APPENDIX 4D

Interim Financial Report for the half-year ended 31 December 2020

Pro-Pac Packaging Limited

ABN 36 112 971 874

Half-year ended ('Reporting Period')	Half-year ended ('Previous Corresponding Period')
31 December 2020	**31 December 2019**

Results for announcement to the market		%		$'000
Revenue from ordinary activities	Down	7%	to	234,369
Net profit from ordinary activities after tax	Down	3%	to	6,186
Net profit for the period attributable to shareholders	Down	3%	to	6,186

Dividends / Distributions	Amount per security	Franked amount per security	Total dividend amount $'000
Current half-year to 31 December 2020			
Interim dividend (per ordinary share)	0.25 ¢	0.25 ¢	2,028
Final dividend for year ended 30 June 2020	0.40 ¢	0.40 ¢	3,237
Prior half-year to 31 December 2019			
Interim dividend (per ordinary share)	0.0 ¢	0.0 ¢	-

Net tangible assets	Reporting Period	Previous Corresponding Period
Net tangible asset backing per ordinary security	$0.03	$0.02

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 Half-Year Financial Report.

K Forbes

Kathleen Forbes
Company Secretary

25 February 2021

Pro-Pac Packaging Ltd
ABN 36 113 971 874

INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

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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 2020.

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)
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 industrial, flexible and rigid packaging products.

There have been no significant changes in the nature of these activities during the half-year ended 31 December 2020.

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;
- 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;
- Net debt is calculated as lease liabilities and borrowings, less cash and cash equivalents; and
- Gearing is calculated as net debt divided by 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.

The company continued to execute on several key transformation projects:

- Continued to transition production from the Chester Hill facility and deploy new and existing equipment to other sites to consolidate the Group's operational footprint and deliver a circa $7M cost benefit in FY22; and
- Successfully progressed the ERP project to enable business rationalisation and efficiency.

Both these initiatives remain on track and on budget.

Together with our investment in people, governance and systems to build frameworks for future growth, these initiatives have resulted in increased corporate costs compared to previous comparative period ('pcp'). However, projects underway will reduce the Group's organisational costs progressively through FY22 and beyond and deliver a step change in our manufacturing capabilities and ability to address new customers and markets.

Financial performance

	31 December 2020 $'000	31 December 2019 $'000	Change
Revenue	234,369	251,012	(6.6)%
Expenses	(208,967)	(226,023)	(7.5)%
EBITDA	**25,402**	**24,989**	**1.7%**
EBITDA margin	*10.8%*	*10.0%*	*88 bps*
Depreciation and amortisation	(10,197)	(10,096)	1.0%
EBIT	**15,205**	**14,893**	**2.1%**
EBIT Margin	*6.5%*	*5.9%*	*55 bps*
Finance costs, net	(3,519)	(6,132)	(42.6)%
PBT	**11,686**	**8,761**	**33.4%**
PBT Margin	*5.0%*	*3.5%*	*150 bps*
Significant items	(2,845)	-	(100.0)%
Profit before income tax	**8,841**	**8,761**	**0.9%**
Income tax expense	(2,655)	(2,390)	11.1%
Profit after income tax	**6,186**	**6,371**	**(2.9)%**

Revenue

Revenue of $234.4M (December 2019: $251.0M) decreased by 6.6% ($16.6M) compared to the pcp. This was due to a targeted and successful focus on portfolio balancing to shift business mix towards higher margin products in the Flexibles and Industrial divisions. This was partially offset by contributions from new business, with further decreases from rise and fall reductions relating to resin cost inputs, and the divestment or exit of non-core businesses which contributed $8.7M compared to pcp.

In resetting the platform to pursue organic growth in future periods, the Group has restructured its sales force during the half-year to embed deep expertise in key account management, product categorisation and new business development.

PBT

Following the introduction of AASB 16 *Leases*, the comparison of EBITDA and EBIT as key financial performance measures are no longer comparable with historical periods before the comparative period and consequently, internal management reporting has moved to PBT as its primary measure of financial performance for this financial year and beyond.

PBT of $11.7M (December 2019: $8.8M) increased 33.4% ($2.9M) compared to pcp due to improved PBT margin of 5.0% (December 2019: 3.5%) predominantly driven by improved business mix, the completion of several operational initiatives to streamline costs, partially offset by an increase in corporate capability to support our change agenda. In addition, the Group achieved a $2.6M decrease in finance costs, net of interest income during the period. Interest on external debt decreased by $1.4M due to lower negotiated interest rates on the back of improved gearing ratios and lower net debt during the half-year compared to pcp, while interest on lease liabilities decreased by $1.2M.

