

**ADDRESS GIVEN BY THE
CHAIRMAN OF PAPERLINX LIMITED
DAVID E. MEIKLEJOHN, AT THE
ANNUAL GENERAL MEETING ON
FRIDAY 22 OCTOBER 2010 IN
MELBOURNE, AUSTRALIA**

INTRODUCTION:

As we said in our Annual Report, 2010 was one of the most difficult years in our history but was also the most transitional. Although our results were disappointing we did largely complete the strategic initiatives program which economic circumstances have forced us to deal with over recent years. The year saw our full exit from manufacturing, the completion of our refinancing program and a substantial reduction in group debt.

As a consequence of the resolution of these issues the Board and management are now able to focus on the marketing and operational sides of our business. The CEO will comment further on this later.

Today I will comment on the 2010 year, on the completion of our exit from paper manufacturing, on Board and management matters and on the outlook.

REVIEW OF 2010:

As reported, our operating earnings suffered from adverse conditions in all of our markets, although solid efforts were made to reduce variable and structural costs.

The reported result for the Group for 2010 was an after tax loss of \$225 million. This loss was due largely to the costs associated with the exit from manufacturing and with the restructuring of our continuing businesses.

The operating result before interest, tax and significant items was a loss of \$23.5 million which included a loss of some \$27 million on our now discontinued paper manufacturing operations.

However, we have reduced our total gross debt by some \$1.2 billion to some \$300 million and have implemented more appropriate financing arrangements with a new group of lenders. As a result our interest and financing costs for the year were substantially below the levels of the previous year.

As a result of these changes the financial and operating base of the Company is in much better shape to cope with the demanding market place.

EXIT FROM MANUFACTURING:

We have now completed the restructuring programme that has resulted in a significant change to the business mix and strategic focus of the Company. In 2009, we sold most of the Australian Paper manufacturing business and followed up in 2010 with the closure of the balance of our Australian paper manufacturing activities in Tasmania.

Our transformation from an Australian paper manufacturer, with substantial levels of term debt, to a global merchant with a reduced and more flexible debt mix has been difficult but is now complete. As a result of our exit from manufacturing the risk to our earnings from a fluctuating Australian dollar is reduced.

The final decision to close the Tasmanian operations was a difficult one for the Company, but the process has gone well thanks to the efforts of our people. We had a dedicated and professional workforce in Tasmania and the Board would like to pay tribute to all our employees who, through the closure process, maintained high standards and a safe working environment.

Operationally we are now very different to the company we were two years ago. We are now solely a distributor of paper and a range of diversified products and solutions to print and related sectors.

Our diversified activities are positioned to provide a growing proportion of our gross profit and will improve with strengthening economies. Also, our geographic footprint has shifted considerably so that now around a third of our revenue is UK based, a third is from Continental Europe, around 20 per cent is from North America and 10 per cent is Australia, New Zealand and Asia.

MANAGEMENT AND BOARD MATTERS:

We announced recently that our Chief Executive of the past six years, Tom Park, will leave PaperlinX on 31 October, 2010 and that we have appointed Toby Marchant as the Group CEO from 1 November, 2010. I take the opportunity to again thank Tom for his leadership of this important restructuring process over recent years.

Toby Marchant is here and available to meet with you after the meeting. Toby has had over thirty years experience in the paper merchanting industry and is currently CEO of PaperlinX Europe. He was the Managing Director of the Robert Horne Group in the UK when PaperlinX acquired Buhrmann in 2003 and has gradually assumed more responsibility in Europe since that time.

Toby will continue to be based in the UK whilst the statutory head office will remain in Melbourne.

The Board welcomes Toby to his new role and also wishes Tom all the best in his less stressed life.

Today we also farewell Barry Jackson who retires from the Board at the end of the month. Barry has been a member of our Board since the inception of PaperlinX and I thank him for his contribution and advice over the years. During the year Dr Nora Scheinkestel retired and I also place on record our appreciation of the contribution she made to PaperlinX. And finally, we farewelled Executive Director and CFO Mark Hooper recently and I also thank Mark for the significant contribution he made during his relatively short period of time with us.

