APPENDIX 4D

Interim Financial Report for the half-year ended 31 December 2021

Pro-Pac Packaging Limited

ABN 36 112 971 874

Half-year ended ('Reporting Period')	Half-year ended ('Previous Corresponding Period')
31 December 2021	**31 December 2020**

Results for announcement to the market		%		$'000
Revenue from ordinary activities	Up	4%	to	244,689
Net profit from ordinary activities after tax	Down	98%	to	128
Net profit for the period attributable to shareholders	Down	98%	to	128

Dividends / Distributions	Amount per security	Franked amount per security	Total dividend amount $'000
Current half-year to 31 December 2021			
Interim dividend (per ordinary share)	0.0 ¢	0.0 ¢	-
Final dividend for year ended 30 June 2021*	3.0 ¢	3.0 ¢	2,431
Prior half-year to 31 December 2020			
Interim dividend (per ordinary share)*	2.5 ¢	2.5 ¢	2,027
Final dividend for year ended 30 June 2020*	4.0 ¢	4.0 ¢	3,237

Net tangible assets	Reporting Period	Previous Corresponding Period
Net tangible asset backing per ordinary security*	$0.26	$0.29

* During the half-year ended 31 December 2021, the Company completed a consolidation of the shares on issue on the basis of one ordinary share for every ten ordinary shares. Where the consolidation resulted in a fraction of a share or performance right being held, the Company rounded that fraction down to the nearest whole share or performance right (as the case may be). Accordingly, the disclosure of dividend per share and net tangible assets per share has been restated by making an adjustment to the number of shares on issue for the period prior to the share consolidation.

For profit commentary and any other significant information needed by an investor to make an informed assessment of the financial results of Pro-Pac Packaging Limited, please refer to the accompanying Interim Financial Report.

Kathleen Forbes
Company Secretary

Dated: 25 February 2022

Pro-Pac Packaging

Pro-Pac Packaging Ltd
ABN 36 113 971 874

INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

CONTENTS

DIRECTORS' REPORT

The Directors present their report on Pro-Pac Packaging Limited (the **Company**) and the entities it controlled (the **Group**) during the half-year ended 31 December 2021.

DIRECTORS

The Directors in office during the half-year and up to the date of this report are:

Jonathan Ling (Non-Executive Chair)
Rupert Harrington (Non-Executive Director)
Darren Brown (Non-Executive Director)
Marina Go (Non-Executive Director, Resigned 23 November 2021)
Leonie Valentine (Non-Executive Director)
Tim Welsh (Managing Director & Chief Executive Officer)

PRINCIPAL ACTIVITIES

The principal activities of the Group are the manufacture and distribution of flexible, industrial specialty and rigid packaging products.

There have been no significant changes in the nature of these activities during the half-year ended 31 December 2021.

OPERATING AND FINANCIAL REVIEW

To assist in the evaluation of the financial performance of the Group, certain measures are used that are not recognised under the Australian Accounting Standards or International Financial Reporting Standards (**IFRS**) and therefore, these are considered to be non-IFRS measures.

Non-IFRS measures

This report includes the following non-IFRS measures:

- PBT represents profit/(loss) before income taxes and significant items;
- EBIT represents PBT before finance costs and interest income;
- EBITDA represents EBIT before depreciation and amortisation;
- Adjusted LTM EBITDA means EBITDA before AASB 16 *Leases* for the last 12-months, adjusted for material acquisitions or disposals;
- Significant items are identified as favourable or unfavourable transactions which are outside of normal operating activities and are excluded from the segment results presented to the chief operating decision-maker for the purpose of resource allocation and assessment of segment performance;
- Working capital represents trade and other receivables, deposits, prepayments and inventories, less trade and other payables;
- Net debt is calculated as borrowings, less cash and cash equivalents; and
- Gearing is calculated as net debt divided by Adjusted LTM EBITDA for the last 12-months EBITDA.

Although the Board of Directors believe that these measures provide useful information about the financial position and performance of the Group, they should be considered to be supplementary to the interim consolidated statement of comprehensive income and interim consolidated statement of financial position presented in accordance with Accounting Standards. As these non-IFRS measures are not defined in the Accounting Standards, the way the Group may calculate these measures may differ from similarly titled measures used by other companies.

Financial performance

	31 December 2021 $'000	31 December 2020 $'000	Change
Revenue	244,689	234,369	4.4%
Expenses	(227,463)	(208,967)	8.9%
EBITDA	**17,226**	**25,402**	**(32.2)%**
EBITDA margin	*7.0%*	*10.8%*	*(380)bps*
Depreciation and amortisation	(9,651)	(10,197)	(5.4)%
EBIT	**7,575**	**15,205**	**(50.2)%**
EBIT margin	*3.1%*	*6.5%*	*(339)bps*
Finance costs, net	(3,358)	(3,519)	(4.6)%
PBT	**4,217**	**11,686**	**(63.9)%**
PBT margin	*1.7%*	*5.0%*	*(326)bps*
Significant items	(4,033)	(2,845)	41.8%
Profit before income tax	**184**	**8,841**	**(97.9)%**
Income tax expense	(56)	(2,655)	(97.9)%
Profit after income tax	**128**	**6,186**	**(97.9)%**

Revenue

Revenue was up by $10.3M at $244.7M (2020: $234.4M) compared to the previous comparative period (**pcp**). This was due to stronger demand in Flexibles and Industrial Speciality, offset by the continued re-basing of Rigid revenues post the peak of pandemic demand.

