PRO-PAC PACKAGING LIMITED
ACN 112 971 874

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018

Corporate Information
ABN No. 36 112 971 874

Directors
Ahmed Fahour (Chairman appointed 28 March 2016)
Rupert Harrington (appointed 6 November 2017)
Darren Brown (appointed 2 July 2018)
Marina Go (appointed 1 August 2018)
Leonie Valentine (appointed 1 August 2018)
Elliott Kaplan (resigned 31 August 2018)
Brandon Penn (resigned 16 February 2018)
Dr Gary Weiss (resigned 27 November 2017)

Company Secretary
Mark Saus

Registered Office
Suite 2.02, 657 Pacific Highway
St Leonards NSW 2065
PO Box 228 St Leonards NSW 1590

Principal Place of Business
Suite 2.02, 657 Pacific Highway
St Leonards NSW 2065

Share Register
Boardroom Limited
Level 12, 225 George Street
Sydney NSW 2000

Solicitors
Thomson Geer
Level 25, 1 O'Connell Street
Sydney NSW 2000

Bankers
Australia and New Zealand Banking Group Limited in its capacity as Agent of the Lenders and each other lender specifically nominated to be Australia and New Zealand Banking Group Limited;
ANZ Bank New Zealand Limited; HSBC Bank Australia Limited;
The Hong Kong and Shanghai Banking Corp. Limited (incorporated in HK SAR, acting through NZ Branch);
Westpac Banking Corporation; Westpac New Zealand Limited; and the State Bank of India, Sydney Branch.

Auditors
UHY Haines Norton
Level 11, 1 York Street
Sydney NSW 2000

KPMG (component auditor)
Tower Two, Collins Square, 727 Collins Street
Melbourne VIC 3008

Stock exchange listing
Pro-Pac Packaging Limited shares are listed on the Australian Securities Exchange (ASX code: PPG)

Website
www.ppgaust.com.au

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DIRECTORS' REPORT

The Directors present their report, together with the financial statements, on the consolidated entity ('the Group') consisting of Pro-Pac Packaging Limited (the 'Company') and the entities it controlled at the end of the year ended 30 June 2018.

DIRECTORS

The Directors in office at the date of this report and during the financial year are as follows:

Ahmed Fahour
B Econ, MBA
(Non-Executive Chairman 1 August 2018, Executive Chairman 27 October 2017 to 31 July 2018, Non-Executive Chairman 25 November 2014, Non-Executive Director 28 March 2014)

Mr Fahour is also Non-Executive Chairman of BCG Digital Ventures Asia Pacific. Mr Fahour was the former Managing Director and Group CEO of Australia Post including Executive Chairman of StarTrack. He has held a number of senior executive positions in Australia and overseas and was previously CEO of Citigroup (Australia and New Zealand) and National Australia Bank & MLC (Australia/Asia). He is also an Adjunct Professor in the Faculty of Business, Economics and Law at La Trobe University.

Mr Fahour is also Chairman of the People, Innovation and Culture Committee.

Rupert Harrington
B Technology, Cert Dipl Acc & Fin, MBM
(Non-Executive Director – appointed 6 November 2017)

Rupert Harrington is an experienced Director with a wealth of experience in business strategy and M & A.

Mr. Harrington's earlier career was in operational management in the UK and Australia. His career since 1987 has been in Private Equity where he has an excellent track record of delivering results for investors in sectors including: health, technology, industrial services and manufacturing. He is currently Chairman of Advent Partners, a pre-eminent mid-market Australian PE firm.

Mr. Harrington is Non-Executive Director of Clover Corporation and Integral Diagnostics (ASX: IDX). At the end of 2017 he resigned as a Non-Executive Director of Bradken Ltd following it's successful acquisition Hitachi.

Mr Harrington is a member of the Audit Business Risk and Compliance Committee.

Darren Brown
B Business, Grad Dipl Fin & Investment, CA
(Non-Executive Director – appointed 2 July 2018)

Mr Brown's experience includes over 20 years in a variety of commercial and financial roles particularly in packaging, including several years as CFO of publicly listed Pact Group Holdings Limited, Southcorp Packaging and Amcor.

Mr Brown is a Chartered Accountant with a Graduate Diploma in Applied Finance and Investment and holds a Bachelor of Business qualification.

Mr Brown is Chairman of the Audit Business Risk and Compliance Committee.

Marina Go
B Arts, Exec MBA, AICD
(Non-Executive Director – appointed 1 August 2018)

Ms Go's executive career includes over 20 years' experience in branding, marketing, digital technologies and change leadership in the media industry.

Ms Go is currently a Non-Executive Director for 7 Eleven, Energy Australia and Autosports Group. Marina was previously Country CEO for The Hearst Corporation and held a variety of senior positions across the media industry, including Fairfax, Independent Digital Media, Pacific Magazines and EMAP Australia.

Ms Go is a member of the People, Innovation and Culture Committee and the Audit Business Risk and Compliance Committee.

Leonie Valentine
B Science, M Arts, Exec Cert B Admin, GAICD
(Non-Executive Director – appointed 1 August 2018)

Ms Valentine's executive experience includes over 25 years' experience in sales, marketing and operations, including 19 years in technology and telecommunications sectors.

Ms Valentine is currently Managing Director, Sales & Operations of Google Hong Kong, originally joining Google in 2014 as APAC Director of Customer Experience. Prior to joining Google, Leonie was Executive Vice President, Customer Service & Operations at CSL Limited. Earlier, she held a number of senior management positions with Telstra Corp and was a member of the Executive Leadership Team charged with managing Telstra International Group's business growth and assets outside of Australia and New Zealand.

Ms Valentine is a member of the People, Innovation and Culture Committee.

Elliott Kaplan
B. Acc, CA
(Non-Executive Director – appointed Director 1 March 2005, resigned 31 August 2018)
Resigned as Chairman of the Audit Committee and as a member of the Remuneration Committee 23 August 2018.

Brandon Penn
B. Com
(Non-Executive Director – appointed 16 August 2007, resigned 16 February 2018)

Dr Gary Weiss
LL.B (Hons), LL.M (with dist.), Doctor of Juridical Science (JSD)
(Non-Executive Director – appointed 28 May 2012, resigned 27 November 2017)
Resigned as a member of the Audit Committee and the Remuneration Committee 27 November 2018.

CHIEF EXECUTIVE OFFICER

Grant Harrod
BA, MBA, FAICD
(Chief Executive Officer – appointed CEO 29 May 2017)

Mr Harrod is the former CEO of LJ Hooker Group Ltd. Mr Harrod also has extensive experience in distribution services, as well as commercial services and FMCG marketing. He has held a number of senior executive positions including 11 years as CEO/MD for ASX listed companies. Mr Harrod served as CEO and Managing Director of Corporate Express Ltd and CEO/MD of Salmat Ltd.

COMPANY SECRETARY

Mark Saus
B.Com, B. Compt (Hons), CPA
(Company Secretary and Chief Financial Officer - appointed 2 September 2005)

Mr Saus has extensive experience in CFO/Finance Director and senior financial management roles in private and public listed companies both in Australia and overseas. His experience spans a diverse range of industries including manufacturing, distribution and retail. Past roles include head of finance positions in high growth and M&A environments. Mr Saus is also the Chief Financial Officer of the Company.

As announced on 14 September, 2018 Mr Saus is resigning as CFO & Company Secretary and Mr Rick Rostolis will be appointed as CFO on 1 October 2018 and appointment of new Company Secretary will be announced shortly.

Interests in the shares and options of the Company

As at the date of this report, the relevant interests of the directors in the shares and options of Pro-Pac Packaging Limited are shown in the table below:

	Ordinary Shares			
	Opening balance	**Additions**	**Disposals**	**Closing balance**
Ahmed Fahour	10,674,153	23,855,455	-	34,529,608
Rupert Harrington	-	3,295,109	-	3,295,109
Darren Brown	-	496,138	-	496,138
Marina Go	-	-	-	-
Leonie Valentine	-	-	-	-

	Options			
	Opening balance	**Additions**	**Lapsed**	**Closing balance**
Elliott Kaplan	-	1,200,000	-	1,200,000

MEETINGS OF DIRECTORS

Attendances by each director during the year were:

	Board		Audit committee		Remuneration committee	
	Number of meetings held while in office	**Meetings attended**	**Number of meetings held while in office**	**Meetings attended**	**Number of meetings held while in office**	**Meetings attended**
Elliott Kaplan	9	8	3	3	1	1
Ahmed Fahour	9	9	-	-	1	1
Dr Gary Weiss	4	2	2	2	-	-
Brandon Penn	6	5	-	-	-	-
Rupert Harrington	6	6	1	1	1	1

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the year were 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 year.

OVERVIEW OF THE COMPANY'S BUSINESS

Revenues of $371 million for the year ended 30 June 2018 ('FY18') and a statutory loss after tax of $5.1m were reported. This result includes eight months of trading for Integrated Packaging Group ('IPG') following its acquisition on 6 November 2017 and one off abnormals and write offs of $11.7m stemming predominantly from the acquisition.

Revenue for PPG (excluding IPG) was $240 million, up $11 million on the previous corresponding period. FY18 has seen volumes increase in key industrial, food processing and beverage markets for the Group, however, rising raw material costs and the drought have adversely impacted sales and margins.

Integration synergies achieved $6.0 million of annual cost savings, following the acquisition of the Integrated Packaging Group in November 2017, which continues to exceed forecast with major site consolidations and rationalisation well underway.

Underlying EBITDA of $16.1m was reported while Profit Before Tax (PBT) for the Group was a loss of -$5.1 million, after $11.7 million of one-off items attributed to the IPG acquisition and resulting rationalisation, relocation and restructuring costs.

The Board renewal program was completed with the appointments of Mr Darren Brown on 2 July 2018, and Ms Leonie Valentine and Ms Marina Go on 1 August 2018. Mr Ahmed Fahour resumed his role of Non-Executive Chairman with management renewal well underway.

OUTLOOK

The acquisitions of IPG, Polypak and Perfection Packaging provides the company with an exciting platform into the higher growth flexible packaging sector, where Pro-Pac has a unique opportunity as both manufacturer and distributor to grow these markets. In addition, these acquisitions provide further scope for rationalisation of facilities and infrastructure with the resultant extraction of synergies in the short to medium term.

FY18 was a year of substantial change and cost, transforming PPG into a more resilient and diversified business. The business is now very well placed with a clear growth strategy into the flexibles and distribution packaging markets, both growing quicker than GDP.

The PPG Group is now on track to achieve higher revenues and earnings in FY19 and beyond. The Group expects:

- to benefit from the strong outlook in its core markets of fresh & dry foods, industrial & logistics, and beverage markets;
- to achieve additional synergies with further site consolidations and improved operational effectiveness;
- expansion into new markets will reduce the company's reliance on the more volatile agricultural markets;
- the continued headwinds of a declining AUD, will be offset by improvements in resin pricing and improved price recovery via its customer contracts; and
- the Perfection Packaging and Polypak acquisitions, will continue trading ahead of expectation, as both businesses benefit from strong underlying growth within their markets.

The Company updated its FY19 underlying EBITDA to a range of $37 to $42 million, including acquisitions.

DIVIDENDS

	2018 $000's	2017 $000's
Dividend paid during the year:		
Final dividend for 2017 – 1.0 cents per ordinary share (2016 – 1.5 cents per ordinary share)	**2,390**	**3,573**
Interim dividend for 2018 – 1.0 cent per ordinary share (2017 – 1.0 cents per ordinary share)	**5,751**	**2,419**
	8,141	**5,992**

In August 2018, the Company declared a fully franked final dividend of 1.0 cent per share. The record date for determining entitlement to the dividend is 11 September 2018 and the dividend will be paid on 6 November 2018. The Company's Dividend Reinvestment Plan will apply to this dividend.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no changes in the state of affairs of the Company during the year.

SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE

On 28 August 2018, the Company declared a fully franked final dividend of one cent per share.

In July 2018, PPG acquired New Zealand based soft flexible packaging manufacturer and distributor PolyPak. PPG has also acquired Victorian based hard flexible manufacturer Perfection Packaging, effective 1 September 2018.

The Acquisitions were funded by a combination of: $9.96 million shares (Consideration Shares) issued to the vendors of Perfection Packaging at an issue price of $0.39 per share, a $55.8 million fully underwritten placement of shares in two tranches at an issue price of $0.34 per share (Placement), approved by shareholders at the EGM held on 3 September 2018; and a $4.0 million fully underwritten Share Purchase Plan (SPP) at an issue price of $0.34 per share (Placement and SPP together, Capital Raising).

LIKELY DEVELOPMENTS

The Company is focused on bedding down the acquisitions made since November 2017 in flexible packaging namely Integrated Packaging, Perfection Packaging and Poly Pak.

