

CROSS RELEASE PXU

24 December 2013

**Off-market takeover bid by PaperlinX Limited for
PaperlinX SPS Trust (ASX Code: PXU) - Second Supplementary Bidder's
Statement**

In accordance with section 647(3)(b) of the *Corporations Act 2001* (Cth), PaperlinX Limited (**PaperlinX**) attaches a copy of its Second Supplementary Bidder's Statement dated 24 December 2013, which is supplementary to the original Bidder's Statement dated 5 December 2013 and the First Supplementary Bidder's Statement dated 20 December 2013.

The Second Supplementary Bidder's Statement was lodged with the Australian Securities & Investments Commission today.

For further information, please contact:

Investors
Wayne Johnston
Deputy Chief Financial Officer and
Executive General Manager Corporate Services
PaperlinX Limited
Phone: +61 (3) 9764 7300 / +61 402 890 858

Media
Felicity Allen
Newgate Communications
Phone: +61 413 946 701

ASX RELEASE



PaperlinX Limited

Second Supplementary Bidder's Statement

In relation to the off-market takeover offer by PaperlinX Limited (ABN 70 005 146 350) to acquire all of your PaperlinX SPS Units in PaperlinX SPS Trust (ARSN 123 839 814)

Important Information

This document is a supplementary bidder's statement under section 643 of the *Corporations Act 2001* (Cth) (*Corporations Act*). It is the second supplementary bidder's statement issued by PaperlinX Limited (*PaperlinX*) in relation to its off-market takeover offer (*Offer*) for all the step-up preference securities (*PaperlinX SPS Units*) in PaperlinX SPS Trust (*PaperlinX SPS Trust*).

This document supplements, and is to be read together with, PaperlinX's bidder's statement dated 5 December 2013 (*Bidder's Statement*) and PaperlinX's first supplementary bidder's statement dated 20 December 2013 (*First Supplementary Bidder's Statement*). This document will prevail to the extent of any inconsistency with the Bidder's Statement or the First Supplementary Bidder's Statement. Unless the context requires otherwise, terms defined in the Bidder's Statement have the same meaning where used in this document.

This document is dated and was lodged with ASIC on 24 December 2013. Neither ASIC nor any of its officers takes any responsibility for the contents of this document.

This supplementary bidder's statement should not be taken as personal financial advice, as it does not take into account your individual investment objectives, financial and taxation situation or particular needs. You may wish to obtain independent financial and taxation advice before making a decision whether or not to accept the Offer.

1. Confirmation of FY14 Guidance

Section 7.2(a) of the Bidder's Statement indicates the following:

- (a) on 21 August 2013, PaperlinX gave guidance to the market that its business would be "marginally profitable" in FY2014 (*FY14 Guidance*);
- (b) at the end of November 2013, it became apparent that the actual October 2013 financial result was materially below PaperlinX's most recent internal forecasts (*Current Internal Forecasts*). This slippage was predominantly attributable to PaperlinX's European business. Interim November 2013 results indicate a further material slippage from Current Internal Forecasts, with the variance attributable entirely to PaperlinX's European business;
- (c) as at the date of the Bidder's Statement, PaperlinX believes that the FY14 Guidance can still be achieved, but it is promptly undertaking a re-examination of the outlook for its businesses (*Earnings Guidance Review*);

- (d) PaperlinX will provide updates on its outlook to the ASX, and via a supplementary bidder's statement once this information is available.

PaperlinX informs PaperlinX SPS Unitholders under this supplementary bidder's statement that it released an ASX announcement on 23 December 2013 updating the market on the outcome of the Earnings Guidance Review. In summary, this ASX announcement indicates the following:

- (e) PaperlinX continues to seek opportunities to reduce its cost base in all of its businesses to assist with the impact of the decline in demand in its commercial print businesses and has specifically undertaken major initiatives in Germany and the United Kingdom; and
- (f) PaperlinX has completed the re-examination of FY14 forecast and reconfirms FY14 Guidance that the business will be marginally profitable at the Underlying EBIT¹ level in FY14. This guidance has taken into account the weaker trading conditions currently being experienced in Europe but includes the favourable impact of previously announced restructuring activities that have been occurring during the course of the first half of this financial year and some benefits from the cost initiatives announced in Germany and the UK. In addition, the Company is expecting improved pricing in Europe in Q3 and Q4 that will also assist with improving margins.

