Paperlinx

ASX RELEASE

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## PAPERLINX 2014 INTERIM RESULTS

PaperlinX Limited (PaperlinX) today announced a statutory loss after tax of $28.4 million for the six months to 31 December 2013 compared to a loss of $58.6 million for the prior corresponding period (pcp).

The key features of this result are:

- Continuing revenue of $1.476 billion, up from $1.440 billion pcp
- Underlying loss after tax(1) for the period is $19.4 million compared to a loss of $25.6 million pcp
- Continuing Underlying EBIT loss(1) of $9.6 million ($15.1 million loss pcp) is a year on year improvement in all regions
- Trading expenses down by $36 million (12.1%) in constant currency(1) from the pcp
- Strong performances in our Canadian, Australian and New Zealand businesses
- Progressing initiatives to grow diversified businesses – revenues up 20.9% (or 6.4% in constant currency(1))
- Restructuring charges of $9.1 million after tax
- Extensive restructuring initiatives reduced FTEs by 14.3% (637 FTEs) across the Group since December 2012
- Negative operating cash flow of $30 million largely reflects trading losses, mainly in Europe, and restructuring costs
- Net debt of $177 million, up from $139 million at December 2012, primarily reflects trading losses, cash outflows for restructuring and unfavourable Australian dollar FX translation (increased by 3% in constant currency(1) )
- Extended key European lending facilities in UK, Netherlands and Germany
- Takeover Offer for PaperlinX SPS Trust will close on 28 February 2014 and will not be extended. Offer is final and unconditional and remains unchanged at 250 PaperlinX ordinary shares for 1 SPS unit

Market conditions remain weak, particularly in the UK, and recent trading has been below expectations. Consequently, progress towards profitability is slower than expected and the previously provided full year guidance of 'marginally profitable at the Underlying EBIT level' has been revised. Whilst the second half is still expected to be profitable, it will no longer be sufficient to offset the Underlying EBIT(1) loss of $9.6 million in the first half. Consequently, the Full Year result is expected to be an Underlying EBIT(1) loss in the range of $5-8 million.



(1) Non-IFRS measure – refer Appendix

Commenting on the result, Andrew Price, Managing Director and Chief Executive Officer said, “Our turnaround strategy is progressing, with year on year improvements in all regions following the significant restructuring initiatives undertaken, particularly in Europe, and more is planned.  By realigning our cost base we have seen our expenses drop by 12.1% in constant currency[(1)], keeping us ahead of the curve.”

Andrew Price continued: “Our businesses in Australia, Canada and New Zealand have performed strongly, Benelux has improved, but we continue to face significant challenges in the UK and Germany and this has impacted our guidance.  Trading conditions remain challenging but we are moving ahead with our aggressive ‘costs out’ strategy and developing a Year 2020 vision that will redefine our merchant model and deliver a sustainable pathway to profitability.”

PaperlinX Chairman, Robert Kaye said, “These results reflect the impact of the transformation programme underway at PaperlinX, which is moving in the right direction in terms of returning to profit but it remains a challenging environment globally. Our immediate priority is to focus on improving the UK business and to ensure that the second half of the year will be profitable.  I am confident that our restructuring strategies combined with a focus on our growth businesses will assist in achieving these outcomes.”

(1) Non-IFRS measure – refer Appendix

## RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 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 restructuring costs, the loss on sale of businesses, the write-back of provisions relating to the closure of the Tasmanian operations and in the pcp, impairment of non-current assets.

| | Earnings | | Sales Revenue | |
|---|---|---|---|---|
| **For the half-year ended 31 December** | **2013** | **2012 Restated** *(1)* | **2013** | **2012** |
| | **$m** | **$m** | **$m** | **$m** |
| Europe | (19.1) | (20.3) | 1,042.3 | 1,018.8 |
| Canada | 7.4 | 4.6 | 213.6 | 205.1 |
| Australia, New Zealand and Asia | 9.2 | 7.6 | 221.4 | 218.4 |
| Unallocated | (5.6) | (6.6) | (1.8) | (2.2) |
| Total continuing operations | (8.1) | (14.7) | 1,475.5 | 1,440.1 |
| Discontinued operations *(2)* | (0.1) | 0.2 | - | 27.4 |
| **Loss before net finance costs, tax, interest and significant items** | **(8.2)** | **(14.5)** | | |
| Net other finance costs | (1.5) | (0.4) | | |
| **Underlying loss before interest, tax and significant items** *(3)* | **(9.7)** | **(14.9)** | | |
| Significant items (pre-tax) | (9.1) | (33.0) | | |
| **Loss before interest and tax** | **(18.8)** | **(47.9)** | | |
| Net interest | (6.7) | (6.6) | | |
| Loss before tax | (25.5) | (54.5) | | |
| Tax relating to pre-significant items | (3.0) | (4.1) | | |
| Tax relating to significant items | 0.1 | - | | |
| Tax expense | (2.9) | (4.1) | | |
| **Statutory loss for the period / Total Revenue** | **(28.4)** | **(58.6)** | **1,475.5** | **1,467.5** |
| | | | | |
| Adjust for following (gains)/losses included in statutory profit: | | | | |
| Loss on the sale of controlled entities | 0.1 | 3.4 | | |
| Impairment of intangible assets | - | 24.7 | | |
| Restructuring costs | 9.1 | 6.4 | | |
| Write-back related to closure of Tas operations | (0.2) | (1.5) | | |
| **Underlying loss for the period** *(3)* | **(19.4)** | **(25.6)** | | |
| | | | | |
| Net interest | 6.7 | 6.6 | | |
| Tax relating to pre-significant items | 3.0 | 4.1 | | |
| **Underlying EBIT** *(3)* | **(9.7)** | **(14.9)** | | |
| Less: | | | | |
| Discontinued underlying EBIT *(2) (3)* | (0.1) | 0.2 | | |
| **Continuing underlying EBIT** *(3)* | **(9.6)** | **(15.1)** | | |