PBT

PBT was down by $7.5M at $4.2M (2020: $11.7M) with the PBT margin decreasing to 1.7% (2020: 5.0%). This was primarily due to the impacts of challenging market conditions including cost price inflation and COVID-19, which impacted the Flexibles business specifically. These included:

- Global supply chain disruptions: container freight and resin supply have been constrained, which has in turn led to significant increases in cost and increased stocks holdings. The rapid and significant resin inflation related not only to global supply chain disruptions but was also due to extreme weather events in the US during 2021 that restricted global supply, as well as higher general global demand for polyethylene products. The Group has introduced a freight surcharge to address increased freight charges. Price increases continue to be progressively and routinely implemented across our business units in response to increased resin costs, but there has been a lag in the timing to recover these costs. Global shipping delays are making the timing of deliveries unpredictable and extending our cash conversion cycle, particularly in the Industrial Specialty Packaging business;

- Site disruptions: COVID-19 site disruptions and stoppages, closures across Victorian sites following storms and commissioning issues in relocating of key assets from the Chester Hill site all contributed to production backlogs, which delayed the introduction and impact of certain price increases; and

- Labour shortages: There were five instances of site closures due to either a positive test or as a consequence of being a close contact to someone who had tested positive to COVID-19.

Significant items

Pre-tax significant items for the half-year were a net expense of $4.0M (2020: $2.8M), which included:

- Chester Hill closure program costs of $1.2M (2020: $0.9M) relating to the relocation of production from the Chester Hill facility in New South Wales, where manufacturing is being consolidated into existing sites, and the Chester Hill facility has been exited during the half-year;

- Integration, transformation and restructuring costs of $2.7M (2020: $0.4M) relating to business restructuring, transaction costs and business optimisation across the Group;

- Indemnifiable losses of $0.1M (2020: $1.3M) arose due to incremental costs from the fire at the manufacturing facility in Kewdale, Western Australia in June 2019 and the insurance claim was finalised with the insurer in September 2021; and

- Litigation costs of $0.1M (2020: $0.3M) incurred to protect the intellectual property rights of the Group.

Balance sheet

	31 December 2021 $'000	30 June 2021 $'000	Change
Current assets	194,399	168,138	15.6%
Non-current assets	197,407	194,737	1.4%
Total assets	**391,806**	**362,875**	**8.0%**
Current liabilities	132,551	112,086	18.3%
Non-current liabilities	115,535	105,835	9.2%
Total liabilities	**248,086**	**217,921**	**13.8%**
Net assets	**143,720**	**144,954**	**(0.9)%**
Working capital	103,554	81,390	27.2%
Net debt	82,066	51,016	60.9%
Gearing	3.3x	2.0x	1.8x

Working capital increased due to additional holdings of inventory to minimise manufacturing disruptions as a result of Global supply chain delays. Receivables also increased, in part attributable to the usual seasonal nature of the group's supply to customers in the agricultural sector, and in part (circa $10M) due to a significant increase in Source & Sell sales growth, with export delays extending the cash conversion cycle for this Industrial business.

Net debt was $82.1M (2021: $51.0M) with gearing at 3.3x (2021: 2.0x). Net debt increased due to lower earnings and the increased working capital.

Due to the factors noted above, gearing levels have temporarily increased. Management expect that initiatives introduced to combat these factors will see the gearing position return to more normalised levels over time.

Cash flows

	31 December 2021 $'000	31 December 2020 $'000	Change
Net cash flows from operating activities	(15,037)	8,881	(269.3)%
Payments for plant and equipment, net of proceeds	(6,394)	(6,334)	0.9%
Payment for intangible assets	(3,088)	(2,006)	53.9%
Payments for businesses, net of cash acquired	(404)	-	100.0%
Payments of dividends	(2,431)	(3,237)	(24.9)%
Proceeds from/(repayments of) borrowings	24,695	(5,487)	550.1%

Net cash flows from operating activities decreased $23.8M on pcp as a result of the increase in working capital and the decreased profitability during the period.

Proceeds of borrowings of $24.7M were utilised to fund the increase in working capital and investments in capital assets and development of the new ERP.

REVIEW OF OPERATING SEGMENTS

Flexibles Packaging

	31 December 2021 $'000	31 December 2020 $'000	Change
Revenue	144,852	135,652	6.8%
PBT	2,875	9,693	(70.3)%
PBT margin	*2.0%*	*7.1%*	*(516)bps*

Revenue grew by $9.2M, $4.0M of which was due to the net impact of the Supreme acquisition and the Integrated Machinery divestment.