The integration of these businesses, extraction of projected synergies and rationalisation of facilities are key areas of focus for the Management team.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Company is committed to environmental sustainability and ethical standards. This is built around the Company's Environment Sustainability and Ethical Standards policy and provides a framework that promotes the sourcing of sustainable products, the implementation of energy efficient workplace practices and a resolution to continual improvement.

The Company is a signatory to the Australian Packaging Covenant. As signatories, the Group is committed to providing the industry sustainable solutions for all packaging handled by its business activities. The Group's commitment is published in the public domain by way of the Australian Packaging Covenants website (www.packagingcovenant.org.au) and is available on the Group's website.

In addition, The Company is a participant in the Packaging Recyclability Evaluation Portal ("PREP") and Australian Recycling Label ("ARL") programs, an industry first initiative developed to provide the public with the appropriate information to allow consumers to make better choices when recycling packaging.

The Company is a member of Sedex and BSCI, internationally recognised programs that assist to regulate companies to ensure they meet ethical standards and provide a high level of social responsibility to the community and its partners.

The Company is compliant with all applicable Australian Standards, National Codes, State Legislation, and Local Council Guidelines. All Acts and Regulations are reviewed across all states by the Compliance Management Team and covers all of the Group's environmental aspects for air, land, water and natural resources. Full reviews are held annually and are reported to the Executive Management Group through Risk Management meetings.

The Company has met its social responsibility to the community and its shareholders and continues to work hard at improving its processes and performance for a sustainable future.

The Directors are not aware of any material breaches of environmental regulations or site-specific licenses during or since the financial year ending 30 June 2018.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND THE AUDITOR

The Company has entered into a deed of access, indemnity and insurance with each of the Directors, under which the Company has agreed to:

- continue to provide the Directors with access to certain relevant information after they cease to be Directors;
- to the extent permitted by law, indemnify the Directors against liabilities incurred in their capacity as directors of the Company and its subsidiaries; and
- maintain certain Directors' liability insurance in respect of Directors, both during and after the period they are Directors.

The Company has paid insurance premiums in respect of Directors' and Officers' liability and legal expense insurance for the Directors of the Company.

These contracts of insurance prohibit the disclosure of the nature of the liabilities covered and amount of the premium paid. The Corporations Act 2001 does not require disclosure of the information in these circumstances.

The Company has not, during the year or since the end of the financial year, in respect of any person who is or has been an auditor of the Group, paid or agreed to pay a premium in respect of a contract insuring against a liability for the costs or expense of defending legal proceedings.

REMUNERATION REPORT (AUDITED)

Remuneration policy

The performance of the Company depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

The People, Innovation and Culture Committee, incorporates the Remuneration and Nomination Committee. The committee comprises Mr Ahmed Fahour (Chairman), Ms Marina Go (appointed 1 August 2018) and Ms Leonie Valentine (appointed 1 August 2018) who are Non-Executive Directors. Mr Elliott Kaplan resigned 31 August 2018 and Dr Gary Weiss resigned 27 November 2017 as members of the former Remuneration and Nomination Committee.

The Committee assesses the appropriateness of the nature and amount of remuneration of directors on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. It is intended that the manner of payments chosen will be optimal for the recipient without creating undue cost for the Company. Further details on the remuneration of Directors and executives are set out in this Remuneration Report.

In accordance with best practice corporate governance, the structure of non-executive Director and executive Director remuneration is separate and distinct.

Non-Executive Director remuneration

The Company seeks to set aggregate remuneration at a level which provides the Company with the ability to attract, retain and motivate directors of the highest quality, whilst incurring a cost which is acceptable to shareholders.

The Constitution of the Company and the ASX Listing Rules specify that non-executive directors are entitled to receive remuneration for their services as determined by the Company in a General Meeting. The Company has resolved that the maximum aggregate amount of directors' fees (which does not include remuneration of executive directors and other non-director services provided by directors) is $600,000 per annum. Non-executive directors are entitled to be reimbursed for their reasonable expenses incurred in connection with the affairs of the Company. A director may also be remunerated as determined by the directors if that director performs additional or special duties for the Company.

The remuneration of the Company's Non-Executive Directors for the period ending 30 June 2018 is detailed in Table 1 of this Remuneration Report.

Executive Director and Senior Management remuneration

The Company aims to develop remuneration packages properly reflecting each person's duties and responsibilities and the remuneration is competitive in attracting, retaining and motivating people of the highest quality.

The Committee is responsible for reviewing and providing recommendations to the Board with respect to the remuneration packages of senior management and executive directors.

The Committee is also responsible for providing advice to the Board with respect to non-executive directors' remuneration.

The Board is responsible for determining remuneration packages applicable to the Board members and the Chief Executive Officer. The Chief Executive Officer determines the remuneration packages for the senior executives of the Company in accordance with compensation guidelines set by the Board.

The remuneration of the Chief Executive Officer and senior management for the year ending 30 June 2018 is set out in Table 1 of this report.

Employment contracts

Chief Executive Officer

Mr Grant Harrod was appointed 29 May 2017.

The Company has entered into an executive service agreement with Mr Grant Harrod in relation to his role as Chief Executive Officer of the Group. In his executive service agreement, Mr Harrod agrees that all intellectual property rights created, developed or acquired by him in the course of his employment, belong to the Company.

The Company or the executive may terminate the service agreement by giving the other party three months' notice. In the event of a completion of a sale of all or substantially all of the assets or shares in the Company (a Change of Control) or the sale of a significant part of the Company that would materially change the scope and responsibilities of the CEO role, then the notice period required to be given to Mr Harrod is six months, which he may elect to receive as payment in lieu of notice instead of working part or all of the notice period.

The Company may terminate the agreement at any time with immediate effect in the event of misconduct. The agreement provides that for a period of six months after termination of his employment contract (less any served notice period) Mr Harrod will not compete with the Group in Australia.

Senior Management

Employment agreements entered into with senior management contain the following key terms:

Event	Company Policy
Resignation / notice period	6 months or less
Serious misconduct	Company may terminate at any time
Payouts upon resignation or termination, outside industrial regulations (i.e. 'golden handshakes')	None

Executive Long Term Incentive Plan (ESPP)

The Company has established an ESPP to encourage employees to share in the ownership of the Company and promote the long-term success of the Company as a goal shared by the employees. The ESPP has been approved by members of the Company for the purposes of sections 260C(4)(a), 259B(2)(a), 257B(1) and paragraph (b) of the definition of employee share scheme buy-back in section 9 of the Corporations Act. There are currently 16,810,000 shares issued to employees under the Plan.

The following are the key terms and conditions of the ESPP:

- No shares under the ESPP will be allotted unless the requirements of the Corporations Act 2001 and the ASX Listing Rules have been complied with.

- Performance hurdles apply to the ESPP. The key performance hurdle is that the total shareholder return to shareholders of the Company must exceed the rate of growth over the same period for the S&P/ASX Small Ordinaries Accumulation Index (or any equivalent or replacement of that index).

- Shares are allocated to employees at either the value of shares as detailed in the latest disclosure document issued by the Company or the 5-day weighted average price immediately prior to the offer being made to the employee.

- The Company may provide loans to participants to acquire shares under the ESPP. As security for the loans, participants will pledge the shares acquired under the ESPP to the Company at the time the loans are provided and will grant a charge over any benefits attributable to the Shares, including bonus shares, rights, and dividends. Any dividends paid on the shares by Pro-Pac Packaging Limited are treated as interest on the loan.

- The term of the loans and the vesting period for the shares from the date of issue of shares is 3 years.

- The Shares will be registered in the names of the participants from allotment, but will remain subject to restrictions on dealing while they are pledged as security for a loan or subject to performance hurdles specified.

- If the employee leaves the employment of the Group, the loan balance must be repaid in full or the shares surrendered in full settlement of the outstanding loan balance.

- During the year 150,000 shares were forfeited and were cancelled and 530,000 shares await cancellation. At the end of the year 16,810,000 shares were in issue under the ESPP.

- The fair value of the employee benefit provided under the ESPP plan is estimated at the date of grant using the Monte Carlo simulation model, and the following assumptions: expected volatility, risk-free interest rate, expected life of option, share price, dividend yield and probability of achievement.

- Under Australian Accounting Standards, shares issued to executives under the Long Term Executive Incentive Plan are now considered to be options granted. Comparative figures for the prior financial years have been adjusted accordingly.

2018

Grant date	Expiry date	Price	Balance at beginning of year	Granted	Exercised	Expired/ forfeited	Balance at end of year
07-10-15	06-10-18	0.417	2,050,000	-	-	150,000	1,900,000
30-11-17	29-11-20	0.380	-	14,910,000	-	-	14,910,000
			2,050,000	**14,910,000**	**-**	**150,000**	**16,810,000**

2017

Grant date	Expiry date	Price	Balance at beginning of year	Granted	Exercised	Expired/ forfeited	Balance at end of year
22-07-13	21-07-16	0.458	800,000	-	-	800,000	-
25-03-14	24-03-17	0.460	850,000	-	-	850,000	-
07-10-15	06-10-18	0.417	3,250,000	-	-	1,200,000	2,050,000
			4,900,000	**-**	**-**	**2,850,000**	**2,050,000**

Key Management Personnel at 30 June 2018

Ahmed Fahour	Non-executive Chairman
Elliott Kaplan	Non-executive Director
Rupert Harrington	Non-executive Director (appointed 6 November 2017)
Grant Harrod	Chief Executive Officer
Mark Saus	Chief Financial Officer and Company Secretary

Remuneration of Key Management Personnel

Excluding the Directors, there are only two staff members of the Company who qualify as a 'Key Management Personnel' for the purposes of this report.

Table 1

		Short-term benefits		Post employment benefits	Other long term benefits	Share based payment	Total	
		Cash, salary & fees	Non monetary benefits	Super-annuation	Other	Equity and options		Performance based
		$	$	$	$	$	$	%
Ahmed Fahour	2018	156,199	-	10,546	-	122,553	289,298	-
	2017	117,493	-	-	-	-	117,493	-
Elliott Kaplan	2018	81,744	-	-	-	29,448	111,192	-
	2017	65,700	-	-	-	-	65,700	-
Dr Gary Weiss	2018	21,231	-	2,017	-	-	23,248	-
	2017	48,000	-	4,560	-	-	52,560	-
Brandon Penn	2018	39,231	-	3,727	-	-	42,958	-
	2017	411,365	-	23,913	-	-	435,278	-
Rupert Harrington	2018	62,154	-	5,904	-	-	68,058	-
	2017	-	-	-	-	-	-	-
Grant Harrod	2018	562,270	-	20,049	-	49,266	631,585	-
	2017	32,330	-	2,966	-	-	35,296	-
Mark Saus	2018	302,129	-	24,800	-	4,061	330,990	5%
	2017	261,934	-	34,929	-	2,244	299,107	5%
Total Remuneration	**2018**	**1,224,958**	**-**	**67,043**	**-**	**205,328**	**1,497,329**	**-**
	2017	**936,822**	**-**	**66,368**	**-**	**2,244**	**1,005,434**	**-**

Shares and Loans issued under the ESPP during the year ended 30 June 2018

ESPP Shares of Key Management Personnel as at the date of this report

	ESPP Shares (number)	ESPP Shares $	ESPP Loans Outstanding $	ESPP Issue Price $	ESPP Expiry Date
Ahmed Fahour	10,600,000	4,028,000	4,028,000	0.380	29 November 2020
Grant Harrod	1,000,000	380,000	380,000	0.380	29 November 2020
Mark Saus	300,000	114,000	114,000	0.380	29 November 2020
Mark Saus	300,000	125,100	125,100	0.417	6 October 2018
Total	**12,200,000**	**4,647,100**	**4,647,100**		

150,000 shares awarded to Mark Saus did not qualify, were returned to the Company and cancelled at the AGM on 27 November 2017.

Performance Rights issued during the year ended 30 June 2018

	Performance Rights (number)	Date granted
Grant Harrod	3,000,000	30 November 2017

Performance Rights granted with vesting conditional upon the achievement of certain performance conditions. Each Performance Right entitles the holder to subscribe for one share.

The Performance Rights granted as an STI will be subject to certain vesting conditions. The STI vesting conditions will be tested at the end of the financial year and, if met, vesting will occur in respect of the relevant year.

Option Holdings of Key Management Personnel

1,200,000 options were granted to Mr Kaplan during the year ended 30 June 2018. Issue of options at a nil issue price and exercise price of $0.38 per option, exercisable on the basis set out in the Notice of AGM lodged on 26 October 2017.

Loans to Key Management Personnel

Other than loans issued in relation to the Company's ESPP shares detailed above, there were no loans to Key Management Personnel during the year.

This concludes the remuneration report, which has been audited.

SHARES UNDER OPTION

1,200,000 options were granted to Mr Kaplan during the year ended 30 June 2018.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

ROUNDING OF ACCOUNTS

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) and where noted ($'000) under the option available to the Company under ASIC Instrument 2017/191. The Company is an entity to which this Instrument applies.

