APPENDIX 4D

Interim Financial Report for the half-year ended 31 December 2022

Pro-Pac Packaging Limited

ABN 36 112 971 874

Half-year ended ('Reporting Period')	Half-year ended ('Corresponding period')
31 December 2022	31 December 2021

Results for announcement to the market

		%		$'000
Revenue from continuing operations	Down	2%	to	183,287
Revenue from discontinued operations[(1)]	Down	96%	to	2,197
Net loss from continuing operations after tax	Down	43%	to	4,921
Net loss from discontinued operations after tax [(1)]	Down	121%	to	743
Net loss for the period attributable to shareholders	Down	4,525%	to	5,664

Dividends / Distributions

	Amount per security	Franked amount per security	Total dividend amount $'000
Current half-year to 31 December 2022			
Interim dividend (per ordinary share)	0.0¢	0.0¢	-
Final dividend for year ended 30 June 2022	0.0¢	0.0¢	-
Prior 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

Net tangible assets

	Reporting Period	Previous Reporting Period
Net tangible asset backing per ordinary security[(2)]	$0.43	$0.26

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Footnotes

(1) Discontinued operations relate to the Rigid business which was divested on 24th June 2022 and Source & Sell which was divested on 1 September 2022.

(2) Increase in NTA backing per ordinary security includes the benefit of the proceeds from the Rights Issue completed during the half year and the gain on sale of the Rigid business in June 2022.

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 (PPG), please refer to the accompanying Interim Financial Report.

K Forbes

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Kathleen Forbes

Company Secretary

Dated: 24 February 2023

Pro-Pac Packaging Ltd
ABN 36 113 971 874

INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

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 2022.

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)
Mark Blackburn (Non-Executive Director, appointed 23 November 2022)
John Cerini (Managing Director & Chief Executive Officer, appointed 3 October 2022)
Darren Brown (Non-Executive Director, Resigned 22 November 2022)
Leonie Valentine (Non-Executive Director, Resigned 22 November 2022)
Tim Welsh (Managing Director & Chief Executive Officer, Resigned 18 July 2022)

PRINCIPAL ACTIVITIES

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

There have been no significant changes in the nature of these activities during the half-year ended 31 December 2022.

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;
- EBITDA pre-AASB 16 means EBITDA before AASB 16 *Leases;*
- 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;
- Net bank debt is calculated as borrowings, less trade finance and cash and cash equivalents; and
- Net debt leverage ratio is calculated as net debt divided by Adjusted LTM EBITDA for the last 12-months.

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.

DIRECTORS' REPORT

Financial performance

Group results from continuing and discontinuing operations	31 December 2022 $'000	31 December 2021 $'000	Change
Revenue	185,484	244,689	(24.2)%
Expenses	(186,345)	(233,953)	(20.3)%
EBITDA pre-AASB 16	(861)	10,736	>(100)%
Rental expense	4,952	6,490	(23.7)%
EBITDA	4,091	17,226	(76.3)%
EBITDA margin	2.2%	7.0%	(4.8)%
Depreciation and amortisation	(7,897)	(9,651)	(18.2)%
EBIT	(3,806)	7,575	>(100)%
EBIT margin	(2.1)%	3.1%	(5.1)%
Finance costs, net	(2,511)	(3,358)	(25.2)%
PBT	(6,317)	4,217	>(100)%
PBT margin	(3.4)%	1.7%	(5.1)%
Significant items	(1,293)	(4,033)	(67.9)%
Profit before income tax	(7,610)	184	>(100)%
Income tax expense	1,946	(56)	>(100)%
Profit after income tax	(5,664)	128	>(100)%