During the half-year, the impacts of challenging market conditions have significantly impacted the Flexibles business.

This has resulted in a material decrease in the PBT of the Flexibles business. Price increases and a freight surcharge were introduced in December 2021; however, there has been a lag in cost recovery.

Additional capacity in lamination has been introduced since 31 December 2021 and additional printing capacity is scheduled for commissioning in the second half of the year. The capacity of these assets has been pre-sold. There is also a strong pipeline of revenue demand in the Flexibles business to support increased earnings in the second half of the year.

Flexibles continues to develop and implement strategies to deal with labour shortages, but this remains an ongoing challenge across the market.

Industrial Specialty Packaging

	31 December 2021 $'000	31 December 2020 $'000	Change
Revenue	68,032	62,582	8.7%
PBT	2,387	1,100	117.0%
PBT margin	*3.5%*	*1.8%*	*175bps*

The Industrial business has continued its growth trajectory with:

- Increased revenue, up 9% at $68.0M (2020: $62.6M)
- Significantly increased PBT, up 117% at $2.4M (2020: $1.1M)

Industrial Speciality continues to deliver on its strategy for growth, centered around developing a customer centric value culture based on solutions-oriented partnerships. This result has been achieved despite the Industrial Specialty business being impacted by global shipping and supplier delays, and labour shortages.

Price increases were introduced in November 2021, at the same time as a roll out of a freight surcharge.

Rigid Packaging

	31 December 2021 $'000	31 December 2020 $'000	Change
Revenue	31,805	36,135	(12.0)%
PBT	1,198	3,030	(60.5)%
PBT margin	*3.8%*	*8.4%*	*462bps*

The Rigid business has continued to adjust well to the new COVID-normal, re-basing production levels from peak COVID-19 demand and performing largely in line with expectation:

- Revenue down 12% at $31.8M (2020: $36.1M)
- PBT down 61% at $1.2M (2020: $3.0M)

Following a management and sales team restructure in November 2021, the Rigid business is focussed on converting the extensive new business pipeline. Early new business wins combined with price increases, freight surcharge, and the realisation of cost efficiencies, position this business well for the remainder of the year.

DIVIDENDS

Distributions paid or declared to equity holders of the parent during the half-year ended:

	31 December 2021	
	Cents/ share	$'000
Final dividend for the previous year	0.3	2,431
Dividends declared and paid during the half-year	**0.3**	**2,431**
Proposed but not recognised interim dividend	**-**	**-**

In light of the financial performance during the half-year, ongoing COVID-19 disruptions, and taking a disciplined approach to responsible capital management, the Board has determined not to declare an interim dividend.

DIRECTORS' REPORT

The Board remains committed to rewarding shareholders in line with the performance of the business.

OUTLOOK

With a strong pipeline of demand, the Group is introducing additional capacity in printing and laminating, and a variety of other actions have been taken to alleviate bottleneck issues, which are expected to help improve efficiency, service to customers and top line growth. The Group continues to develop its labour supply strategies to address shortages.

These strategies, together with the relaxation in COVID-19 restrictions leading to a lower anticipated level of site disruption, are expected to provide a material positive impact for the remainder of the year. However, the group expects the operating environment to remain challenging, particularly around labour shortages and shipping delays.

As a result of the above, the Group expects its underlying PBT for the second half of the year to be in the range of $7.8M-$11.8M (2021: $7.1M) and therefore, PBT for the full year to be in the range of $12M-$16M (2021: $18.8M).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the half-year ended 31 December 2021.

SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE

There were no matters or circumstances that have occurred subsequent to balance date that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent years.

ROUNDING

The amounts contained in the Interim Financial Report have been rounded to the nearest $1,000 (where rounding is applicable) where noted ($'000) under the option available to the Company under *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. The Company is an entity to which this Instrument applies.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* for the half-year ended 31 December 2021 has been received and can be found on page 8 of the Interim Financial Report.

This Directors' Report is signed in accordance with a resolution of the Board of Directors pursuant to Section 306(3)(a) of the *Corporations Act 2001*.

Signed in Melbourne on 25 February 2022.

Jonathan Ling
Chairman

Tim Welsh
Managing Director & CEO

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Auditor's Independence Declaration to the Directors of Pro-Pac Packaging Limited

As lead auditor for the review of the interim consolidated financial statements of Pro-Pac Packaging Limited for the half-year ended 31 December 2021, I declare to the best of my knowledge and belief, there have been:

a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review;

b. No contraventions of any applicable code of professional conduct in relation to the review; and

c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the review.

This declaration is in respect of Pro-Pac Packaging Limited and the entities it controlled during the financial period.

