



## 2012 Interim Results

22<sup>nd</sup> February 2012

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PaperlinX financial results are reported under International Financial Reporting Standards (IFRS). This presentation also includes certain non-IFRS measures including underlying statutory profit / (loss) after tax and underlying statutory profit / (loss) after tax excluding restructure costs. 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 this document are defined in the appendix.

## 3 key messages

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1. Interim results. Headline was a sudden and severe deterioration in our European business
2. We have a clear and deliverable plan to restore profitability
  - Phase 1 – underway and delivering
  - Phase 2 – endorsed by the Board and ready to go
3. Liquidity constraints being addressed to deliver Phase 2

# 2012 interim financial results

		6 months to Dec 11	6 months to Dec 10	% change
Volume	000 tonnes	<b>1,262</b>	1,365	(7)
Sales revenue	\$m	<b>2,184</b>	2,442	(11)
Sales revenue - constant FX	\$m	<b>2,305</b>	2,442	(6)
Average selling price	\$ / tonne	<b>1,730</b>	1,790	(3)
Average selling price - constant FX	\$ / tonne	<b>1,826</b>	1,790	2
Statutory EBIT	\$m	<b>(47.0)</b>	(4.6)	-
Statutory loss after tax	\$m	<b>(60.9)</b>	(10.2)	-
Underlying loss after tax (1)	\$m	<b>(20.1)</b>	8.5	-
Statutory EBITbreakdown:				
ANZA	\$m	<b>5.5</b>	9.4	(41)
North America	US\$m	<b>7.1</b>	7.5	(4)
Europe	€m	<b>(32.6)</b>	8.8	-
Corporate / Unallocated	\$m	<b>(13.2)</b>	(34.3)	62
Discontinued operations	\$m	<b>(0.6)</b>	(0.6)	-
Working capital	\$m	<b>626</b>	704	11
Operating cashflow	\$m	<b>(49)</b>	(8)	-
(1) Non-IFRS measure				

# Interim results summary

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- Statutory loss after tax of \$(60.9)m after Europe impairment
- Underlying loss after tax <sup>(1)</sup> of \$(20.1)m – excl. impairment, FX option and discontinued operations (Tasmania)
  
- **Europe** statutory EBIT loss €(32.6)m after €(28.1)m impairment (mainly Benelux) - €41.4m behind pcp
- **Australia** strengthening in Q2 after weak Q1
- **North America** 4% down on pcp. Canada up 2%. US new ERP issues
  
- 7% reduction in global paper volumes. Western Europe 83% of this decline, compounded by falling prices
- Diversified revenue grew by 7% <sup>(2)</sup> and represented 23.9% of total GM
- Trading expenses down 3% <sup>(2)</sup>
- Average working capital / sales a record low of 16.8% <sup>(2)</sup>

(1) Non-IFRS measure (2) Constant FX

# Strategic Review update

# Strategic Review update

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- Original objectives:
  - Fix the balance sheet
  - Create a sustainably profitable future
  
- Key actions:
  - Restructure cost base
  - Additional liquidity to execute plan, including asset sales
  - Accelerate growth in Diversified sectors

# Restructuring – the key profit improvement

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- Phase 1 - \$14m was provided in June FY11. Ongoing savings of \$18m. Major components Australia and UK. Underway and ahead of plan
- Phase 2 - Board has now endorsed major restructuring of Continental European business and further reduction of Corporate for ongoing savings of \$43m in FY14
- Cost reduction achieved from phase 1 and 2 combined is expected to achieve ongoing savings of \$61m in FY14
- Restructuring will streamline the business:
  - **Larger markets** – merge multiple OpCos and create single shared service functions
  - **Smaller markets** – close branches, centralise back office and sales functions, outsource logistics
- Resumption of SPS distribution remains unlikely until these improvements in the Company's financial performance have been achieved

# Restructuring – Phase 1 & 2

A\$m	FY11	FY12		FY13	FY14
		1H	2H		
<b>Costs</b>					
Australia	(2)				
Europe	(11)	(3)	(13)	(8)	
Corporate	(2)		(2)	(1)	
<b>Total</b>	<b>(14)</b>	<b>(3)</b>	<b>(15)</b>	<b>(9)</b>	<b>-</b>
<b>Benefits</b>					
Australia		1	1	2	2
Europe		2	6	34	46
Corporate		1	1	8	13
<b>Total</b>	<b>-</b>	<b>3</b>	<b>8</b>	<b>43</b>	<b>61</b>

Ongoing annual benefits of \$61m for a total one-off cost of \$41m

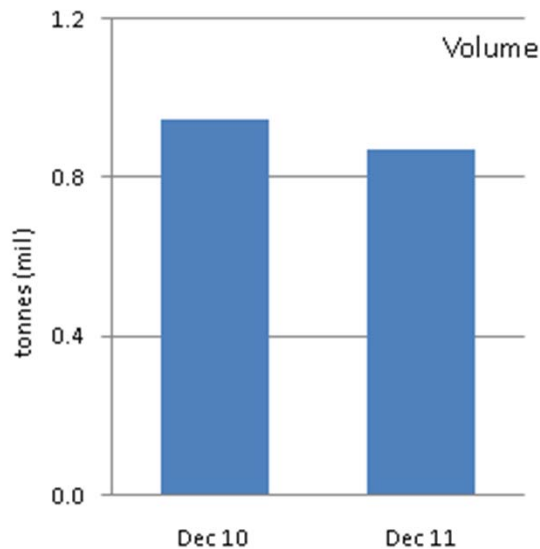
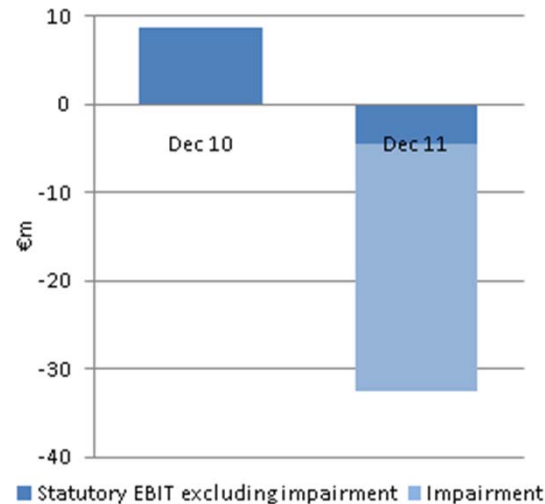
# Accelerating growth in Diversification