OFFICERS OF THE COMPANY WHO ARE FORMER PARTNERS OF THE AUDITOR

There are no officers of the Company who are former audit partners of UHY Haines Norton, the auditor of the Company.

AUDITORS INDEPENDENCE DECLARATION AND NON-AUDIT SERVICES

UHY Haines Norton continues in office in accordance with section 327 of the Corporations Act 2001.

During the year ended 30 June 2018, there were no non-audit services provided by the Company's auditors UHY Haines Norton.

The Auditor's independence declaration as required under section 307C of the Corporations Act 2001 for the year end 30 June 2018 has been received and can be found on page 15 of the financial report.

This Directors' Report is signed in accordance with a resolution of the Board of Directors pursuant to section 298 (2) (a) of the Corporations Act 2001.

Signed at Sydney on 20 September 2018.

Ahmed Fahour - AO
Chairman

Darren Brown
Director

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Auditor's Independence Declaration under section 307C of the *Corporations Act 2001*

To the Directors of Pro-Pac Packaging Limited

As auditor for the audit of Pro-Pac Packaging Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the 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 year.

UHY Haines Norton

M.D. Nicholaeff
Partner
Sydney

20th September 2018

UHY Haines Norton
Chartered Accountants

CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Statement of Pro-Pac Packaging Limited (the 'Company') has been prepared in accordance with the Australian Securities Exchanges ('ASX') Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council ('ASX Principles and Recommendations') and is included in the Company's Annual Report pursuant to ASX Listing Rule 4.10.3. This listing rule requires the Company to disclose the extent to which it has followed the recommendations during the financial year, including reasons where the company has not followed a recommendation and any related alternative governance practice adopted.

The Company's ASX Appendix 4G, which is a checklist cross-referencing the ASX Principles and Recommendations to the relevant disclosures in either this statement, our website or Annual Report, is contained on our website at www.ppgaust.com.au.

Both this Corporate Governance Statement and the ASX Appendix 4G have been lodged with the ASX. This statement has been approved by the Company's Board of Directors ('Board') and is current as at 20 September 2018.

The ASX Principles and Recommendations and the Company's response as to how and whether it follows those recommendations are set out below.

Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1 - A listed entity should disclose:
(a) the respective roles and responsibilities of its board and management; and
(b) those matters expressly reserved to the board and those delegated to management.

The Company's Board maintains the following roles and responsibilities:
- providing leadership and setting the strategic objectives of the Company;
- appointing the Chair and/or the 'senior independent director';
- appointing, and when necessary replacing, the Chief Executive Officer ('CEO');
- assessing the performance of the CEO and overseeing succession plans for senior executives;
- overseeing management's implementation of the Company's strategic objectives;
- approving operating budgets and major capital expenditure;
- overseeing the integrity of the Company's accounting and corporate reporting systems, including the external audit;
- overseeing the Company's process for market disclosure of all material information concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities;
- ensuring that the Company has in place an appropriate risk management framework and setting the risk parameters within which the Board expects management to operate;
- approving the Company's remuneration framework;
- monitoring the effectiveness of the Company's governance practices; and
- reporting to and communications with shareholders.

The Board has delegated the day-to-day management of the Company to the CEO and other senior executives ('management'). The Company's management is responsible for the following:
- being accountable for the performance of the Company;
- implementing the strategic objectives set by the Board;
- operating within the risk parameters set by the Board;
- operational and business management of the Company;
- managing the Company's reputation and operating performance in accordance with parameters set by the Board;
- day-to-day running of the Company;
- providing the Board with accurate, timely and clear information to enable the Board to perform its responsibilities; and
- approving capital expenditure (except acquisitions) within delegated authority levels.

Senior executives have their roles and responsibilities defined in specific position descriptions.

Recommendation 1.2 - A listed entity should:
(a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and
(b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

Before appointing a director, or putting forward to shareholders a director for appointment, the Company undertakes comprehensive reference checks that cover elements such as the person's character, experience, employment history, qualifications and other appropriate checks.

An election of directors is held each year. A director that has been appointed during the year must stand for election at the next Annual General Meeting ('AGM'). Directors are generally appointed for a term of three years. Retiring directors are not automatically re-appointed.

The Company provides to shareholders for their consideration information about each candidate standing for election or re-election as a director that the Board considers necessary for shareholders to make a fully informed decision. Such information includes the person's biography, which include experience and qualifications, details of other directorships, adverse information about the person that the Board is aware of including material that may affect the person's ability to act independently on matters before the Board, and whether the Board supports the appointment or re-election.

Recommendation 1.3 - A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.

The terms of the appointment of a non-executive director are set out in writing and cover matters such as the term of appointment, time commitment envisaged, required committee work and other special duties, requirements to disclose their relevant interests which may affect independence, corporate policies and procedures, indemnities, and remuneration entitlements.

Executive directors and senior executives are issued with service contracts which detail the above matters as well as the person or body to whom they report, the circumstances in which their service may be terminated (with or without notice), and any entitlements upon termination.

Recommendation 1.4 - The Company Secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.

The Company Secretary reports directly to the Board through the Chairman and is accessible to all directors. The Company Secretary's role, in respect of matters relating to the proper functioning of the Board, includes:

- advising the Board and its Committees on governance matters;
- monitoring compliance of the Board and associated committees with policies and procedures;
- coordinating all Board business;
- retaining independent professional advisors;
- ensuring that the business at Board and committee meetings is accurately minuted; and
- assisting with the induction and development of directors.

Recommendation 1.5 - A listed entity should:

(a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;

(b) disclose that policy or a summary of it; and

(c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either:

(1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or

(2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.

The Company currently has a formal diversity policy that is monitored at the end of each reporting period. It is the committee's intention to set measurable objectives for achieving gender diversity in FY19. The Company respects people as individuals and values their differences. It is committed to creating a working environment that is fair and flexible, promotes personal and professional growth, and benefits from the capabilities of its diverse workforce. The organisation employs people of each gender with varying skills, cultural backgrounds, ethnicities and experience. The Comapny believes its diverse workforce is the key to its continued growth, improved productivity and performance.

The Company also maintains a flexible working policy to provide flexible working arrangements including part time and working from home. This is to ensure employees with children are able to continue working and meet their home responsibilities.

The respective proportion of women and men in the Company including its subsidiaries ('consolidated entity') as at 30 June 2018 are as follows:

	Portion of women	**Proportion of men**
On the Board	-	100%
In senior executive positions	21%	79%
Across the whole organisation	28%	72%

For this purpose, the Board defines a senior executive as a person who makes, or participates in the making of, decisions that affect the whole or a substantial part of the business or has the capacity to affect significantly the Company's financial standing. This therefore includes all senior management and senior executive designated positions as well as senior specialised professionals.

The Company is a 'relevant employer' for the purposes of the Workplace Gender Equality Act 2012 on the basis that the entity employs 100 or more employees in Australia. The company makes annual filings of Gender Equality Indicators with the Workplace Gender Equality Agency (WGEA). This information is accessible on https://www.wgea.gov.au

Recommendation 1.6 - A listed entity should:
(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and
(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

The Company has in place systems designed to fairly review and actively encourage enhanced Board and management effectiveness. The Chairman has the responsibility to review continually the performance of each director and the Board as a whole. The performance of the Board is reviewed regularly against both measurable and qualitative indicators. The performance criteria against which Directors and Executives are assessed is aligned with the financial and non-financial objectives of the Company. From time to time and, as considered appropriate, the Chairman will seek external assistance and advice to undertake these performance reviews. A review was conducted by the Chairman during the year.

Recommendation 1.7 - A listed entity should:
(a) have and disclose a process for periodically evaluating the performance of its senior executives; and
(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

The Board conducts an annual performance assessment of the CEO against agreed performance measures determined at the start of the year. The CEO undertakes the same assessments of senior executives. In assessing the performance of the individual, the review includes consideration of the senior executive's function, individual targets, group targets, and the overall performance of the Company.

The CEO provides a report to the Board on the performance of senior executives together with remuneration recommendations which must be approved by the Board after consultation with the People, Innovation and Culture Committee (PIC). A review of the CEO and senior executives was undertaken during the year.

Principle 2: Structure the board to add value

Recommendation 2.1 - The board of a listed entity should:
(a) have a nomination committee which:
- *(1) has at least three members, a majority of whom are independent directors; and*
- *(2) is chaired by an independent director,*

and disclose:
- *(3) the charter of the committee;*
- *(4) the members of the committee; and*
- *(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or*

(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.

The Board maintains a People, Innovation and Culture Committee (PIC) which incorporates the Remuneration and Nomination Committee, whose members during the financial year, were as follows:

Director's name	Executive status	Independence status
Ahmed Fahour - Chair	Non-Executive Director	Independent
Elliott Kaplan	Non-Executive Director	Independent
Dr Gary Weiss	Non-Executive Director	Independent

Following the resignation of Dr Garry Weiss (27 November 2017) and Elliot Kaplan (31 August 2018), Leonie Valentine and Marina Go were appointed to the PIC Committee on 3 September 2018.

The Charter of the Committee is available at the Company's website. It details the roles and responsibilities of the Committee.

The number of Committee meetings held and attended by each member is disclosed in the 'Meetings of Directors' section of the Directors' report.

Recommendation 2.2 - A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.

The Board's skills matrix indicates the mix of skills, experience and expertise that are considered necessary at Board level for optimal performance of the Board. It is therefore used when recruiting new directors and assessing which skills need to be outsourced based on the attributes of the current Board members. The existence of each attribute is assessed by the Board as either, High, Medium or Low.

Skill category	Description of attributes required	Level of importance	Existence in current Board
Risk and compliance	Identification of key risks to the Company related to each key area of operations. Monitoring of risks, satisfy compliance issues and knowledge of legal and regulatory requirements.	High	High
Financial and audit	Analysis and interpretation of accounting and finance issues including assessment and resolution of audit and financial reporting risks, contribution to budgeting and financial management of projects and Company, assessing and supervising capital management.	High	High
Strategic	Development of strategies to achieve business objectives, oversee implementation and maintenance of strategies, and identification and critical assessment of strategic opportunities and threats to the Company.	High	High
Operating policies	Key issue identification representing operational and reputational risks and development of policy responses and parameters within which the Company should operate.	Medium	Medium
Information technology	Knowledge of IT governance including privacy, data management and security.	Medium	Medium
Executive management	Performance assessments of senior executives, succession planning for key executives, setting of key performance hurdles, experience in industrial relations and organisational change management programmes.	High	High
Age and gender	Board aims for equal gender representation and range of experienced individuals to contribute towards better Board outcomes.	Medium	Medium

The Board currently believes that its membership adequately represents the required skills as set out in the matrix and therefore does not intend to seek any new or alternative candidates. External consultants may be brought in with specialist knowledge to address areas where this is an attribute deficiency in the Board.

In addition to the specific areas that are required at Board level identified the matrix above, all members of the Board are assessed for the following attributes before they are considered an appropriate candidate.

Board Member Attributes

Leadership	Represents the Company positively amongst stakeholders and external parties; decisively acts ensuring that all pertinent facts considered; leads others to action; proactive solution seeker.
Ethics and integrity	Awareness of social, professional and legal responsibilities at individual, Company and community level; ability to identify independence conflicts; applies sound professional judgement; identifies when external counsel should be sought; upholds Board confidentiality; respectful in every situation.
Communication	Effective in working within defined corporate communications policies; makes constructive and precise contribution to the Board both verbally and in written form; an effective communicator with executives.
Negotiation	Negotiation skills which engender stakeholder support for implementing Board decisions.
Corporate governance	Experienced director that is familiar with the mechanisms, controls and channels to deliver effective governance and manage risks.

Recommendation 2.3 - A listed entity should disclose:
(a) the names of the directors considered by the Board to be independent directors;
(b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and
(c) the length of service of each director.

The Board assesses annually the independence of each director to ensure that those designated as independent do not have any alliance to the interests of management, substantial shareholders or other relevant stakeholders. They must be free of any interest, position, association or relationship that might influence, or reasonably be perceived to influence, in a material respect, their capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of the Company and its security holders generally.

Details of the Board of directors, their appointment dated, length of service as independence status is as follows:

Director's name	**Appointment date**	**Length of service at reporting date**	**Independence status**
Ahmed Fahour	28 March 2014	4 years and 3 months	Independent Non-executive
Elliott Kaplan	1 March 2005	13 years and 4 months (resigned 31 August 2018)	Independent Non-executive
Brandon Penn	16 August 2007	10 years and 6 months (resigned 16 February 2018)	Not-independent Substantial shareholder
Dr Gary Weiss	28 May 2012	5 years and 6 months (resigned 27 November 2017)	Independent Non-executive
Rupert Harrington	6 November 2017	8 months	Independent Non-executive
Darren Brown	2 July 2018	-	Independent Non-executive
Leonie Valentine	1 August 2018	-	Independent Non-executive
Marina Go	1 August 2018	-	Independent Non-executive

The Board may determine that a director is independent notwithstanding the existence of an interest, position, association or relationship of the kind identified in the examples listed under Recommendation 2.3 of the ASX Principles and Recommendations.