Ernst & Young

Kester Brown
Partner
25 February 2022

INTERIM CONSOLIDATED STATEMENT OF **COMPREHENSIVE INCOME**

For the half-year ended	Notes	31 December 2021 $'000	31 December 2020 $'000
Revenue from contracts with customers	4	244,689	234,369
Raw materials and consumables used		(146,136)	(132,341)
Employee benefits expense		(52,544)	(46,649)
Occupancy, distribution, administration and selling expenses		(34,233)	(33,857)
Depreciation and amortisation expense		(9,651)	(10,197)
Other income		1,417	1,035
Interest income		61	46
Finance costs		(3,419)	(3,565)
Profit before income tax		**184**	**8,841**
Income tax expense		(56)	(2,655)
Profit after income tax		**128**	**6,186**
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss in subsequent years (net of income tax):			
Change in fair value of cash flow hedges		219	874
Exchange differences arising on translation of foreign operations		691	(24)
Other comprehensive income/(loss), net of income tax		**910**	**850**
Total comprehensive income		**1,038**	**7,036**
Earnings per share			
EPS (cents) – Basic	6	0.16	7.63
EPS (cents) – Diluted	6	0.16	7.62

The Interim Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at	Notes	31 December 2021 $'000	30 June 2021 $'000
Current assets			
Cash and cash equivalents		1,667	7,884
Trade and other receivables	5	104,659	73,248
Inventories		83,620	78,532
Current tax asset		1,002	450
Derivative financial assets	5	1,220	1,081
Other assets	5	2,231	6,943
Total current assets		**194,399**	**168,138**
Non-current assets			
Property, plant and equipment	3	64,090	58,225
Right-of-use assets		49,126	54,669
Intangible assets	3	73,364	70,859
Deferred tax assets		8,954	8,155
Other assets	5	1,873	2,829
Total non-current assets		**197,407**	**194,737**
Total assets		**391,806**	**362,875**
Current liabilities			
Trade and other payables	5	85,956	73,895
Derivative financial liabilities	5	1,726	1,036
Borrowings	5	18,149	7,500
Lease liabilities		9,361	9,919
Other liabilities		4,349	4,555
Employee entitlements		12,043	12,441
Other provisions	3	967	2,740
Total current liabilities		**132,551**	**112,086**
Non-current liabilities			
Borrowings	5	65,584	51,400
Lease liabilities		46,380	50,736
Employee entitlements		478	613
Other provisions		3,093	3,086
Total non-current liabilities		**115,535**	**105,835**
Total liabilities		**248,086**	**217,921**
Net assets		**143,720**	**144,954**
Equity			
Issued capital	6	291,678	291,678
Reserves		2,875	1,806
Accumulated losses		(150,833)	(148,530)
Total equity		**143,720**	**144,954**

The Interim Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended	Notes	Issued Capital $'000	Accumulated losses $'000	Reserves $'000	Total $'000
Balances as at 1 July 2021		**291,678**	**(148,530)**	**1,806**	**144,954**
Profit after income tax		-	128	-	128
Other comprehensive income, net of income tax		-	-	910	910
Total comprehensive income		**-**	**128**	**910**	**1,038**
Share-based payments expense		-	-	159	159
Dividends paid	8	-	(2,431)	-	(2,431)
Balances as at 31 December 2021		**291,678**	**(150,833)**	**2,875**	**143,720**
Balances as at 1 July 2020		**291,678**	**(151,103)**	**(1,027)**	**139,548**
Profit after income tax		-	6,186	-	6,186
Other comprehensive loss, net of income tax		-	-	850	850
Total comprehensive income		**-**	**6,186**	**850**	**7,036**
Share-based payments expense		-	-	80	80
Dividends paid	8	-	(3,237)	-	(3,237)
Balances as at 31 December 2020		**291,678**	**(148,154)**	**(97)**	**143,427**

The Interim Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended	Notes	31 December 2021 $'000	31 December 2020 $'000
Cash flows from operating activities			
Receipts from customers		213,278	227,984
Payments to suppliers and employees		(224,111)	(214,771)
Income tax paid		(939)	(1,214)
Interest received		16	46
Interest paid		(3,281)	(3,164)
Net cash flows from/(used in) operating activities		**(15,037)**	**8,881**
Cash flows from investing activities			
Payments for property, plant and equipment	3	(6,491)	(6,334)
Proceeds from sale of property, plant and equipment		97	-
Payments for intangible assets	3	(3,088)	(2,006)
Payments for businesses acquired, net of cash acquired	9	(404)	-
Net cash flows used in investing activities		**(9,886)**	**(8,340)**
Cash flows from financing activities			
Repayment of borrowings		(2,638)	(19,201)
Proceeds from borrowings		27,333	18,625
Repayment of lease liability principal		(4,914)	(4,911)
Dividends paid	8	(2,431)	(3,237)
Net cash flows used in financing activities		**17,350**	**(8,724)**
Net increase/(decrease) in cash and cash equivalents		(7,573)	(8,183)
Cash and cash equivalents at the beginning of the half-year		7,884	21,380
Effect of foreign exchange		1,356	(69)
Cash and cash equivalents at the end of the half-year		**1,667**	**13,128**

The Interim Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes

NOTE 1. CORPORATE INFORMATION

The interim consolidated financial statements of Pro-Pac Packaging Limited (the **Company**) and its controlled entities (the **Group**) for the half-year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Directors on 25 February 2022.

