PaperlinX

ASX RELEASE

PaperlinX Limited
ABN 70 005 146 350
7 Dalmore Drive
Scoresby, Victoria 3179
Australia
Tel: +61 3 9764 7300
Fax: +61 3 9730 9741

CROSS RELEASE PXUPA
ASX RELEASE

21 August 2013

PAPERLINX 2013 FULL YEAR RESULTS AND UPDATE ON PAPERLINX STEP UP PREFERENCE SECURITIES (HYBRIDS)

PaperlinX Limited (PaperlinX) today announced a statutory loss after tax of $(90.2) million for the year ended 30 June 2013 compared to a loss of $(266.7) million for the prior corresponding period (pcp).

The key features of this result are:

- Continuing revenue of $2.8 billion, down from $3.2 billion pcp due to weaker trading conditions. On a like for like basis, after adjusting for differences in foreign currency translations, revenue was down 12%
- Underlying loss after tax(1) for the period is $(39.0) million compared to $(54.4) million pcp
- Underlying EBIT loss(1) of $(21.4) million compared to $(27.2) million for the prior year. Notably, the second half of this financial year delivered an underlying EBIT loss(1) of $7.7 million, compared to a loss of $17.6 million pcp
- Strong performances in our Canadian, Australian and New Zealand businesses
- Restructuring charges of $(26.0) million after tax are in line with plan. Extensive restructuring initiatives reduced FTE by 11.8% across the Group
- Negative operating cash flow of $(42.1) million was largely due to the trading loss and payments for restructuring that were only partially offset by an improved working capital position. The working capital position improved in 2H due to continued focus on inventory levels
- Impairment charges of $(25.1) million after tax were incurred in the first half of this year and relate to European assets
- Lower net debt of $122.7 million versus prior year of $147.8 million primarily reflects the benefit of proceeds from the sale of businesses in the first half of this year that were partially offset by cash trading losses, additional restructuring and unfavourable movements on foreign currency translation of foreign domiciled cash and debt
- Completed the extension of key lending arrangements both in Europe and New Zealand and amended facilities in the UK and the Netherlands to improve flexibility
- Implemented significant new facilities in Germany, Poland, Austria, Denmark and the Czech Republic to deliver further liquidity

(1) Non-IFRS measure – refer Appendix

Commenting on the result, Dave Allen, Chief Executive Officer said, “Our turnaround strategy is progressing, with significant restructuring initiatives undertaken, particularly in Europe. Our efforts this year are forecast to result in permanent cost savings of $35-40 million from FY14. To deliver this, very difficult decisions have been taken, but we are confident that these pave the way to profitability for the Group. We reconfirm our February guidance that the business would be marginally profitable in FY14 at the underlying EBIT level, flowing from cost benefits achieved from restructuring and further cost reduction initiatives that will be rolled out in FY14, and margin improvements from diversified products.”

PaperlinX Chairman, Robert Kaye said, “Our results in 2013 are still reflective of a business undergoing transformation. The current priorities include accelerating restructuring projects to resize the cost base of the Group and to address underperforming businesses in Europe. We are confident that this transformation programme is on track and beginning to yield results.”

UPDATE IN RELATION TO PAPERLINX STEP-UP PREFERENCE SECURITIES (HYBRIDS)

The PaperlinX Board today announced it has entered preliminary discussions with the Trust Company, the responsible entity of the PaperlinX SPS Trust, to explore a potential scrip-based merger between the Company and the PaperlinX SPS Trust, the vehicle that issued the Step Up Preference Securities (Hybrids). These discussions are preliminary and non-binding in nature. For further information, please refer to ASX Cross Release issued today, entitled “Market Update in relation to PaperlinX Step-Up Preference Securities (Hybrids).

Robert Kaye continued: “The Board believes that the simplification of the capital structure is fundamental to unlocking value for both PaperlinX ordinary shareholders and Hybrid security holders. We will keep the market updated on our progress.”

