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ASX RELEASE

STRATEGIC REVIEW

PaperlinX Limited ("PaperlinX") today announced a range of initiatives marking the conclusion of its Strategic Review. The key aspects of today's announcement are:

- PaperlinX has entered into an agreement to divest its US operations of Spicers USA and Kelly Paper for US\$76m;
- The EU competition authorities have cleared the previously announced €45m sale of PaperlinX's Italian operation;
- PaperlinX is implementing an internal loan restructure which will reduce future FX risk and allow the close-out of an in-the-money currency option to realise cash of A\$39 million;
- European restructuring has been accelerated and expanded in scope, with ongoing expected benefits of A\$68m by the end of FY14 and total costs expected to be A\$43m;
- Proceeds from asset sales and close-out of the currency option to be used to reduce debt, fund restructuring, provide liquidity and enable refinancing;
- PaperlinX SPS will Step-Up on the 30 June 2012 Remarketing Date; no distribution will be paid on the 30 June 2012; and
- PaperlinX expects to report a loss in continuing operations before restructuring costs of approximately A\$38m and a total reported loss after tax of A\$171m, after taking into account restructuring, impairments, a currency option benefit and losses booked on the sale of Italy and the US.

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PaperlinX's Chairman, Harry Boon said "The Strategic Review Process focussed on reducing costs, strengthening the group's financial position and creating a sustainably profitable business. Critical to this was the need to raise funds from the disposition of assets."

"The initiatives announced today, in conjunction with the restructuring plan, are expected to provide a significantly lower operating cost base, substantially improve operating liquidity, and provide a platform for a return to operating profitability after the restructure is completed. As a consequence of today's announcements, PaperlinX is no longer in discussions with any third parties in relation to a whole of company proposal."

A BROAD-BASED MATERIAL SUPPLY BUSINESS

The core of the PaperlinX business has been the supply of paper to commercial printers. Over the last three years, this sector has seen market declines of 20% to 40% driven by both macroeconomic and industry specific factors – notably the increased use of electronic media in business communication. Paper demand is expected to continue to decline by approximately 3-5% p.a. in most of the markets that PaperlinX serves for the foreseeable future. Recalibrating the cost base of PaperlinX to match this declining market has therefore been a priority of the Strategic Review, along with the generation of cash to reduce debt, fund restructuring and enable a more appropriate capital structure.

In addition to having a lower cost base, a critical element of the future business model is leveraging PaperlinX's existing logistics capability and customer relationships in its core business to sell a broader range of non-paper products. The two main categories of non-paper products are Packaging and Sign & Display, covering a diverse range of materials that are used by both existing and new customers. These products, known to PaperlinX as Diversified Products, offer growth opportunities and higher margins than paper.

Over the past few years, Diversified Products have grown steadily to now account for some 17% of PaperlinX's total revenue and 23% of total gross profit. This change and growth strategy will result in PaperlinX becoming a broad-based material supply company. The future strategy for the PaperlinX group therefore must be to reduce substantially the costs to service the core paper merchandising activities while simultaneously driving incremental growth and margin from these Diversified Products.

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SALE OF ITALIAN AND US OPERATIONS

In March 2012, PaperlinX announced the €45m sale to Lecta of its Italian operation, which has a forecast FY12 EBITDA of €2.2m. The EU competition authorities have now cleared this sale. At that time, potential further asset sales were foreshadowed, and PaperlinX has entered an agreement for the sale of its US operations, comprising Spicers USA and Kelly Paper. The sale to Central National-Gottesman Inc. (CNG) for US \$76m is equivalent to a multiple of approximately 7.5 times forecast 2012 EBITDA.

Both the sale of the Italian and of the US operations are expected to take effect at the end of June 2012, with net proceeds of approximately A\$54m expected in early July.

PaperlinX will retain its Spicers operation in Canada, which supplies paper and diversified products across the country. Spicers Canada has annual revenues of C\$450m and a national market share of approximately 27%.

RE-DOMICILE OF INTERCOMPANY LOAN

Since 2007, the Company has used various financial instruments to protect against exchange rate movements between the £/A\$. The purpose was to mitigate substantial exchange rate volatility in an Australian currency intercompany borrowing by its UK subsidiary, as well as to protect a European banking covenant against movements in the £/A\$ exchange rate. The current option instrument was to expire in late June 2012.

