# APPENDIX 4D

**(Rules 4.2A.3)**

| | |
|---|---|
| **Name of entity:** | **PAPERLINX LIMITED** |
| **ABN:** | **70 005 146 350** |
| **For the half-year ended:** | **31 December 2014** |
| Previous corresponding period: | 31 December 2013 |

## Results for announcement to the market

| | **2014 A$000** | **2013 A$000** | | **% Change** |
|---|---|---|---|---|
| External revenues from ordinary activities: | | | | |
| • continuing operations | 1,296,659 | 1,475,497 | down | 12% |
| • discontinued operations | - | - | - | unchanged |
| | 1,296,659 | 1,475,497 | down | 12% |

| | **2014 A$000** | **2013 A$000** | | **% Change** |
|---|---|---|---|---|
| Net loss for the period after tax: | | | | |
| • continuing operations | (90,088) | (28,204) | up | 219% |
| • discontinued operations | (716) | (237) | up | 202% |
| | (90,804) | (28,441) | up | 219% |
| attributable to: | | | | |
| Equity holders of PaperlinX Limited | (90,804) | (28,441) | up | 219% |

## Dividends

| | **Amount per security** | | **Franked amount per security** |
|---|---|---|---|
| Interim dividend - current period | Nil | | Nil |
| Interim dividend - previous corresponding period | Nil | | Nil |
| Record date for determining entitlements to the dividend | | N/A | |
| Date dividend is payable | | N/A | |

## Commentary on results for the period

Refer to press release for explanation of results

## Net tangible assets per security

| | **31 December 2014** | **31 December 2013** |
|---|---|---|
| Net tangible assets per security | $(0.17) | $(0.06) |

## Details of entities over which control has been gained or lost

Control gained over the following entity effective 1 October 2014:

Total Supply Limited

## Dividend reinvestment plan

| | |
|---|---|
| The following dividend plans are currently suspended | Dividend Reinvestment Plan ('DRP') |
| The last date(s) for receipt of election notices for the dividend plans | N/A |
| Any other disclosures in relation to dividends | N/A |

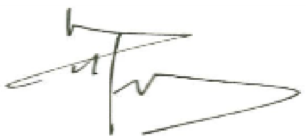
## Details of associates and joint ventures

N/A

## Information on audit or review

This report is based on accounts which have been subject to review. A copy of the review report is included in the attached interim financial report.

The last paragraph of the review report contains an additional comment from the auditors in relation to disclosures in the interim financial report regarding the going concern basis of preparation of the accounts and the status of the PaperlinX Group's strategic review, financing arrangements and trading environment.



Michelle Wong
Company Secretary
Date: 27 February 2015

# INTERIM FINANCIAL REPORT

of PaperlinX Limited

31 December 2014

## Contents

# DIRECTORS' REPORT

The Directors of PaperlinX Limited ("the Company") present their report together with the condensed consolidated interim financial statements of the Company and its subsidiaries ("the Consolidated Entity") for the half-year ended 31 December 2014 and the auditors' review report thereon.

**Directors**

The Directors of the Company during or since the end of the half-year are:

| Name | Period of directorship |
|---|---|
| **Non-executive** | |
| Mr R G (Robert) Kaye SC | Director since 27 September 2012. Chairman since 28 March 2013. Executive Chairman from 18 February 2015 to 24 February 2015. |
| Mr M D (Michael) Barker | Director since 27 September 2012. Chairman from 1 October 2012 to 28 March 2013. |
| **Executive** | |
| Mr A J (Andy) Preece | Managing Director and Chief Executive Officer since 24 February 2015. Formerly Executive General Manager of PaperlinX's ANZA region. |
| Mr A J (Andrew) Price | Director since 1 September 2012. Executive Director since 14 November 2012. Appointed Managing Director and Chief Executive Officer on 18 September 2013. Terminated as Managing Director and Chief Executive Officer on 18 February 2015. |

**Review of operations**

A review of the operations of the Consolidated Entity during the half-year, and the results of those operations is contained in PaperlinX's Statement to the Australian Stock Exchange and news media dated 27 February 2015.

**Lead auditor's independence declaration under section 307C of the Corporations Act 2001**

The lead auditor's independence declaration is set out on page 4 and forms part of the Directors' report for the half-year ended 31 December 2014.

**Rounding off**

The Company is of a kind referred to in the Australian Securities and Investments Commission Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial statements have been rounded off to the nearest thousand dollars, unless otherwise stated.

In accordance with a resolution of the Directors, dated at Melbourne, this 27th day of February 2015.

| | |
|---|---|
| Robert Kaye SC | Michael Barker |
| **Chairman** | **Director** |

***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

To: Directors of PaperlinX Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2014 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Penny A Stragalinos
*Partner*

Melbourne
27 February 2015

# CONDENSED CONSOLIDATED INCOME STATEMENT

| For the half-year ended 31 December | Note | 2014 $000 | 2013 $000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue from sale of goods | | 1,296,659 | 1,475,497 |
| Cost of inventory sold | | (1,043,079) | (1,191,739) |
| Gross profit | | 253,580 | 283,758 |
| Other income | | 3,810 | 3,419 |
| Personnel costs | | (141,682) | (158,321) |
| Logistics and distribution | | (84,259) | (91,420) |
| Sales and marketing | | (1,894) | (1,706) |
| Impairment of property, plant and equipment | 6,11 | (13,659) | - |
| Impairment of intangible assets | 6,11 | (49,336) | - |
| Other expenses | | (46,434) | (53,036) |
| **Result from operating activities** | | (79,874) | (17,306) |
| Net finance costs | | (7,547) | (7,970) |
| **Loss before tax** | | (87,421) | (25,276) |
| Tax expense | | (2,667) | (2,928) |
| **Loss from continuing operations** | | (90,088) | (28,204) |
| **Discontinued operations** | | | |
| Loss from discontinued operations, net of tax | 8 | (716) | (237) |
| **Loss for the period** | | (90,804) | (28,441) |
| **Loss for the period attributable to:** | | | |
| Equity holders of PaperlinX Limited | | (90,804) | (28,441) |
| Basic earnings per share (cents) | 7 | (13.7) | (4.7) |
| Basic earnings per share from continuing operations (cents) | 7 | (13.5) | (4.6) |
| Diluted earnings per share (cents) | 7 | (13.7) | (4.7) |
| Diluted earnings per share from continuing operations (cents) | 7 | (13.5) | (4.6) |

*Condensed notes 1 to 18 form part of these financial statements and are to be read in conjunction therewith.*

