



**SUPPLY NETWORK LIMITED**

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24 November 2005

The Manager  
Companies Announcement Office  
Australian Stock Exchange  
20 Bridge Street  
**Sydney NSW 2000**

Dear Sir

**Re: Chairmans Address to Shareholders**

Please find attached the Chairman's Address to Shareholders at the Annual General Meeting being held today at 3.00pm.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Peter Gill', written over a horizontal line.

**Peter Gill**  
Company Secretary

## **CHAIRMAN'S ADDRESS ANNUAL GENERAL MEETING**

**24 NOVEMBER 2005**

Welcome to our nineteenth Annual Meeting.

Following excellent results and solid growth – record EPS in 2004 - over recent years it is disappointing to report a decline in profit in the first part of the current financial year. Over the first four months revenue has been flat in Australia when compared with the previous corresponding period and is down in New Zealand, giving an overall decline of about 1.7 %.

Shareholders were briefed on our New Zealand revenue problems in the Managing Director's Report accompanying the announcement of our results for last year and these problems have been exacerbated by short-term market conditions. Although it is by no means universal, we find that many of our customers, particularly smaller customers, are affected in the short term by increasing fuel prices. Operators locked into fixed price contracts or otherwise unable to negotiate improved payments sometimes have no choice but to defer non-essential maintenance. In New Zealand the extended election campaign and resulting uncertainty about local economic management also seems to have had a negative impact on spending patterns.

Our policy of developing organic growth continues to be the main focus with new Multispares outlets established in South East Melbourne and Canberra during the 2005 calendar year. Both these new businesses have exceeded sales targets in the first four months of this financial year and whilst adding to our cost base in the short term, they offer good long-term returns for shareholders and are important strategic sites for Multispares.

The year under review has been one of consolidation and refinement of our core businesses. As part of this process we have increased investment in product research and strengthened our supply chain in a number of strategic product areas.

Daconti Limited, our most recent venture, continues to explore opportunities to expand our wholesale operations, with a number of promising product lines currently under development.

Our financial position remains strong with gearing stable at around 37% despite significant capital expenditure in the first half. Capital projects either complete or well advanced include a further expansion of our Sydney warehouse racking facilities, the fitout of our new Canberra branch and the implementation of new Business Intelligence software that will automate much of our performance reporting and improve our ability to manage trends.

Our stable gearing during a period of lower profitability is largely the result of bedding down new stock management practices that have reduced overall inventory levels with little or no impact on availability. We have set internal targets to improve the ratio of fast to slow moving stock and specifically to reduce the size of our slow moving inventory.

The current outlook is for an improved result in the second half. We expect to achieve low single digit sales growth for the full year but full year earnings are likely to be below last year's result of 5.2 cents per share. Our current expectation for earnings is around 4 cents per share but we will continue to update the market as trading conditions for the second half become apparent.

Today marks a couple of milestones with our longest serving non-executive director, Hugh Anderson, leaving our ranks and this is the last occasion on which I will Chair an Annual General Meeting. Following the departure of Hugh and myself I believe the Company will continue to be well governed and should be in sound position to take advantage of future opportunities as they emerge. Your Deputy Chairman together with the Managing Director have the background knowledge and experience to continue to develop and execute our business strategies and are ably supported by a strong Executive Team.

I reconfirm my continuing support for Supply Network Limited and will make myself available for consultation on a voluntary basis as and when required in the future.

There will be announcements on Director replacements over the coming months and as an ongoing major shareholder I have confidence that the new appointments will add vitality and complement the skills of the remaining Board members.

Finally I take this opportunity to commend Geoff, his Executive Team and all our dedicated people on the achievements of the Group over the recent years, as they are the ones who have made possible the transformation of our business which has so much promise for the future.

To our many shareholders I express thanks for your support over the past nineteen years and in particular thank those of our original shareholders who continue to remain for the long haul.