2. Why you should accept the Offer

2.1 Overview

Having particular regard to the outcome of the Earnings Guidance Review and PaperlinX's confirmation of the FY14 Guidance, the PaperlinX Board is of the view that the Offer is attractive and strongly encourages you to accept the Offer as soon as possible.

The Offer represents a significant premium to the market price of PaperlinX SPS Units prior to its initial announcement about a potential transaction on 21 August 2013 (***Initial Announcement***) and has the potential to provide benefits to you as a PaperlinX SPS Unitholder.

Full acceptance of the Offer would result in PaperlinX SPS Unitholders owning approximately 54% of the Combined PaperlinX Group in aggregate and, as PaperlinX shareholders, being entitled to this share of any benefits achieved (unless you are an Ineligible Foreign Unitholder). These benefits could include:

- ✓ More transparent valuation with all the rights and benefits attaching to PaperlinX Shares.
- ✓ Enhanced terms of trade for PaperlinX stemming from increased confidence among key stakeholders which may improve business prospects.
- ✓ Enhanced access to capital for PaperlinX to accelerate turnaround initiatives.
- ✓ Expected improved trading liquidity on the ASX compared to the historical liquidity levels of PaperlinX SPS Units and PaperlinX Shares.

In considering these benefits, PaperlinX SPS Unitholders should also bear in mind that the Offer is subject to a number of risks, which are set out in Section 3 of this supplementary bidder's statement and Section 7 of the Bidder's Statement.

The above benefits are discussed in further detail below.

¹ Non-IFRS disclosure. Underlying EBIT means statutory profit / (loss) before interest and tax, impairment of non-current assets, restructuring costs and discontinued operations.

2.2 PaperlinX is offering a significant premium for PaperlinX SPS Units

Under the Offer, PaperlinX SPS Unitholders are being offered 250 PaperlinX Shares for every PaperlinX SPS Unit held. This means that the value of the Offer to PaperlinX SPS Unitholders varies with the market value of PaperlinX Shares.

The implied value of the Offer as at the last trading date before the Announcement Date was \$14.00 per PaperlinX SPS Unit. This represented:

- (a) a premium of 72.8% to the last closing price prior to the Initial Announcement made in relation to a potential transaction²;
- (b) a premium of 57.5% to the 90-day volume-weighted average price prior to the Announcement Date³;
- (c) a premium of 53.6% to the 1-year volume-weighted average price prior to the Announcement Date³; and
- (d) a premium of 16.7% to the last closing price prior to the Announcement Date³.

The implied value of the Offer as at the last trading date before the date of this supplementary bidder's statement is \$10.75 per PaperlinX SPS Unit⁴. This represents a premium of 22.2% to the last closing price prior to the date of this supplementary bidder's statement⁵.

2.3 Full acceptance of the Offer will result in PaperlinX SPS Unitholders owning approximately 54% of the Combined PaperlinX Group in aggregate and being able to share in any benefits achieved

In addition to providing a significant premium to the trading price of PaperlinX SPS Units prior to the Initial Announcement, the Offer provides PaperlinX SPS Unitholders with an on-going investment in the Combined PaperlinX Group.

Full acceptance of the Offer will result in PaperlinX SPS Unitholders together owning approximately 54% of the Combined PaperlinX Group in aggregate and as a result, will share in this proportion of the benefits from simplifying the Company's capital structure, as highlighted throughout Section 2 of this document.

2.4 More transparent valuation with all the rights and benefits attaching to PaperlinX Shares

The current valuation of PaperlinX SPS Units is impacted by the complex inter-relationship with PaperlinX Shares and the uncertainty surrounding the Realisation mechanics of the PaperlinX SPS Units. PaperlinX SPS Unitholders are being offered 250 PaperlinX Shares for every PaperlinX SPS Unit, enabling PaperlinX SPS Unitholders to become PaperlinX Shareholders, with all the rights and benefits attaching to PaperlinX Shares including the right to vote at general meetings of PaperlinX. Acceptance of the Offer may reduce or remove the complex inter-relationship with PaperlinX SPS Unitholders, further assisting the valuation proposition.

A full list of the rights and liabilities attaching to PaperlinX Shares (including voting rights) is contained in Section 3 of the Bidder's Statement.

² The last trading day prior to Initial Announcement, the date on which the PaperlinX announced it was exploring a scrip based merger between itself and PaperlinX SPS Trust, was 20 August 2013.

³ The last trading day prior to the Announcement Date was 17 October 2013.