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| For the half-year ended 31 December | 2014 $000 | 2013 $000 |
|---|---|---|
| **Loss for the period** | (90,804) | (28,441) |
| | | |
| **Other comprehensive income:** | | |
| *Items that will not be reclassified to profit or loss* | | |
| Actuarial adjustments on defined benefit pension plans | (31,303) | (6) |
| Derecognition of deferred tax assets *(1)* | (18,392) | - |
| Income tax benefit/(expense) relating to items that will not be reclassified to profit or loss | 888 | (2,331) |
| Total items that will not be reclassified to profit or loss | (48,807) | (2,337) |
| | | |
| *Items that may be reclassified subsequently to profit or loss* | | |
| Exchange differences on translation of overseas subsidiaries | 7,404 | 20,670 |
| Total items that may be reclassified subsequently to profit or loss | 7,404 | 20,670 |
| | | |
| Other comprehensive (loss)/income for the period, net of tax | (41,403) | 18,333 |
| **Total comprehensive loss for the period, net of tax** | (132,207) | (10,108) |
| | | |
| **Total comprehensive loss for the period attributable to:** | | |
| Equity holders of PaperlinX Limited | (132,207) | (10,108) |

*(1) Deferred tax assets relating to European defined benefit pension plans were derecognised on the basis that they are no longer considered to be recoverable.*

*Condensed notes 1 to 18 form part of these financial statements and are to be read in conjunction therewith.*

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | As at 31 December 2014 $000 | As at 30 June 2014 $000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | 85,932 | 107,017 |
| Trade and other receivables | | 552,947 | 535,540 |
| Inventories | | 276,306 | 275,661 |
| Assets held for sale | | 1,730 | 1,686 |
| **Total current assets** | | 916,915 | 919,904 |
| | | | |
| **Non-current assets** | | | |
| Receivables | | 2,596 | 2,950 |
| Investments | | 594 | 1,180 |
| Property, plant and equipment | | 22,984 | 38,260 |
| Intangible assets | | 36,717 | 82,022 |
| Deferred tax assets | | 5,428 | 22,625 |
| **Total non-current assets** | | 68,319 | 147,037 |
| **Total assets** | | 985,234 | 1,066,941 |
| | | | |
| **Current liabilities** | | | |
| Trade and other payables | | 381,758 | 390,757 |
| Loans and borrowings | 12 | 234,007 | 25,955 |
| Income tax payable | | 3,408 | 2,693 |
| Employee benefits | | 11,742 | 12,787 |
| Provisions | | 15,425 | 28,217 |
| **Total current liabilities** | | 646,340 | 460,409 |
| | | | |
| **Non-current liabilities** | | | |
| Payables | | 1,433 | 1,303 |
| Loans and borrowings | 12 | 9,567 | 174,783 |
| Deferred tax liabilities | | 1,218 | 1,264 |
| Employee benefits | | 141,402 | 111,390 |
| Provisions | | 3,895 | 4,483 |
| **Total non-current liabilities** | | 157,515 | 293,223 |
| **Total liabilities** | | 803,855 | 753,632 |
| **Net assets** | | 181,379 | 313,309 |
| | | | |
| **Equity** | | | |
| Issued capital | 14 | 1,895,739 | 1,895,739 |
| Reserves | | (106,516) | (114,197) |
| Accumulated losses | | (1,862,667) | (1,723,056) |
| Total equity attributable to holders of ordinary shares of PaperlinX Limited | | (73,444) | 58,486 |
| | | | |
| Issued PaperlinX step-up preference securities | | 276,518 | 276,518 |
| Reserve for own PaperlinX step-up preference securities | | (21,695) | (21,695) |
| PaperlinX step-up preference securities | 17 | 254,823 | 254,823 |
| **Total equity** | | 181,379 | 313,309 |

*Condensed notes 1 to 18 form part of these financial statements and are to be read in conjunction therewith.*

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| For the half-year ended 31 December 2014<br>$000 | Issued capital | Exchange fluctuation reserve | Reserve for own shares | Employee share plans reserve | Accumulated losses | PaperlinX step-up preference securities | Total equity |
|---|---|---|---|---|---|---|---|
| | Attributable to equity holders of PaperlinX Limited | | | | | | |
| **Balance at 1 July 2014** | 1,895,739 | (116,111) | (283) | 2,197 | (1,723,056) | 254,823 | **313,309** |
| **Total comprehensive loss for the period** | | | | | | | |
| Loss for the period | - | - | - | - | (90,804) | - | **(90,804)** |
| Other comprehensive income | | | | | | | |
| • Actuarial adjustments on defined benefit plans | - | - | - | - | (31,303) | - | **(31,303)** |
| • Exchange differences on translation of overseas subsidiaries | - | 7,404 | - | - | - | - | **7,404** |
| • Derecognition of deferred tax assets *(1)* | - | - | - | - | (18,392) | - | **(18,392)** |
| • Income tax benefit on other comprehensive income | - | - | - | - | 888 | - | **888** |
| Total other comprehensive (loss)/income | - | 7,404 | - | - | (48,807) | - | **(41,403)** |
| Total comprehensive (loss)/income for the period | - | 7,404 | - | - | (139,611) | - | **(132,207)** |
| **Transactions with owners recorded directly in equity** | | | | | | | |
| • Employee share-based payment transactions | - | - | - | 277 | - | - | **277** |
| Total transactions with owners | - | - | - | 277 | - | - | **277** |
| **Balance at 31 December 2014** | 1,895,739 | (108,707) | (283) | 2,474 | (1,862,667) | 254,823 | **181,379** |

*(1) Deferred tax assets relating to European defined benefit pension plans were derecognised on the basis that they are no longer considered to be recoverable.*

| For the half-year ended 31 December 2013<br>$000 | Issued capital | Exchange fluctuation reserve | Reserve for own shares | Employee share plans reserve | Accumulated losses | PaperlinX step-up preference securities | Total equity |
|---|---|---|---|---|---|---|---|
| | Attributable to equity holders of PaperlinX Limited | | | | | | |
| **Balance at 1 July 2013** | 1,895,581 | (125,324) | - | 1,459 | (1,686,478) | 276,518 | **361,756** |
| **Total comprehensive loss for the period** | | | | | | | |
| Loss for the period | - | - | - | - | (28,441) | - | **(28,441)** |
| Other comprehensive income | | | | | | | |
| • Actuarial adjustments on defined benefit plans | - | - | - | - | (6) | - | **(6)** |
| • Exchange differences on translation of overseas subsidiaries | - | 20,670 | - | - | - | - | **20,670** |
| • Income tax expense on other comprehensive income | - | - | - | - | (2,331) | - | **(2,331)** |
| Total other comprehensive income/(loss) | - | 20,670 | - | - | (2,337) | - | **18,333** |
| Total comprehensive (loss)/income for the period | - | 20,670 | - | - | (30,778) | - | **(10,108)** |
| **Transactions with owners recorded directly in equity** | | | | | | | |
| • Employee share-based payment transactions | - | - | - | 251 | - | - | **251** |
| Total transactions with owners | - | - | - | 251 | - | - | **251** |
| **Balance at 31 December 2013** | 1,895,581 | (104,654) | - | 1,710 | (1,717,256) | 276,518 | **351,899** |