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- Three main markets are **Sign & Display, Digital and Packaging**
- All offer long term growth, superior margins and, in many cases, fragmented market opportunities
- We have competitive advantage from national logistics footprint, low cost to serve and quality of service in many geographies
- All three categories can also be cross sold into the commercial print sector
- Organic growth in Diversification is supported by reallocating resources from the declining paper sector
- By the end of FY14 we plan to have 30% of our gross margin coming from Diversified sales (currently 23.9%)

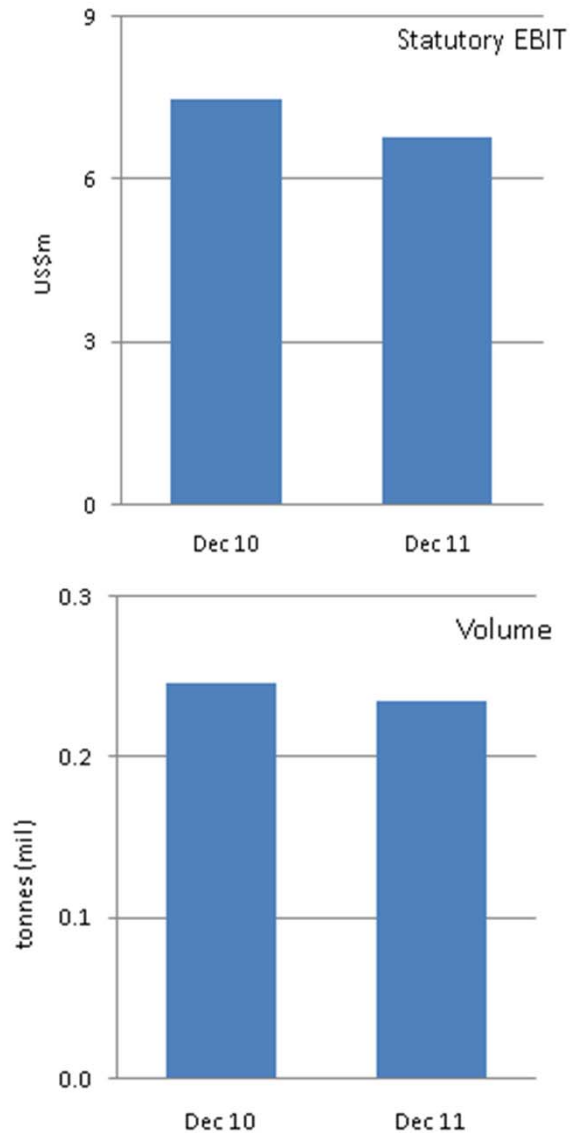
# Regional and Diversification results

# Europe



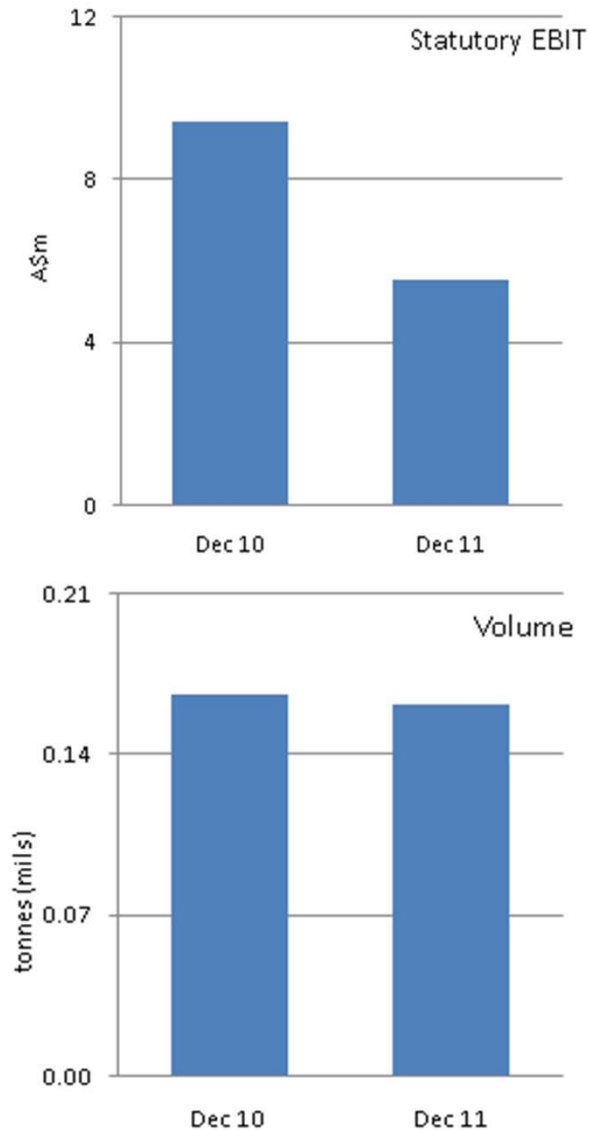
- Statutory EBIT loss of €(32.6)m, includes goodwill impairment of €(28.1)m. This compares to €8.8m pcp
- Paper volume down by 8% on pcp, partly offset by lower costs
- No loss of market share
- UK restructure achieved - single company structure with shared services
- Italy, Germany and Benelux hardest hit by Eurozone crisis
- Central Eastern Europe volumes grew by 10%
- GP% impacted by stock devaluation and unfavourable stock / indent sales mix in Continental Europe, partly offset by favourable rebates
- Average WC / sales down 30 bpts on pcp