As part of its independence assessment, the Board considers the length of time that the Director has been on the Board, as a prolonged service period may also be seen to impair independence. The Board concluded that no non-executive Director has been on the Board for a period which could be seen to compromise their independence.

Where it is determined that a non-executive Director should no longer be considered independent, the Company shall make an announcement to the market.

Recommendation 2.4 - A majority of the board of a listed entity should be independent directors.

Having regard to the response to Recommendation 2.3 above, the majority of the Board at the reporting date were independent.

Recommendation 2.5 - The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.

Ahmed Fahour is Chair of the Board and is considered to be an independent director of the Company. Grant Harrod is the Chief Executive Officer.

Recommendation 2.6 - A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.

New directors undertake an induction program coordinated by the Company Secretary on behalf of the People, Innovation and Culture Committee. The program includes strategy briefings, explanations of company policies and procedures, governance frameworks, cultures and values, company history, director and executive profiles and other pertinent company information

Principle 3: Act ethically and responsibly

Recommendation 3.1 - A listed entity should:
(a) have a code of conduct for its directors, senior executives and employees; and
(b) disclose that code or a summary of it.

The Company maintains a code of conduct. The purpose of the Code of Conduct is to guide all employees, including Directors as to:

- the practices necessary to maintain confidence in the Company's honesty and integrity;
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The overriding principle is that all business affairs of the Company must be conducted legally, ethically and with strict observance of the highest standards of propriety and business ethics. If there are any doubts as to how to respond to a particular circumstance, Directors and employees are encouraged to consult with the Chairman or Company Secretary and, if necessary, seek external professional advice.

The Company has in place a code of conduct which sets standards for the Board and employees in dealing with the Company's customers, suppliers, shareholders and other stakeholders. A copy of this code of conduct is available on the the Company's website.

Principle 4: Safeguard integrity in corporate reporting

Recommendation 4.1 - The board of a listed entity should:
(a) have an audit committee which:
   (1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and
   (2) is chaired by an independent director, who is not the chair of the board,
   and disclose:
   (3) the charter of the committee;
   (4) the relevant qualifications and experience of the members of the committee; and
   (5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.

To assist in the execution of its responsibilities, the Board has established an Audit Business Risk and Compliance Committee. A summary of the Charter setting out the Committee's responsibilities is posted on the Company's website.

It is the Board's responsibility to ensure that an effective internal control framework exists within the Company.

This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the Company to the Audit Business Risk and Compliance Committee.

The Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports.

The Committee comprises Mr Brown (Chairman), Mr Harrington and Ms Go. Each member is financially literate (i.e. they are able to read and understand financial statements) and Mr Brown has financial expertise (i.e. he is a Chartered Accountant). All members have some understanding of the industry in which the Company operates. Previous Committee Chairman, Mr Kaplan resigned 31 August 2018 and Dr Weiss resigned 27 November 2017.

Recommendation 4.1 requires that the composition of Audit Business Risk and Compliance Committee comprises a majority of independent Directors and that the committee have at least three members. Effective 2 July 2018, the Company satisfies this requirement.

For additional details of Directors' attendance at Audit Business Risk and Compliance Committee meetings and to review the qualifications of the members of the Committee, please refer to the Directors' Report.

Recommendation 4.2 - The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

In relation to the financial statements for the financial year ended 30 June 2018 and the half-year ended 31 December 2017, the Company's CEO and CFO have provided the Board with declarations, that in their opinion:

- the financial records of the Company have been properly maintained;
- the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company; and
- has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Recommendation 4.3 - A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.

The engagement partner for the Company's audit attends the AGM and is available to answer shareholder questions from shareholders relevant to the audit.

Principle 5: Make timely and balanced disclosure

Recommendation 5.1 - A listed entity should:
(a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and
(b) disclose that policy or a summary of it.

Consistent with *ASX Principle 5*, the Board aims to ensure that all investors have equal and timely access to material information concerning the Company, that there is compliance with continuous disclosure requirements and that announcements made by the Company are factual and presented in a clear and balanced way. The Company has adopted an External Communications Policy reflecting the principles set out in *ASX Principle 5*. This policy has been placed on the Company's website.

Principle 6: Respect the rights of security holders

Recommendation 6.1 - A listed entity should provide information about itself and its governance to investors via its website.

The Company maintains information in relation to governance documents, directors and senior executives, Board and committee charters, annual reports, ASX announcements and contact details on the Company's website.

Recommendations 6.2 and 6.3

A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors (6.2).

A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders (6.3).

The Company has adopted a number of different practices designed to promote effective communication with shareholders as recommended by *ASX Principle* 6 and as reflected in the Company's External Communications Policy, published on its website. These practices include placing on the Company's website relevant information, including ASX announcements, annual and half-year reports, copies of notices of meetings, analyst briefings and presentations given by the Chairman or Chief Executive Officer. Annual reports are distributed to all shareholders by mail or email (unless a shareholder has specifically requested not to receive these documents).

A representative from the auditors of the Company attends the annual general meeting and any other meeting as required by the Board and is available to answer shareholder questions about the conduct of the audit and preparation and content of the auditor's report. Shareholders are given the opportunity to raise questions with any of the Directors at shareholder meetings, both formally and informally.

The External Communications Policy also elaborates on the Company's continuous disclosure policy.

Recommendation 6.4 - A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.

This option is available to security holders.

Principle 7: Recognise and manage risk

Recommendations 7.1 and 7.2

The board of a listed entity should:
(a) have a committee or committees to oversee risk, each of which:
  (1) has at least three members, a majority of whom are independent directors; and
  (2) is chaired by an independent director,
  and disclose:
  (3) the charter of the committee;
  (4) the members of the committee; and
  (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework (7.1).

The Board or a committee of the Board should: (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and (b) disclose, in relation to each reporting period, whether such a review has taken place (7.2).

In addition to its financial reporting obligations, the Audit Business Risk and Compliance Committee is responsible for reviewing the risk management framework and policies of the Company. The structure of the Committee and its responsibilities reflect in part the requirements of *ASX Principle 7* and are set out in the Company's Audit Business Risk and Compliance Committee charter, published on its website. Details of directors' attendance at Committee meetings are disclosed in the Directors' Report. The Committee has reviewed the Company's risk management framework during the reporting period.

In performing this function, the Committee receives periodic reports from the Group's Management Risk Committee (comprising key stakeholders from the management team and the Group's insurance advisers), external auditor, and in some instances, external consultants detailing compliance with statutory requirements and the adequacy of the risk management programs and systems in place. In addition, the Committee reviews the adequacy of the Group's insurance program. In line with ASX Principle 7, the Company adopted the policy requiring the Chief Executive Officer and Chief Financial Officer to confirm in writing that, to the best of their knowledge, the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which operates efficiently and effectively in all material respects. The Board has received the relevant declarations on 20 September 2018.

Recommendation 7.3 - A listed entity should disclose:
(a) *if it has an internal audit function, how the function is structured and what role it performs; or*
(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.

The Company does not have an internal audit function. It is the Board's responsibility to ensure that an effective internal control framework exists within the Company. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the Company to the Audit Business Risk and Compliance Committee.

Recommendation 7.4 - A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.

The management of the Company and the execution of its growth strategies are subject to a number of risks which could adversely affect the Company's future development. The following is not an exhaustive list or explanation of all risks and uncertainties associated with the Company (and its subsidiaries), but those considered by management to be the principal material risks:

Financial risk	The Company is exposed to financial risks such as foreign currency risk and interest rate risk. Refer to the 'Financial Instrument' note to the financial statements for further information on these risks and how they are managed.
Loss of people	The Company's senior executive team is instrumental in implementing the Company's strategies and executing business plans which support the business operations and growth. Service agreements are in place and the risk of the loss of key personnel is mitigated by regular reviews of remuneration packages (including short and long term incentive schemes) and succession planning within the team. Refer to commentary at Recommendations 7.1 and 7.2 for information on the Company's risk management framework.

Principle 8: Remunerate fairly and responsibly

Recommendation 8.1 - The board of a listed entity should:
(a) have a remuneration committee which:
- *(1) has at least three members, a majority of whom are independent directors; and*
- *(2) is chaired by an independent director,*
  and disclose:
- *(3) the charter of the committee;*
- *(4) the members of the committee; and*
- *(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or*

(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high-quality Board and Executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Board will link the nature and amount of Directors' remuneration to the Company's financial and operations performance.

The Board has in place a People, Innovation and Culture Committee to assist the Board in relation to human resources issues affecting the Group. The structure of this Committee and its responsibilities reflect in part the requirements of *ASX Principle 8.* The Committee comprises Mr Fahour (Chairman), Ms Go and Ms Valentine all of whom are independent Directors. Mr Kaplan resigned 31 August 2018 and Dr Weiss resigned 27 November 2017 from the Committee. In addition to the members, the Chief Executive is invited to the meetings at the discretion of the Committee. Refer schedule of meetings of directors on page 6.

A charter setting out the responsibilities of the Committee has been adopted and a summary of this charter is posted on the Company's website.

This Committee is responsible for ensuring that the recruitment and remuneration policies and practices of the Company are consistent with its strategic goals and human resources objectives and are designed to enhance corporate and individual performance as well as meet the appropriate recruitment and succession planning needs.

To do this the Committee, among other things, is responsible for reviewing and monitoring executive performance, remuneration and incentive policies and the manner in which they should operate, the introduction and operation of share plans, executive succession planning and development programs to ensure that they are appropriate to the Group's needs and the remuneration framework for Directors (as approved by shareholders). The Committee may consult with remuneration advisors to the Company to assist in its role.

The Committee is also responsible to determine and review compensation arrangements for the Directors and to ensure that the Board continues to operate within the established guidelines, including when necessary, selecting candidates for the position of director. In carrying out its functions the Committee considers remuneration issues annually and otherwise as required in conjunction with the regular meetings of the Board. Compensation arrangements are determined subject to the Company's constitution and prior shareholder approvals.

Remuneration of non-executive Directors is in accordance with resolutions of shareholders in general meeting. The Company does not have any schemes for retirement benefits, other than statutory superannuation for non-executive Directors.

Details of the Directors and key executive's remuneration are set out in the Directors' Report as is the number of times that the Remuneration Committee met during the year.

Recommendation 8.2 - A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.

Non-executive Directors are remunerated by way of cash fees and superannuation contributions. The level of remuneration reflects the anticipated time commitments and responsibilities of the position. Performance based incentives are not available to non-executive Directors as it could be perceived to impair their independence in decision making. For the same reason, equity-based remuneration is limited to non-performance-based instruments such as shares.

Executive directors and other senior executives are remunerated using combinations of fixed and performance-based remuneration. Fees and salaries and set at levels reflecting market rates having regard to the individual's performance and responsibilities. Performance based remuneration is linked directly to specific performance targets that are aligned to both short and long-term objectives. Share options and rights are aligned to longer term performance hurdles. Termination payments are detailed in individual contracts and payable on early termination with the exclusion of termination in the event of misconduct.

Further details in relation to the Company's remuneration policies are contained in the Remuneration Report, within the Directors' report.

Recommendation 8.3 - A listed entity which has an equity-based remuneration scheme should:
(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and
(b) disclose that policy or a summary of it.