The Company is a for-profit company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange. The Group is principally engaged in the manufacture and distribution of flexible, industrial and rigid packaging products. Further information on the nature of the operations and principal activities of the Group is provided in the Directors' Report.

NOTE 2. BASIS OF PREPARATION

The interim consolidated financial statements for the half-year ended 31 December 2021 have been prepared in accordance with AASB 134 *Interim Financial Reporting*. The interim consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and therefore, the interim consolidated financial statements should be read in conjunction with the Group's annual report for the year ended 30 June 2021.

New accounting standards and interpretations

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2021, except for the adoption of new standards effective as of 1 July 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments and interpretations apply for the first time from 1 July 2021, but do not have a material impact on the interim consolidated financial statements of the Group for the half-year ended 31 December 2021.

NOTE 3. SEGMENT & GROUP RESULTS

The Group has identified its operating segments based on the internal reports that are regularly reviewed and used by the chief operating decision-maker in assessing financial performance and determining the allocation of resources.

Segments

The Group is organised into the following operating segments:

Flexibles	Industrial	Rigid	Unallocated
The Flexibles packaging segment primarily manufactures flexible packaging materials incorporating products such as stretch and shrink wrap, agricultural silage packaging, fresh produce bags, barrier and lidding films and industrial protective films.	The Industrial packaging segment sources and distributes industrial packaging materials and related consumer products.	The Rigid packaging segment manufactures, sources and distributes containers, closures and related products and services.	Unallocated contains interest on external borrowings and the elimination of intersegment transactions within the Group and certain Group level charges that are not allocated to respective segments for the purpose of evaluating financial performance.

NOTE 3. SEGMENT & GROUP RESULTS (CONT'D)

Segment results

To assist in the evaluation of the financial performance of the Group, certain measures are used that are not recognised under the Australian Accounting Standards or International Financial Reporting Standards (**IFRS**) and therefore, these are considered to be non-IFRS measures.

This report includes the following non-IFRS measures:

- PBT represents profit/(loss) before income taxes and significant items; and
- Significant items are identified as favourable or unfavourable transactions which are outside of normal operating activities and are excluded from the segment results presented to the chief operating decision-maker for the purpose of resource allocation and assessment of segment performance.

Although the Board of Directors believe that these measures provide useful information about the financial position and performance of the Group, they should be considered to be supplementary to the statement of comprehensive income and statement of financial position presented in accordance with Accounting Standards. As these non-IFRS measures are not defined in the Accounting Standards, the way the Group may calculate these measures may differ from similarly titled measures used by other companies.

For the half-year ended 31 December 2021	Flexibles $'000	Industrial $'000	Rigid $'000	Un-allocated $'000	Total $'000
External revenues	144,852	68,032	31,805	-	244,689
Intersegment revenues	1,602	461	33	(2,096)	-
Segment revenues	**146,454**	**68,493**	**31,838**	**(2,096)**	**244,689**
Segment results (PBT)	**2,875**	**2,387**	**1,198**	**(2,243)**	**4,217**
Significant items					(4,033)
Profit before income tax					**184**
Income tax expense					(56)
Profit after income tax					**128**

For the half-year ended 31 December 2020	Flexibles $'000	Industrial $'000	Rigid $'000	Un-allocated $'000	Total $'000
External revenues	135,652	62,582	36,135	-	234,369
Intersegment revenues	1,567	581	42	(2,190)	-
Segment revenues	**137,219**	**63,163**	**36,177**	**(2,190)**	**234,369**
Segment results (PBT)	**9,693**	**1,100**	**3,030**	**(2,137)**	**11,686**
Significant items					(2,845)
Profit before income tax					**8,841**
Income tax expense					(2,655)
Profit after income tax					**6,186**

NOTE 3. SEGMENT & GROUP RESULTS (CONT'D)

Significant items

	Notes	31 December 2021 $'000	31 December 2020 $'000
Chester Hill closure program	(a)	1,190	927
Integration and restructuring costs	(b)	2,699	425
Indemnifiable losses	(c)	109	1,349
Litigation costs	(d)	35	344
Reversal of provisions and other liabilities	(e)	-	(200)
Significant items		**4,033**	**2,845**

(a) Redundancy provisions, non-cash write-offs and closure costs at the manufacturing facility in Chester Hill, New South Wales which was exited in August 2021.

(b) Costs relate to business acquisition, transformation, integration, strategic and business optimisation activities.

(c) Indemnifiable losses arose from the fire at the manufacturing facility in Kewdale, Western Australia in June 2019 and the insurance claim was finalised with the insurer in September 2021.

(d) Legal costs incurred to protect the intellectual property rights of the Group.

(e) Reversal of provisions which were recognised as significant items in previous periods.