# North America



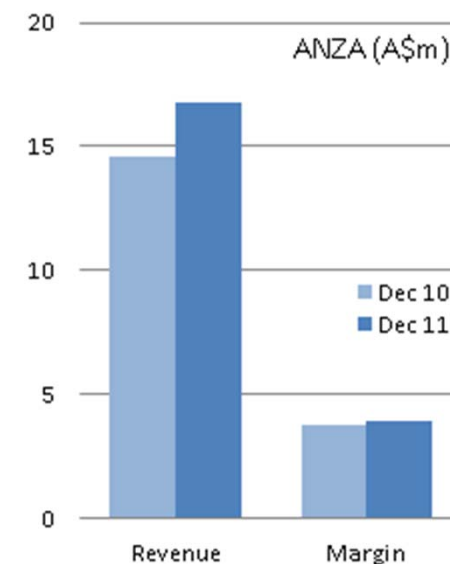
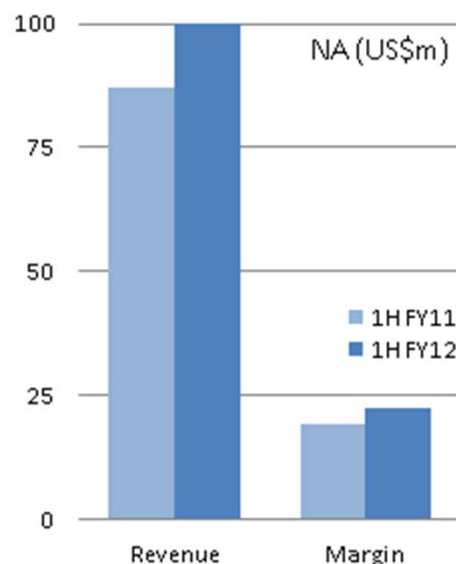
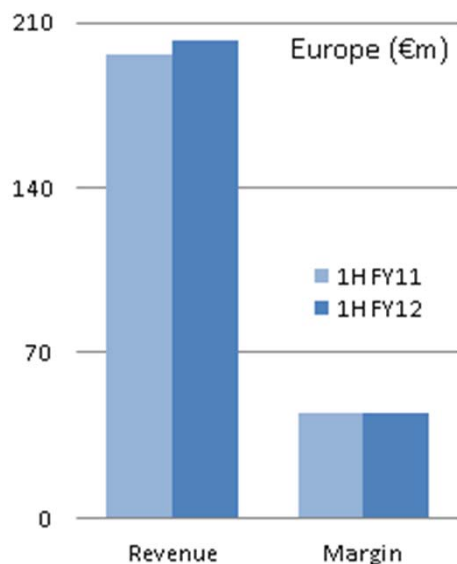
- Statutory EBIT of US\$7.1m compared to US\$7.5m pcp
- Paper volume down by 5% on pcp largely due to weaker direct orders for coated paper
- Market share gains following competitor exits
- Selling prices and GP margins improved
- Diversified GM increased in all segments and now represents 24.5% of total margin
- Average WC / sales of 12.2% remains best practice but deteriorated 110 bpts on pcp due to weaker sales revenue

# Australia, New Zealand, Asia



- Statutory EBIT of \$5.5m compared to \$9.4m pcp
- Australian performance in Q2 significantly improved over Q1 due to cost reductions and margin gains
- Paper volumes down by 2% on pcp for the region but 15% for Australia
- New Zealand results remain strong
- Unfavourable change in stock / indent sales mix in Asia has resulted in lower selling prices and lower GP%, but still profitable due to best practice expense / sales
- Diversified GM / total GM increased by 130bpts to 8.3%
- Average WC reduced 12% with a noticeable improvement in inventory in Australia

# Diversified – regional highlights



- Europe:
  - Continental Europe Diversified GM (incl rebates) grew by 6% despite macro environment.
  - UK Diversified GM (incl rebates) grew by 15% with Packaging growing by 32%.
  - Fully diversified Danish operations achieved 23% ROAFE
- NA:
  - Diversified GM grew by 16%. Diversified GM / total GM increased 340 bpts to 24.5% largely due to growth in Digital technology and Packaging segments
  - Kelly Paper, the digital specialist recorded a 36% ROAFE
- ANZA: Diversified GM grew by 3% largely due to Australian Sign and Display sales
- Group: Diversified GM / total GM grew 300 bpts to 23.9% pcp