With all the changes that have occurred and are occurring in the PaperlinX Board and Management structure, the current non Executive Directors will remain on the Board into 2011. We will now resume the Board succession programme and will appoint new directors to replace retiring directors as appropriate. We recognise that we have a gender diversity issue to address which we will do as a matter of priority.

OUTLOOK:

We will continue our strong focus on cost levels and on cost reduction initiatives. Recent senior management changes will result in a substantial reduction in corporate cost levels.

At the operating levels, solid expense management and some favourable sales pricing have mitigated the impact of sales volumes that have not shown any material recovery from prior year levels. Our September 2010 quarter results are at the levels we expected and our operating earnings and earnings after tax are both meaningfully ahead of the depressed results for the corresponding period last year.

Our forward performance relies on continued tight cost management and the range of activities underway to improve our profit margins. We do not expect demand to substantially improve in the near term, though we do maintain good leverage to any improvement. A strengthening UK economy would benefit both the paper and the higher margin diversified businesses.

Though it is early in the year, it is pleasing to see the first signs of a turnaround in critical European businesses, partially as a result of recent restructuring activities and partially due to management changes.

CONCLUSION:

I conclude today by stating again that 2010 was a very difficult year. Our staff and employees have been placed under considerable pressure as we pushed on with our aggressive restructuring programme and I thank them for their commitment and dedication.

Our focus going forward is to calibrate our cost base to better reflect the sales volume and revenue of our businesses today.

Our objective going forward is to deliver improved results and improved returns for the shareholders, and we are on track to achieve these.

David E Meiklejohn
Chairman

22 October 2010

**ADDRESS GIVEN BY THE
MANAGING DIRECTOR OF PAPERLINX LIMITED
THOMAS P. PARK, AT THE
ANNUAL GENERAL MEETING ON
FRIDAY 22 OCTOBER 2010 IN
MELBOURNE, AUSTRALIA**

INTRODUCTION

The past year has been the most transformational in the history of your Company, completed during the most difficult paper market we have experienced. As a result, our organisation is more customer focused, streamlined and ready to benefit from the hard work of the past years. However, our results have been weak and heavily impacted by the one-off write-downs and restructuring costs associated with this necessary transformation.

Trading EBIT for the total Merchanting business of \$43.5 million reflected continuing depressed conditions in our key markets. The decrease in Group merchant trading expenses, across all regions, of \$196 million failed to offset the fall in volume of 214,000 tonnes. Corporate costs, operating losses associated with the Tasmanian mills restructure costs and historic lender waiver and adviser charges contributed to a total reported EBIT loss of \$23.5 million. Taking into account one-off costs, primarily associated with the closure of the Tasmanian operations and restructure costs, meant there was an EBIT loss of \$(174.9) million for the Group and an after tax loss of \$(225.3) million for the group.

STRATEGIC PRIORITIES COMPLETED

While the external environment did not provide any positive support, with weak economies and a strong Australian dollar keeping pressure on underlying earnings, we did successfully complete the key strategic challenges set at the start of the year.

First, your company has reduced gross debt from \$1.5 billion in December of 2008 to \$301 million at the end of June this year. That \$1.2 billion reduction of debt has resulted from the sale of Australian Paper last year, aggressive reductions of working capital and retrieval of excess cash throughout our business and currency benefits.

In fact our net debt position at the end of June this year was down to \$164 million, recognising however that overall debt does seasonally increase by around \$100 – 150 million leading up to December. Overall, our interest bill going forward will be reduced to around \$20 million a year.

Secondly, we have completed the exit from manufacturing, having sold Australian Paper last year and completed the closure of our Tasmanian operations by July of this year. Credit is due to our employees and their committed and professional approach to safety and efficiency through the closure process.

When we first announced the prospect of a closure of Tasmanian manufacturing we estimated a total cost of around \$200 million. Last December this was revised down to \$170 million, and we now see costs at \$154 million as plans become firm, and contracts are finalised. These figures do not include prospective benefits from future land and equipment sales.

And the exit from manufacturing reduces our currency exposure.

The third major strategic accomplishment has been the complete refinancing away from our historic lender group. It pains me greatly that around \$100 million of shareholder funds have been paid over the past 18 months for waiver fees, penalty rates, early repayment fees and lender advisor fees, with \$13 million paid in the last financial year. All this despite the fact that PaperlinX never missed an interest payment throughout the Global Financial Crisis.

