

CROSS RELEASE PXUPA

ASX RELEASE

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PAPERLINX LIMITED TO MAKE TAKEOVER OFFER FOR PAPERLINX STEP-UP PREFERENCE SECURITIES (HYBRIDS)

- Off-market scrip offer of 250 PaperlinX ordinary shares for each Hybrid security
- Implied Offer price of \$14.00 per Hybrid¹, representing a 16.7 per cent premium to the last closing price, 57.5 per cent premium to the 90-day VWAP and 72.8 per cent premium to the last closing price prior to the initial announcement made on 21 August 2013 in relation to a potential transaction
- No minimum acceptance condition to the Offer

PaperlinX Limited (“**PaperlinX**”, or the “**Company**”) intends to make a conditional, off-market, scrip takeover offer for all of the issued PaperlinX Step-Up Preference Securities (“**Hybrids**”) in the PaperlinX SPS Trust (the “**Offer**”).

The consideration under the Offer will be 250 PaperlinX ordinary shares for each Hybrid on issue which implies a price of \$14.00 per Hybrid based on the last closing price of PaperlinX ordinary shares. Full acceptance of the Offer would result in existing Hybrid security holders owning approximately 54 per cent of the equity in the pro forma capital structure.

The Offer will be subject to a minimal number of conditions, many of which are customary in a change of control situation. There is no minimum acceptance condition attached to the Offer. Details of the proposed Offer conditions are set out in the annexure to this statement.

Background

Having considered a number of alternatives in relation to the Hybrids, the PaperlinX Board of Directors (“**Board**”) has informed The Trust Company, the responsible entity of the PaperlinX SPS Trust, of its intentions to make the Offer.

The inter-relationship between the Company and the PaperlinX SPS Trust is complex, and has evolved into a dynamic that was unlikely to have been anticipated at the time the Hybrids were initially issued. The considerable diminution in value and operating conditions that the Company has experienced over the past 5 financial years has contributed to a 98.5 per cent decline in the ordinary equity value

¹ Based on last closing price of PaperlinX ordinary shares as at 17 October 2013

since the Hybrids were issued on 30 March 2007, and a 88.0 per cent decline in the value of the Hybrids over the same period.

The entire Board and senior management of the Company has changed since the Hybrids were issued. As part of the turnaround initiative, the current Board has resolved to simplify the Company's capital structure, which it views as fundamental in assisting the operational recovery.

In formulating the Offer, the Board has considered the relative market value of the Hybrids and the PaperlinX ordinary shares in addition to the value enhancement that an Offer would promote for both the PaperlinX ordinary shareholders and existing Hybrid security holders.

Benefits of the Offer

1. Significant premium to market price

- The implied Offer price of \$14.00 per Hybrid² represents:
 - i. A 16.7 per cent premium to the last closing price;
 - ii. A 72.8 per cent premium to the last closing price prior to the initial announcement made on 21 August 2013 in relation to a potential transaction;
 - iii. A 29.0 per cent premium to the 30-day volume-weighted average Hybrid price; and
 - iv. A 57.5 per cent premium to the 90-day volume-weighted average Hybrid price.

2. More transparent value proposition for Hybrid security holders

- The current value proposition of the Hybrids is impacted by the complex inter-relationship with PaperlinX ordinary shares and the uncertainty surrounding Realisation (as defined in the Hybrids Product Disclosure Statement). A material reduction or removal of this complexity and uncertainty resulting from acceptance of the Offer may create a more transparent value proposition

3. Enhanced terms of trade for the Company stemming from improved confidence among key stakeholders

- The uncertainty and complexity resulting from the Hybrids, combined with the current trading performance of PaperlinX, typically leads to a more negative counterparty / credit assessment of the Company by key stakeholders, including customers, suppliers, employees and financiers. A material reduction or removal of the Hybrids may lead to an improvement in the Company's terms of trade thereby assisting in its turnaround

4. Enhanced access to capital for the Company to accelerate turnaround initiatives

- The Company continually assesses strategic and operational initiatives, including bolt-on acquisitions and further significant cost base restructuring, some of which require additional capital. The removal or