This intercompany loan was established in 2007 as part of the SPS Hybrid financing structure. It has been re-domiciled from a UK subsidiary to an Australian group company, the effect of which is to remove the exchange rate risk and the need for future exchange rate protection. As a consequence, PaperlinX has closed out the existing currency option instrument and realised the cash proceeds of approximately A\$39m. The repayment and restructuring of intercompany debt in conjunction with the re-domiciling of the intercompany loan will provide additional banking covenant headroom in Europe and a reduced interest rate margin on borrowings, and is expected to provide opportunities for improved financing arrangements and margins in Europe.

RESTRUCTURING UPDATE

At the time of the first half results presentation in February 2012 we advised that the restructuring programme that commenced in FY11 with a charge of A\$14m would be substantially expanded, with further charges in FY12 and FY13 of A\$18m and A\$9m respectively, for a total cost of A\$41m. We also advised that restructuring benefits of \$61m were expected to flow at the rate of \$11m in FY12, a further \$32m in FY13 and a further \$18m in FY14.

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The continued deterioration in market conditions has led to a further acceleration and expansion of these restructuring plans. The total cost of the restructuring will now be \$43m with expected ongoing benefits of \$68m by the end of FY14. The majority of the restructuring savings will come from a reduction in headcount in the continuing businesses (excluding the Italian and US operations) from 5,435 on 1 July 2010 to approximately 4,500 by the end of FY14. Redundancies, predominantly in Europe, will be funded with proceeds from the previously mentioned asset sales.

The Board will continue to seek further opportunities for restructuring savings to reduce costs where revenues and margins continue to be under pressure in challenging markets.

USE OF PROCEEDS

Net cash proceeds from asset sales and the close out of the currency option are to be used to fund the restructure programme, reduce European debt and to provide liquidity.

Source of Funds

	Gross Proceeds	Repayment of Debt & Transaction costs	Net Proceeds
Sale of Italy	€45m	€32m	€13m
Sale of US	US\$76m	US\$38m	US\$38m
FX Option			A\$39m
Equivalent in A\$			A\$93m

Use of Funds

Restructure	A\$34m
Debt reduction	A\$20m
Working capital requirements - Europe	A\$ 23m
Working capital requirements – Australia	A\$10m
Transaction proceeds and other amounts held in escrow	A\$6m
	A\$93m

PAPERLINX SPS UPDATE

PaperlinX's capital structure has been a central issue in the Strategic Review. PaperlinX confirms that on the 30 June 2012 Remarketing Date, the PPX SPS will Step-Up and the Step-Up Margin (BBSW + 4.65%) will apply. No distribution will be paid on 30 June 2012.

The Directors will review whether the additional liquidity provided by the asset sales may enable a limited buy-back of the SPS at a future time. The availability of funds for this purpose is not expected to be substantial and a further ASX release would precede any on-market buy back.

IMPACT ON FY2012 RESULT

The FY12 result will be significantly impacted by the difficult trading conditions experienced in the second half of FY12, which are expected to give rise to a Underlying EBIT loss of approximately \$15m (before restructuring costs, impairments, losses on asset divestments and the currency option benefit).

The FY12 result will include the pre-tax impacts of restructuring costs of approximately \$26m, impairment charges of \$42m reported in the first half, a \$4m benefit from the currency option and the loss on sale of the US and Italy operations referred to above of \$59m (see NOTE). As a result, the Company is expected to report a full year loss before interest and taxation of approximately \$138m. With expected interest charges of approximately \$19m and tax charges of approximately \$14m, reported losses after tax for FY12 are expected to be approximately \$171m.

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NOTE: While the sale of the US and Italian operations have been transacted at attractive multiples of earnings and above Net Tangible Asset value (see SALE OF ITALIAN AND US OPERATIONS above), the sale values are below the asset carrying values due to goodwill at the time of original acquisition and today's stronger A\$. The loss against the carrying value of net assets for the Italian business is €5m and for the US is US\$21m. In addition, the Foreign Currency Translation Reserve (FCTR) in the Company's accounts includes a loss of A\$1m for Italy and a loss of A\$31m for the US, reflecting the substantially stronger A\$ today compared with when the assets were acquired.

Although these FCTR effects were previously accounted for in the Company's net equity, the accounting standard on disposal of an asset requires these amounts to be transferred from the FCTR to the profit and loss account. The overall effect is no change to net equity but a loss in the profit and loss account of A\$32m which increases the total impact of the asset sales on the result for the six months ending 30 June 2012 to negative A\$59m.

For further information, please contact:

James Orr
 Executive General Manager
 Corporate Affairs
 PaperlinX Limited
 Phone : +61 (3) 9764 7319

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