*Condensed notes 1 to 18 form part of these financial statements and are to be read in conjunction therewith.*

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| For the half-year ended 31 December | Note | 2014 $000 | 2013 $000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 1,303,721 | 1,500,263 |
| Payments to suppliers and employees | | (1,350,871) | (1,524,612) |
| Interest received | | 965 | 564 |
| Interest paid | | (5,988) | (7,065) |
| Income taxes (paid)/refunded | | (1,853) | 945 |
| **Net cash used in operating activities** | 15 | (54,026) | (29,905) |
| | | | |
| **Cash flows from investing activities** | | | |
| Acquisition of: | | | |
| • Controlled entities and businesses (net of cash and bank overdraft acquired) | | (4,367) | - |
| • Property, plant and equipment and intangibles | | (2,148) | (2,195) |
| Net (payments)/proceeds from the sale of: | | | |
| • Controlled entities and businesses (proceeds less transaction costs) - net of cash and bank overdraft disposed | | (232) | 98 |
| • Property, plant and equipment | | 3,394 | 110 |
| • Investments | | 585 | - |
| Tasmanian manufacturing operations closure payments | | (97) | (584) |
| Loans repaid to other persons | | - | (2) |
| **Net cash used in investing activities** | | (2,865) | (2,573) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 44,059 | 63,153 |
| Repayment of borrowings | | (11,094) | (17,654) |
| Transaction costs paid for takeover offer - PaperlinX SPS units | | - | (788) |
| Capitalised borrowing costs paid | | - | (430) |
| Other borrowing costs paid | | (988) | (957) |
| **Net cash from financing activities** | | 31,977 | 43,324 |
| | | | |
| **Net (decrease)/increase in cash and cash equivalents** | | (24,914) | 10,846 |
| Cash and cash equivalents at the beginning of the period | | 107,017 | 87,683 |
| Effect of exchange rate changes on cash held | | 3,829 | 7,194 |
| **Cash and cash equivalents at the end of the period** | 15 | 85,932 | 105,723 |

*Condensed notes 1 to 18 form part of these financial statements and are to be read in conjunction therewith.*

## Note 1. Reporting entity

The Company is a company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the six months ended 31 December 2014 comprises the Company and its subsidiaries (together referred to as "the Consolidated Entity"). The Consolidated Entity is primarily involved in the merchanting of paper, communication materials and diversified materials, including packaging, sign and display and graphic supplies.

The consolidated annual financial report of the Consolidated Entity as at and for the year ended 30 June 2014 is available upon request from the Company's registered office at 7 Dalmore Drive, Scoresby Victoria 3179 or at www.paperlinx.com.au.

## Note 2. Statement of compliance

The condensed consolidated interim financial report is a general purpose financial report prepared in accordance with AASB 134 *Interim Financial Reporting,* IAS 34 *Interim Financial Reporting* and the Corporations Act 2001.

The condensed consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Consolidated Entity as at and for the year ended 30 June 2014.

This condensed consolidated interim financial report was approved by the Board of Directors on 27 February 2015.

The Consolidated Entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

**Going concern basis of accounting**

In preparing the Consolidated Financial Report, the Directors made an assessment of the ability of the Consolidated Entity to continue as a going concern. An entity is a going concern when it is considered to be able to pay its debts as and when they are due, and continue in operation without any intention or necessity to liquidate the entity or to cease trading.

Conditions in the UK and European market remain challenging, with overall paper consumption falling more than expected, together with strategic moves by some suppliers and competitors causing further pressure on market pricing. As announced on 22 December 2014, the directors engaged advisors to conduct a strategic review of Paper Associates Pty Ltd, the holding company for the Consolidated Entity's European (which includes the UK), Asian and Canadian operations. On 11 February, the Consolidated Entity announced that it had entered into an agreement to sell the Canadian operations, subject to a post-completion working capital adjustment. Under the terms of the debt facility from the Consolidated Entity's main lender in Europe, 50% of the net sale proceeds (after pay down of local debt facilities) are required to be remitted to the European operations and there are restrictions on the ability to move cash within the Consolidated Entity, as noted below.

As part of the strategic review, the directors continue to explore various strategic options in regard to the Consolidated Entity's operations in Europe and Asia. Interest has been expressed from certain parties in relation to a whole of Europe transaction or the sale of certain operations in Europe. A whole of Europe transaction would be subject to Company shareholder approval and requires the resolution of a number of factors including legal and commercial issues relating to material pension plan obligations. Expressions of interest at this stage remain preliminary and highly conditional, and may or may not result in the sale or restructure of part or all of the Consolidated Entity's European operations.

The Consolidated Entity is primarily funded by receivables-backed and inventory-backed facilities. As disclosed in Note 12, the debt facility from its main lender in Europe is due to expire in September 2015. In light of the lower than expected trading results for the European operations, together with pension plan adjustments and non-current asset impairments in these operations identified as part of the interim accounts preparations, the financial covenants under this facility were breached at 31 December 2014. A waiver for the EBITDA covenant was provided in December 2014, and waivers for the net worth and gearing level covenants were provided in February 2015, subject to certain administrative conditions. The financial covenants under this facility are due to be remeasured in the March 2015 and June 2015 quarters and based on current trading forecasts for the European operations, these financial covenants are expected to be breached in the absence of a covenant reset. The Consolidated Entity is currently in discussions with its main lender in Europe in relation to the strategic review and will seek to renegotiate or obtain waivers from future financial covenants and extend the facility term. Accordingly, the Consolidated Entity is reliant on the continued financial support of its main lender in Europe.

The ability of the Consolidated Entity to meet its operational cash requirements and remain within the limits of the existing debt facilities in the foreseeable future is dependent in part on meeting forecast trading results and cash flows, and maintaining or agreeing trading/settlement terms with key creditors (including suppliers, credit insurers and taxing authorities). These forecasts are necessarily based on best-estimate assumptions that may or may not occur as expected and are subject to influences and events outside of the control of the Consolidated Entity.

The current economic environment in some of the major operating jurisdictions and structural changes in the traditional paper markets present challenges in terms of sales volume, pricing and input costs. The trading environment creates significant uncertainties about future trading results and cash flows, which heightens liquidity risk for certain operations that are reliant on group support. In addition, the existing facilities include regional specific covenants and restrictions on the ability to draw down debt facilities and move cash within the Consolidated Entity. There are further restrictions on the ability to move cash between subsidiaries within the Consolidated Entity due to local legal or regulatory requirements, including those relating to solvency.