Significant items

Pre-tax significant items for the half-year were a net expense of $2.8M (December 2019: nil), which included:

- Site consolidation and exit costs of $0.9M (December 2019: nil) relating predominantly 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 is being exited;
- Acquisition, integration and restructuring costs of $0.4M (December 2019: $1.1M) relating to business restructuring, transaction costs and business optimisation across the Group;
- Business interruption costs of $1.3M (December 2019: $1.7M) includes incremental costs, asset write-offs and provisions in relation to business disruptive events (e.g. the June 2019 Kewdale fire in Western Australia).
- Litigation costs of $0.3M (December 2019: nil) incurred to protect intellectual property rights of the Group, offset by:

- The reversal of provisions of $0.2M (December 2019: $2.8M), which were recognised as significant items at 30 June.

Balance sheet

	31 December 2020 $'000	30 June 2020 $'000	Change
Current assets	176,098	172,566	2.0%
Non-current assets	184,830	188,759	(2.1)%
Total assets	**360,928**	**361,325**	**(0.1)%**
Current liabilities	105,748	107,888	(2.0)%
Non-current liabilities	111,753	113,889	(1.9)%
Total liabilities	**217,501**	**221,777**	**(1.9)%**
Net assets	**143,427**	**139,548**	**2.8%**
Working capital	91,603	82,346	11.2%
Net debt (pre-AASB 16)	54,164	46,093	17.5%
Net debt	110,719	103,804	6.7%
Gearing (pre-AASB 16)	1.6x	1.4x	0.2x
Gearing	2.4x	2.2x	0.2x

The balance sheet remains strong with stable gearing and headroom on financing facilities, providing capacity to fund growth.

The Group has facilities with total commitments of $100.0M (June 2020: $102.5M), which includes a bank overdraft limit of $10.0M. The maturity date for the senior debt facility with a limit of $90.0M is in March 2023, with $2.5M of amortisation paid during the period.

Net debt at the end of the half-year was $110.7M (June 2020: $103.8M), an increase of $6.9M compared to the pcp, which is comprised of lease liabilities ($57.2M) and borrowings ($66.6M), less cash and cash equivalents ($13.1M). The increase in net debt is due to additional working capital requirements for stock building to minimise customer disruption on the transfer of production from Chester Hill and ongoing global shipping delays ($3.3M), while trade and other receivables also increased ($6.3M).

Gearing has increased to 2.4x EBITDA for the last 12-months (June 2020: 2.2x) due to a $6.9M increase in net debt, after funding $8.3M of capital expenditure, paying a final dividend of $3.2M and increasing working capital by $9.3M. Before accounting for AASB 16 *Leases*, gearing increased to 1.6x EBITDA for the last 12-months (June 2020: 1.4x).

Cash flows

	31 December 2020 $'000	31 December 2019 $'000	Change
Net cash flows from operating activities	8,881	11,140	(20.3)%
Payments for plant and equipment, net of proceeds	(6,334)	(718)	782.2%
Payment for intangible assets	(2,006)	-	(100.0)%
Payments for businesses, net of cash acquired	-	(889)	(100.0)%
Payments of dividends	(3,237)	-	(100.0)%
Proceeds from/(repayments of) interest-bearing liabilities	(5,487)	(11,160)	(50.8)%

Net cash flows from operating activities of $8.9M (December 2019: $11.1M) was $2.3M lower than the pcp, primarily due to an increase in inventories ($3.3M) and trade and other receivables ($6.3M), partially offset by a reduction in finance costs ($2.3M).

Payments for property, plant and equipment were $6.3M (December 2019: $0.7M), with the increase of $5.6M reflecting the Group's continued investment in strategic projects designed to optimise operational footprint, increase manufacturing capability and drive efficiency in operations. This includes the purchase and installation of the new 7-layer extruder ($2.1M) associated with the Chester Hill transition project and $0.9M spent on replacing machinery damaged in the June 2019 Kewdale fire in Western Australia.

Payments for intangible assets reflect the costs associated with the Group's ERP replacement program.

Other key cash flows during the half-year were the $3.2M (December 2019: nil) payment of dividends, and net repayment of $5.5M (December 2019: $11.2M) of bank loans and lease liabilities.