Group results from continuing operations	31 December 2022 $'000	31 December 2021 $'000	Change
Revenue	183,287	187,074	(2.0)%
Expenses	(184,069)	(182,200)	1.0%
EBITDA pre-AASB 16	(782)	4,874	>(100)%
Rental expense	4,952	5,319	(6.9)%
EBITDA	4,170	10,193	(59.1)%
EBITDA margin	*2.3%*	*5.4%*	*(3.2)%*
Depreciation and amortisation	(7,897)	(8,025)	(1.6)%
EBIT	(3,727)	2,168	>(100)%
EBIT margin	*(2.0)%*	*1.2%*	*(3.2)%*
Finance costs, net	(2,511)	(3,042)	(17.5)%
PBT	(6,238)	(874)	>100%
PBT margin	*(3.4)%*	*(0.5)%*	*(2.9)%*
Significant items	(310)	(4,033)	(92.3)%
Profit before income tax	(6,548)	(4,907)	33.4%
Income tax expense	1,627	1,471	10.6%
Profit after income tax	(4,921)	(3,436)	43.2%

Revenue

Revenue decreased 2.0% to $183.3 million (2021: $187.1 million) during the half-year reflecting the impact of site consolidation and a focused transition towards more profitable market segments.

PBT & EBITDA pre-AASB 16

PBT declined during the half-year to a loss of $6.2 million (EBITDA pre-AASB 16 loss of $0.8 million) from $0.9 million (EBITDA pre-AASB 16 profit of $4.9 million) in 2021.

- The result was reflective of lower volumes which also resulted in reduced production and related fixed cost recoveries.
- Selling prices as a result of significant cost increases are now better aligned to our cost structures (raw material and overhead costs);
- The benefits from this will materialise during the second half.

Significant items

Pre-tax loss from significant items for the half-year reduced to $0.3 million (2021: $4.0 million), which included spend costs relating to business acquisition, transformation, integration, strategic and business optimisation activities.

Balance sheet

	31 December 2022 $'000	30 June 2022 $'000	Change
Current assets	154,403	167,138	(7.6)%
Non-current assets	124,814	126,124	(1.0)%
Total assets	279,217	293,262	(4.8)%
Current liabilities	106,174	117,747	(9.8)%
Non-current liabilities	33,341	58,819	(43.3)%
Total liabilities	139,515	176,566	(21.0)%
Net assets	139,702	116,696	19.7%
Working capital	83,326	71,061	17.3%
Net debt	16,339	23,684	(30.9)%
Net bank debt	16,339	20,466	(20.2)%
Net debt leverage ratio (using adjusted LTM EBITDA)	<0.0x	4.3x	n/a

Working capital increased by $12.3 million during the half-year:

- Receivables – decrease of $5.0 million;
- Inventories – decrease of $5.0 million with inventory optimisation, in particular raw material holdings;
- Trade payables – decrease of $23.0 million following the use of the funds from the rights issue, with trade creditors now at agreed trading terms.

During the half year, the Group successfully refinanced its previously syndicated debt facilities through the establishment of a debtor finance facility. Through this refinance, all syndicated debt facilities were fully paid down. The Group maintained its bank overdraft facility.

The Group completed a pro-rata accelerated renounceable entitlement offer of new ordinary shares (rights issue), which raised net proceeds of $28.8 million.

The above resulted in net debt reducing from $23.7 million to $16.3 million.

Cash flows

	31 December 2022 $'000	31 December 2021 $'000	Change
Net cash flows from operating activities	(15,519)	(15,037)	3.2%
Payments for plant and equipment, net of proceeds	(2,641)	(6,394)	(58.7)%
Payment for intangible assets	(1,249)	(3,088)	(59.6)%
Proceeds from/(Payments) for businesses, net of cash acquired	1,909	(404)	>100%
Proceeds from rights issue, net of transaction costs	28,302	-	100%
Payments of dividends	-	(2,431)	100%
Proceeds from/(repayments of) borrowings, net of transaction costs	(5,490)	24,695	>(100)%

During the half year, the Group completed a pro-rata accelerated renounceable entitlement offer of new ordinary shares in the Group to eligible existing shareholders, comprising an accelerated institutional rights issue and a retail rights issue, which raised gross proceeds of $30.2 million. $1.3 million (net of income tax) in transaction costs were incurred as part of the rights issue. The Group used the funds raised to support working capital requirements and reduce net debt.