# Financial results

# Financial results

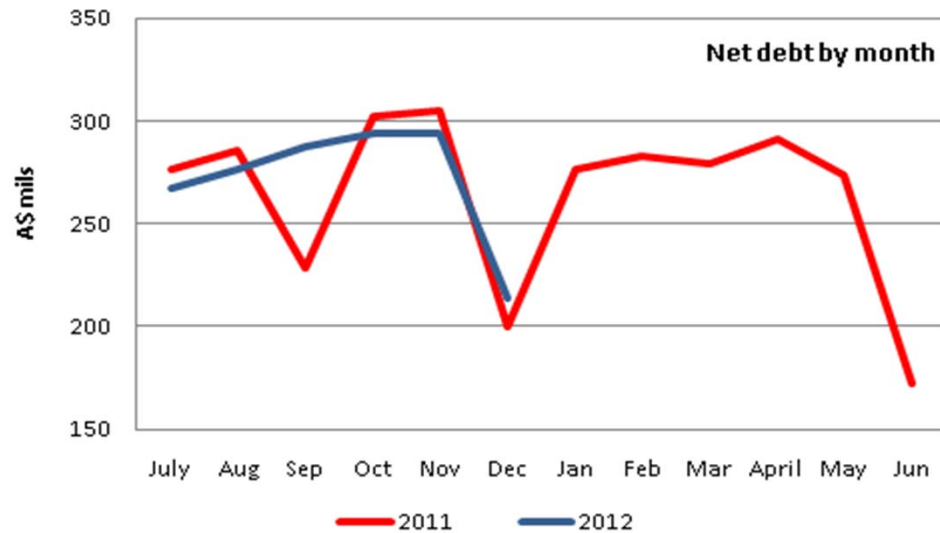
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Statutory EBIT	\$m	<b>(47.0)</b>	(4.6)	-
Statutory loss after tax	\$m	<b>(60.9)</b>	(10.2)	-
Working capital	\$m	<b>626</b>	704	11
Operating cashflow	\$m	<b>(49)</b>	(8)	-
Net debt	\$m	<b>214</b>	200	(7)
Avg daily net debt	\$m	<b>370</b>	n/a	n/a
NTA per share	cents	<b>18</b>	34	(47)
Gross profit / sales	%	<b>19.3</b>	19.6	(30) bpts
Expense / sales	%	<b>19.5</b>	19.0	(50) bpts

# Cash flow

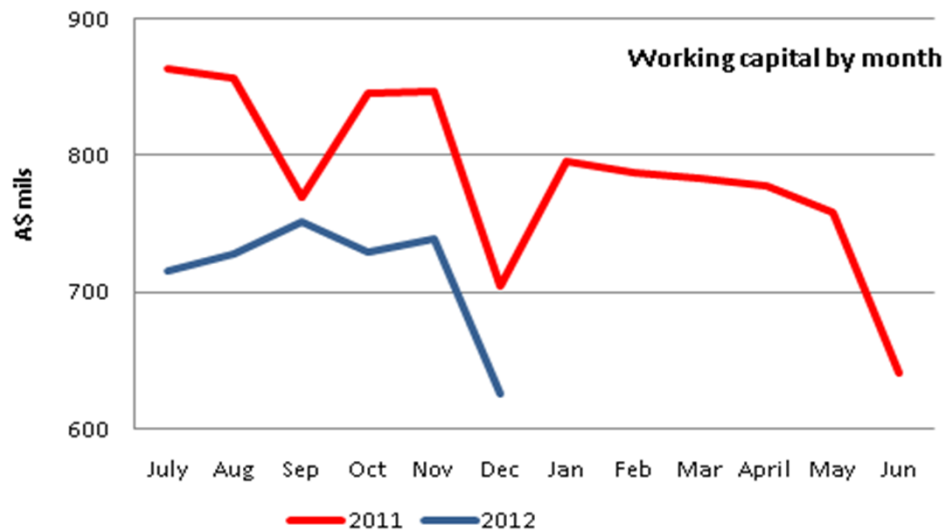
\$m	6 months to Dec 11	6 months to Dec 10	% change
Operating cash flow excl working capital	(13)	3	(533)
Working capital movement	(36)	(11)	(227)
Operating cash flow	(49)	(8)	(513)
Capital expenditure	(8)	(7)	(14)
Proceeds from asset / investment sales	-	1	(100)
Borrowing costs paid	-	(1)	100
Distributions SPS	-	(11)	100
Tas Paper closure	(2)	(25)	92
Other	(1)	-	
Net cash flow - net debt basis	(60)	(51)	(18)

- Negative operating cash flow excluding working capital, due to deterioration in Continental European results
- Working capital is at a low point in June each year and our working capital increases through to the half year
- No hybrid distribution in Dec 2011

# Debt and working capital pattern



- December and June are low points in annual debt cycle
- Debt levels have increased following changes in supplier terms as a result of a reduction in levels of supplier credit insurance



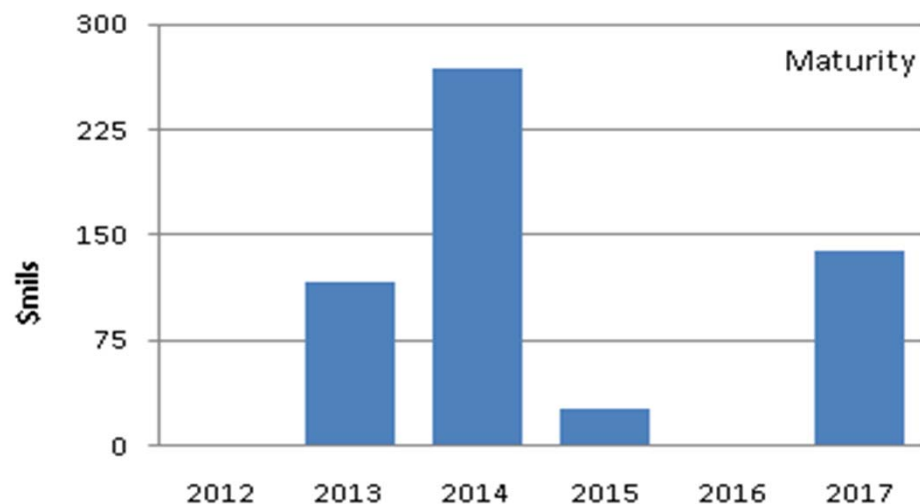
# Debt & interest expense

Debt as at		Dec 11	Jun 11	Dec 10
Gross debt	\$m	<b>330</b>	297	330
Cash	\$m	<b>116</b>	125	130
Net debt	\$m	<b>214</b>	172	200
Avg daily gross debt	\$m	405	n/a	n/a
Avg daily net debt	%	370	n/a	n/a