The Company operates an Executive Long-Term Incentive Plan to encourage employees to share ownership of the Company and promote long-term success of the Company as a goal shared by the employees. Please see the Directors' report for further details of the plan.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Notes	Consolidated 2018 $000's	Consolidated 2017 $000's
Revenue			
Sale of goods		371,455	229,244
Interest income		222	149
Total Revenue		371,677	229,393
Expenses			
Raw materials and consumables used		236,499	153,498
Employee benefits expense		63,174	33,134
Other expenses from ordinary activities		24,876	12,670
Distribution costs		16,409	10,053
Occupancy costs		14,184	7,690
Depreciation and amortisation expense	**12**	5,910	3,225
Finance costs		5,291	1,307
Total Expenses		366,343	221,577
Profit before income tax expense and acquisition, rationalisation, relocation and restructuring expenses		5,334	7,816
Acquisition, rationalisation and relocation expenses	**22**	11,671	914
(Loss) / Profit before income tax expense for the year		(6,337)	6,902
Income tax benefit / (expense)	**5**	1,212	(1,886)
(Loss) / Profit after income tax expense for the year		(5,125)	5,016
Other comprehensive income			
Items that will be reclassified to profit & loss			
Movements in reserves		(415)	1,390
Total comprehensive (loss) / income for the year		(5,540)	6,406
Earnings per share (cents per share)			
- Basic earnings per share	**6**	(1.15)	2.11
- Diluted earnings per share	**6**	(1.12)	2.06

The above statements should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	Consolidated 30 June 2018 $000's	Consolidated 30 June 2017 $000's
Assets			
Current assets			
Cash and cash equivalents	8	3,206	12,259
Trade and other receivables	10	83,346	37,732
Inventories	11	95,463	35,093
Current tax assets	5	-	181
Derivative financial asset	25	470	886
Other assets	15	9,126	5,125
Total current assets		191,611	91,276
Non-current assets			
Property, plant and equipment	12	36,490	15,158
Intangible assets	13	184,689	71,281
Deferred tax assets	14	14,530	2,224
Total non-current assets		235,709	88,663
TOTAL ASSETS		427,320	179,939
Liabilities			
Current liabilities			
Trade and other payables	16	93,265	31,435
Interest bearing trade finance	17	-	800
Interest bearing borrowings	17	6,004	1,098
Current tax liability	14	292	-
Provisions	18	8,210	4,171
Total current liabilities		107,771	37,504
Non-current liabilities			
Provisions	18	8,219	1,636
Interest bearing borrowings	17	91,224	27,116
Total non-current liabilities		99,443	28,752
TOTAL LIABILITIES		207,214	66,256
NET ASSETS		220,106	113,683
EQUITY			
Issued capital	19	217,695	98,194
Other reserves	20	1,250	1,062
Retained earnings	21	1,161	14,427
TOTAL EQUITY		220,106	113,683

The above statements of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

	Notes	Consolidated 2018 $000's	Consolidated 2017 $000's
Cash flows from operating activities			
Receipts from customers		**376,156**	**229,189**
Payments to suppliers and employees		**(355,427)**	**(217,819)**
Interest received		**222**	**149**
Finance costs		**(7,329)**	**(1,307)**
Income tax paid		**(518)**	**(2,140)**
Net cash flows provided by operating activities	**9**	**13,104**	**8,072**
Cash flows from investing activities			
Payments for property, plant and equipment		**(13,549)**	**(2,770)**
Proceeds from sale of property, plant and equipment		**757**	**278**
Payment for controlled entity net of cash acquired		**(119,940)**	**-**
Payments for unincorporated businesses net of cash acquired		**(2,761)**	**(1,407)**
Relocation, restructuring and business combination costs		**(5,479)**	**(914)**
Net cash flows used in investing activities		**(140,972)**	**(4,813)**
Cash flows from financing activities			
Payment of hire purchase and finance lease liabilities		**(1,255)**	**(1,480)**
Finance leases raised		**510**	**1,435**
Proceeds from borrowing / (repayments)		**70,777**	**(2,200)**
Funds raised from share issue		**53,320**	**-**
Dividend paid		**(4,537)**	**(4,100)**
Net cash flows used in financing activities		**118,815**	**(6,345)**
Net increase / (decrease) in cash and cash equivalents		**(9,053)**	**(3,086)**
Cash and cash equivalents at beginning of financial year		**12,259**	**15,345**
Cash and cash equivalents at end of financial year	**8**	**3,206**	**12,259**

Non-cash financing transactions

Issue of shares for dividend re-investment plan	**3,604**	**1,890**

The above statements of cash flows should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

	Issued capital $ 000	Retained earnings $ 000	Reserves $ 000	Total equity $ 000
Consolidated				
Balance as at 1 July 2016	**96,304**	**15,403**	**(343)**	**111,364**
Profit after income tax expense for the year	**-**	**5,016**	**-**	**5,016**
Other comprehensive income for the year, net of tax	**-**	**-**	**1,390**	**1,390**
Total comprehensive income for the year	**-**	**5,016**	**1,390**	**6,406**
Transactions with owners in their capacity as owners:				
Issue of shares for dividend re-investment plan	**1,890**	**-**	**-**	**1,890**
Recognition of share based payment	**-**	**-**	**15**	**15**
Dividends paid	**-**	**(5,992)**	**-**	**(5,992)**
At 30 June 2017	**98,194**	**14,427**	**1,062**	**113,683**

	Issued capital $ 000	Retained earnings $ 000	Reserves $ 000	Total equity $ 000
Consolidated				
Balance as at 1 July 2017	**98,194**	**14,427**	**1,062**	**113,683**
(Loss) after income tax expense for the year	**-**	**(5,125)**	**-**	**(5,125)**
Other comprehensive income for the year, net of tax	**-**	**-**	**(415)**	**(415)**
Total comprehensive income for the year	**-**	**(5,125)**	**(415)**	**(5,540)**
Transactions with owners in their capacity as owners:				
Issue of shares for dividend re-investment plan	**3,604**	**-**	**-**	**3,604**
Shares issued to vendors of businesses acquired	**62,577**	**-**	**-**	**62,577**
Cost of raising shares	**(1,482)**	**-**	**-**	**(1,482)**
Shares issued under share placement	**54,802**	**-**	**-**	**54,802**
Recognition of share based payment	**-**	**-**	**102**	**102**
Recognition of other reserves	**-**	**-**	**501**	**501**
Dividends paid	**-**	**(8,141)**	**-**	**(8,141)**
At 30 June 2018	**217,695**	**1,161**	**1,250**	**220,106**

The above statements of changes in equity should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: CORPORATE INFORMATION

The financial report of Pro-Pac Packaging Limited and its subsidiaries (‘the Group’ or ‘Consolidated entity’) for the year ended 30 June 2018 was approved for issue in accordance with a resolution of the Directors on 20 September 2018.

Pro-Pac Packaging Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Group are described in the Directors’ Report.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

(b) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the requirements of the Corporations Act 2001. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').The financial report has been prepared on an accruals basis and unless otherwise stated is based on historical costs. The financial report is presented in Australian dollars.

(c) Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 31.

(d) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pro-Pac Packaging Limited ('company' or 'parent entity') as at 30 June 2018 and the results of all subsidiaries for the year then ended. Pro-Pac Packaging Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity' or ‘Group’.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

(e) Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

(f) Foreign currency translation

The financial statements are presented in Australian dollars, which is Pro-Pac Packaging Limited’s functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

(g) Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Sale of goods

Sale of goods revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer. Amounts disclosed as revenue are net of sales returns and trade discounts.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

(h) Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

(i) Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Plant and equipment is depreciated using the straight line and diminishing value methods over the estimated useful lives.

Depreciation rates used for each class of assets vary to the estimated useful lives at the time of acquisition, and are typically:

Class of fixed asset	Depreciation rates	Method
Plant and equipment	5% - 40%	Straight-line and diminishing value
Motor vehicles	7% - 25%	Straight-line and diminishing value
Computer equipment	20% - 50%	Straight-line and diminishing value
Furniture & Fittings	5% - 25%	Straight-line and diminishing value
Office equipment	5% - 33%	Straight-line and diminishing value

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date. Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

(j) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the Company substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

(k) Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

(i) Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

(ii) Trademarks

Trademarks are assigned an indefinite life and tested for impairment at each reporting date unless there are indications of impairment.

(iii) Customer Contracts

Customer contracts acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 4 years.

(l) Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. 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 and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

(m) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost in relation to work in progress and finished goods comprises direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

Cash flow hedges

Cash flow hedges are used to cover the consolidated entity's exposure to variability in cash flows that is attributable to particular risk associated with a recognised asset or liability or a firm commitment which could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Cash flow hedges are tested for effectiveness on a regular basis both retrospectively and prospectively to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, amounts recognised in equity are transferred to profit or loss.

If the hedging instrument is sold, terminated, expires, exercised without replacement or rollover, or if the hedge becomes ineffective and is no longer a designated hedge, amounts previously recognised in equity remain in equity until the forecast transaction occurs.

(o) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30-60 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired.

Other receivables are recognised at amortised cost, less any provision for impairment.

(p) Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

(q) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30-90 days of recognition.

(s) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

(t) Finance costs

Finance costs are expensed in the period in which they are incurred, including interest on the bank overdraft, interest on short-term and long-term borrowings, interest on finance leases and unwinding of the discount on provisions.

(u) Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability.

(v) Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or

- when the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Pro-Pac Packaging Limited (the 'parent entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The parent entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In addition to its own current and deferred tax amounts, the parent entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the parent entity to the subsidiaries nor a distribution by the subsidiaries to the parent entity.

(w) Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

(x) Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments

Equity-settled transactions are awards of shares, or options over shares that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation.

(y) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

(z) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(aa) Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the company.

(bb) Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either: i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit; or ii) designated as such upon initial recognition, where they are managed on a fair value basis or to eliminate or significantly reduce an accounting mismatch. Except for effective hedging instruments, derivatives are also categorised as fair value through profit or loss. Fair value movements are recognised in profit or loss.

Impairment of financial assets

The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

(cc) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Pro-Pac Packaging Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(dd) Rounding of amounts
The company is of a kind referred to in ASIC Instrument 2016/191 (issued in 2016), and in accordance with that instrument all financial information presented in AUD has been rounded to the nearest one thousand dollars ($'000), unless otherwise stated.

(ee) New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2018. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018 and the impact of its adoption is expected to be minimal on the consolidated entity.

AASB 15 Revenue from Contracts with Customers
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018 and the impact of this adoption is expected to be minimal on the consolidated entity.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

AASB 16 Leases
This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the consolidated entity.

(ff) Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Provision for impairment of receivables
The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

Provision for impairment of inventories
The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Estimation of useful lives of assets
The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Goodwill and other indefinite life intangible assets
The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2 (k). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax
The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Employee benefits provision
As discussed in note 2 (x), the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Lease make good provision
A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

Business combinations
Business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

NOTE 3: OPERATING SEGMENTS

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings since the diversification of the Group’s operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- The products sold and/or services provided by the segment; and
- The manufacturing process.

Types of products and services by segment

Industrial & Flexibles packaging

The Industrial & Flexibles packaging division manufactures, sources and distributes industrial & flexible packaging materials and related products and services, incorporating products such as stretch & shrink wrap, agricultural silage packaging, fresh produce bags, barrier & lidding films and industrial protective films. All products produced or distributed are aggregated as one reportable segment as the products are similar in nature and are distributed to similar types of customers. The Industrial & Flexibles packaging segment also installs, supports and maintains packaging machines.

NOTE 3: OPERATING SEGMENTS (continued)

Rigid packaging

The Rigid packaging division manufactures, sources and distributes containers and closures and related products and services. All products produced or distributed are aggregated as one reportable segment as the products are similar in nature and are manufactured and distributed to similar types of customers.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Inter-segment transactions

An internally determined transfer price is set for all inter-entity sales. This price is re-set quarterly and is based on what would be realised in the event the sale was made to an external party at arm's length. All such transactions are eliminated on consolidation for the Group's financial statements.

Inter-segment loans payable and receivable are initially recognised at the consideration received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. All inter-segment loans payable and receivable are eliminated on consolidation for the Group's financial statements.

Segment Assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the assets role, investments in financial assets, deferred tax assets have not been allocated to operating segments.

Segment Liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain borrowings.

Unallocated items

The following items of revenue, expenses, asset and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- impairment of assets and other non-recurring revenue or expenses;
- income tax expense;
- deferred tax assets and liabilities;
- current tax liabilities; and
- other financial liabilities.

NOTE 3: OPERATING SEGMENTS (continued)

	Rigid packaging $000's 2018	Industrial & flexibles packaging $000's 2018	Intersegment eliminations / unallocated $000's 2018	Total $000's 2018	Rigid packaging $000's 2017	Industrial & flexibles packaging $000's 2017	Intersegment eliminations / unallocated $000's 2017	Total $000's 2017
(i) Segment performance								
12 month ended 30 June								
Revenue								
External sales	61,093	310,362		371,455	59,802	169,442	-	229,244
Inter-segment sales	9,660	12,116	(21,776)	-	8,162	7,030	(15,192)	-
Total segment revenue	70,753	322,478	(21,776)	371,455	67,964	176,472	(15,192)	229,244
UNDERLYING EBITDA	6,739	14,738	(5,336)	16,141	7,011	9,219	(4,031)	12,199
Acquisition, rationalisation, relocation & restructuring expenses	738	7,494	3,439	11,671	-	13	901	914
EBITDA	6,001	7,244	(8,775)	4,470	7,011	9,206	(4,932)	11,285
Depreciation and amortisation	(1,627)	(3,740)	(371)	(5,738)	(1,512)	(1,580)	(133)	(3,225)
Interest revenue				222				149
Finance costs				(5,291)				(1,307)
Profit before income tax				(6,337)				6,902
Income tax expense				1,212				(1,886)
Profit after income tax				(5,125)				5,016
(ii) Segment assets								
As at 30 June								
Segment assets	45,934	365,133	-	411,067	46,375	120,865	-	167,240
Reconciliation of segment assets to group assets								
Inter -segment eliminations				(2,707)				(2,020)
Unallocated assets				18,960				14,719
* Deferred tax assets				14,530				2,224
* Other				4,430				12,495
Total group assets from continuing operations				427,320				179,939
(iii) Segment liabilities								
As at 30 June								
Segment liablities	12,383	99,307	-	111,690	13,208	29,409	-	42,617
Reconciliation of segment liablities to group liabilities								
Inter -segment eliminations				(1,387)				(2,116)
Unallocated liabilities				96,911				25,755
* Deferred tax liabilities				-				-
* Other liabilities				96,911				25,755
Total group liabilities from continuing operations				207,214				66,256

(iv) Pro-Pac Packaging Limited have an operation, PPG Services SDN BHD, which is a company incorporated in Malaysia. This company provides support services for all Group companies. The financial statements for this company are prepared under Malaysian Financial Reporting Standards, which are compliant with International Financial Reporting Standards. IPG have operations in Canada, New Zealand and United States. The financial statements for these companies are prepared to ensure compliance with International Financial Reporting Standards.