REVIEW OF OPERATING SEGMENTS

Flexibles Packaging

	31 December 2020 $'000	31 December 2019 $'000	Change
Revenue	135,652	152,832	(11.2)%
PBT	9,693	8,821	9.9%
PBT margin	*7.1%*	*5.8%*	*137 bps*

The Flexibles packaging business has outperformed earnings in pcp, despite a drop in revenue.

Revenue decreased by $17.2M compared to pcp by continuing to exit less profitable business and invest in its capabilities for innovative, higher margin growth. Revenue was reduced by this rebalancing; however, the exit from less profitable business and non-core business is now complete, with revenue rebased for future growth. New business of $9.7M annualised was won, which contributed $2.3M during the period and will convert progressively through the remainder of this financial year and into early FY22. Contracted rise and fall provisions relating to resin input costs resulted in a revenue drop of $0.9M but had no material impact on earnings. Reduced revenue through the divestment of the Australian forage business ($5.1M), exit of the Canada operations ($2.7M) and a decline in global textiles demand, combined with a stronger Australian Dollar reduced cotton export sales ($2.5M).

The repositioning towards bespoke products, combined with the delivery of profit improvement initiatives in 1H21, is reflected in continued growth with a PBT margin of 7.1% (December 2019: 5.8%).

A key priority for Flexibles for the remainder of this financial year and FY22 will be organic revenue growth which is supported by:

- an increasingly strong pipeline, with opportunities driven by customer and consumer demand for innovative and bespoke packaging; and
- the sales restructure completed during the period, which focused on key account management and new business development, driving an increased level of sales effectiveness.

Industrial Packaging

	31 December 2020 $'000	31 December 2019 $'000	Change
Revenue	62,582	67,332	(7.1)%
PBT	1,100	683	61.1%
PBT margin	*1.8%*	*1.0%*	*74 bps*

A key priority for this financial year is to return our Industrial packaging division to profitable growth. The Executive General Manager of the Industrial packaging division commenced in August 2020 and the business achieved a profitable half-year. The Industrial packaging team performed strongly in servicing their customer base despite the demand and global shipping challenges presented by the COVID-19 pandemic. They have also developed strategic supply relationships to support these efforts.

Revenue exceeded internal expectations with volumes Industrial packaging division strengthening progressively throughout the period. Consistent with our group strategy, management refocussed the product range to market sectors where we know we can win and grow; and divested Cosmic Packaging, which contributed $0.9M in pcp.

PBT margin expansion during the period to 1.8% (December 2019: 1.0%) was achieved as a result of this refocusing, and from the completion of several operational initiatives to streamline costs and to support future growth.

Rigid Packaging

	31 December 2020 $'000	31 December 2019 $'000	Change
Revenue	36,135	30,848	17.1%
PBT	3,030	2,546	19.0%
PBT margin	8.4%	8.3%	13 bps

The Rigid packaging division performed strongly compared to pcp.

Revenue in the Rigid packaging business increased by $5.3M compared to pcp, primarily due to higher sales volume in triggers and pumps for hand sanitiser and other cleaning and hygiene products. Improvements in the lawn and garden segments were also driven by more favourable weather conditions than pcp and growth also reflected a partial recovery in the food service sector. New business conversion in specialty closures in the fast-moving, consumer goods sector also contributed to revenue and earnings growth.

DIVIDENDS

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

	31 December 2020	
	Cents/ share	$'000
Final dividend for the previous year	0.40	3,237
Dividends declared and paid during the half-year	**0.40**	**3,237**
Proposed but not recognised interim dividend	**0.24**	**2,028**

OUTLOOK

Subject to macroeconomic and COVID-19 conditions remaining stable, and no major disruptions to the Group's supply chain, we continue to expect a full year PBT (before significant items) above the prior year.

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 2020.

SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE

On 31 January 2021, the Group acquired the business and certain business assets from Supreme Packaging Pty Ltd (Supreme Packaging) for $3.2M, which offers a range of hard flexible packaging solutions and focuses on customers in the fast-moving consumer goods market. This business will be included in the Flexibles packaging operating segment.

There were no other 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 2020 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 2021.