Cash flows from operating activities were an outflow of $15.5 million which was predominantly due to the significant reduction in trade creditors of $23.0 million.

Net capital expenditure reduced to $3.9 million (1H22: $9.5 million), due to the higher growth capital expenditure already invested into the business in recent years, lowering the need for significant investment in the short term.

REVIEW OF OPERATING SEGMENTS

Flexibles Packaging

	31 December 2022 $'000	31 December 2021 $'000	Change
Revenue	143,375	144,852	(1.0)%
EBITDA pre-AASB 16	36	6,043	(99.4)%
EBIT	(2,862)	4,238	>(100)%
PBT	(3,812)	2,583	>(100)%
PBT margin	*(2.7)%*	*1.8%*	(4.4)%

Revenue decreased by 1.0% to $143.4 million (2021: $144.9 million) reflecting the impact of site consolidation and a focused transition towards more profitable market segments.

Service delivery has improved in the half year, which is expected to allow for business development opportunities in the second half of the financial year to leverage off the Group's investment in capacity in recent years.

The EBITDA pre-AASB 16 performance was negatively impacted by the lower volumes, however with selling prices now better aligned with increased costs experienced, this recovery of costs is expected to materialise in the second half.

Industrial Distribution

	31 December 2022 $'000	31 December 2021 $'000	Change
Revenue	39,912	42,222	(5.5)%
EBITDA pre-AASB 16	603	(568)	>100%
EBIT	556	(935)	>100%
PBT	300	(1,578)	>100%
PBT margin	*0.8%*	*(3.7)%*	5.4%

Revenue decreased by 5.5% to $39.9 million (2021: $42.2 million) as a result of product rationalisation to better align with targeted market segments and the impact of supply chain challenges.

The increased pricing in response to higher supply chain input costs and a reduction in cost structures throughout the business has returned Industrial to profitability during the half-year.

Discontinued Operations

	31 December 2022 $'000	31 December 2021 $'000	Change
Revenue	2,197	57,615	(96.2)%
EBITDA pre-AASB 16	(79)	5,861	>(100)%
EBIT	(79)	5,407	>(100)%
PBT	(79)	5,091	>(100)%
PBT margin	*(3.6)%*	*8.8%*	(12.4)%

Discontinued operations includes the Rigid business which was divested in June 2022 and Source & Sell business which was divested in September 2022.

DIVIDENDS

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

	31 December 2022	
	Cents/ share	$'000
Final dividend for the previous year	-	-
Dividends declared and paid during the half-year	-	-
Proposed but not recognised interim dividend	-	-

No dividend has been declared for the half year ended 31 December 2022.

DIRECTORS' REPORT

OUTLOOK

The trading environment remains volatile, however we continue with the process of restoring customer confidence through better service delivery and improving the sell cost imbalance in the Flexibles segment. It is pleasing to note that the profitability of the Industrial business continues to improve through increased margins.

As indicated at the AGM we had begun a process to reduce costs and can report we have now completed a significant reduction in corporate costs and other labour savings with the full annualised benefits of Circa $10 miilion to benefit FY24. We have also reduced inventories and external warehousing costs which will also add to cost savings.

Recent investments in new equipment and site rationalisations completed will allow the business to grow volumes without the need for further significant capital spend and our focus on recycling will ensure the business takes an important leadership role in the Plastics Industry around soft plastic recycling and the circular economy.

The Company is focused on business development opportunities in the second half of the financial year to leverage off the significant capital investment undertaken in recent years and as margins improve as a result of our lowered cost structures, we are on track to return a positive pre-AASB 16 EBITDA for the 2023 financial year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 1 September 2022, the Group entered into an agreement to transfer and assign future sale and purchase contracts in relation to the Source & Sell business to Rank Sharp Industries Limited. There were no other significant changes in the state of affairs of the Group during the half-year ended 31 December 2022.

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 2022 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 24 February 2023.