Interest 6 months to		Dec 11	Dec 10
Continuing	\$m	<b>8.4</b>	8.1
Discontinued (non-cash)	\$m	<b>1.0</b>	1.3
Net interest expense	\$m	<b>9.4</b>	9.4

- Net debt as at 31 December 2011 was \$214m.
- However, cash at month end is committed to outstanding debt. Cash is applied to the outstanding gross debt on the first business day following reporting period
- And from month end debt increases significantly as payments are made to our suppliers, reaching a high around the 20<sup>th</sup> of each month and then gradually reduces as many of our customers pay us in the last week of every month
- Consequently, the average daily net debt for 1H FY12 is approximately \$370m
- Interest cost is estimated at \$17-20m p.a. and financing charges of \$3m p.a. are included in the Unallocated segment

# Borrowings profile & headroom



- Restricted liquidity in Europe and Australia. Options being explored to provide additional funding including asset sales
- Separate covenants apply by region with no cross default
- No working capital facilities mature in FY12. USA and Canadian facilities have been extended to 31 December 2016.
- Weighted average life of working capital facilities has increased to 2.6 years from 2.1 years at June 2011
- Interest expense profile partly managed by an interest cap

# Impairment

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- Impairment charges of \$39.4m have been booked by our European businesses against the carrying value of property plant and equipment for \$3.7m and intangibles assets for \$35.7m
- Ongoing weak demand for core paper products in Europe combined with a subdued outlook for paper in the foreseeable future has caused the impairment
- Countries impacted: Germany, Italy, Netherlands and South Africa with structural decline in these key markets

# Lender update

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- The company's largest facility (in Europe) has been amended to provide improved covenant headroom:
  - SPS distributions require lender approval for term of facility (Sept 2013)
  - New earnings covenant commences FY13
  - Asset sales for debt reduction and restructuring required
  - Restructuring plans supported
- In compliance with all facilities

# Whole of company update

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- A number of parties interested in whole of company transaction
- An acquisition of PPX would require approval of both class of holders

# Summary

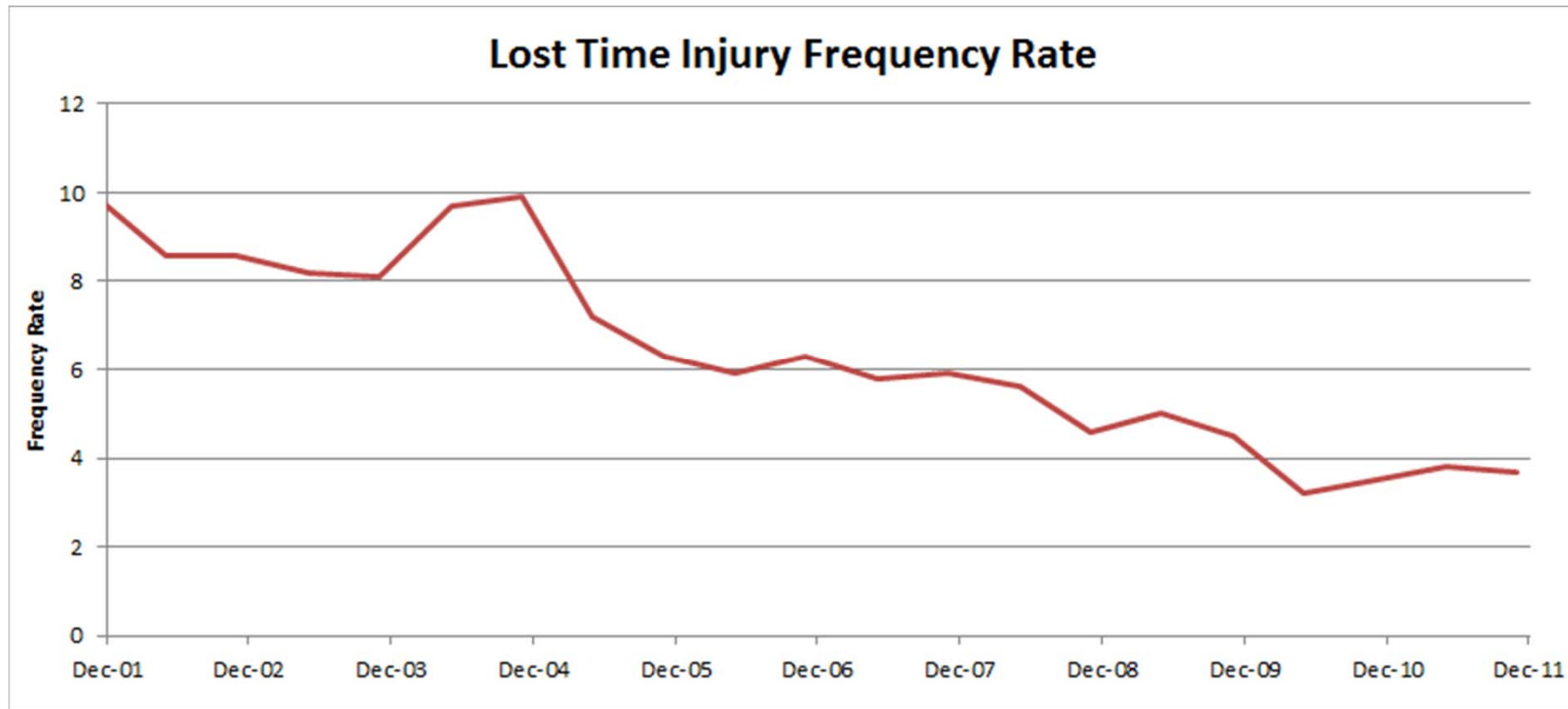
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- 1H results severely impacted by European economic crisis and associated impairment
- Clear plan for restoring profitability, including major restructuring
- Phase 1 - successfully implemented
- Phase 2 - major restructuring of Continental Europe and further reduction in Corporate
- In order to execute Phase 2 we need additional liquidity
- We are addressing this through asset sales and other potential sources
- This plan will result in a strengthened balance sheet and a sustainably profitable business