The repayment of our historical lenders substantially frees up management time to focus on improving business results.

The historic lending arrangements have been replaced with a new asset backed lending structure. Regional facilities with a tenure of around three years have been established in Europe, UK, NZ, Australia, Canada and the USA, with opportunity to extend more broadly if desired. This structure has important benefits to PaperlinX as a merchanting business:

- Our funding costs will reduce to approximately \$20 million annually at current interest rates.
- Greater in month flexibility with less debt and less cash being held through the month.
- Regionally based debt is better aligned to the currencies we operate in.

All in all, a more appropriate platform for PaperlinX.

By any measure these are a significant set of accomplishments and clearly result in a more streamlined organisation, well positioned to take advantage of any market upswing. With these matters now behind us management is better able to focus on recalibrating our costs and improving the inadequate financial performance we reported.

RECALIBRATION OF ACTIVITIES

Over the past two years as a result of the GFC, there was an overall volume decline of about 20%, and our revenue has declined by (21.7)% in Europe, (21.9)% in North America and (14.5)% in Australia, New Zealand and Asia in local currencies. That is a lot of lost business to recalibrate around.

There are three themes I would like to comment on regarding our progress in this recalibration process.

First, we have continued to substantially reduce expenses. Over the past 18 months we have reduced our merchant headcount substantially to bring the group headcount down to 6,500. Over the past two years this and other initiatives have led to expenses in local currencies reducing by 17.2% in North America, 13.3% in Europe and 10.5% in Australia, New Zealand and Asia.

At the end of last financial year we saw the need to make further cuts in Continental Europe and the UK as volumes remained disappointing. Accordingly a further 8m Euro restructuring expenses was accrued in June to further benefit our cost profile going forward. Those programmes are progressing well, with a further reduction in headcount of 160 over the past three months.

In all cases we have implemented measures to institutionalise these expense reductions to retain this lower overall expense base and increase our leverage to an improvement in economic activity in our key markets. There is however more to be done, and we particularly look at opportunities that require minimal cash expenditure, such as non-replacement of vacancies, or where we produce a demonstrably stronger business platform, as we have done in the UK logistics consolidation.

Secondly, we have continued to recalibrate our working capital to the reduced business size. The consistent decline in moving annual average working capital over the past three years in constant currency is encouraging and reflects the positive progress made from our structured processes to address inventory turns, collect receivables and improve terms with our suppliers.

In fact our year end working capital showed an overall reduction of A\$257 million from last year including currency benefits. Of greater importance, our average working capital to sales ratio reduced, from 17.7% down to 16.9% for the year, despite the falling revenue base.

These activities make our business more nimble and robust, with focus on fewer but stronger products, all requiring less investment or debt funding.

The third area of recalibration involves streamlining and reducing total company overhead costs. This has been a focus for some time, though the extra demands from refinancing out our lenders and exiting Tasmania have stretched our resources around the world.

Our fundamental approach has been to combine jobs where opportunities exist, to locate jobs where they make the best business sense, and where we need replacement staff to make appointments in line with the new, simpler and more focussed nature of our company, reducing layers wherever possible.

In Australia, our Head Office personnel have reduced from over 90 a few years ago to 35 today. Additionally as good people have been promoted and jobs combined we have also substantially simplified our company and reduced costs. On a pro-forma basis, from just after the sale of Australian Paper in June 2009 to our estimates for January 2011, corporate labour costs will reduce by \$10 million or over 50%. The same processes are occurring throughout the group. For example further back office consolidation in the UK, and the reduction in Continental Europe from two regions to one have reduced overhead costs in the regions.

Now that the major strategic issues of debt reduction, exit from manufacturing and refinancing out our historic lenders are complete, I agree that the announcement of my departure is appropriate and entirely consistent with this approach. A layer is removed from the organisation with Toby not replacing himself as Head of Europe, and the organisation is more streamlined overall.