Jonathan Ling	John Cerini
Chairman	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 review of the half-year financial report of Pro-Pac Packaging Limited for the half-year ended 31 December 2022, 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
24 February 2023

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended	Notes	31 December 2022 $'000	31 December 2021 $'000*
Revenue from contracts with customers	4	183,287	187,074
Raw materials and consumables used		(106,459)	(103,659)
Employee benefits expense		(41,800)	(44,674)
Occupancy, distribution, administration and selling expenses		(32,488)	(33,898)
Depreciation and amortisation expense		(7,897)	(8,025)
Other income		1,320	1,317
Interest income		29	61
Finance costs		(2,540)	(3,103)
Loss before income tax from continuing operations		(6,548)	(4,907)
Income tax benefit		1,627	1,471
Loss after income tax from continuing operations		(4,921)	(3,436)
Discontinued operations			
Profit/(loss) after income tax from discontinued operations	9	(743)	3,564
Profit/(loss) after income tax from continued and discontinued operations		(5,664)	128
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		(713)	219
Exchange differences arising on translation of foreign operations		706	691
Other comprehensive income/(loss), net of income tax		(7)	910
Total comprehensive income		(5,671)	1,038
Earnings per share			
EPS (cents) – Basic	6	(4.63)	0.16
EPS (cents) – Diluted	6	(4.63)	0.16
EPS from continuing operations (cents) – Basic	6	(4.02)	(4.24)
EPS from continuing operations (cents) – Diluted	6	(4.02)	(4.24)

*Re-presented to adjust for the Rigid and Source & Sell businesses being discontinued operations.

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 2022 $'000	30 June 2022 $'000
Current assets			
Cash and cash equivalents		3,132	1,322
Trade and other receivables	5	78,407	83,435
Inventories		70,886	75,920
Current tax asset		894	738
Derivative financial assets	5	4	2,165
Other assets	5	1,080	3,558
Total current assets		154,403	167,138
Non-current assets			
Property, plant and equipment	3	58,259	58,839
Right-of-use assets		31,467	35,411
Intangible assets	3	29,938	29,295
Deferred tax assets		5,150	2,579
Other assets	5	-	-
Total non-current assets		124,814	126,124
Total assets		279,217	293,262
Current liabilities			
Trade and other payables	5	67,047	90,052
Derivative financial liabilities	5	939	2,886
Borrowings	5	19,471	3,505
Lease liabilities		7,728	7,645
Other liabilities		322	1,734
Employee entitlements		9,684	10,423
Other provisions	3	983	1,502
Total current liabilities		106,174	117,747
Non-current liabilities			
Borrowings	5	-	21,455
Lease liabilities		29,936	33,850
Employee entitlements		317	445
Other provisions		3,088	3,069
Total non-current liabilities		33,341	58,819
Total liabilities		139,515	176,566
Net assets		139,702	116,696
Equity			
Issued capital	6	320,542	291,678
Reserves		1,656	1,850
Accumulated losses		(182,496)	(176,832)
Total equity		139,702	116,696

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 2022		291,678	(176,832)	1,850	116,696
Loss after income tax		-	(5,664)	-	(5,664)
Rights issue proceeds		30,174	-	-	30,174
Transactions costs for rights issue, net of income tax		(1,310)	-	-	(1,310)
Other comprehensive income, net of income tax		-	-	(7)	(7)
Total comprehensive income/(loss)		-	(5,664)	(7)	(5,671)
Share-based payments expense		-	-	(187)	(187)
Dividends paid	8	-	-	-	-
Balances as at 31 December 2022		320,542	(182,496)	1,656	139,702
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