NOTE 4: EXPENSES

	Consolidated 2018 $000's	Consolidated 2017 $000's
Profit before income tax includes the following expenses:		
Cost of sales	**236,454**	**153,625**
Superannuation expense	**5,151**	**2,831**
Bad & doubtful debts – trade	**587**	**135**
Rental expense on operating leases:		
- minimum lease payments	**13,583**	**7,086**
Depreciation	**5,677**	**3,058**
Amortisation	**233**	**167**
Finance costs	**5,291**	**1,307**

NOTE 5: INCOME TAX

	Consolidated 2018 $000's	Consolidated 2017 $000's
Major components of income tax for the year ended 30 June are:		
Current income tax		
Current income tax charge	**(763)**	**2,042**
Adjustments in respect of previous years	**-**	**-**
Adjustments in respect of permanent differences	**703**	**113**
Deferred income tax		
Relating to temporary differences	**(1,152)**	**(269)**
Income tax expense in statement of profit or loss and other comprehensive income	**(1,212)**	**1,886**

	Consolidated 2018 $000's	Consolidated 2017 $000's
A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the year ended 30 June 2018 is as follows:		
Accounting (loss) / profit before tax	**(6,337)**	**6,902**
At the statutory income tax rate of 30%	**(1,901)**	**2,071**
Which is adjusted by the tax effect of:		
Different rates of tax on overseas income	**(14)**	**(2)**
Adjustments in respect of permanent differences	**703**	**113**
Adjustment in respect of previous years	**-**	**(296)**
At effective income tax rate of 19.1% (2017: 27.3%)	**(1,212)**	**1,886**
Income tax expense reported in statement of profit or loss and other comprehensive income	**(1,212)**	**1,886**

Tax consolidation

The Financial report has been prepared on the basis that the Group has adopted the provisions of the tax consolidation regime for the years ended 30 June 2018 and 30 June 2017.

	Consolidated 2018 $000's	Consolidated 2017 $000's
Current tax asset	**-**	**181**

NOTE 6: EARNINGS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

The following reflects the income and share data used in the total operations basic and diluted earnings per share computations:

	Consolidated 2018 $000's	Consolidated 2017 $000's
Net profit attributable to equity holders ($000's)	**(5,125)**	**5,016**
Weighted average number of ordinary shares for basic earnings per share	**446,961,654**	**237,980,248**
Basic earnings per share (cents per share) *	**(1.15)**	**2.11**
Diluted earnings per share (cents per share) *	**(1.12)**	**2.06**

* The difference between basic and diluted shares on issue represents the PPG Executive Long Term Incentive Plan (ESPP) shares on issue which are treated as an option grant.

NOTE 7: DIVIDENDS PAID AND PROPOSED

On 28 August 2018, the Company declared a fully franked final dividend of 1.0 cent per share. The record date for determining entitlements to the dividend is 11 September 2018 and the dividend will be paid on 6 November 2018. The Company's Dividend Reinvestment Plan will apply to the final dividend. When combined with PPG's interim dividend of 1.0 cent, paid on 23 May 2018, this brings total fully franked dividends for the 2017/18 financial year to 2.0 cents per share.

	2018 $000's	2017 $000's
Declared and paid during the year:		
Final dividend for 2017 – 1.0 cent per ordinary share (2016 – 1.5 cents per ordinary share)	**2,390**	**3,573**
Interim dividend for 2018 – 1.0 cent per ordinary share (2017 – 1.0 cent per ordinary share)	**5,751**	**2,419**
	8,141	**5,992**
Proposed for approval at the Directors Meeting (not recognised as a liability as at 30 June):		
Final dividend for 2018 – 1.0 cent per ordinary share (2017 – 1.0 cent per ordinary share)	**7,595**	**2,419**

Franking credits

	2018 $000's	2017 $000's
Franking credits available for subsequent financial years based on a tax rate of 30%	**12,333**	**14,965**

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

NOTE 8: CASH AND CASH EQUIVALENTS

	Consolidated 2018 $000's	Consolidated 2017 $000's
Cash at bank	**3,206**	**12,259**

Cash at bank earns interest at floating rates based on daily bank deposit rates

Reconciliation of cash
For the purposes of the Statement of cash flow, cash and cash equivalents comprise the following at 30 June:

Cash at bank	8,124	12,268
Bank overdraft	(4,918)	(9)
Cash at bank	**3,206**	**12,259**

NOTE 9: CASH FLOW INFORMATION

	Consolidated 2018 $000's	Consolidated 2017 $000's
a.) Reconciliation from the net profit after tax to the net cash flows from operations		
Net profit after tax	**(5,125)**	**5,016**
Relocation, restructuring and business combination costs	**11,671**	**914**
Add/(Less) non-cash items:		
Depreciation and amortisation of plant and equipment	**5,910**	**3,225**
(Profit)/Loss on disposal of assets	**885**	**(40)**
Movement in income tax provision	**15**	**(104)**
Movement in deferred tax assets & liabilities	**(1,776)**	**(156)**
Movement in provision for bad debts	**(10)**	**49**
Other non-cash movements	**(845)**	**4**
Changes in assets and liabilities:		
Receivables	**10,474**	**(1,009)**
Inventories	**(14,697)**	**(1,089)**
Payables	**9,406**	**1,880**
Provisions	**(228)**	**174**
Prepayments	**(2,576)**	**(792)**
Net cash flows from operating activities	**13,104**	**8,072**

b) Non-cash financing and investing activities

During the year, the consolidated Group acquired plant with an aggregate value of $510,436 (2017: $1,435,059) by means of finance leases.

c) Credit standby arrangements with banks

	Consolidated 2018 $000's	Consolidated 2017 $000's
Credit facility	**5,000**	**1,500**
Amount utilised	**4,916**	**-**
Loan facilities	**102,016**	**25,500**
Amount utilised	**97,301**	**25,500**

NOTE 10: TRADE & OTHER RECEIVABLES

	Consolidated 2018 $000's	Consolidated 2017 $000's
Current:		
Trade receivables	**81,335**	**37,164**
Provision for impairment of receivables	**(957)**	**(407)**
Other debtors	**2,968**	**975**
Total current receivables	**83,346**	**37,732**

Movements in the provision for impairment of receivables are as follows:

	Consolidated 2018 $000's	Consolidated 2017 $000's
Opening balance	**(407)**	**(358)**
Additional provision recognised	**(916)**	**(184)**
Receivables written off during the year as uncollectable	**366**	**135**
Closing balance	**(957)**	**(407)**

Trade receivables are non-interest bearing and are generally on terms between 30 and 90 days.

Credit risk – Trade and Other Receivables
The Group has no significant concentration of credit risk with respect to any single counter party or group of counter parties. The class of assets described as Trade and Other Receivables is considered to be the main source of credit risk related to the Group.

The following table details the Group's trade and other receivables exposed to credit risk with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, with the terms and conditions as agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trading terms (as detailed in the below table) are considered to be of high credit quality.

	Gross amount $000's	Past due & impaired $000's	Past due but not impaired > 90 $000's	Past due but not impaired 61- 90 $000's	Within initial trade terms $000's
Consolidated					
2018					
Trade and term receivables	**81,335**	**957**	**2,894**	**7,889**	**69,595**
Other receivables	**2,968**	**-**	**-**	**-**	**2,968**
Total	**84,303**	**957**	**2,894**	**7,889**	**72,563**
2017					
Trade and term receivables	**37,164**	**407**	**-**	**1,132**	**35,625**
Other receivables	**975**	**-**	**-**	**-**	**975**
Total	**38,139**	**407**	**-**	**1,132**	**36,600**

Neither the Group nor parent entity holds any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired. The consolidated entity did not consider a credit risk on the aggregate balance that are past due but not impaired based on recent collection practices.

NOTE 11: INVENTORIES

	Consolidated 2018 $000's	Consolidated 2017 $000's
Raw materials	**23,267**	**1,770**
Finished goods	**77,294**	**33,812**
Provision for obsolete stock	**(5,098)**	**(489)**
Total inventories	**95,463**	**35,093**

	Consolidated 2018 $000's	Consolidated 2017 $000's
Opening balance	**(489)**	**(650)**
Additional provision recognised	**(9,101)**	**(478)**
Obsolete stock written off	**4,492**	**639**
Closing balance	**(5,098)**	**(489)**

NOTE 12: PROPERTY, PLANT AND EQUIPMENT

	Consolidated 2018 $000's	Consolidated 2017 $000's
At 30 June		
Plant and equipment		
At cost	**59,785**	**34,881**
Accumulated depreciation	**(23,295)**	**(19,723)**
Total property, plant and equipment	**36,490**	**15,158**

a) Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	2018 $000's	2018 $000's	2018 $000's	2018 $000's	2018 $000's	2018 $000's	2018 $000's
	Plant and Equipment	**Motor Vehicles**	**Computer Equipment**	**Furniture & Fittings**	**Office Equipment**	**Leasehold Improvement**	**Total**
Balance at the beginning of the year	**12,147**	**1,455**	**482**	**350**	**475**	**249**	**15,158**
Additions arising from business acquisitions during the year	**12,731**	**-**	**-**	**-**	**-**	**1,092**	**13,823**
Additions	**12,089**	**592**	**420**	**292**	**156**	**-**	**13,549**
Make good provision capitalised	**-**	**-**	**-**	**-**	**-**	**284**	**284**
Disposals	**(402)**	**(123)**	**(4)**	**(67)**	**(39)**	**(12)**	**(647)**
Reclassification	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Depreciation charge for the year	**(4,319)**	**(411)**	**(383)**	**(123)**	**(134)**	**(307)**	**(5,677)**
Carrying amount at the end of the year	**32,246**	**1,513**	**515**	**452**	**458**	**1,306**	**36,490**

NOTE 12: PROPERTY, PLANT AND EQUIPMENT (continued)

	2017 $000's Plant and Equipment	2017 $000's Motor Vehicles	2017 $000's Computer Equipment	2017 $000's Furniture & Fittings	2017 $000's Office Equipment	2017 $000's Leasehold Improvement	2017 $000's Total
Balance at the beginning of the year	**12,574**	**1,449**	**491**	**393**	**529**	**395**	**15,831**
Additions arising from business acquisitions during the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Additions	**1,891**	**520**	**277**	**10**	**72**	**-**	**2,770**
Make good provision capitalised	**-**	**-**	**-**	**-**	**-**	**25**	**25**
Disposals	**(124)**	**(108)**	**-**	**(2)**	**(5)**	**(4)**	**(243)**
Depreciation charge for the year	**(2,194)**	**(406)**	**(286)**	**(51)**	**(121)**	**(167)**	**(3,225)**
Carrying amount at the end of the year	**12,147**	**1,455**	**482**	**350**	**475**	**249**	**15,158**

Refer to note 24 for further information on property, plant and equipment secured under finance leases.