In summary, there are uncertainties in relation to the ability of the Consolidated Entity to execute a sale or restructure of its European operations (including the resolution of legal and commercial issues relating to material pension plan obligations), meet its operational cash requirements in certain jurisdictions, complete the Canadian sale, remain within the requirements of the existing debt facilities and renegotiate the covenants and extend the term of its main facility in Europe.

### Note 2. Statement of compliance – (continued)

Should the ability of the Consolidated Entity to realise sufficient cash flows from trading operations or existing facilities be restricted, the Consolidated Entity will actively pursue alternative funding arrangements and implement additional measures to preserve cash. These may include (but are not limited to) further asset sales, drawing down committed but undrawn debt facilities (subject to relevant restrictions), working capital reductions, renegotiating lease obligations, further restrictions of operating and capital expenditures, improving debtor collections, deferral of creditor payments and the exiting of certain loss making operations.

The Directors are aware that a material uncertainty exists due to the above events which may cast significant doubt upon the Consolidated Entity's ability to continue as a going concern. After making enquiries, the Directors have a reasonable expectation that the Consolidated Entity has potential sources of financing, through asset sales, existing debt facilities and expected future operating cash flows to adopt the going concern basis in preparing the consolidated interim financial report. Accordingly, no adjustments have been made to the carrying value and classification of assets and the amount and classification of liabilities that may be required if the Consolidated Entity does not continue as a going concern.

### Note 3. Significant accounting policies

Except as detailed below, the accounting policies and disclosures applied by the Consolidated Entity in this condensed consolidated interim financial report are the same as those applied by the Consolidated Entity in its consolidated financial report as at and for the year ended 30 June 2014.

**Changes in accounting policy and disclosures**

The Consolidated Entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the "AASB") that are relevant to its operations and effective for the current reporting period.

New and revised Standards and Interpretations effective for the current reporting period that are relevant to the Consolidated Entity include:

- Amendments to AASB 136 *Recoverable Amount Disclosures for Non-Financial Assets*
- Amendments to Australian Accounting Standards *Annual Improvements 2010-2012 and 2011-2013 Cycles*
- Amendments to AASB 119 *Defined Benefit Plans: Employee Contributions*

The adoption of these standards did not have any financial impact on the current reporting period or the prior comparative reporting period.

### Note 4. Accounting estimates and judgements

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial report, except as disclosed in Note 12, the significant estimates and judgements applied in the Consolidated Entity's accounting policies were consistent with those applied to the consolidated financial statements as at and for the year ended 30 June 2014.

### Note 5. Operating segments

The Consolidated Entity comprises the following main business segments, based on the Consolidated Entity's management and internal reporting system.

| **Segment** | **Description of operations** |
|---|---|
| Merchanting | International merchant supplying the printing and publishing industry and office supplies. Europe comprises the United Kingdom, Ireland and Continental Europe. The operations comprising Merchanting Canada were sold after the end of the current interim reporting period - refer Note 18. For the purposes of the condensed consolidated interim financial statements, Merchanting Canada has been treated as part of continuing operations. |
| Discontinued operations | Comprises merchanting operations in United States of America (sale completed July 2012); Italy (sale completed July 2012); South Africa (sale completed September 2012); and Hungary, Slovakia, Slovenia, Serbia and Croatia (sale completed November 2012). Also comprises paper manufacturing - Australian Paper business (sale completed May 2009) and Tas Paper (closure completed in June 2010). |

Corporate operations, continuing eliminations and amounts which have not been allocated to the Merchanting or Discontinued operations segments are classified as Unallocated.

## Note 5. Operating segments – (continued)

| | Note | Merchanting Europe $000 | Merchanting Canada $000 | Merchanting Australia, New Zealand, Asia $000 | Unallocated $000 | Total Continuing Operations $000 | Discontinued Operations $000 | Group $000 |
|---|---|---|---|---|---|---|---|---|
| **For the half-year ended 31 December 2014** | | | | | | | | |
| External sales revenue | | 883,943 | 205,215 | 207,501 | - | 1,296,659 | - | 1,296,659 |
| Inter-segment sales revenue | | - | - | 1,515 | (1,515) | - | - | - |
| Total revenue | | 883,943 | 205,215 | 209,016 | (1,515) | 1,296,659 | - | 1,296,659 |
| (Loss)/profit before net finance costs, tax and significant items | | (21,493) | 7,495 | 9,122 | (5,689) | (10,565) | (119) | (10,684) |
| Net other finance costs | | - | - | - | (2,127) | (2,127) | - | (2,127) |
| Underlying (loss)/profit before interest and tax | | (21,493) | 7,495 | 9,122 | (7,816) | (12,692) | (119) | (12,811) |
| Significant items (pre-tax) | 6 | (29,525) | (31,804) | (7,772) | (208) | (69,309) | (501) | (69,810) |
| (Loss)/profit before interest and tax | | (51,018) | (24,309) | 1,350 | (8,024) | (82,001) | (620) | (82,621) |
| Net interest | | | | | (5,420) | (5,420) | (96) | (5,516) |
| Loss before tax | | | | | (13,444) | (87,421) | (716) | (88,137) |
| Tax expense - pre-significant items | | | | | (2,725) | (2,725) | - | (2,725) |
| Tax benefit - significant items | 6 | | | | 58 | 58 | - | 58 |
| Loss for the period | | | | | (16,111) | (90,088) | (716) | (90,804) |
| The loss before tax includes: | | | | | | | | |
| Depreciation and amortisation | | (3,723) | (771) | (833) | (38) | (5,365) | - | (5,365) |
| Impairment | | (24,529) | (31,691) | (6,775) | - | (62,995) | - | (62,995) |
| Depreciation, amortisation and impairment | | (28,252) | (32,462) | (7,608) | (38) | (68,360) | - | (68,360) |
| Capital expenditure | | 1,254 | 321 | 3,740 | 1 | 5,316 | - | 5,316 |
| **As at 31 December 2014** | | | | | | | | |
| Total assets | | 632,196 | 105,692 | 225,207 | 15,656 | 978,751 | 6,483 | 985,234 |
| Total liabilities | | 415,592 | 49,795 | 78,454 | 254,370 | 798,211 | 5,644 | 803,855 |
| Net assets/(liabilities) | | 216,604 | 55,897 | 146,753 | (238,714) | 180,540 | 839 | 181,379 |