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 2022 $'000	31 December 2021 $'000
Cash flows from operating activities			
Receipts from customers		191,572	213,278
Payments to suppliers and employees		(204,465)	(224,111)
Income tax paid		(115)	(939)
Interest received		29	16
Interest paid		(2,540)	(3,281)
Net cash flows used in operating activities		(15,519)	(15,037)
Cash flows from investing activities			
Payments for property, plant and equipment	3	(2,641)	(6,491)
Proceeds from sale of property, plant and equipment		-	97
Payments for intangible assets	3	(1,249)	(3,088)
Proceeds from /(payments) for businesses acquired/disposed	9	1,909	(404)
Net cash flows used in investing activities		(1,981)	(9,886)
Cash flows from financing activities			
Repayment of borrowings		(53,221)	(2,638)
Proceeds from borrowings		48,248	27,333
Transaction costs related to borrowings		(517)	-
Repayment of lease liability principal		(3,509)	(4,914)
Proceeds from rights issue		30,174	-
Transactions costs from rights issue		(1,872)	-
Dividends paid	8	-	(2,431)
Net cash flows used in financing activities		19,303	17,350
Net increase/(decrease) in cash and cash equivalents		1,803	(7,573)
Cash and cash equivalents at the beginning of the half-year		1,322	7,884
Effect of foreign exchange		7	1,356
Cash and cash equivalents at the end of the half-year		3,132	1,667

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 2022 were authorised for issue in accordance with a resolution of the Directors on 24 February 2023.

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 and industrial 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 2022 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 2022.

Going concern

During the half-year ended 31 December 2022 the Group incurred a net loss after tax from continuing and discontinued operations of $5.7 million (2021: profit $0.1 million). Cash flow from operating activities was an outflow of $15.5 million (2021: $15.0 million).

The Directors believe the Group is a going concern which is based on the following factors:

- The Directors assessment of current trading performance;
- The Directors consideration of forecast trading results and cash flows;
- As at 31 December 2022 the Group had cash on hand of $3.1 million and unused financing facilities of $19.5 million, which comprised $12.5 million from a debtor finance facility, $6.1 million bank overdraft facility and $0.9 million standby credit arrangements (collectively the "Facilities) as at the date of this report. Refer to note 5 for further details of the operation of the Facilities; and
- The ability of the Group to generate sufficient funds from operating activities to meet its financial obligations as and when they fall due and operate within the limits of its Facilities.

The generation of sufficient funds from operating activities is dependent upon the successful execution of the current initiatives by the business to improve the operating efficiency of the Group's manufacturing operations. The forecasts are dependent upon the ability of the Group to be able to complete the initiatives and for the cash collection profile to be materially in line with the Group's cash flow forecasts.

If these operating efficiencies are not achieved and the Group is not able to generate sufficient funds from operating activities to meet its financial obligations and operate within the limits of its Facilities, a material uncertainty would exist in relation to the Group's ability to continue as a going concern and, therefore, whether it would be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements.

This financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

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 2022, except for the adoption of amendments and interpretations effective as of 1 July 2022. 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 2022, but do not have a material impact on the interim consolidated financial statements of the Group for the half-year ended 31 December 2022.

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	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.	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.

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;
- EBIT represents PBT before finance costs and interest income;
- EBITDA represents EBIT before depreciation and amortisation;
- 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
- 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 consolidated statement of comprehensive income and 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.

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

For the half-year ended 31 December 2022	Flexibles $'000	Industrial $'000	Un-allocated $'000	Total $'000
External revenues	143,375	39,912	-	183,287
Intersegment revenues	895	-	(895)	-
Segment revenues	144,270	39,912	(895)	183,287
Segment results (PBT)	(3,812)	300	(2,726)	(6,238)
Significant items				(310)
Profit before income tax				(6,548)
Income tax expense				1,627
Profit after income tax				(4,921)

For the half-year ended 31 December 2021	Flexibles $'000	Industrial $'000	Un-allocated $'000	Total $'000
External revenues	144,852	42,222	-	187,074
Intersegment revenues	1,602	461	(2,063)	-
Segment revenues	146,454	42,683	(2,063)	187,074
Segment results (PBT)	2,583	(1,578)	(1,879)	(874)
Significant items				(4,033)
Profit before income tax				(4,907)
Income tax expense				1,471
Profit after income tax				(3,436)

Significant items

	Notes	31 December 2022 $'000	31 December 2021 $'000
Integration and restructuring costs	(a)	310	2,734
Chester Hill closure program	(b)	-	1,190
Insurance income, less losses expensed	(c)	-	109
Significant items		310	4,033

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

(b) Redundancy provisions, non-cash asset write-offs and closure costs at the manufacturing facility in Chester Hill, New South Wales.