*(1) The comparative amounts disclosed above have been re-presented as if the changes to accounting standard AASB 119 Employee Benefits had been effective from the start of the comparative period.*

*(2) 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.*

*(3) Non-IFRS measure - refer Appendix.*

## Balance sheet

| | | As at 31 December 2013 | As at 30 June 2013 | As at 31 December 2012 |
|---|---|---|---|---|
| Current assets | $m | 1,072.6 | 1,003.2 | 1,022.2 |
| Non current assets | $m | 161.5 | 158.1 | 163.4 |
| Total assets | $m | 1,234.1 | 1,161.3 | 1,185.6 |
| | | | | |
| Current liabilities | $m | 623.5 | 531.5 | 586.0 |
| Non current liabilities | $m | 258.7 | 268.1 | 225.2 |
| Total liabilities | $m | 882.2 | 799.6 | 811.2 |
| | | | | |
| Shareholders equity | $m | 351.9 | 361.7 | 374.4 |
| | | | | |
| **Key ratios** | | | | |
| Funds employed (net debt + net assets) | $m | 528.9 | 484.4 | 513.0 |
| Gross debt | $m | 282.8 | 210.5 | 240.9 |
| Net debt | $m | 177.0 | 122.7 | 138.6 |
| Net debt / net debt & equity | % | 33.5 | 25.3 | 27.0 |
| Net tangible assets | $m | 238.4 | 251.3 | 263.3 |
| Net working capital - continuing | $m | 546.5 | 504.0 | 528.3 |
| Net operating cash flow | $m | (29.9) | (42.1) | (60.8) |
| Gross profit / sales - continuing | % | 19.2 | 19.6 | 19.5 |
| Expenses / sales - continuing *(1)* | % | 20.0 | 20.8 | 20.8 |
| FTEs - continuing | | 3,824 | 4,041 | 4,459 |

*(1) The comparative amounts disclosed above have been re-presented as if the changes to accounting standard AASB 119 Employee Benefits had been effective from the start of the comparative period.*
*(2) Non-IFRS measure – refer Appendix*

## Financial position

Net assets reduced in the period from $362 million in June 2013 to $352 million. This reduction is primarily due to the negative impact of trading losses and additional restructuring charges in the period. The net assets were favourably impacted from the translation of foreign operations net assets into Australian dollars given the depreciation of the Australian dollar against key currencies in the first half of this financial year. The negative movement in net assets since 31 December 2012 of $22m is also reflective of the earnings losses in the last 12 months although this was partially offset by translation gains on conversion to Australian dollars.

Net tangible assets of $238 million as at 31 December 2013 were $13 million lower than the pcp due to the current trading losses and restructuring provisions. These were partially offset by a favourable currency movement.

Working capital balances finished for the period at $547 million. This represented an increase from June 2013 of $43 million and an increase of $18 million from December 2012. In constant currency(1) the movement between June 2013 and December 2013 was a reduction of $8 million. This underlying improvement reflects the company's focus on ensuring inventory levels reflect the current demand for our products and continual management of key trading terms.

Net operating cash outflow of $30 million was largely influenced by trading losses and payments relating to business restructuring ($16 million). A working capital movement of NIL for the period is an extremely positive result when considering that the company has historically reported a working capital outflow in the first half of previous financial years due to the seasonal requirements of the business.



(1) Non-IFRS measure – refer Appendix

Capital expenditure of $2.3 million for the period was down compared to pcp of $6.4 million. Depreciation and amortisation expense of $5.5 million was 26% lower than pcp due to lower capital expenditure payments and impairments booked in prior periods.

Net debt of $177 million increased from $139 million at December 2012, due to funding of trading losses, significant restructuring payments and the negative translation impact of a weakening Australian dollar.

**Dividend**
There will be no dividend on the Ordinary Shares for the six months to 31 December 2013.

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**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 restructuring costs, loss on sale of controlled entities, write-back of provisions relating to the discontinued Tasmanian operations and, in the pcp, impairment of non-current assets.
- *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.

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