The income tax impact of significant items during the half-year is $1,210,000 (December 2020: $854,000), while payments in respect of significant items during the half-year were $3,505,000 (December 2020: $3,316,000) which included the settlement of restructuring provisions.

Impact of the coronavirus (COVID-19)

The pandemic continued to impact the business community during the half-year to 31 December 2021, with Government imposed lockdowns in many of the Group's operating regions at different points in time.

COVID-19 has impacted the financial performance and position of the Group during the half-year ended 31 December 2021 in the following ways:

- Container freight and resin supply became increasingly constrained with associated significant increases in costs. The Group has introduced a freight surcharge and price increases to address these cost increases and has further increased the holding of inventory to protect against the impacts of global shipping delays. Global shipping delays have also disrupted the Industrial business with shipping companies unable to provide clarity as to the delivery timeframes for existing customer orders;

- As a result of COVID-19 disruptions, there have been labour shortages which have led to increased costs and constraints in the production process;

- There were five instances of site closures due to either a positive test or as a consequence of being a close contact to someone who had tested positive to COVID-19; and

- The Group received no Government assistance or rent relief received from landlords.

During the half-year ended 31 December 2021, Management has developed mitigating strategies to address the various COVID-19 impacts that are within its control. Given the ongoing disruption of COVID-19, we expect the operating environment to remain challenging for the remainder of the financial year. Judgements and estimates with respect to provisions, expected credit losses and forecast earnings are based on the information available.

NOTE 3. SEGMENT & GROUP RESULTS (CONT'D)

Capital investment

The Group continues to invest in strategic initiatives to optimise operational footprint, increase manufacturing capability and drive efficiency in operations as shown in the cash flows used in investing activities in the Interim Consolidated Statement of Cash Flows.

During the half-year, capital investment included:

- $3,954,000 spent on investing in new press machine for our Flexibles segment, which is expected to become operational in the second half of the financial year; and
- $2,996,000 (December 2020: $2,006,000) spent on the development on the new ERP.

NOTE 4. REVENUE FROM CONTRACTS WITH CUSTOMERS

Set out below is the disaggregation of the Group's revenue from contracts with customers:

For the half-year ended 31 December 2021	Flexibles $'000	Industrial $'000	Rigid $'000	Un-allocated $'000	Total $'000
Type of goods or services					
Sale of manufactured goods	146,454	-	9,457	(1,635)	154,276
Sale of distribution goods	-	68,493	22,381	(461)	90,413
Revenue from contracts with customers	**146,454**	**68,493**	**31,838**	**(2,096)**	**244,689**
Geographic markets					
Australia	118,617	68,493	31,838	(2,096)	216,852
New Zealand	27,837	-	-	-	27,837
Revenue from contracts with customers	**146,454**	**68,493**	**31,838**	**(2,096)**	**244,689**
Timing of revenue recognition					
Goods transferred at a point in time	113,614	68,493	31,838	(2,096)	211,849
Services transferred over time	32,840	-	-	-	32,840
Revenue from contracts with customers	**146,454**	**68,493**	**31,838**	**(2,096)**	**244,689**

For the half-year ended 31 December 2020	Flexibles $'000	Industrial $'000	Rigid $'000	Un-allocated $'000	Total $'000
Type of goods or services					
Sale of manufactured goods	135,498	-	10,710	(1,402)	144,806
Sale of distribution goods	-	63,163	25,467	(581)	88,049
Installation and maintenance services	1,721	-	-	(207)	1,514
Revenue from contracts with customers	**137,219**	**63,163**	**36,177**	**(2,190)**	**234,369**
Geographic markets					
Australia	112,838	63,163	36,177	(2,190)	209,988
New Zealand	24,381	-	-	-	24,381
Revenue from contracts with customers	**137,219**	**63,163**	**36,177**	**(2,190)**	**234,369**
Timing of revenue recognition					
Goods transferred at a point in time	100,414	63,163	36,177	(2,190)	197,564
Services transferred over time	36,805	-	-	-	36,805
Revenue from contracts with customers	**137,219**	**63,163**	**36,177**	**(2,190)**	**234,369**

NOTE 5. FINANCIAL ASSETS & LIABILITIES

An overview of financial assets and liabilities, other than cash and cash equivalents, held by the Group as at balance date were as follows:

	Notes	31 December 2021 $'000	30 June 2021 $'000
Financial assets at amortised cost:			
Trade and other receivables		104,659	73,248
Other assets	(a)	4,104	9,772
Derivatives designated as a hedging instrument:			
Cash flow hedges		1,220	1,081
Total financial assets		**109,983**	**84,101**
Current financial assets		108,110	81,272
Non-current financial assets		1,873	2,829
Financial liabilities at amortised cost:			
Trade and other payables		85,956	73,895
Bank loans	(b)	83,733	58,900
Derivatives designated as a hedging instrument:			
Cash flow hedges		1,726	1,036
Total financial liabilities		**171,415**	**133,831**
Current financial liabilities		105,831	82,431
Non-current financial liabilities		65,584	51,400
Available facilities:			
Bank loans	(c)	117,500	100,000

(a) Other assets includes accrued proceeds on sale of the Australian forage business of $2,873,000 (June 2021: $3,829,000), which has been valued based on the contractual amount receivable, discounted to present value.