NOTE 13: INTANGIBLE ASSETS

	Consolidated 2018 $000's	**Consolidated 2017 000's**
Goodwill	162,050	71,281
Less: Impairment	-	-
	162,050	71,281
Customer contracts - at cost	1,400	-
Less: Accumulated amortisation	(233)	-
	1,167	-
Brand names – at cost	21,472	-
Less: Accumulated amortisation	-	-
	21,472	-
	184,689	**71,281**

Reconciliation

Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Goodwill $'000	Brand names $'000	Customer contracts $'000	Total $'000
Balance at 1 July 2016	70,721	-	-	70,721
Additions through business combinations	560	-	-	560
Impairment of assets	-	-	-	-
Amortisation expense	-	-	-	-
Balance at 30 June 2017	71,281	-	-	71,281
Additions through business combinations	90,769	21,472	1,400	113,641
Impairment of assets	-	-	-	-
Amortisation expense	-	-	(233)	(233)
Balance at 30 June 2018	162,050	21,472	1,167	184,689

NOTE 13: INTANGIBLE ASSETS (continued)

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Impairment testing of goodwill

Carrying amount of goodwill

	Consolidated 2018 $000's	**Consolidated 217 $000's**
Carrying amount of goodwill - Industrial & Flexibles Division	**139,955**	**49,186**
Carrying amount of goodwill - Rigid Division	**22,095**	**22,095**
Total Carrying amount of goodwill	**162,050**	**71,281**

Indefinite life intangible assets

	Consolidated 2018 $000's	**Consolidated 217 $000's**
Carrying amount of indefinite life intangible assets Industrial & Flexibles Division	**21,472**	**-**
Carrying amount of indefinite life intangible assets Rigid Division	**-**	**-**
Total Carrying amount of indefinite life intangible assets	**21,472**	**-**

The Group and all of its subsidiaries are divided into two major cash generating units, the Industrial & Flexibles and Rigid divisions, as these are the smallest groups of identifiable assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill acquired through business combinations has been allocated to the cash-generating-units for impairment testing.

The recoverable amount of the consolidated entity's goodwill has been determined by a value-in-use calculation using a discounted cash flow model, based on a one year projection period approved by management and extrapolated for a further 4 years using a steady growth rate, together with a terminal value.

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

The following key assumptions were used in the discounted cash flow model for the Industrial & Flexibles and Rigid divisions:

a. 10.4% pre-tax discount rate (2017: 4.1%);
b. 3.0% for Industrial & Flexibles division (2017: 3.2%) and 2.6% for Rigid division (2017: 2.9%) per annum projected revenue growth rate; and
c. 3.0% for Industrial & Flexibles division (2017: 3.2%) and 2.6% for Rigid division (2017: 2.9%) per annum increase in operating costs and overheads.

The discount rate of 10.4% pre-tax reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital, the risk free rate and the volatility of the share price relative to market movements.

Projected growth rates are based on historical performance over the last five years and current trends which management believes are achievable during the forecasted period.

Based on the above, the recoverable amount of the Industrial & Flexibles division exceeded the carry amount by $22.9 million and the recoverable amount of Rigid division exceeded the carry amount by $30.7 million.

NOTE 13: INTANGIBLE ASSETS (continued)

Sensitivity

The directors have made judgements and estimates in respect of impairment testing of goodwill. Should these judgements and estimates not occur, the resulting goodwill may vary in the carrying amount. The sensitivities are as follows:

a. the discount rate would need to increase to 10.9% for the Industrial & Flexibles division and to greater than 23.0% for the Rigid division before goodwill would be impaired. A discount rate of 10.4% was used in the assessment of goodwill.

b. the EBITDA growth rate would need to decrease to negative 3.0% in the Industrial & Flexibles division and to less than negative 12.5% in the Rigid division before goodwill would be impaired with all other assumptions remaining costant. EBITDA growth rates of 3.0% and 2.6% respectively, were used in the assessment of goodwill for the Industrial & Flexibles and Rigid divisions respectively.

NOTE 14: DEFERRED TAX ASSETS

	Consolidated 2018 $000's	Consolidated 2017 $000's
Deferred tax assets		
Deferred tax assets comprise:		
Provisions and other timing differences	**9,798**	**2,215**
Benefit of tax losses	**4,278**	**-**
Transactions costs on equity issue	**454**	**9**
Closing balance	**14,530**	**2,224**
Reconciliation of gross movements		
The overall movement in the deferred tax account is as follows:		
Opening balance	**2,224**	**2,068**
Provisions and timing differences on IPG acquisition	**7,288**	**-**
Tax losses on IPG acquisition	**3,421**	**-**
Other permanent differences brought to account	**445**	**(113)**
Charge to statement of comprehensive income	**1,152**	**269**
Closing balance	**14,530**	**2,224**
Deferred tax assets		
The movement in deferred tax assets for each temporary difference during the year is as follows:		
Provisions and other timing differences at 1 July	**2,215**	**2,059**
Provisions and timing differences on IPG acquisition	**7,288**	**-**
Reclassification	**-**	**(2)**
Credit / (charge) to statement of comprehensive income	**295**	**158**
At 30 June	**9,798**	**2,215**
Losses recognised at 1 July	**-**	**-**
Tax losses on IPG acquisition	**3,421**	**-**
Charge to statement of comprehensive income	**857**	**-**
At 30 June	**4,278**	**9**
Transaction cost to equity issue at 1 July	**9**	**9**
Tax losses on IPG acquisition	**445**	
Tax effect of share issue cost	**-**	**2**
Reclassification	**-**	**2**
Charge to statement of comprehensive income	**-**	**(4)**
At 30 June	**454**	**9**

NOTE 15: OTHER ASSETS

	Consolidated 2018 $000's	Consolidated 2017 $000's
Current assets		
Other prepayments	**9,126**	**5,125**
Total current assets	**9,126**	**5,125**

NOTE 16: TRADE AND OTHER PAYABLES

	Consolidated 2018 $000's	Consolidated 2017 $000's
Current		
Unsecured:		
Trade payables	**66,697**	**21,917**
GST payable	**64**	**579**
Other tax payable	**1,175**	**386**
Sundry creditors and accruals	**25,284**	**8,508**
Contingent deferred payments to vendors for acquisitions	**45**	**45**
Total	**93,265**	**31,435**

Trade payables are non-interest bearing and are normally settled on 60 day terms. The net of GST payable and GST receivable is remitted to the appropriate tax body on a quarterly basis.

NOTE 17: INTEREST BEARING LOANS AND BORROWINGS

	Consolidated 2018 $000's	Consolidated 2017 $000's
Current		
Finance lease & hire purchase (see note 24)	**992**	**1,098**
Bank loan (secured)	**5,012**	**-**
Trade Finance	**-**	**800**
Total	**6,004**	**1,898**
Non-current		
Finance lease & hire purchase (see note 24)	**977**	**1,616**
Bank loan (secured)	**90,247**	**25,500**
Total	**91,224**	**27,116**

a.) The bank loan and trade finance facilities are secured as follows:
i) first ranking registered equitable mortgage over Pro-Pac Packaging Limited and all wholly owned subsidiaries; and
ii) cross interlocking guarantees from Pro-Pac Packaging Limited and all wholly owned subsidiaries.

b.) In respect of the 2018 financial year, the bank loan is subject to the following covenants on a 12 month rolling basis:

For the period from November 2017 to March 2018:

i) the Interest Coverage Ratio for the Group will at all times be greater than or equal to 4.00:1;
ii) the Gross Leverage Ratio for the Group will at all times not be greater than 3.25:1; and
iii) the Debt Service Cover Ratio for the Group will at all times be greater than or equal to 1.10:1.

For the period from April 2018 to Jun 2018:

i) the Interest Coverage Ratio for the Group will at all times be greater than or equal to 4.00:1;
ii) the Gross Leverage Ratio for the Group will at all times not be greater than 4.00:1; and

NOTE 17: INTEREST BEARING LOANS AND BORROWINGS (continued)

iii) the Debt Service Cover Ratio for the Group will at all times be greater than or equal to 1.10:1.

c.) The bank loan facility is subject to review on 2 November 2020.

Financing arrangements
Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated 2018 $000's	Consolidated 2017 $000's
Total facilities		
Bank overdraft	**5,000**	**1,500**
Bank loan (secured)	**102,016**	**25,500**
Contingent funding facilities	**29,400**	**19,200**
Total	**136,416**	**46,200**
Used at the reporting date		
Bank overdraft	**4,916**	**-**
Bank loan (secured)	**97,301**	**25,500**
Contingent funding facilities	**13,547**	**6,966**
Total	**115,764**	**32,466**
Unused at the reporting date		
Bank overdraft	**84**	**1,500**
Bank loan (secured)	**4,715**	**-**
Contingent funding facilities	**15,853**	**12,234**
Total	**20,652**	**13,734**

NOTE 18: PROVISIONS

	Consolidated 2018 $000's	Consolidated 2017 $000's
Current		
Employee entitlements		
Opening balance	**4,171**	**3,941**
Arising on acquisition of business combinations	**3,048**	**-**
Additional provisions	**2,261**	**2,257**
Amount used	**(2,074)**	**(2,027)**
Closing balance	**7,406**	**4,171**
Provision – onerous contract		
Additional provisions	**606**	**-**
Closing balance	**606**	**-**
Provision – restructuring		
Additional provisions	**198**	**-**
Closing balance	**198**	**-**
Total current provisions		
Opening balance	**4,171**	**3,941**
Arising on acquisition of business combinations	**3,048**	**-**
Additional provisions	**3,065**	**2,257**
Amount used	**(2,074)**	**(2,027)**
Closing balance	**8,210**	**4,171**

	Consolidated 2018 $000's	Consolidated 2017 $000's
Non – Current		
Employee entitlements		
Opening balance	**689**	**745**
Arising on acquisition of business combinations	**3,772**	**-**
Additional provisions	**476**	**259**
Amount used	**(387)**	**(315)**
Closing balance	**4,550**	**689**
Make good provision		
Opening balance	**947**	**938**
Arising on acquisition of business combinations	**1,972**	**-**
Additional provisions	**267**	**32**
Amount used	**(140)**	**(23)**
Closing balance	**3,046**	**947**
Provision – onerous contract		
Additional provisions	**623**	**-**
Closing balance	**623**	**-**
Total non-current provisions		
Opening balance	**1,636**	**1,683**
Arising on acquisition of business combinations	**5,744**	**-**
Additional provisions	**1,366**	**291**
Amount used	**(527)**	**(338)**
Closing balance	**8,219**	**1,636**

NOTE 18: PROVISIONS (continued)

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the consolidated entity does not have an unconditional right to defer settlement. However, based on past experience, the consolidated entity does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

NOTE 19: ISSUED CAPITAL

	Consolidated 2018 $000's	Consolidated 2017 $000's
Ordinary shares		
Issued and fully paid	**217,695**	**98,194**

Movement in ordinary shares on issue	Number	$000's
Balance at 1 July 2016	**240,428,193**	**96,304**
Cancellation of shares for Executive Long Term Incentive Plan	**(2,430,000)**	**-**
Issue of shares under the dividend re-investment plan	**3,773,626**	**1,890**
Balance at 30 June 2017	**241,771,819**	**98,194**
Balance at 1 July 2017	**241,771,819**	**98,194**
Shares issued to vendors of businesses acquired	158,421,024	62,577
Share rights issue	161,181,634	54,802
Issue of shares for Executive Long Term Incentive Plan	14,910,000	-
Cancellation of shares for Executive Long Term Incentive Plan	(1,000,000)	-
Cost of share issue	-	(1,482)
Issue of shares for dividend re-investment plan	8,380,864	3,604
Balance at 30 June 2018	**583,665,341**	**217,695**

There was no par value for the shares issued. The Company has an Executive Long Term Incentive Plan under which the company's shares have been granted (refer remuneration report on page 10).

Ordinary shares

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.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The consolidated entity's and parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the consolidated entity and parent entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity and parent entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current parent entity's share price at the time of the investment.

NOTE 19: ISSUED CAPITAL (continued)

The consolidated entity and parent entity are subject to certain financing arrangements covenants and meeting these are given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 30 June 2017 Annual Report.

NOTE 20: RESERVES

The consolidated entity's and parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

	Consolidated 2018 $000’s	Consolidated 2017 $000’s
Option reserve	**278**	**176**
Cash flow hedge reserve	**471**	**886**
Other reserve	**501**	**-**
Closing balance	**1,250**	**1,062**

Option reserve
The reserve is used to recognise the value of share options at an agreed price, where certain employees are granted options for shares that vest at a future date subject to the employee still being employed at that vesting date.

Hedging reserve - cash flow hedges
The reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that is determined to be an effective hedge.

Other reserve
The other reserve comprises of foreign currency reserve and share premium reserve.

NOTE 21: RETAINED EARNINGS

	Consolidated 2018 $000’s	Consolidated 2017 $000’s
Retained profits at the beginning of the year	**14,427**	**15,403**
Net profit attributable to members of the company	**(5,125)**	**5,016**
Dividends paid	**(8,141)**	**(5,992)**
Retained profits at the end of the year	**1,161**	**14,427**

NOTE 22: ACQUISITION, RATIONALISATION, RELOCATION AND RESTRUCTURING COSTS

During the year ended 30 June 2018, the Company acquired Integrated Packaging and undertook a re-organisation and restructure of the Group. These changes were undertaken to achieve rationalisation, consolidation, maximisation of merger opportunities which will deliver cost savings, margin expansion, incremental sales growth via vertical cross selling, elimination of duplicate costs and leveraging the collective scale of the combined group to achieve total group synergies.