# Questions

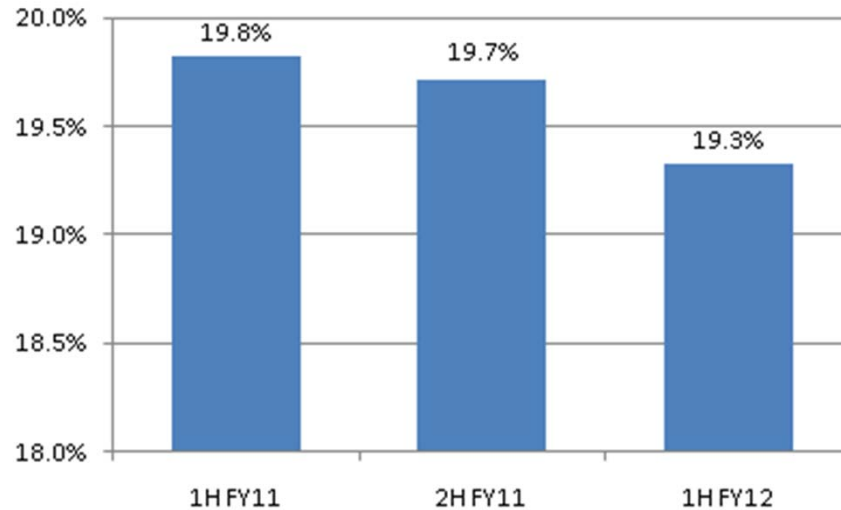
# Appendix – Interim results presentation

# Safety



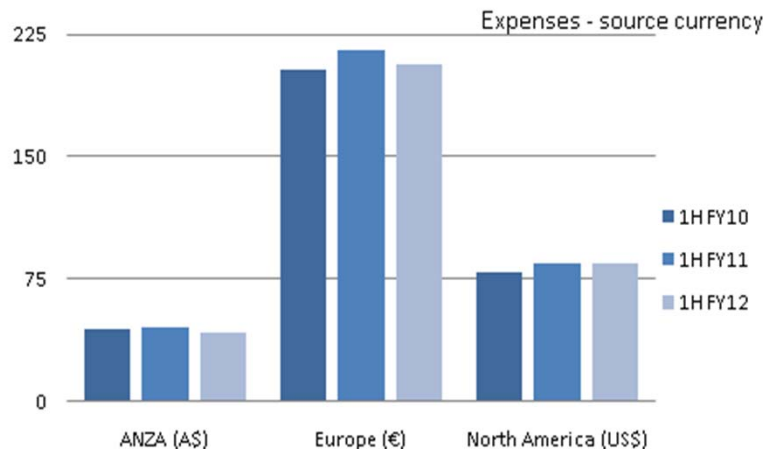
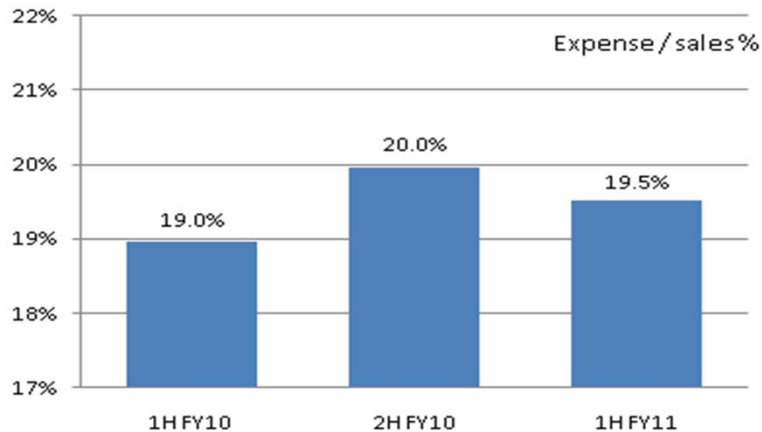
The Lost Time Injury Frequency Rate increased from 3.6 to 3.7 and the Medically Treated Injury Frequency Rate increased from 6.9 to 7.0. Whilst there was a slight increase in frequency rates over prior, the number of Lost Time Injuries was 2% fewer.