(b) Bank loans are interest-bearing liabilities, with variable interest rates applicable.

(c) Available facilities will reduce by $10,000,000 on 28 February 2022 and $10,000,000 on 30 April 2022 in line with the Group's funding requirements.

Fair value hierarchy

Financial assets and liabilities measured at amortised cost approximate fair value.

Cash flow hedges relate to foreign exchange forward contracts and have been valued using external valuations, leveraging market rates (Level 2 inputs in the fair value hierarchy). This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

NOTE 6. ISSUED CAPITAL

Movements in the issued, authorised and fully paid ordinary shares during the half-year ended:

	31 December 2021		31 December 2020	
	Number	$'000	Number	$'000
Ordinary shares as at beginning of the half-year	**811,107,285**	**291,678**	**811,107,285**	**291,678**
Share consolidation	(729,996,875)	-	-	-
Ordinary shares as at end of the half-year	**81,110,410**	**291,678**	**811,107,285**	**291,678**

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of, and amounts paid, on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

NOTE 6. ISSUED CAPITAL (CONT'D)

Share consolidation

During the half-year ended 31 December 2021, the Company completed a consolidation of the shares on issue on the basis of one ordinary share for every ten ordinary shares. Where the consolidation resulted in a fraction of a share or performance right being held, the Company rounded that fraction down to the nearest whole share or performance right (as the case may be).

Earnings per share

Accordingly, the disclosure of earnings per share has been restated by making an adjustment to the weighted average number of shares on issue for the period prior to the share consolidation.

NOTE 7. RELATED PARTY TRANSACTIONS

Transactions with related parties

The Group entered into the following transactions with entities considered to be related parties of the Group:

For the half-year ended 31 December 2021	Notes	Sales $'000	Purchases $'000	Receivable $'000	Payable $'000
Kin Group Pty Ltd	(a)	2,682	-	910	-
Pact Group Limited	(a)	2,478	3,335	722	874

For the half-year ended 31 December 2020	Notes	Sales $'000	Purchases $'000	Receivable $'000	Payable $'000
Kin Group Pty Ltd	(a)	2,410	-	556	-
Pact Group Limited	(a)	2,587	3,652	787	977

(a) Sales to, and purchases from, related parties are made on terms equivalent to those that prevail in arm's length transactions. Amounts outstanding at balance date are unsecured, interest free and settlement occurs in cash.

Kin Group Pty Ltd

Mr Raphael Geminder owns 54.54% (June 2021: 51.60%) of the Company through Bennamon Pty Ltd. Kin Group Pty Ltd owns 100% of the shares in Bennamon Pty Ltd and the Group supplies flexible film packaging and other food packaging products to Kin Group Pty Ltd and its controlled entities.

Kin Group Pty Ltd is recognised as the ultimate parent entity of the Group given its capacity to control decision making given it owns greater than a 50% interest in the Group. With that being said, the Group operates with an independent Board of Directors and executive team and there is no intervention in the day-to-day operations or key decision making made by Kin Group Pty Ltd.

Pact Group Limited

The Group is an exclusive supplier of certain raw materials such as flexible film packaging, plastic bags and tapes to Pact Group Limited under an agreement. The Group also purchases goods from Pact Group Limited. The ultimate parent of the Group has significant influence over Pact Group Limited by virtue of its share ownership in, and representation on the Board of Directors of Pact Group Limited. Consequently, Pact Group Limited is a related party of the Group.

Mr Jonathan Ling is an Independent Non-Executive Director of Pact Group Limited.

Key Management Personnel (KMP)

During the half-year, 428,827 Performance Share Rights (PSR) were granted to KMP. The PSR were determined to have a grant date valuation of $0.8667 and an exercise price of $0.00.

NOTE 8. DIVIDENDS

Distributions paid or declared to equity holders of the parent during the half-year ended:

	31 December 2021 Cents/ share	31 December 2021 $'000	31 December 2020 Cents/ share	31 December 2020 $'000
Final dividend for the previous year	3.0*	2,431	4.0*	3,237
Dividends declared and paid during the half-year	**3.0***	**2,431**	**4.0***	**3,237**
Proposed but not recognised interim dividend	**-**	**-**	**2.5***	**2,027**

* In line with the share consolidation highlighted in note 6, the disclosure of dividend cents per share has been restated by making an adjustment to the number of shares on issue for periods prior to consolidation.

NOTE 9. BUSINESS COMBINATIONS

On 31 January 2021, the Group acquired the business and certain business assets from Supreme Packaging Pty Ltd (**Supreme Packaging**), which offers a range of hard flexible packaging solutions and focuses on customers in the fast-moving consumer goods market. This business was acquired in line with our strategy to grow earnings through accretive acquisitions in existing and adjacent market segments and it will be included in the Flexibles packaging operating segment.