Jonathan Ling
Chairman

Tim Welsh
Managing Director & CEO

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

As lead auditor for the audit of the interim financial report of Pro-Pac Packaging Limited for the half-year ended 31 December 2020, 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 audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

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 2021

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended	Notes	31 December 2020 $'000	31 December 2019 $'000
Revenue from contracts with customers	4	234,369	251,012
Raw materials and consumables used		(132,341)	(152,367)
Employee benefits expense		(46,649)	(43,458)
Occupancy, distribution, administration and selling expenses		(33,857)	(30,849)
Depreciation and amortisation expense		(10,197)	(10,096)
Other income		1,035	651
Interest income		46	-
Finance costs		(3,565)	(6,132)
Profit before income tax		**8,841**	**8,761**
Income tax expense		(2,655)	(2,390)
Profit after income tax		**6,186**	**6,371**
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		874	(785)
Exchange differences arising on translation of foreign operations		(24)	174
Other comprehensive income/(loss), net of income tax		**850**	**(611)**
Total comprehensive income		**7,036**	**5,760**
Earnings per share			
EPS (cents) – Basic		0.76	0.79
EPS (cents) – Diluted		0.76	0.78

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 2020 $'000	30 June 2020 $'000
Current assets			
Cash and cash equivalents		13,128	21,380
Trade and other receivables	5	83,944	77,559
Inventories		73,871	70,608
Current tax asset		130	-
Derivative financial assets	5	1,653	-
Other assets	5	3,372	3,019
Total current assets		**176,098**	**172,566**
Non-current assets			
Property, plant and equipment		54,293	53,830
Right-of-use assets		51,726	54,054
Intangible assets		68,119	66,351
Deferred tax assets		7,939	10,807
Other assets		2,753	3,717
Total non-current assets		**184,830**	**188,759**
Total assets		**360,928**	**361,325**
Current liabilities			
Trade and other payables	5	68,584	67,840
Derivative financial liabilities		2,628	2,536
Borrowings	5	7,500	7,500
Lease liabilities	5	8,650	7,836
Current tax liabilities		-	831
Other liabilities	5	134	2,123
Employee entitlements		11,993	11,526
Other provisions		6,259	7,696
Total current liabilities		**105,748**	**107,888**
Non-current liabilities			
Borrowings	5	59,107	58,952
Lease liabilities	5	48,590	50,896
Employee entitlements		1,485	1,472
Other provisions		2,571	2,569
Total non-current liabilities		**111,753**	**113,889**
Total liabilities		**217,501**	**221,777**
Net assets		**143,427**	**139,548**
Equity			
Issued capital	6	291,678	291,678
Reserves		(97)	(1,027)
Accumulated losses		(148,154)	(151,103)
Total equity		**143,427**	**139,548**

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 2020		**291,678**	**(151,103)**	**(1,027)**	**139,548**
Profit after income tax		-	6,186	-	6,186
Other comprehensive income, net of income tax		-	-	850	850
Total comprehensive income/(loss)		**-**	**6,186**	**850**	**7,036**
Share-based payments expense		-	-	80	80
Dividends paid	9	-	(3,237)	-	(3,237)
Balances as at 31 December 2020		**291,678**	**(148,154)**	**(97)**	**143,427**
Balances as at 1 July 2019		**291,618**	**(157,746)**	**1,221**	**135,093**
Profit after income tax		-	6,371	-	6,371
Other comprehensive loss, net of income tax		-	-	(611)	(611)
Total comprehensive income/(loss)		**-**	**6,371**	**(611)**	**5,760**
Share-based payments expense	7	60	-	29	89
Dividends paid	9	-	-	-	-
Balances as at 31 December 2019		**291,678**	**(151,375)**	**639**	**140,942**

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 2020 $'000	31 December 2019 $'000
Cash flows from operating activities			
Receipts from customers		227,984	242,762
Payments to suppliers and employees		(214,771)	(225,588)
Income tax paid		(1,214)	(532)
Interest received		46	-
Interest paid		(3,164)	(5,502)
Net cash flows from operating activities		**8,881**	**11,140**
Cash flows from investing activities			
Payments for property, plant and equipment		(6,334)	(1,031)
Proceeds from sale of property, plant and equipment		-	313
Payments for intangible assets		(2,006)	-
Payments for businesses acquired, net of cash acquired		-	(889)
Net cash flows used in investing activities		**(8,340)**	**(1,607)**
Cash flows from financing activities			
Repayment of bank loans and trade finance		(19,201)	(10,124)
Proceeds from bank loans and trade finance		18,625	3,500
Repayment of lease liability principal		(4,911)	(4,536)
Dividends paid		(3,237)	-
Net cash flows used in financing activities		**(8,724)**	**(11,160)**
Net increase/(decrease) in cash and cash equivalents		(8,183)	(1,627)
Cash and cash equivalents at the beginning of the half-year		21,380	23,559
Effect of foreign exchange		(69)	(660)
Cash and cash equivalents at the end of the half-year		**13,128**	**21,272**

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

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 2020 were authorised for issue in accordance with a resolution of the Directors on 25 February 2021.