| | Note | Merchanting Europe $000 | Merchanting Canada $000 | Merchanting Australia, New Zealand, Asia $000 | Unallocated $000 | Total Continuing Operations $000 | Discontinued Operations $000 | Group $000 |
|---|---|---|---|---|---|---|---|---|
| **For the half-year ended 31 December 2013** | | | | | | | | |
| External sales revenue | | 1,042,340 | 213,551 | 219,606 | - | 1,475,497 | - | 1,475,497 |
| Inter-segment sales revenue | | - | - | 1,787 | (1,787) | - | - | - |
| Total revenue | | 1,042,340 | 213,551 | 221,393 | (1,787) | 1,475,497 | - | 1,475,497 |
| (Loss)/profit before net finance costs, tax and significant items | | (19,092) | 7,375 | 9,235 | (5,609) | (8,091) | (141) | (8,232) |
| Net other finance costs | | - | - | - | (1,492) | (1,492) | - | (1,492) |
| Underlying (loss)/profit before interest and tax | | (19,092) | 7,375 | 9,235 | (7,101) | (9,583) | (141) | (9,724) |
| Significant items (pre-tax) | 6 | (7,436) | (421) | (412) | (946) | (9,215) | 99 | (9,116) |
| (Loss)/profit before interest and tax | | (26,528) | 6,954 | 8,823 | (8,047) | (18,798) | (42) | (18,840) |
| Net interest | | | | | (6,478) | (6,478) | (195) | (6,673) |
| Loss before tax | | | | | (14,525) | (25,276) | (237) | (25,513) |
| Tax expense - pre-significant items | | | | | (3,039) | (3,039) | - | (3,039) |
| Tax benefit - significant items | 6 | | | | 111 | 111 | - | 111 |
| Loss for the period | | | | | (17,453) | (28,204) | (237) | (28,441) |
| The loss before tax includes: | | | | | | | | |
| Depreciation and amortisation | | (3,623) | (904) | (849) | (211) | (5,587) | - | (5,587) |
| Depreciation, amortisation and impairment | | (3,623) | (904) | (849) | (211) | (5,587) | - | (5,587) |
| Capital expenditure | | 1,024 | 150 | 965 | 56 | 2,195 | - | 2,195 |
| **As at 30 June 2014** | | | | | | | | |
| Total assets | | 667,028 | 137,969 | 229,326 | 26,340 | 1,060,663 | 6,278 | 1,066,941 |
| Total liabilities | | 398,647 | 50,578 | 85,844 | 212,876 | 747,945 | 5,687 | 753,632 |
| Net assets/(liabilities) | | 268,381 | 87,391 | 143,482 | (186,536) | 312,718 | 591 | 313,309 |

## Note 6. Individually significant items

| For the half-year ended 31 December | Note | Continuing Pre-tax $000 | Continuing Tax impact $000 | Continuing Post-tax $000 | Discontinued Pre-tax $000 | Discontinued Tax impact $000 | Discontinued Post-tax $000 | Total Pre-tax $000 | Total Tax impact $000 | Total Post-tax $000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | | | | |
| Loss on sale of controlled entities | 8 | - | - | - | (501) | - | (501) | (501) | - | (501) |
| Impairment of property, plant and equipment | 11 | (13,659) | - | (13,659) | - | - | - | (13,659) | - | (13,659) |
| Impairment of intangible assets | 11 | (49,336) | - | (49,336) | - | - | - | (49,336) | - | (49,336) |
| Restructuring costs *(1)* | | (6,314) | 58 | (6,256) | - | - | - | (6,314) | 58 | (6,256) |
| **Total individually significant items** | | (69,309) | 58 | (69,251) | (501) | - | (501) | (69,810) | 58 | (69,752) |
| **2013** | | | | | | | | | | |
| Loss on sale of controlled entities | 8 | - | - | - | (98) | - | (98) | (98) | - | (98) |
| Restructuring costs *(1)* | | (9,215) | 111 | (9,104) | - | - | - | (9,215) | 111 | (9,104) |
| Write-back of provisions re closure of discontinued Tasmanian operations | | - | - | - | 197 | - | 197 | 197 | - | 197 |
| Total individually significant items | | (9,215) | 111 | (9,104) | 99 | - | 99 | (9,116) | 111 | (9,005) |

*(1) Restructuring costs are included in 'other expenses' in the Condensed Consolidated Income Statement.*

## Note 7. Earnings per share

| For the half-year ended 31 December | Continuing 2014 $000 | Continuing 2013 $000 | Discontinued 2014 $000 | Discontinued 2013 $000 | Total 2014 $000 | Total 2013 $000 |
|---|---|---|---|---|---|---|
| Loss for the period attributable to holders of ordinary shares in PaperlinX Limited | (90,088) | (28,204) | (716) | (237) | (90,804) | (28,441) |
| Weighted average number of shares - basic (thousands) | 665,181 | 609,281 | 665,181 | 609,281 | 665,181 | 609,281 |
| Basic EPS (cents) | (13.5) | (4.6) | (0.2) | (0.1) | (13.7) | (4.7) |
| Weighted average number of shares - diluted (thousands) | 665,181 | 609,281 | 665,181 | 609,281 | 665,181 | 609,281 |
| Diluted EPS (cents) | (13.5) | (4.6) | (0.2) | (0.1) | (13.7) | (4.7) |

The options to purchase shares and rights on issue during the reporting periods ended 31 December 2014 and 31 December 2013 have not been included in determining the basic earnings per share.

The options to purchase shares and rights on issue during the half-year ended 31 December 2014 (weighted average 59.784 million shares) have not been included in determining the diluted earnings per share because they are anti-dilutive. The options to purchase shares on issue during the half-year ended 31 December 2013 (weighted average 21.498 million shares) have not been included in determining the diluted earnings per share for the prior period because they are anti-dilutive.

## Note 8. Discontinued operations

Discontinued operations comprise merchanting and manufacturing operations sold or closed down. Refer Note 5 for further details.