² Based on last closing price of PaperlinX ordinary shares as at 17 October 2013

reduction of the Hybrids may improve the Company's access to additional debt and equity capital to pursue these initiatives

5. Improved dividend / distribution prospects

- In accepting the Offer, and on the assumption that all or substantially all Hybrid security holders accept the Offer, existing Hybrid security holders may receive cash flow in the form of dividend payments to equity holders more quickly than if the status quo is maintained

Implications of non-acceptance of the Offer

To the extent that Hybrid security holders do not elect to take up the Offer there are some considerable value implications for the Hybrids, and concerns for the Company and its turnaround initiatives, notably:

1. Company is unlikely to elect a Realisation of the Hybrids

- The Company is unlikely to elect a Realisation of the Hybrids, which leads to the possibility that Hybrids remain a perpetual instrument with limited prospect of receiving any coupons or cash flow for the foreseeable future. This represents a very uncertain value proposition for Hybrid security holders

2. The complex Realisation mechanics of the Hybrids may materially destabilise the Company

- If Hybrid security holders do not accept the Offer but instead pursue amendments to the terms and/or a Realisation of the Hybrids, this may lead to a protracted legal process since:
 - i. PaperlinX would be unable to Realise the Hybrids for cash owing to funding constraints; and
 - ii. PaperlinX would also likely be unable to Realise the Hybrids for scrip due to:
 1. The aggregate number of shares required to be issued would be greater than 15 per cent of the share capital currently on issue
 2. To issue greater than 15 per cent of the share capital currently on issue would require PaperlinX ordinary shareholder approval
 3. Shareholder approval is unlikely given this would dilute existing PaperlinX ordinary shareholders to approximately 10 per cent of the pro forma shares on issue based on the current PaperlinX share price
- A protracted legal process and challenge is likely to materially disrupt and undermine the Company's operations and stakeholder and financier confidence
- In the event of a protracted legal process and challenge, the Company may suffer further destabilisation stemming from the potential loss of senior executives, and the ability to find suitable replacements may be challenging under these conditions

3. Risk of becoming a minority Hybrid security holder

- If PaperlinX gains a majority holding in the Hybrid securities (but is not entitled to compulsorily acquire the remaining Hybrids), those Hybrid security holders who do not accept the Offer will become minority security holders with potentially less influence over the future direction and control of the PaperlinX SPS Trust

Proposed amendments to the PaperlinX SPS Trust constitution

PaperlinX notes the announcement made by The Trust Company, as responsible entity of the PaperlinX SPS Trust, on 1 October 2013 in relation to a request received from 5 Hybrid security holders to amend the constitution of the PaperlinX SPS Trust.

The proposed amendments adversely affect the interests of PaperlinX as they relate to removing PaperlinX's right to determine the Realisation Method (as defined in the Hybrids Product Disclosure Statement) of the Hybrids, and the Company intends to object to them in accordance with its rights under the PaperlinX SPS Trust constitution.

Advisers

PaperlinX is being advised by Moelis & Company as financial adviser and Baker & McKenzie as legal adviser.

Next steps

Detailed information in relation to the Offer will be set out in a Bidder's Statement to be lodged with the Australian Securities and Investments Commission (ASIC) and provided to The Trust Company as responsible entity for the PaperlinX SPS Trust and the Australian Securities Exchange (ASX) shortly. PaperlinX expects to dispatch the Bidder's Statement to Hybrid security holders approximately two weeks after it is provided to The Trust Company.

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ANNEXURE

1. Proposed Offer conditions

1.1 Tax ruling

PaperlinX obtains a favourable ruling from the Australian Taxation Office confirming that the acceptance of the Offer should not impact the Australian tax losses of the group and that there should not be any assessable gain as a result of PaperlinX acquiring all the PaperlinX SPS Trust Units.

1.2 No Target Material Adverse Change

Between the Announcement Date and the end of the Offer Period (each inclusive), no Target Material Adverse Change occurs.