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 2020 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 2020.

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 2020, except for the adoption of new standards effective as of 1 July 2020. 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 2020, but do not have a material impact on the interim consolidated financial statements of the Group for the half-year ended 31 December 2020.

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 Flexibles packaging segment also installs, supports and maintains packaging machines.	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 as they are not considered part of the core operations of any operating segment.

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 2020	Flexibles $'000	Industrial $'000	Rigid $'000	Un-allocated $'000	Total $'000
External revenues	135,652	62,582	36,135	-	234,369
Inter-segment 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**

For the half-year ended 31 December 2019	Flexibles $'000	Industrial $'000	Rigid $'000	Un-allocated $'000	Total $'000
External revenues	152,832	67,332	30,848	-	251,012
Inter-segment revenues	3,051	189	49	(3,289)	-
Segment revenues	**155,883**	**67,521**	**30,897**	**(3,289)**	**251,012**
Segment results (PBT)*	**8,821**	**683**	**2,546**	**(3,289)**	**8,761**
Significant items					-
Profit before income tax					**8,761**
Income tax expense					(2,390)
Profit after income tax					**6,371**

* Following the introduction of AASB 16 *Leases*, the comparison of EBITDA and EBIT as key financial performance measures are no longer comparable with historical periods before the comparative period and consequently, internal management reporting has moved to PBT as its primary measure of financial performance for this financial year and beyond.

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

Significant items

	Notes	31 December 2020 $'000	31 December 2019 $'000
Site consolidation and exit costs	(a)	927	-
Acquisition, integration and restructuring costs	(b)	425	1,078
Business interruption costs	(c)	1,349	1,706
Litigation costs	(d)	344	-
Reversal of provisions	(e)	(200)	(2,784)
Significant items		**2,845**	**-**

(a) Site consolidation and exit costs relate to the relocation and consolidation into existing sites, predominantly the manufacturing facility at Chester Hill in New South Wales.

(b) Acquisition, integration and restructuring costs relating to business restructuring, transaction costs and business optimisation across the Group.

(c) Business interruption costs include asset write-offs and provisions in relation to business disruptive events (e.g. June 2019 fire in Kewdale, Western Australia). The Group has insurance that covers it for losses incurred with respect to the fire in Kewdale, Western Australia and is in the process of finalising its claim with the insurance provider.

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

(e) Reversal of provisions which were recognised as significant items at 30 June.

The income tax impact of significant items during the half-year is $854,000 (December 2019: nil), while payments in respect of significant items during the half-year were $3,316,000 (December 2019: $3,137,000).

Impact of COVID-19

The coronavirus ('COVID-19') pandemic continued to impact the business community during the half-year to 31 December 2020, 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 2020 in the following ways:

- Sustained demand for products in the grocery, personal care and household segments;
- Increased inventories required to proactively manage the COVID-19 disruption to supply chain and the implementation of major projects;
- 5 operating days lost at our Reservoir, Victoria and Warriewood, New South Wales manufacturing sites as a precaution due to localised community transmission, but no internal transmission of COVID-19 within the Group;
- Nil Government JobKeeper assistance or rent relief received; and
- Nil bad debt write-offs, while aging of amounts due for collection continued to improve.

While the Group has managed the business well through these difficult operating conditions, the future remains uncertain. Judgement's and estimates with respect to provisions, expected credit losses and forecast earnings are based on the information available.

Capital investment

The Group continues to invest in strategic projects initiated 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.

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

During the half-year, capital investment included:

- $2,115,000 spent on the purchase and installation of the new 7-layer extruder which is expected to be fully operational in the second half of this financial year;
- $870,000 spent on replacing machinery damaged in the June 2019 Kewdale fire in Western Australia; and
- $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 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
Canada	-	-	-	-	-
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**