**Result from discontinued operations**

| For the half-year ended 31 December | Europe 2014 $000 | Europe 2013 $000 | North America 2014 $000 | North America 2013 $000 | Manufacturing & Group Elims 2014 $000 | Manufacturing & Group Elims 2013 $000 | Total Discontinued Operations 2014 $000 | Total Discontinued Operations 2013 $000 |
|---|---|---|---|---|---|---|---|---|
| Other income | - | - | - | - | 9 | 38 | 9 | 38 |
| Trading expenses | - | - | - | - | (128) | (179) | (128) | (179) |
| Result from operating activities before significant items, net finance costs, and tax | - | - | - | - | (119) | (141) | (119) | (141) |
| Significant items - operating activities | - | - | - | - | - | 197 | - | 197 |
| Significant items - loss/(profit) on sale of discontinued operations | (253) | (95) | (248) | (3) | - | - | (501) | (98) |
| Result before interest and tax | (253) | (95) | (248) | (3) | (119) | 56 | (620) | (42) |
| Net interest | - | - | - | - | (96) | (195) | (96) | (195) |
| Result before tax | (253) | (95) | (248) | (3) | (215) | (139) | (716) | (237) |
| Tax benefit pre-significant items | - | - | - | - | - | - | - | - |
| Tax expense significant items - operating activities | - | - | - | - | - | - | - | - |
| **Loss for the period** | (253) | (95) | (248) | (3) | (215) | (139) | (716) | (237) |

## Note 8. Discontinued operations – (continued)

**Cash flow from discontinued operations**

| For the half-year ended 31 December | 2014 $000 | 2013 $000 |
|---|---|---|
| Net cash used in operating activities | (190) | (193) |
| Net cash used in investing activities | (329) | (649) |
| **Net cash used in discontinued operations** | (519) | (842) |

## Note 9. Distributions and dividends

**(a) Distributions on PaperlinX step-up preference securities**

On 27 November 2014, the Company announced that the distribution for the period 1 July to 31 December 2014 would not be paid. The interim distribution rate for the period 1 January to 30 June 2015 is 7.4600%. The distribution is payable at the discretion of the directors of the Company. In addition, the main lending facility in Europe contains a requirement to obtain lender approval for future hybrid distributions.

**(b) Dividends on PaperlinX Limited ordinary shares**

The Company is prohibited from paying dividends or making other distributions on any class of its share capital until such time as two consecutive distributions are paid by the PaperlinX SPS Trust (see Note 9(a)). As the December 2014 distribution was not paid, the Company does not meet the relevant criteria and no dividend can be paid.

## Note 10. Acquisition of Total Supply Limited

On 1 October 2014, the Consolidated Entity acquired 100% of the shares in Total Supply Limited (Total Supply), a leading sign industry supplier in New Zealand. Total Supply is based predominantly out of Auckland. The business was acquired to accelerate growth in the Consolidated Entity's sign and display business in New Zealand.

In the three months to 31 December 2014, Total Supply contributed revenue of $2.84 million and profit after tax of $0.28 million to the Consolidated Entity's results.

*Consideration transferred*

The following table summarises the acquisition-date fair value of each major class of consideration transferred:

| | Total Supply $000 |
|---|---|
| Cash | 4,355 |
| Contingent consideration | 819 |
| **Total consideration transferred** | 5,174 |

*Identifiable assets acquired and liabilities assumed*

The following summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

| | Total Supply $000 |
|---|---|
| Cash and cash equivalents | 12 |
| Inventories | 1,634 |
| Trade and other receivables | 1,655 |
| Property, plant and equipment | 259 |
| Intangible assets | 30 |
| Deferred tax assets | 32 |
| Trade and other payables | (1,165) |
| Deferred tax liabilities | (69) |
| Leave entitlements | (76) |
| **Total net identifiable assets** | 2,312 |

*Goodwill*

Goodwill arising from the acquisition has been recognised as follows:

| | Total Supply $000 |
|---|---|
| Total consideration transferred | 5,174 |
| Fair value of identifiable assets | 2,312 |
| **Goodwill** | 2,862 |

The goodwill is attributable mainly to anticipated future earnings streams and the skills and technical talent of Total Supply's work force. None of the goodwill recognised is expected to be deductible for tax purposes.

*Acquisition-related costs*

The Group incurred acquisition-related costs of $0.01 million relating to external legal fees. These amounts have been included in other expenses in the condensed consolidated income statement.

## Note 11. Impairment of non-current assets

As required under AASB 136 *Impairment of Assets*, the Consolidated Entity performs an impairment assessment when there is an indication or 'trigger' of a possible impairment of its non-current assets and, in addition, at least annually performs an impairment review of goodwill and indefinite life intangible assets, regardless of whether an impairment trigger has been identified. The annual review of goodwill and indefinite life intangible assets was performed at 30 June 2014. A review for impairment triggers was undertaken at 31 December 2014.

*Continental Europe CGU*

The only goodwill in the Continental Europe CGU relates to Scandinavia. No impairment trigger was identified in relation to the Scandinavian operations.

Ongoing weak demand for core paper products and delays in restructuring programs in Benelux have resulted in an impairment charge of $6.3 million being booked against the carrying value of property, plant and equipment, and $6.8 million being booked against the carrying value of computer software.

*United Kingdom and Ireland CGU*

There is no goodwill in the United Kingdom and Ireland CGU.

Ongoing weak demand for core paper products in the United Kingdom has resulted in an impairment charge of $6.9 million being booked against the carrying value of property, plant and equipment, and $4.5 million being booked against the carrying value of computer software and other intangibles.

*Canada CGU*

The sale of the Canada business post balance date (refer Note 18) indicated that a significant portion of the carrying value of goodwill would not be recouped through a sale transaction. When assessed at fair value less costs of disposal, an impairment of $31.7 million was identified and booked against the carrying value of goodwill.

*Australia, New Zealand and Asia CGU*

The goodwill in the Australia, New Zealand and Asia CGU is in New Zealand and Asia. No impairment trigger was identified in relation to the New Zealand operations. Ongoing weak demand for core paper products in Asia has resulted in an impairment charge of $6.3 million being booked against the carrying value of Asia's goodwill.

An item of plant and equipment in Australia which was decommissioned during the reporting period was subject to an impairment charge of $0.5 million.

| For the half-year ended 31 December 2014 $000 | Property, plant and equipment | | | | Intangibles | | | |
|---|---|---|---|---|---|---|---|---|
| | Land | Buildings | Plant and equip't | Total | Goodwill | Computer software | Other intangibles | Total |
| Impairment charges: | | | | | | | | |
| • Continental Europe | - | - | (6,337) | (6,337) | - | (6,813) | - | (6,813) |
| • United Kingdom and Ireland | (1,152) | (1,421) | (4,282) | (6,855) | - | (2,905) | (1,620) | (4,525) |
| • Canada | - | - | - | - | (31,691) | - | - | (31,691) |
| • Australia, New Zealand and Asia | - | - | (467) | (467) | (6,307) | - | - | (6,307) |
| Total | (1,152) | (1,421) | (11,086) | (13,659) | (37,998) | (9,718) | (1,620) | (49,336) |

There was no impairment of property, plant and equipment and intangible assets in the prior corresponding period.