RESULTS FOR THE YEAR ENDED 30 JUNE 2013

The following table shows statutory earnings and sales revenue by segment in Australian dollars. Segment results exclude significant items but include the benefits arising from restructuring activities. Included is a reconciliation of underlying earnings. The difference between statutory results and underlying results is the loss on sale of businesses, impairment of non-current assets, restructuring costs, the write-back of provisions relating to the closure of the Tasmanian operations and in the pcp, the valuation impact of the currency option.

	Earnings		Sales Revenue	
For the year ended 30 June	**2013**	**2012**	**2013**	**2012**
	$m	**$m**	**$m**	**$m**
Europe	(34.3)	(23.6)	1,953.7	2,333.8
Canada	13.2	8.3	401.5	442.1
Australia, New Zealand and Asia	13.0	10.9	426.6	472.2
Unallocated	(11.5)	(16.4)	(3.9)	(4.9)
Total continuing operations	(19.6)	(20.8)	2,777.9	3,243.2
Discontinued operations (1)	2.7	8.6	27.8	870.0
Loss before net finance costs, tax, interest and significant items	**(16.9)**	**(12.2)**		
Net other finance costs	(1.8)	(7.0)		
Loss before interest, tax and significant items	**(18.7)**	**(19.2)**		
Significant items (pre-tax)	(51.7)	(214.0)		
Loss before interest and tax	**(70.4)**	**(233.2)**		
Net interest	(12.3)	(18.3)		
Loss before tax	(82.7)	(251.5)		
Tax relating to pre-significant items	(8.0)	(16.9)		
Tax relating to significant items	0.5	1.7		
Tax expense	(7.5)	(15.2)		
Group eliminations			-	(0.1)
Statutory loss for the period / Total Revenue	**(90.2)**	**(266.7)**	**2,805.7**	**4,113.1**
Adjust for following (gains)/losses included in statutory profit:				
Loss on the sale of controlled entities	3.4	62.4		
Impairment of assets held for sale	-	1.7		
Impairment of property, plant and equipment	-	4.9		
Impairment of intangible assets	25.1	119.3		
Restructuring costs	26.0	28.4		
Write-back related to closure of Tas operations	(3.3)	(1.4)		
Currency option	-	(3.0)		
Underlying loss for the period (2)	**(39.0)**	**(54.4)**		
Net interest	12.3	18.3		
Tax relating to pre-significant items	8.0	16.9		
Underlying EBIT (2)	**(18.7)**	**(19.2)**		
Less:				
Discontinued underlying EBIT (1) (2)	2.7	8.0		
Continuing underlying EBIT (2)	**(21.4)**	**(27.2)**		

(1) Discontinued operations reflect the US and Italy operations sold in FY12, the South Africa, Croatia, Hungary, Serbia, Slovakia and Slovenia operations sold in FY13 and the closure costs associated with Tas Paper operations, including the remaining remediation costs and realisation on asset sales.
(2) Non-IFRS measure - refer Appendix

Balance sheet

		As at 30 June 2013	As at 31 December 2012	As at 30 June 2012
Current assets	$m	1,003.2	1,022.2	1,103.9
Non current assets	$m	158.1	163.4	194.8
Total assets	$m	1,161.3	1,185.6	1,298.7
Current liabilities	$m	531.5	586.0	674.8
Non current liabilities	$m	268.1	225.2	176.7
Total liabilities	$m	799.6	811.2	851.5
Shareholders equity	$m	361.7	374.4	447.2
Key ratios				
Funds employed (net debt + net assets)	$m	484.4	513.0	595.0
Gross debt	$m	210.5	241.0	228.0
Net debt	$m	122.7	138.6	147.8
Net debt / net debt & equity	%	25.3	26.9	24.7
Net tangible assets	$m	251.3	263.3	312.2
Net working capital - continuing	$m	504.0	528.3	479.0
Net operating cash flow	$m	(42.1)	(60.8)	(62.3)
Gross profit / sales - continuing	%	19.6	19.5	19.2
Expenses / sales - continuing	%	20.7	20.7	20.2
FTEs - continuing		4,041	4,459	4,615
Underlying earnings *(1)* before interest and income tax to average funds employed	%	(3.5)	(2.3)	(2.1)
Basic earnings per share	cps	(14.8)	(9.4)	(43.8)
Dividend per ordinary share	cps	nil	nil	nil