For the half-year ended 31 December 2019	Flexibles $'000	Industrial $'000	Rigid $'000	Un-allocated $'000	Total $'000
Type of goods or services					
Sale of manufactured goods	153,655	-	5,815	(3,100)	156,370
Sale of distribution goods	-	67,521	25,082	(189)	92,414
Installation and maintenance services	2,228	-	-	-	2,228
Revenue from contracts with customers	**155,883**	**67,521**	**30,897**	**(3,289)**	**251,012**
Geographic markets					
Australia	123,084	67,521	30,897	(3,289)	218,213
New Zealand	30,099	-	-	-	30,099
Canada	2,700	-	-	-	2,700
Revenue from contracts with customers	**155,883**	**67,521**	**30,897**	**(3,289)**	**251,012**
Timing of revenue recognition					
Goods transferred at a point in time	118,955	67,521	30,897	(3,289)	214,084
Services transferred over time	36,928	-	-	-	36,928
Revenue from contracts with customers	**155,883**	**67,521**	**30,897**	**(3,289)**	**251,012**

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 2020 $'000	30 June 2020 $'000
Financial assets at amortised cost:			
Trade and other receivables		83,944	77,559
Other assets	(a)	6,125	6,736
Derivatives designated as a hedging instrument:			
Cash flow hedge		1,653	-
Total financial assets		**91,722**	**84,295**
Current financial assets		88,969	80,578
Non-current financial assets		2,753	3,717
Financial liabilities at amortised cost:			
Trade and other payables		68,584	67,840
Leases liabilities	(b)	57,240	58,732
Bank loans	(b)	66,607	66,452
Derivatives designated as a hedging instrument:			
Cash flow hedge		2,628	2,536
Total financial liabilities		**195,059**	**195,560**
Current financial liabilities		87,362	85,712
Non-current financial liabilities		107,697	109,848

(a) Other assets includes accrued proceeds on sale of the Australian forage business of $3,753,000 (June 2020: $4,717,000), which has been valued based on the contractual amount receivable, discounted to present value.

(b) Lease liabilities and bank loans are interest-bearing liabilities, with variable interest rates applicable to the bank loans only.

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 2020		31 December 2019	
	Number	$'000	Number	$'000
Ordinary shares as at beginning of the half-year	**811,107,285**	**291,678**	**810,720,188**	**291,618**
Shares issued as special bonus to employee	-	-	387,097	60
Ordinary shares as at end of the half-year	**811,107,285**	**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 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 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

For the half-year ended 31 December 2019	Notes	Sales $'000	Purchases $'000	Receivable $'000	Payable $'000
Kin Group Pty Ltd	(a)	1,810	-	1,460	-
Pact Group Limited	(a)	3,008	2,517	1,115	1,309

(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 51.6% (June 2020: 49.73%) of Pro-Pac Packaging Limited 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 through to 31 December 2021. 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.

NOTE 8. DIVIDENDS

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

	31 December 2020		31 December 2019	
	Cents/ share	$'000	Cents/ share	$'000
Final dividend for the previous year	0.40	3,237	0.0	-
Dividends declared and paid during the half-year	**0.40**	**3,237**	**0.0**	**-**
Proposed but not recognised interim dividend	**0.25**	**2,028**	**0.0**	**-**

NOTE 9. SUBSEQUENT EVENTS

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 is provisional pending the determination of the fair value of net assets acquired:

	Provisional **Supreme Packaging $'000**
Fair value of consideration at acquisition date:	
Cash consideration paid	2,685
Deferred consideration	500
Fair value of gross consideration payable	**3,185**
Less: cash acquired	-
Fair value of net consideration payable	**3,185**
Fair value of net assets at acquisition date:	
Inventories	1,050
Property, plant and equipment	2,000
Deferred tax asset	135
Employee entitlements	(450)
Fair value of identifiable net assets	**2,735**
Goodwill arising on acquisition	**450**

Fair values will be finalised within 12-months from acquisition date.

The acquisition costs expensed through profit or loss were $27,000 within occupancy, distribution, administration and selling expenses.

The contribution of Supreme Packaging to revenues and the results as if the acquisition occurred on 1 July 2020 is not able to be reliably measured as financial information relating to the period after 30 June 2020 has not been provided to the Group by the vendors of Supreme Packaging.

There were no other 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.

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 2020 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 2021.

Jonathan Ling
Chairman

Tim Welsh
Managing Director and CEO

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

Report on the interim financial report

Conclusion

We have reviewed the accompanying interim financial report of Pro-Pac Packaging Limited (the Company) and its subsidiaries (collectively the Group), which comprises the interim statement of financial position as at 31 December 2020, the interim statement of comprehensive income, interim statement of changes in equity and interim 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.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the interim financial report of the Group is not in accordance 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 2020 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*.

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, anything has come to our attention that causes us to 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 consolidated financial position as at 31 December 2020 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of the 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*.

Ernst & Young

Kester Brown
Partner
Melbourne
25 February 2020