# Gross profit %



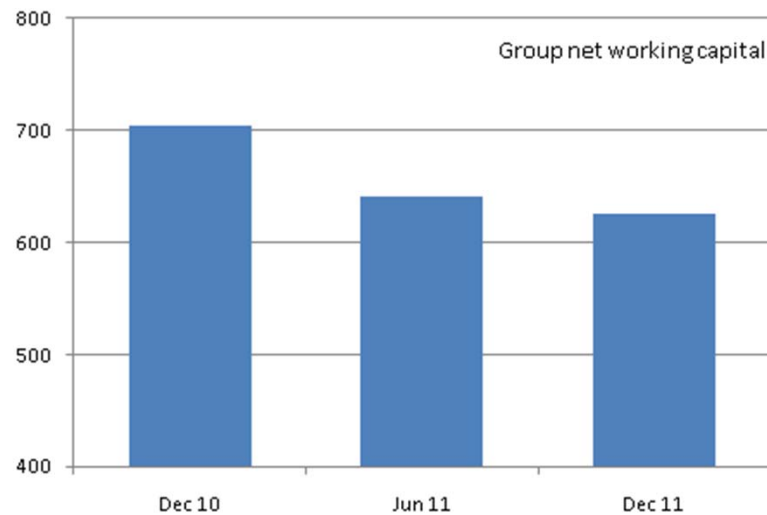
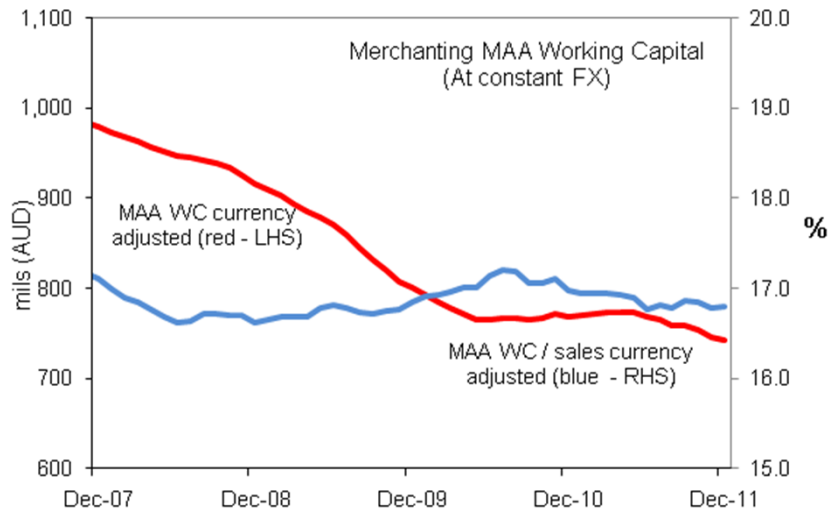
- GP% down on prior due to:
  - Eurozone crisis led to volume, price and margin reductions
  - Plans to recover margin loss underway
  - Stock devaluation impact felt, but temporary
  - Unfavourable sales mix towards lower cost product and lower margin direct sales (due to reduction in mill lead times driven by market fall)
  - Sales growth in lower margin countries
- Diversified margins are helping to offset negative margin pressures and should favourably impact 2nd half of FY12
- Target: GP% greater than 20%

# Expense / sales %



- Expenses down 7.7% on prior
- All regions below prior on constant currency basis
- Benefits are being realised from the global operations and Head Office restructures ahead of plan
- European restructuring underway to further reduce costs and headcount
- Redeployment into diversified sectors continues
- Headcount down 326 on prior and down 215 since June 2011

# Average working capital / sales %



- AWC / sales of 16.1% is 50 bpts favourable to pcp. Strong result given weaker sales revenue
- On a constant currency basis AWC / sales was 16.8% versus prior of 17.0%
- Group NWC was 11% favourable to pcp due to business performance and a stronger AUD
- Inventory in Continental Europe and ANZA down on prior 9% and 24% respectively

# Non-IFRS measures

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The non-IFRS measure used throughout the document is:

- *Underlying statutory profit / (loss) after tax*: statutory profit / (loss) after tax before discontinued operations, impairment of non-current assets and valuation gain / (loss) on currency option

# Underlying loss after tax

\$m	6 months to Dec 11	6 months to Dec 10
Statutory loss after tax	<b>(60.9)</b>	(10.2)
Adjust for the following:		
Discontinued operations	<b>1.6</b>	1.8
Net currency option	<b>(0.1)</b>	16.9
Impairment of non-current assets	<b>39.4</b>	-
Underlying loss after tax (1)	<b>(20.1)</b>	8.5

(1) Non-IFRS measure

# Europe results

		6 months to Dec 11	6 months to Dec 10	% change
Continental Europe	`000 tonnes	<b>467</b>	495	(6)
UK, Ireland, Spain and South Africa	`000 tonnes	<b>401</b>	449	(11)
<b>Total sales volume</b>	<b>`000 tonnes</b>	<b>868</b>	<b>944</b>	<b>(8)</b>
Sales revenue	€m	<b>1,056</b>	1,135	(7)
Statutory EBIT	€m	<b>(32.6)</b>	8.8	(470)
Statutory EBIT / sales revenue	%	<b>(3.1)</b>	0.8	(390) bpts
Average working capital / sales revenue	%	<b>16.8</b>	17.1	30 bpts
Diversified margin / total margin	%	<b>26.7</b>	23.5	320 bpts

# North America results

		6 months to Dec 11	6 months to Dec 10	% change
Sales volume	'000 tonnes	<b>235</b>	246	(5)
Sales revenue	US\$m	<b>457</b>	462	(1)
Statutory EBIT	US\$m	<b>7.1</b>	7.5	(4)
Statutory EBIT / sales revenue	%	<b>1.6</b>	1.6	-
Average working capital / sales revenue	%	<b>12.2</b>	11.1	(110) bpts
Diversified margin / total margin	%	<b>24.5</b>	21.1	340 bpts