The table below shows the acquisition accounting, which has been finalised during the half year ended 31 December 2021:

	Provisional 30 June 2021 $'000	*Fair Value Adjustments* 31 December 2021 $'000	*Final* 31 December 2021 $'000
Fair value of consideration at acquisition date:			
Cash consideration paid	2,685	-	2,685
Deferred consideration	419	(15)	404
Fair value of gross consideration payable	**3,104**	**(15)**	**3,089**
Less: cash acquired	-	-	-
Fair value of net consideration payable	**3,104**	**(15)**	**3,089**
Fair value of net assets at acquisition date:			
Trade and other receivables	592	-	592
Inventories	284	26	310
Property, plant and equipment	2,543	(41)	2,502
Deferred tax asset	135	-	135
Employee entitlements	(450)	-	(450)
Fair value of identifiable net assets	**3,104**	**(15)**	**3,089**
Goodwill arising on acquisition	**-**	**-**	**-**

NOTE 10. SUBSEQUENT EVENTS

There were no matters or circumstances that have occurred subsequent to balance date that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent years.

NOTE 11. NON-CURRENT ASSETS

Impairment testing

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually, or more frequently if events or changes in circumstances indicate that they might be impaired. Plant, equipment and other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal (**FVLCD**) and its value-in-use (**VIU**). The VIU is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset. Assets that do not have independent cash flows are grouped together to form a cash-generating unit (**CGU**).

The Group performs its annual impairment test in June; however, an indication of impairment existed at 31 December 2021 as the Group's performance is below expectations. Following a detailed assessment under VIU, it was identified that no impairment loss should be recognised during the half-year ended 31 December 2021.

Methodology and Testing of Recoverable Amount

Value-in-Use

The recoverable amount of each group of CGUs is based on VIU, which has been determined using a discounted cash flow model based on a five-year forecast estimated by management, together with a terminal value.

The cash flow forecasts are comprised of EBITDA as a proxy for operating cash flows, less expected working capital movements and sustainable levels of maintenance capital expenditure.

Key assumptions

The following key assumptions have been used to determine the recoverable amounts of each group of CGUs and the assumptions adopted are set out below.

- *Discount rates*

  Discount rates applied in determining the recoverable amounts are based on the pre-tax weighted average cost of capital of the respective industries in which the group of CGU's operates, which is considered reflective of the current market assessment of the risks specified to each group of CGU's taking into consideration the time value of money.

  The pre-tax discount rates adopted were 9.42% (June 2021: 9.81%) for Flexibles, 9.95% (June 2021: 10.15%) for Industrial and 9.52% (June 2021: 9.78%) for Rigid.

- *Growth rates*

  The earnings forecast in the first year of the forecast period is consistent with internal plans prepared by management and presented to the Directors.

  The EBITDA assumptions adopted to determine the forecast cash flows for the second year and each year subsequent within the forecast period (**EBITDA compound annual growth rates**) are based on independent published expectations of growth in these industries, which have been adjusted for the financial implications of known initiatives over a four-year forecast period.

  The EBITDA compound annual growth rates adopted were 11.36% (June 2021: 0.79%) for Flexibles, 0.00% (June 2021: 0.00%) for Industrial and 4.28% (June 2021: 1.30%) for Rigid.

- *Long-term growth rate*

  A long-term growth rate adopted to extrapolate cash flows beyond the five-year forecast period is considered to be in line with, or below, external market expectations of long-term growth in these industries.

  The long-term growth rates adopted were 2.50% (June 2021: 2.00%) for Flexibles, 2.50% (June 2021: 2.00%) for Industrial and 2.50% (June 2021: 2.00%) for Rigid.

DIRECTORS' DECLARATION

In accordance with a resolution of the Board of Directors of Pro-Pac Packaging Limited and its controlled entities (the **Group**), we state that:

In the opinion of the Directors:

(a) The interim consolidated financial statements and notes of the Group:

  (i) Give a true and fair view of its financial position as at 31 December 2021 and of its performance for the half-year then ended; and

  (ii) Comply with the *Corporations Act 2001*, Australian Accounting Standard AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and:

(b) There are reasonable grounds to believe the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors pursuant to Section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the Board of Directors on 25 February 2022.

Jonathan Ling
Chairman

Tim Welsh
Managing Director and CEO

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Independent auditor's review report to the members of Pro-Pac Packaging Limited

Conclusion

We have reviewed the accompanying interim consolidated financial statements of Pro-Pac Packaging Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 December 2021, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration (collectively the 'half-year financial report').

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group does not comply with the *Corporations Act 2001*, including:

a. Giving a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance for the half-year ended on that date; and

b. Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (*including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Directors' responsibilities for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year 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 2021 and its performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year 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.

Ernst & Young

Kester Brown
Partner

Melbourne
25 February 2022