## Note 12. Loans and borrowings

| For the half-year ended 31 December | 2014 $000 | 2013 $000 |
|---|---|---|
| Balance at beginning of period | 200,738 | 210,435 |
| Borrowings | | |
| New facilities | | |
| • Trade receivable funding - Germany | - | 18,167 |
| • Trade receivable funding - Czech Republic | - | 6,999 |
| Other net drawdowns | 32,965 | 20,333 |
| Net proceeds from borrowings | 32,965 | 45,499 |
| Movement in capitalised borrowing costs | 287 | (87) |
| Foreign exchange | 9,584 | 26,858 |
| **Balance at end of period** | 243,574 | 282,705 |
| Balance at the end of the period comprises: | | |
| Current liabilities | | |
| • Bank loans - secured | 231,940 | 167,188 |
| • Bank loans - unsecured | 2,396 | 4,883 |
| • Capitalised borrowing costs | (329) | (459) |
| | 234,007 | 171,612 |
| Non-current liabilities | | |
| • Bank loans - secured | 9,854 | 111,669 |
| • Capitalised borrowing costs | (287) | (576) |
| | 9,567 | 111,093 |
| **Total loans and borrowings** | 243,574 | 282,705 |

The regional asset backed facilities in Australia, New Zealand, Canada and Europe include regional covenant measures. These will vary and may include fixed charge coverage ratios, interest cover, EBITDA, net worth tests and gearing levels. These facilities have restrictions on the ability to draw down and move cash within the Consolidated Entity.

The regional asset backed facilities in Australia, United Kingdom and Europe involve the securitisation of receivables. A number of smaller European facilities are factoring agreements and operate similar to the securitisation programs. In Canada and New Zealand, the regional facilities are secured by both receivables and inventory. The amount of receivables pledged as part of the regional loan facilities and the smaller European facilities at balance date was $235.9 million (December 2013: $277.2 million). The amount of inventories pledged as part of the regional loan facilities at balance date was $5.9 million (December 2013: $1.7 million).

*Debt classification*

In the prior period, a portion of the regional asset backed facilities was classified as non-current, which represented the lowest expected balance of the facilities in the 12 month period post balance date, based on management forecasts.

Although many of the debt facilities within the Group have long-term availability periods (up to 31 months post reporting date), the inherent uncertainty in forecasting debt balances across the Consolidated Entity, and particularly in the United Kingdom and Europe, has resulted in all debt facilities, with the exception of the asset backed facility in Canada, being classified as current at 31 December 2014. This change in estimate has been adopted prospectively.

As the asset backed debt facility in Canada has a maturity date more than 12 months from balance date, the loan balance and related capitalised borrowing costs remain classified as non-current. The sale of the Canadian business post balance date (refer Note 18) is expected to result in the secured bank loan being repaid on completion.

*Waiver to European loan covenants*

The Consolidated Entity sought and received amendments to its debt facility from its main lender in Europe to waive any actual or potential breach of covenants as at 31 December 2014. Based upon trading results for the current reporting period, non-current asset impairment charges, pension plan adjustments and de-recognition of deferred tax assets, the EBITDA, net worth and gearing level debt covenants were breached at 31 December 2014. A waiver was granted for the EBITDA covenant in December 2014, with the associated amendment fee expensed in the current reporting period. Breaches of the net worth and gearing level debt covenants were identified as part of the half year accounts preparations and a waiver from the lender was granted in February 2015.

## Note 13. Employee retirement benefits

As required under AASB 119 *Employee Benefits*, the Consolidated Entity undertakes a full actuarial review of material defined benefit plans each financial year. The previous actuarial review was undertaken at 30 June 2014. A desktop review has been undertaken to determine whether there has been a material change in the net balance sheet obligation since 30 June 2014 based on market conditions at 31 December 2014. An estimated actuarial loss of $31.3 million was identified in relation to the major plans in the Europe and Canada segments, primarily due to lower discount rates, as well as a foreign exchange loss due to currency movements during the period. This was partially offset with top-up contributions made by the Consolidated Entity.

The movement in the net employee retirement benefit obligation is as follows:

| For the half-year ended 31 December | 2014 $000 | 2013 $000 |
|---|---|---|
| Opening balance | 107,878 | 126,024 |
| Estimated net pension contributions | (7,137) | (5,592) |
| Foreign exchange translation loss | 5,940 | 13,815 |
| Estimated actuarial loss | 31,303 | 6 |
| **Closing balance** | 137,984 | 134,253 |

## Note 14. Issued capital

| | As at 31 December 2014 $000 | As at 30 June 2014 $000 |
|---|---|---|
| **Issued capital** | | |
| Issued and paid-up share capital - 665,181,261 ordinary shares (June 2014: 665,181,261) | 1,895,739 | 1,895,739 |
| **Total issued capital** | 1,895,739 | 1,895,739 |

### Options

At the reporting date, there are 47,061,100 (December 2013: 35,075,200) unissued shares of the Company which are under option whose exercise is subject to the satisfaction of the terms of the option agreements. The movement in options on issue during the reporting period are as follows:

| For the half-year ended 31 December | 2014 number | 2013 number |
|---|---|---|
| Outstanding at the beginning of the period | 41,075,200 | 75,200 |
| Lapsed during the period | (14,100) | - |
| Granted during the period | 6,000,000 | 35,000,000 |
| **Outstanding at the end of the period** | 47,061,100 | 35,075,200 |

### Rights

At the reporting date, there are 16,048,233 (December 2013: 7,214,963) rights to potentially acquire fully paid ordinary shares in the Company. The movement in the rights on issue during the reporting period are as follows:

| For the half-year ended 31 December | 2014 number | 2013 number |
|---|---|---|
| Outstanding at the beginning of the period | 16,920,618 | 7,854,993 |
| Lapsed during the period | - | (1,401,209) |
| Cancelled during the period | (872,385) | - |
| Granted during the period | - | 761,179 |
| **Outstanding at the end of the period** | 16,048,233 | 7,214,963 |

## Note 15. Reconciliation of cash flows from operating activities

| For the half-year ended 31 December | Note | 2014 $000 | 2013 $000 |
|---|---|---|---|
| **Reconciliation of loss after tax to net cash from operating activities** | | | |
| **Loss for the period** | | (90,804) | (28,441) |
| Add back non-cash items: | | | |
| • Depreciation and amortisation of property, plant, equipment and intangibles | | 5,365 | 5,587 |
| • Impairment charges - property, plant, equipment and intangibles | 6 | 62,995 | - |
| • Loss on disposal of controlled entities | 6 | 501 | 98 |
| • Profit on disposal of property, plant and equipment | | (956) | (116) |
| • Employee share based payments expense | | 276 | 251 |
| • Amortisation of capitalised borrowing costs | | 311 | 376 |
| Add back other items classified as investing/financing: | | - | |
| • Borrowing costs expensed | | 1,349 | 958 |
| (Increase)/decrease in trade and other receivables | | (216) | 15,372 |
| Decrease in inventories | | 9,975 | 4,244 |
| Decrease in trade and other payables | | (23,645) | (19,028) |
| Decrease in provisions and employee benefits | | (19,966) | (13,078) |
| Decrease in current and deferred taxes | | 813 | 3,872 |
| Decrease in other non-current liabilities | | (24) | - |
| **Net cash used in operating activities** | | (54,026) | (29,905) |