IMPROVING PROFITS AND RETURNS

So far I have commented on what we have done to resolve major strategic issues and to recalibrate your company to the existing business size. All of this was required to address the structural issues in the paper industry, to extract ourselves from the overwhelming impact of a cyclically high Australian dollar on manufacturing earnings, and to respond to the sharp declines experienced in our markets from the impact of the GFC.

And although we have addressed these major significant strategic issues to deal with the external challenges facing the industry, I cannot now stand here and tell you that volumes have improved and all is better. Rather, volume stabilisation at a lower level is what we currently see. So how do we improve profits and returns from this base?

Firstly the Company's results for the past two years have been significantly impacted by costs associated with the sale and closure of the Manufacturing business and increased fees and charges imposed by our historic lenders. These matters are now behind us, so we won't have these costs going forward. In addition management is now able to focus specifically on our underlying business activities, and progress opportunities to diversify into new areas offering higher and sustained returns.

Secondly whilst paper merchanting remains critical to the Group's success, initiatives are underway in each region to grow our diversified businesses. To date these initiatives have resulted in approximately 19 per cent of the Group's gross profit coming from diversified activities, including sign and display, graphics, digital, industrial packaging and converting. Though these businesses were hit cyclically by the GFC, we do have competitive advantages and plans for future growth. It is pleasing to see the start of a recovery in our activities in this area.

Thirdly, our lower cost base and more streamlined corporate structures will enable us to better leverage any upswing in economic activity.

SUMMARY CHALLENGES

As a summary, a few challenges for our people are shown on this chart.

In terms of margin we are targeting a 20% plus gross profit % with a further reduction of our expense to sales ratio.

We are looking to grow our diversified business from 20% → 30% of total gross profit in the medium term at superior margins which will translate through to improved EBIT margins. We will continue to focus on decreasing our expenses and working capital, so they improve as a percentage against revenue. We will also continue to look to capture cash from our working capital and improve overall cash management.

Our ROAFE target remains 15%+ in the regions, and 12.5%+ for the group which can be realised from a combination of working capital reductions, EBIT margin improvements or volume improvements. Importantly, with lower working capital levels and funds employed, our returns leverage to restored EBIT margins is improved.

I know these numbers look aspirational, but they are achievable and will create a substantially improved platform for further improvements in our business structure going forward.

RECENT PERFORMANCE

Though it is early days in our financial year, having just emerged from the northern summer, we are on track with our plans on all key measures through September, which is a meaningful lift from the prior year results at this stage. Early signs of a couple of important turnarounds in our European portfolio support this improvement.

Demand has stabilised but not lifted from depressed levels, but pricing is healthy in North America and has strengthened in Europe for the time being.

And cost and working capital management remain major focus areas for everyone.

Though nowhere near our potential, this is a better profit report card than we have seen for some time as focus has returned to improving operational performance.

CONCLUSION

So in closing, I pay tribute to the hard work and dedication of our people. Despite a challenging external environment and significant internal restructuring, they have remained focused on improving your Company and implementing outcomes which will result in improved financial performance for the Company and benefits for our customers. In particular, our safety performance has been the best ever and we will continue to work hard in this most important of areas. I would also like to thank Mark Hooper for his contribution over his period as CFO of PaperlinX. He leaves us with strengthened management across our finance community and an improved funding structure for our business. Tony Kennedy is now the right person at the right time to take over as CFO after his very successful career in North America and his proven ability to lift operational performance.

I have no doubt management will lift operational performance and see a real improvement in financial performance from our current platform. I commend Toby Marchant for his leadership and well earned promotion and wish him and the rest of his management team every success into the future.

Before finishing I would like to say that I am disappointed in our share price performance in recent times, though the meaningful lift in the first quarter EBIT following all the restructurings is somewhat better news. But I can say that my management team and I have given our all and then some to see PaperlinX through the past few years. We have absolutely done our best for fairly meagre apparent benefit to shareholders, but we never stopped fighting and I do believe that the recovery is underway.

And finally, I would like to pay my respects to the Chairman and Board members over the past years. By any measure this has been a difficult period for PaperlinX and our shareholders, but the Board's enormous commitment and guidance has seen us through the worst of it. We all now look forward to seeing the flowback of rewards to shareholders that are so justly deserved.

Thomas P. Park
Managing Director and
Chief Executive Officer

22 October 2010