# Australia, New Zealand and Asia results

		6 months to Dec 11	6 months to Dec 10	% change
Sales volume	`000 tonnes	<b>162</b>	166	(2)
Sales revenue	A\$m	<b>252</b>	280	(10)
Statutory EBIT	A\$m	<b>5.5</b>	9.4	(41)
Statutory EBIT / sales revenue	%	<b>2.2</b>	3.4	(120) bpts
Average working capital / sales revenue	%	<b>21.2</b>	21.6	40 bpts
Diversified margin / total margin	%	<b>8.3</b>	7.0	130 bpts

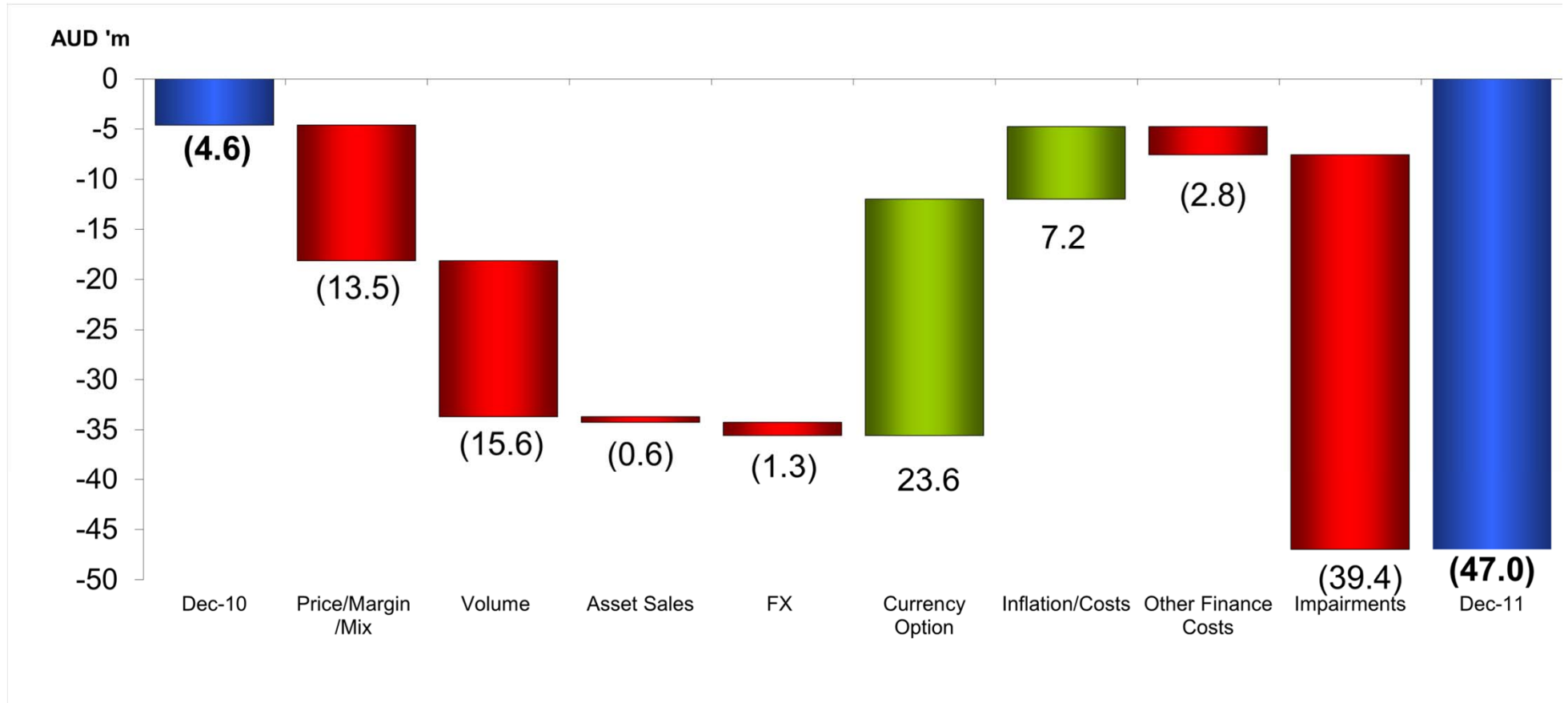
# Discontinued and Unallocated results

Discontinued		6 months to Dec 11	6 months to Dec 10
Sales volume	`000 tonnes	0	14
Sales revenue	A\$m	0	16
Statutory EBIT	A\$m	(0.6)	(0.6)

Unallocated \$m	6 months to Dec 11	6 months to Dec 10
Corporate and Other	(9.7)	(10.0)
Restructure costs	-	-
Statutory EBIT excluding finance costs & significant items	(9.7)	(10.0)
Net other financing charges excl FX	(1.8)	(1.4)
FX gains and losses	(1.9)	0.5
Statutory EBIT excluding significant items	(13.4)	(10.9)
Net currency option and intercompany loan	0.2	(23.4)
Statutory EBIT	(13.2)	(34.3)

Corporate and Other is estimated at \$20-21 p.a. Other net finance costs is estimated at \$3m p.a.

# Statutory EBIT variances – Dec 11 v Dec 10



# Balance sheet

Balance sheet		Dec 11	Jun 11	Dec 10
Current assets	\$m	<b>1,458</b>	1,540	1,604
Non current assets	\$m	<b>340</b>	390	489
Total assets	\$m	<b>1,798</b>	1,930	2,093
Current liabilities	\$m	<b>940</b>	846	912
Non current liabilities	\$m	<b>219</b>	348	338
Total liabilities	\$m	<b>1,159</b>	1,194	1,250
Equity	\$m	<b>639</b>	736	843
Current ratio	times	<b>1.6</b>	1.8	1.8