(c) Insurance income received or receivable arising from the fire at the manufacturing facility in Kewdale, Western Australia in June 2019, less indemnifiable losses expensed.

The income tax impact of significant items during the half-year is $93,000 (December 2021: $1,210,000), while payments in respect of significant items during the half-year were $760,000 (December 2021: $3,505,000) which included the settlement of restructuring provisions.

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:

- $1,200,000 spent for a new reverse printer and $900,000 for a laminator in our Flexibles segment; and
- $1,249,000 (December 2021: $2,996,000) 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 2022	Flexibles $'000	Industrial $'000	Un-allocated $'000	Total $'000
Type of goods or services				
Sale of manufactured goods	144,270	-	(895)	143,375
Sale of distribution goods	-	39,912	-	39,912
Revenue from contracts with customers	144,270	39,912	(895)	183,287
Geographic markets				
Australia	114,831	39,912	(895)	153,848
New Zealand	29,439	-	-	29,439
Revenue from contracts with customers	144,270	39,912	(895)	183,287
Timing of revenue recognition				
Goods transferred at a point in time	116,763	39,912	(895)	155,780
Services transferred over time	27,507	-	-	27,507
Revenue from contracts with customers	144,270	39,912	(895)	183,287

For the half-year ended 31 December 2021	Flexibles $'000	Industrial $'000	Un-allocated $'000	Total $'000
Type of goods or services				
Sale of manufactured goods	146,454	-	(1,602)	144,852
Sale of distribution goods	-	42,683	(461)	42,222
Revenue from contracts with customers	146,454	42,683	(2,063)	187,074
Geographic markets				
Australia	118,617	42,683	(2,063)	159,237
New Zealand	27,837	-	-	27,837
Revenue from contracts with customers	146,454	42,683	(2,063)	187,074
Timing of revenue recognition				
Goods transferred at a point in time	113,614	42,683	(2,063)	154,234
Services transferred over time	32,840	-	-	32,840
Revenue from contracts with customers	146,454	42,683	(2,063)	187,074

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 2022 $'000	30 June 2022 $'000
Financial assets at amortised cost:			
Trade and other receivables		78,407	83,435
Other assets		1,080	3,558
Derivatives designated as a hedging instrument:			
Cash flow hedges		4	2,165
Total financial assets		79,491	89,158
Current financial assets		79,491	89,158
Non-current financial assets		-	-
Financial liabilities at amortised cost:			
Trade and other payables		67,047	90,052
Borrowings	(a)	19,471	24,960
Derivatives designated as a hedging instrument:			
Cash flow hedges		939	2,886
Total financial liabilities		87,457	117,898
Current financial liabilities		87,457	96,443
Non-current financial liabilities		-	21,455

(a) Borrowings are interest-bearing liabilities, with variable interest rates applicable.

Fair value hierarchy

Financial assets and liabilities measured at amortised cost which approximates 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.

Borrowings

During the half year ended 31 December 2022 the Group repaid all amounts outstanding under the syndicated debt facility agreement. This facility was replaced by a $30.0 million debtors finance facility, effective from 2 December 2022. Additionally, the bank overdraft was extended to 30 November 2023.

	Notes	31 December 2022 $'000	30 June 2022 $'000
Current			
Bank overdraft		2,882	313
Debtor finance facility	(a)	16,589	-
Trade Finance		-	3,192
Current borrowings		19,471	3,505
Non-current			
Bank loans		-	21,455
Non-current borrowings		-	21,455

(a) The debtor finance facility has a committed limit to December 2025. The drawings made under the committed facility limit are however revolving in nature and accordingly, the debt of $17.537 million outstanding under the facility at 31 December 2022 has been disclosed as a current liability. This facility will continue to be available to be redrawn, subject to eligible sale invoices being presented against the facility until December 2025.

As at 31 December 2022, the Group does not have any covenant ratio compliance requirements.