Financial position

Net assets reduced in the period from $447 million in June 2012 to $362m. This reduction is largely due to the impact of the net loss in the period which included additional restructuring cost of $26.0 million and asset impairments in our European operations of $25.1 million. In addition, the Company's defined benefit pension plan deficit increased by $20.2 million to $126.1 million in the year.

The net assets were favourably impacted from the translation of foreign operations net assets into Australian dollars given the significant depreciation of the Australian dollar in the fourth quarter of this financial year. The movement since 31 December 2012 was less significant given a reduction in losses in the second half of the year, no additional asset impairments and the majority of the favourable currency translations occurring in this period.

Net tangible assets of $251.3 million as at 30 June 2013 were $60.9 million lower than the pcp due to the current trading losses and the unfavourable movements in pension deficits. These were partially offset by a favourable currency movement.

Working capital balances finished the year at $504.0 million. This represented a small increase from the pcp of $25.0 million but $24.3 million lower than December 2012 ($54.9 million in constant currency). This second half improvement shows a continued focus on ensuring inventory levels reflect the current demand for our products.

(1) Non-IFRS measure – refer Appendix

Net Operating Cash outflow of $(42.1) million was largely influenced by trading losses and a positive movement in working capital of $22.9 million. Additional cash inflows of $82.0 million from the asset sales of the US, Italy, the five Eastern European businesses and South Africa were received in the first half of this year.

Capital Expenditure of $12.1 million in the year was down compared to pcp of $14.0 million. Depreciation and amortisation expense of $12.8 million was 36% lower than pcp due to lower capital expenditure payments and impairments.

Net debt of $122.7 million decreased from $147.8 million at June 2012, due to asset sale proceeds of $82.0 million being largely offset by trading losses and payments relating to restructuring programs. The weakening Australian dollar also negatively impacted the translation of foreign domiciled cash and debt balances. Net debt improved in the second half of this financial year by $15.9 million due to a strong reduction in working capital that was partially offset by the negative currency translations.

Net continuing interest expense of $11.2 million was 18% lower than pcp reflecting the benefits of the asset sales and lower working capital. This is expected to be slightly higher next year due to higher daily debt positions from additional restructuring payments in the first half of the year and unfavourable currency translations.

Dividend
There will be no dividend on the Ordinary Shares for the year ended 30 June 2013.

2013 Annual General Meeting
The PaperlinX Annual General Meeting (AGM) will be held on Friday, 25th October 2013. The Notice of AGM will be sent to shareholders in September 2013.

For further information, please contact:
Wayne Johnston
Deputy CFO & EGM Corporate Services
PaperlinX Limited
+61 (3) 9764 7393

Appendix

PaperlinX financial results are reported under International Financial Reporting Standards (IFRS). These measures are presented to enable understanding of the underlying performance of the Company without non-trading items. Non-IFRS measures have not been subject to audit or review.

The non-IFRS measures used throughout the document are:

- *Underlying statutory profit / (loss) after tax*: statutory profit / (loss) after tax before impairment of non-current assets, loss on sale of controlled entities, restructuring costs, write-back of provisions relating to the discontinued Tasmanian operations and, in the pcp, valuation gain / (loss) on currency option.
- *Underlying Earnings Before Interest and Tax (EBIT):* Underlying statutory profit / (loss) before interest and tax.
- *Continuing Underlying EBIT:* Underlying statutory profit / (loss) before interest and tax for the continuing operations.
- *Discontinued Underlying EBIT:* Underlying statutory profit / (loss) before interest and tax for the discontinued operations.
- *Constant currency*: throughout this presentation, constant currency assumes current and prior period earnings of foreign operations are translated at prior year exchange rates.

-ends-