1.3 No Prescribed Occurrence

Between the Announcement Date and the end of the Offer Period (each inclusive) none of the following occur without the prior written approval of PaperlinX:

- (a) the RE, as responsible entity of PaperlinX SPS Trust, converts all or any of the PaperlinX SPS Trust Units into a larger or smaller number;
- (b) the RE, as responsible entity of PaperlinX SPS Trust, resolves to reduce the PaperlinX SPS Trust capital in any way or reclassifies, combines, splits, redeems or repurchases, directly or indirectly, any of PaperlinX SPS Trust Units;
- (c) the RE, as responsible entity of PaperlinX SPS Trust:
 - (i) enters into a buy-back agreement; or
 - (ii) resolves to approve the terms of a buy-back agreement under the Corporations Act;
- (d) the RE, as responsible entity of PaperlinX SPS Trust, issues PaperlinX SPS Trust Units, securities or other instruments convertible into PaperlinX SPS Trust Units, grants an option over its Units, or agrees to make such an issue or grant such an option;
- (e) an Insolvency Event occurs in relation to PaperlinX SPS Trust;
- (f) the RE, as responsible entity of PaperlinX SPS Trust, disposes or agrees to dispose of, the whole, or a substantial part, of the business or property of PaperlinX SPS Trust; or
- (g) the RE, as responsible entity of PaperlinX SPS Trust, charges, or agrees to charge, the whole, or a substantial part, of its business or property of PaperlinX SPS Trust.

2. Definitions

Announcement Date means 18 October 2013.

ASIC means the Australian Securities and Investments Commission.

Controller has the meaning given in section 9 of the Corporations Act.

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Corporations Act means the *Corporations Act 2001 (Cth)*.

Insolvency Event means:

- (a) process is filed in a court seeking an order that it be wound up or that a Controller be appointed to it or any of its assets, unless the application is withdrawn, struck out or dismissed within seven days of it being filed;
- (b) an order is made that it be wound up or that a Controller be appointed to it or any of its assets;
- (c) a resolution that it be wound up is passed or proposed;
- (d) a liquidator, provisional liquidator, Controller or any similar official is appointed to, or takes possession or control of, all or any of its assets or undertaking;
- (e) an administrator is appointed to it, a resolution that an administrator be appointed to it is passed or proposed, or any other steps are taken to appoint an administrator to it;
- (f) it enters into, or resolves to enter into, an arrangement, compromise or composition with any of, or any class of, its creditors or members, or an assignment for the benefit of any of, or any class of, its creditors, or process is filed in a court seeking approval of any such arrangement, compromise or composition;
- (g) a reorganisation, moratorium, deed of company arrangement or other administration involving one or more of its creditors is proposed or effected;
- (h) any action is taken by ASIC with a view to its deregistration or its dissolution, or an application is made to ASIC that any such action be taken;
- (i) it is insolvent within the meaning of section 95A of the Corporations Act, as disclosed in its accounts or otherwise, states that it is unable to pay its debts or is presumed to be insolvent under any applicable law;
- (j) as a result of the operation of section 459F(1) of the Corporations Act, it is taken to have failed to comply with a statutory demand;
- (k) it stops or suspends or threatens to stop or suspend the payment of all or a class of its debts or the conduct of all or a substantial part of its business;
- (l) any event or circumstance set out in section 461 of the Corporations Act occurs in relation to it; or
- (m) anything having a substantially similar effect to any of the events specified in paragraphs (a) to (l) inclusive happens to it under the law of any jurisdiction.

Offer means the offer to be made by PaperlinX to acquire all of the PaperlinX SPS Trust Units.

Offer Period means the period during which the Offer will remain open for acceptance.

PaperlinX means PaperlinX Limited (ABN 70 005 146 350).

PaperlinX SPS Trust means PaperlinX SPS Trust (ARSN 123 839 814).

PaperlinX SPS Trust Units means step-up preference units in PaperlinX SPS Trust.

RE means The Trust Company (RE Services) Limited (ABN 45 003 278 831) as responsible entity of PaperlinX SPS Trust.

Target Material Adverse Change means one or more occurrences or any fact, matter or circumstance (whenever occurring or reasonably likely to occur) that is announced or becomes known to PaperlinX that individually, or when aggregated with all such occurrences, facts, matters or circumstances, has had or is reasonably likely to, a material adverse effect on the business, assets, liabilities, financial or trading position, profitability or prospects of PaperlinX SPS Trust taken as a whole.

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