**Reconciliation of cash**

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank and short-term money market investments, net of outstanding bank overdrafts.
Cash as at 31 December as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

| | | 2014 $000 | 2013 $000 |
|---|---|---|---|
| Cash and cash equivalents | | 85,932 | 105,817 |
| Bank overdrafts | | - | (94) |
| | | 85,932 | 105,723 |

## Note 16. Contingent liabilities

| | As at 31 December 2014 $000 | As at 30 June 2014 $000 |
|---|---|---|
| Contingent liabilities arising in respect of related bodies corporate: | | |
| • Bank guarantees (trade) | 4,489 | 4,353 |
| • Other guarantees | 3,472 | 3,249 |
| • Other | 410 | 437 |
| **Total contingent liabilities** | 8,371 | 8,039 |

The bank guarantees (trade), the beneficiaries of which are third parties, are primarily in relation to rental leases.

Other guarantees, the beneficiaries of which are government departments, are bank guarantees in relation to the specific requirement of self-insurance licences for workers' compensation in Australia.

Under the terms of the ASIC Class Order 98/1418 dated 13 August 1998 (as amended) the Company and certain subsidiaries have entered into approved deeds for the cross guarantee of liabilities.

The Consolidated Entity has given certain warranties and indemnities to the purchasers of the USA, Italy, Hungary, Slovenia, Serbia, Croatia and Slovakia operations. Warranties have been given in relation to matters including the sale of assets, taxes, people, legal, environmental and intellectual property. Indemnities have also been given in relation to matters including legal and employee claims and pre-completion taxes. Where it is not possible to quantify the potential financial obligation (if any) of the Consolidated Entity for future claims under these indemnities, no amounts have been disclosed.

There are a number of legal claims and exposures which arise from the ordinary course of business. There is significant uncertainty as to whether a future liability will arise in respect to these items. The amount of the liability, if any, which may arise cannot be reliably measured at this time.

## Note 17. PaperlinX Step-up Preference Securities

The PaperlinX SPS Trust was established for the purpose of issuing a new security called PaperlinX Step-up Preference Securities ("PSPS"). The PSPS are perpetual, preferred units in the PaperlinX SPS Trust and on 30 March 2007, 2,850,000 PSPS were issued at an issue price of $100 per security, raising $285 million. The PSPS are listed on the ASX under 'PXUPA'.

The PSPS are recorded in equity, net of PSPS acquired by the Company as part of an off-market takeover offer (which closed on 28 February 2014), based on the terms and conditions attached thereto, and are measured as the proceeds received on issue net of the issue costs.

## Note 18. Events subsequent to balance date

**Dividends on the Company's ordinary shares**

No interim dividend has been declared for the period ended 31 December 2014 - refer Note 9.

**Sale of Spicers Canada**

On 11 February 2015, the Company announced that it had entered into an agreement to sell its Canadian operations (Spicers Canada) to Central National-Gottesman Inc. (CNG). The sale is subject to a post-completion working capital adjustment. On completion, the balance in the Foreign Currency Translation Reserve in the Consolidated Entity's accounts relating to the Canadian operations will be reclassified to profit or loss. An estimated loss of $25 million (based on December 2014 AUD:CAD exchange rates) will be reported as a significant item in the 30 June 2015 full year results.

As the sale was announced post balance date, the Merchanting Canada segment has been treated as continuing for the purposes of the condensed consolidated interim financial statements but, following completion, will be restated as discontinued in the full year consolidated financial statements.

**PaperlinX management changes**

On 18 February 2015, the Company announced that the employment contract of Mr A Price (Managing Director and Chief Executive Officer) that was due to expire in April 2015 had been terminated effective immediately. The Company's Chairman, Mr R Kaye SC assumed the role of Executive Chairman, pending the appointment of a new Chief Executive Officer.

On 24 February 2015, the Company announced that Mr A Preece had been appointed as Managing Director and Chief Executive Officer.

**Agreement reached with lenders**

In February 2015, a waiver was granted by the main lender in Europe for breaches of the net worth and gearing level covenants as at 31 December 2014 (refer Notes 2 and 12).

Other than the above, there have been no events subsequent to 31 December 2014 which would have a material effect on the condensed consolidated interim financial report of the Consolidated Entity at 31 December 2014.

# DIRECTORS' DECLARATION

In the opinion of the Directors of PaperlinX Limited ("the Company"):

1 The condensed consolidated financial statements and notes set out on pages 5 to 19 are in accordance with the Corporations Act 2001, including:

- Giving a true and fair view of the financial position of the Consolidated Entity as at 31 December 2014 and of its performance for the half-year ended on that date; and

- Complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

2 There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors draw attention to Note 2 on page 10 regarding the going concern basis of preparation of the interim financial report and the status of the Consolidated Entity's strategic review, financing arrangements and trading environment.

In accordance with a resolution of the Directors, dated at Melbourne, this 27th day of February 2015.

Signed in accordance with a resolution of the Directors:

| | |
|---|---|
| Robert Kaye SC | Michael Barker |
| **Chairman** | **Director** |

KPMG

**Independent auditor's review report to the members of PaperlinX Limited**

We have reviewed the accompanying interim financial report of PaperlinX Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2014, condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the interim period ended on that date, notes 1 to 18 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the interim period.

*Directors' responsibility for the interim financial report*

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

*Auditor's responsibility*

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2014 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of PaperlinX Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of PaperlinX Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance for the interim period ended on that date; and
b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*Material uncertainty regarding the ability of the Group to continue as a going concern*

Without modification to the conclusion set out above, we draw attention to note 2 in the interim financial report regarding the going concern basis of preparation of the interim financial report and the status of the Group's strategic review, financing arrangements and trading environment. There are uncertainties in relation to the ability of the Group to execute a sale or restructure of its European operations (including the resolution of legal and commercial issues relating to material pension plan obligations), meet its operational cash requirements in certain jurisdictions, complete the Canadian sale, remain within the requirements of the existing debt facilities and renegotiate the covenants and extend the term of its main facility in Europe. The matters set out in note 2 indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Group to continue to operate as a going concern, and therefore whether it will realise its assets and extinguish its liabilities at the amounts stated in the interim financial report.

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Penny A Stragalinos
*Partner*
Melbourne 27 February 2015