At balance date, the Group had access to the following lines of credit:

As at 31 December 2022	Notes	Utilised $'000	Unutilised $'000	Total $'000
Debtor finance facility	(a)	17,537	12,463	30,000
Bank overdraft	(b)	2,882	6,118	9,000
Contingent funding facilities		3,064	936	4,000
Total facilities		23,483	19,517	43,000

As at 30 June 2022	Utilised $'000	Unutilised $'000	Total $'000
Bank overdraft	313	24,687	25,000
Bank loans	21,667	5,725	27,392
Trade Finance	3,192	808	4,000
Contingent funding facilities	3,978	1,122	5,100
Total facilities	29,150	32,342	61,492

(b) The Company's bank overdraft will reduce by $1.0 million per month for the four-month period from January 2023 where it will then remain at $5 million from 30 April 2023.

NOTE 6. ISSUED CAPITAL

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

	31 December 2022		31 December 2021	
	Number	$'000	Number	$'000
Ordinary shares as at beginning of the half-year	81,110,410	291,678	811,107,285	291,678
Share consolidation	-	-	(729,996,875)	-
Rights issue	100,577,301	28,864	-	-
Ordinary shares as at end of the half-year	181,687,711	320,542	81,110,410	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.

Rights issue

During the half year ended 31 December 2022, the Group completed a pro-rata accelerated renounceable entitlement offer of new ordinary shares in the Group to eligible existing shareholders, comprising an accelerated institutional rights issue and a retail rights issue, which raised gross proceeds of $30.2 million. $1.3 million (net of income tax) in transaction costs were incurred as part of the rights issue.

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 2022	Notes	Sales $'000	Purchases $'000	Receivable $'000	Payable $'000
Kin Group Pty Ltd	(a)	2,106	199	1,043	89
Pact Group Limited	(a)	2,248	-	1,374	-

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

(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 66.52% (June 2022: 57.60%) 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.

As part of the sub-underwriting of the pro-rata accelerated renounceable entitlement offer of new ordinary shares in the Group, Bennamon received a sub-underwriting fee of $0.109 million.

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 and is now continuing on a month-on-month basis. The Group formally purchased goods for the Rigid business from Pact Group Limited. The ultimate parent of the Group has control of 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.

Key Management Personnel (KMP)

During the half-year, 8,000,000 Performance Share Rights (PSR) were granted to KMP. The PSR were determined to have a grant date valuation of $0.30 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 2022		31 December 2021	
	Cents/ share	$'000	Cents/ share	$'000
Final dividend for the previous year	-	-	3.0	2,431
Dividends declared and paid during the half-year	-	-	3.0	2,431
Proposed but not recognised interim dividend	-	-	-	-

NOTE 9. BUSINESS COMBINATIONS

Sale of the business and discontinued operations

On 24 June 2022, the Group completed the sale of the Rigid packaging business ("Rigid") to a subsidiary of TricorBraun Inc.

$1.9m in final proceeds were received relating to the sale of Rigid during the half year.

On 1 September 2022, the Company entered into an agreement to transfer future sale and purchase contracts in relation to the Source & Sell business (which was part of Industrial segment) to Rank Sharp Industries Limited. The Company's related employees and their entitlements were also transferred. The extended working capital cycle of the Source and Sell business resulted in the business being considered non-core to the Group.

The Rigid and Source & Sell businesses were not considered discontinued operations or classified as held-for-sale as at 31 December 2021 and therefore the comparative consolidated income statement, the statement of comprehensive income and certain applicable notes have been restated to show discontinued operations separately from continuing operations.