⁴ Based on the closing price of PaperlinX Shares on 23 December 2013, which was the last trading day prior to the date of this supplementary bidder's statement.

⁵ Based on the closing price of PaperlinX SPS Units on 23 December 2013, which was the last trading day prior to the date of this supplementary bidder's statement.

2.5 Enhanced terms of trade for PaperlinX stemming from increased confidence among key stakeholders, which may improve business prospects

The uncertainty and complexity resulting from having the PaperlinX SPS Units on issue, combined with the current trading performance of PaperlinX, typically leads to a more negative counterparty / credit assessment of PaperlinX by key stakeholders, including customers, suppliers, employees and financiers. A material reduction or removal of PaperlinX SPS Units may lead to an improvement in the Company's terms of trade and relationship with its stakeholders and thereby its turnaround initiatives (which PaperlinX SPS Unitholders other than Ineligible Foreign Unitholders would benefit from in accepting the Offer).

2.6 Enhanced access to capital for PaperlinX to accelerate turnaround initiatives

PaperlinX continually assesses strategic and operational initiatives, including bolt-on acquisitions and further significant cost base restructuring, some of which require additional capital. The removal or reduction of PaperlinX SPS Units may improve the Company's access to additional debt and equity capital to pursue these initiatives.

2.7 Trading liquidity

Trading liquidity on the ASX could be expected to be improved compared to the historical liquidity levels of PaperlinX SPS Units and PaperlinX Shares.

2.8 PaperlinX is unlikely to elect a Realisation of PaperlinX SPS Units

In Sections 1.5 and 7.2(f) of the Bidder's Statement, PaperlinX indicates that it is unlikely to elect a Realisation of PaperlinX SPS Units for cash due to funding constraints or PaperlinX Shares due to the unlikelihood of obtaining the necessary PaperlinX Shareholder approval to do so.

PaperlinX confirms the continuing unlikelihood that PaperlinX will elect a Realisation of PaperlinX SPS Units for either cash or PaperlinX Shares for the above reasons. Additionally, while a Realisation of PaperlinX SPS Units may arise when there is a change of control of PaperlinX, PaperlinX is not aware of any change of control proposals for it, and as noted in Section 7.2(l) of the Bidder's Statement, PaperlinX believes that its current capital structure acts as a disincentive to a control transaction for it.

This leads to the possibility that PaperlinX SPS Units may remain a perpetual instrument with limited prospect of receiving any distributions for the foreseeable future. This represents a very uncertain value proposition for PaperlinX SPS Unitholders.

3. Risks

PaperlinX emphasises to PaperlinX SPS Unitholders that, if the Offer becomes unconditional, PaperlinX SPS Unitholders who accept the Offer will become PaperlinX Shareholders, and PaperlinX will acquire an interest in the PaperlinX SPS Trust. In that event, PaperlinX SPS Unitholders who accept the Offer will be exposed to the risks associated with having an interest in the Combined PaperlinX Group (unless you are an Ineligible Foreign Unitholder).

Details of these risks are set out in Section 7 of the Bidder's Statement.

Further to the risks outlined in Section 7.2(a) of the Bidder's Statement, PaperlinX notes that it has now completed its Earnings Guidance Review and reconfirmed FY14 Guidance.

This confirmation is premised on, among other things, certain price increases being realised on the vast majority of product lines sold in the UK in response to anticipated supplier price increases. There is a risk that these price increases will not materialise and/or have a negative impact on PaperlinX's market share/sales volumes in the UK. This, in turn, could have a material adverse impact on the Company's earnings and therefore its ability to meet FY14 Guidance.

Other general business risks such as those outlined in Section 7.2(b) may also materialise and have an adverse impact on the Company's earnings and therefore its ability to meet FY14 Guidance.

Further, a deterioration in the trading performance of the business compared to FY14 Guidance would increase the likelihood of the risks noted in Sections 7.2(c), 7.2(d) and 7.2(e) of the Bidder's Statement materialising.

4. Further information

You should call 1300 396 150 (local call cost for callers within Australia) or + 61 3 9415 4261 (callers outside Australia), Monday to Friday between 8.30am and 5.30pm (Sydney time), if you have any questions or require assistance.

This document has been approved by a unanimous resolution of directors of PaperlinX.

Signed by

A handwritten signature in black ink, appearing to be 'Robert Kaye', with a horizontal line underneath.

Robert Kaye SC
Chairman
PaperlinX Limited