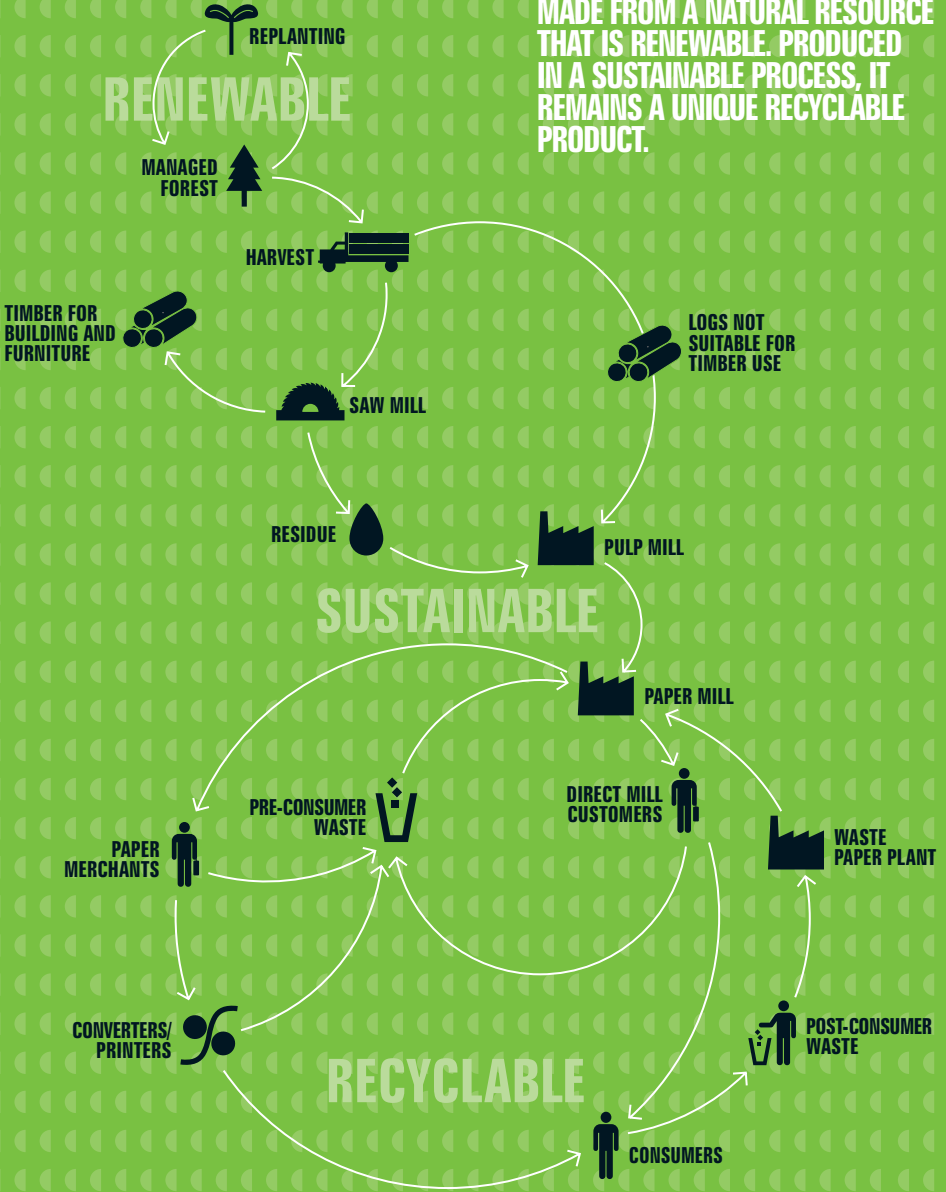
Managing Director and  
Chief Executive Officer  
20 October 2006

PAPER IS A WONDERFUL MATERIAL MADE FROM A NATURAL RESOURCE THAT IS RENEWABLE. PRODUCED IN A SUSTAINABLE PROCESS, IT REMAINS A UNIQUE RECYCLABLE PRODUCT.

RENEWABLE

SUSTAINABLE

RECYCLABLE



# CORPORATE DIRECTORY

## Registered Office and Head Office

PaperlinX Limited  
ABN 70 005 146 350  
307 Ferntree Gully Road  
Mount Waverley  
Victoria 3149  
Australia  
Telephone: +61 3 8540 2211  
Facsimile: +61 3 8540 2280  
Internet: [www.paperlinx.com](http://www.paperlinx.com)  
Email: [contact@paperlinx.com.au](mailto:contact@paperlinx.com.au)

## Share Registry

PaperlinX Share Registry  
Yarra Falls  
452 Johnston Street  
Abbotsford  
Victoria 3067  
Australia  
Telephone: 1800 232 867 or +61 3 9415 4000  
Facsimile: +61 3 9473 2500  
Internet: [www.computershare.com](http://www.computershare.com)

## Forward Looking Statements

Certain statements in this document relate to the future, including forward looking statements relating to PaperlinX's financial position and strategy. These forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or achievements of PaperlinX to be materially different from future results, performance or achievements expressed or implied by such statements. Neither PaperlinX nor any other person gives any representation, assurance or guarantee that the occurrence expressed or implied in any forward looking statements in this document will actually occur and you are cautioned not to place undue reliance on such forward looking statements.

Subject to any continuing obligations under applicable law or any relevant listing rules of the ASX, PaperlinX disclaims any obligation or undertaking to disseminate any updates or revisions to any forward looking statements in this document to reflect any change in expectations in relation thereto or any change in events, conditions or circumstances on which any such statement is based.

# PaperlinX

The high-quality recycled paper used in this publication is distributed exclusively by PaperlinX and its merchandising businesses.

This publication is printed on revive™ silk 130gsm, a 35 per cent recycled paper, produced with ISO 14001 environmental certification in Australia.

When you have finished with this publication, PaperlinX encourages you to recycle it to avoid landfill.