Results of discontinued operations	31 December 2022 $'000	31 December 2021 $'000
Revenue – Source & Sell	2,197	25,810
Revenue – Rigid business	-	31,805
Expenses – Source & Sell	(2,335)	(22,008)
Expenses – Rigid Business	(423)	(30,516)
Profit/(loss) before tax	(561)	5,091
Income tax expense	169	(1,527)
Loss on divestment after income tax	(351)	-
Profit/(loss) after tax from discontinued operation	(743)	3,564

Cash flows of discontinued operation	31 December 2022 $'000	31 December 2021 $'000
Net cash flows (used in)/from operating activities	482	624
Net cash (used in)/from investing activities	-	(191)
Net cash (used in)/from financing activities	-	(877)
Net cash flows for the year	482	(444)

Loss on divestment of Source & Sell	31 December 2022 $'000
Proceeds from divestment	-
Carrying value of net assets	501
Net loss on divestment before income tax	(501)
Income tax expense	150
Loss on divestment after tax	(351)

NOTE 10. 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 2022 as the Group's performance was below expectations and the carrying value of its net assets was in excess of its market capitalisation. Following a detailed assessment under VIU, it was identified that no impairment loss should be recognised during the half-year ended 31 December 2022.

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, plus 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 13.44% (June 2022: 13.49%) for Flexibles, and 13.58% (June 2022: 13.49%) for Industrial.

- *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 29.27% (June 2022: 34.40%) for the second year and 0.79% (June 2022: 0.79%) for each subsequent year for Flexibles and 0.00% (June 2022: 0.00%) for Industrial.

- *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 2022: 2.50%) for Flexibles and 2.50% (June 2022: 2.50%) for Industrial.

Sensitivity analysis

The table below includes details of the amount by which the recoverable amount exceeded its carrying amount ('Headroom') for each group of CGUs at 31 December 2022, together with value assigned to each key assumption used in determining the recoverable amount ('Adopted assumption') and the value of each key assumption at which the recoverable amount is equal to its carrying amount when moved in isolation ('Breakeven assumption').

	Flexibles	Industrial
Headroom ($'000)	26,677	9,049
Discount rates		
Adopted assumption (%)	13.44	13.58
Breakeven assumption (%)	15.62	20.21
EBITDA compound annual growth rates		
Adopted assumption (%)	0.79	0.00
Breakeven assumption (%)	(0.33)	(25.48)
Long-term growth rates		
Adopted assumption (%)	2.5	2.5
Breakeven assumption (%)	(3.36)	>(100)

The Directors consider that a reasonably possible unfavourable movement in key assumptions used to determine the recoverable amount may result in impairment (or further impairment).

The table below discloses the sensitivity of the recoverable amount of each group of CGUs to reasonable possible changes in each key assumption when moved in isolation.

	Flexibles	Industrial
Discount rates		
Revised assumption (%)	14.44	14.49
Impact on recoverable amount ($'000)	(13,360)	(1,900)
EBITDA compound annual growth rates		
Adopted assumption (%)	(0.21)	(1.00)
Impact on recoverable amount ($'000)	(23,820)	(472)
Long-term growth rates		
Adopted assumption (%)	1.5	1.5
Impact on recoverable amount ($'000)	(6,383)	(450)

NOTE 11. 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.

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:

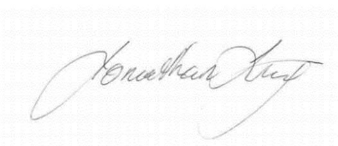
(i) Give a true and fair view of its financial position as at 31 December 2022 and of its performance for the half-year then ended; and

(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:

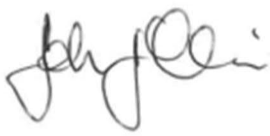
(b) There are reasonable grounds to believe the Group will be able to pay its debts as and when they become due and payable.

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 24 February 2023.



Jonathan Ling
Chairman



John Cerini
Managing Director and CEO

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

Conclusion

We have reviewed the accompanying half-year financial report of Pro-Pac Packaging Limited (the Company) and its subsidiaries (collectively the Group), which comprises the interim consolidated statement of financial position as at 31 December 2022, the interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration.

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 2022 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.

Material uncertainty related to going concern

We draw attention to the Going Concern section of Note 2 Basis of Preparation in the financial report which describes the principal conditions that raise doubt about the Group's ability to continue as a going concern. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our report is not modified in respect of this matter.

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.

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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 2022 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

Ernst & Young

K Brown

Kester Brown
Partner

Melbourne
24 February 2023