	$000's
Discontinued and Redundant Stock Lines	3,440
Onerous leases and exit costs	2,600
Redundancy costs	112
Fixed asset disposals and write offs	1,075
Third party consultants, temporary staff and relocations	765
Other costs and legal fees	3,679
Total acquisition, rationalisation, relocation and restructuring costs	**11,671**

NOTE 22: ACQUISITION, RATIONALISATION, RELOCATION AND RESTRUCTURING COSTS (continued)

Discontinued and Redundant Stock Lines
As part of the first stage of the relocation and integration exercise, the Board along with management identified discontinued and redundant stock lines across all of its warehouse facilities in Australia in order to free up space to accommodate the proposed restructure of these warehousing facilities. The objective is to eliminate external third-party storage costs and achieve greater efficiencies within the restructured existing warehouses within the Group. The amount was provided for as at 31 December 2017 based on inventory held by business units which were reviewed and selected as appropriate for removal and dumping based on a number of criteria including the bulkiness of the product, current demand, alternative products and customer locations. The actual removal and dumping of the selected stock was completed by 30 June 2018.

Onerous leases and exit costs
As part of the integration process, the Group has decided to close down three facilities by integrating them into the existing facilities within the same states. Therefore, as at 30 June 2018, provision for onerous leases and exit costs were provided in relation to the remaining lease terms for such facilities.

Other costs and legal fees
These costs include $1.4m of transaction costs for Integrated Packaging (IPG) acquisition and various other restructure costs.

NOTE 23: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments comprise bank loans, finance leases and hire purchase contracts, cash, short-term deposits and forward foreign exchange contracts. The main purpose of these financial instruments is to finance the Company's operations. The Company uses foreign exchange contracts to reduce foreign currency risk.

The Company has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk
The Company's exposure to interest rate risk is limited to interest receivable and payable on bank accounts and drawn down bank loans. The interest rates contained in the finance lease and hire purchase agreements are fixed for the term of those arrangements. All cash balances are at call and the average interest rate on the deposits is 1.1%.

Foreign currency risk
The Company has transactional currency exposures. Such exposure arises from purchases by the operating unit in currencies other than the unit's measurement currency which accounted for 46.7% of purchases of materials and capital items.

Commodity price risk
The Company is exposed to commodity price risk from resin. In managing this risk, the Group is generally able to pass on the price risk through price increases. This includes customers with contracts through rise and fall adjustments.

Credit risk
The Company has policies in place to ensure that customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, the Company's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk
The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and finance leases and hire purchase contracts.

NOTE 24: FINANCIAL INSTRUMENTS

Unless otherwise stated the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

Interest rate risk

The following table sets out the interest rates applicable to financial instruments that are exposed to interest rate risk:

	Floating interest rate	Fixed interest rate	Non-interest bearing	Total carrying amount per the statement of financial position	Weighted average interest rate
	2018	2018	2018	2018	2018
	$000's	$000's	$000's	$000's	%
CONSOLIDATED					
(i) Financial assets					
Cash Assets	8,104	-	20	8,124	0.4
Bank overdraft	(4,918)	-	-	(4,918)	8.8
Receivables	-	-	83,346	83,346	
Total financial assets	3,186	-	83,366	86,552	
(ii) Financial liabilities					
Finance Leases (current)	-	992	-	992	7.2
Finance Leases (non-current)	-	977	-	977	7.2
Bank loans (current)	5,012	-	-	5,012	5.4
Bank loans (non-current)	90,247	-	-	90,247	5.4
Payables (current)	-	-	93,265	93,265	
Total financial liabilities	95,259	1,969	93,265	190,493	
Net financial assets/(liabilities)	(92,073)	(1,969)	(9,899)	(103,941)	

There is no interest rate applicable on receivables or payables.

	Floating interest rate	Fixed interest rate	Non-interest bearing	Total carrying amount per the statement of financial position	Weighted average interest rate
	2017	2017	2017	2017	2017
	$000's	$000's	$000's	$000's	%
CONSOLIDATED					
(i) Financial assets					
Cash Assets	12,257	-	11	12,268	1.2
Bank overdraft	(9)	-	-	(9)	8.0
Receivables	-	-	37,732	37,732	
Total financial assets	12,248	-	37,743	49,991	
(ii) Financial liabilities					
Finance Leases (current)	-	1,098	-	1,098	6.7
Finance Leases (non-current)	-	1,616	-	1,616	6.7
Trade Finance (current)	800	-	-	800	3.3
Bank loans (non-current)	25,500	-	-	25,500	3.3
Payables (current)	-	-	31,435	31,435	
Total financial liabilities	26,300	2,714	31,435	60,449	
Net financial assets/(liabilities)	(14,052)	(2,714)	6,308	(10,458)	

NOTE 24: FINANCIAL INSTRUMENTS (continued)

The following table sets out the contractual maturities of the financial instruments that are exposed to interest rate risk:

Year ended 30 June 2018	Less than one year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years	Total
	$000's	$000's	$000's	$000's	$000's	$000's	$000's
CONSOLIDATED							
Cash assets	**8,124**	**-**	**-**	**-**	**-**	**-**	**8,124**
Bank overdraft	**(4,918)**	**-**	**-**	**-**	**-**	**-**	**(4,918)**
Finance leases	**1,079**	**692**	**279**	**54**	**-**	**-**	**2,104**
Bank loans	**10,088**	**9,817**	**86,849**	**-**	**-**	**-**	**106,754**

Year ended 30 June 2017	Less than one year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years	Total
	$000's	$000's	$000's	$000's	$000's	$000's	$000's
CONSOLIDATED							
Cash assets	**12,257**	**-**	**-**	**-**	**-**	**-**	**12,257**
Bank overdraft	**(9)**	**-**	**-**	**-**	**-**	**-**	**(9)**
Trade Finance	**800**	**-**	**-**	**-**	**-**	**-**	**800**
Finance leases	**1,230**	**943**	**547**	**206**	**53**	**-**	**2,979**
Bank loans	**842**	**26,342**	**-**	**-**	**-**	**-**	**27,184**

The other financial instruments of the Company that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

Sensitivity analysis
The following table illustrates sensitivities to the Company's exposures to changes in interest rates and exchange rates. The table indicates the impact on how profit and equity values reported at the reporting date would have been affected by changes in the relevant risk variable that managers considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables

	Consolidated Profit $000's	Consolidated Equity $000's
2018		
+/- 1% in interest rates	**+/- 941**	**+/- 941**
+/- 10% in AUD / USD	**+/- 18,108**	**+/- 18,108**
2017		
+/- 1% in interest rates	**+/- 260**	**+/- 260**
+/- 10% in AUD / USD	**+/- 8,294**	**+/- 8,294**

Market risk
Foreign currency risk
The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

NOTE 24: FINANCIAL INSTRUMENTS (continued)

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

In order to protect against exchange rate movements, the consolidated entity has entered into forward foreign exchange contracts. These contracts are hedging highly probable forecasted cash flows for the ensuing financial year. Management has a risk management policy to hedge 100% of anticipated USD foreign currency transactions for the subsequent 3 months (2017: 3 months).

The maturity, settlement amounts and the average contractual exchange rates of the consolidated entity's outstanding forward foreign exchange contracts at the reporting date were as follows:

	Sell Australian dollars		**Average exchange rates**	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**		
Buy US dollars				
Maturity:				
0 - 3 months	16,742	19,981	0.7747	0.7487
3 - 6 months	1,368	20,019	0.7499	0.7506
6 - 12 months	863	-	0.7468	-

	Sell US dollars		**Average exchange rates**	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**		
Buy Australian dollars				
Maturity:				
0 - 3 months	5,125	3,864	0.7722	0.7632
3 - 6 months	3,560	1,494	0.7724	0.7539
6 - 12 months	2,276	799	0.7578	0.7586

	Sell GBP		**Average exchange rates**	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**		
Buy Australian dollars				
Maturity:				
0 - 3 months	-	442	-	0.6203
3 - 6 months	578	163	0.5552	0.6170
6 - 12 months	105	-	0.5615	-

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

	Assets		**Liabilities**	
	2018	**2017**	**2018**	**2017**
Consolidated	**$'000**	**$'000**	**$'000**	**$'000**
US dollars	471	-	-	-
Canadian dollars	545			
New Zealand dollars	1,168	-	10,975	-
Malaysian ringgit	85	94	93	72
	2,269	94	11,068	72

NOTE 24: FINANCIAL INSTRUMENTS (continued)

The consolidated entity had net liabilities denominated in foreign currencies of $8,799,000 (assets of $2,269,000 less liabilities of $11,068,000) as at 30 June 2018 (2017: net assets $22,000 (assets of $94,000 less liabilities of $72,000)). Based on this exposure, had the Australian dollar weakened by 10% / strengthened by 10% (2017: weakened by 10% / strengthened by 10%) against these foreign currencies with all other variables held constant, the consolidated entity's profit before tax for the year would have been $880,000 lower / $880,000 higher (2017: $2,000 higher / $2,000 lower) and equity would have been $627,000 lower / $627,000 higher (2017: $2,000 higher / $2,000 lower). The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 6 months each year and the spot rate at each reporting date. The actual foreign exchange loss for the year ended 30 June 2018 was $307,000 (2017: gain of $98,000).

NOTE 25: DERIVATIVE FINANCIAL INSTRUMENTS

	Consolidated 2018 $000's	Consolidated 2017 $000's
Forward foreign exchange contracts - cash flow hedges – current asset	**470**	**886**

Refer to note 26 for further information on fair value measurement.

NOTE 26: FAIR VALUE MEASUREMENT

Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Consolidated - 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Derivative asset	-	470	-	470
Total assets	-	470	-	470

Consolidated - 2017	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Derivative asset	-	886	-	886
Total assets	-	886	-	886

Derivative financial instruments have been valued using market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

NOTE 27: CONTROLLED ENTITIES

The consolidated financial statements incorporate the assets, liabilities and results of the following wholly-owned subsidiaries in accordance with the accounting policy described in note 2. The financial years of all controlled entities are the same as that of the parent entity.

	Country of Incorporation	Class of Shares	Equity Holding 2018	Equity Holding 2017
Direct Controlled Entities:				
Pro-Pac Group Pty Ltd	Australia	Ordinary	100%	100%
Plastic Bottles Pty Ltd	Australia	Ordinary	100%	100%
PPG Services SDN BHD	Malaysia	Ordinary	100%	100%
Pro-Pac Finance Pty Ltd	Australia	Ordinary	100%	100%
Pro-Pac Finance (NZ) limited	New Zealand	Ordinary	100%	100%
Integrated Packaging Group Pty Ltd	Australia	Ordinary	100%	100%
Controlled Entities owned 100% by Pro-Pac Group Pty Ltd				
Pro-Pac Packaging (Aust) Pty Ltd	Australia	Ordinary	100%	100%
Pro-Pac (GLP) Pty Ltd	Australia	Ordinary	100%	100%
Controlled Entities owned 100% by Plastic Bottles Pty Ltd				
Australian Bottle Manufacturers Pty Ltd	Australia	Ordinary	100%	100%
Bev-Cap Pty Ltd	Australia	Ordinary	100%	100%
Ctech Closures Pty Ltd	Australia	Ordinary	100%	100%
Specialty Products and Dispensers Pty Ltd	Australia	Ordinary	100%	100%
Controlled Entities owned 100% by Pro-Pac Packaging (Aust) Pty Ltd				
Creative Packaging Pty Ltd	Australia	Ordinary	100%	100%
Pro-Pac Packaging Manufacturing (Syd) Pty Ltd	Australia	Ordinary	100%	100%
Pro-Pac Packaging Manufacturing (Melb) Pty Ltd	Australia	Ordinary	100%	100%
Pro-Pac Packaging Manufacturing (Bris) Pty Ltd	Australia	Ordinary	100%	100%
Controlled Entities owned 100% by Bev-Cap Pty Ltd				
Finpact Pty Ltd	Australia	Ordinary	100%	100%
Great Lakes Moulding Pty Ltd	Australia	Ordinary	100%	100%
Controlled Entities owned 100% by Integrated Packaging Group Pty Ltd				
Goodstone International Pty Ltd	Australia	Ordinary	100%	100%
Integrated Packaging WA Pty Ltd	Australia	Ordinary	100%	100%
Integrated Recycling Pty Ltd	Australia	Ordinary	100%	100%
IP Canada Packaging Group Ltd	Canada	Ordinary	100%	100%
Controlled Entities owned 100% by Goodstone International Pty Ltd				
Integrated Packaging Ltd (NZ)	New Zealand	Ordinary	100%	100%
Integrated Packaging Australia Pty Ltd	Australia	Ordinary	100%	100%
IP Americas Inc.	United States	Ordinary	100%	100%
Controlled Entities owned 100% by Integrated Packaging Australia Pty Ltd				
Integrated Machinery Pty Ltd	Australia	Ordinary	100%	100%

NOTE 27: CONTROLLED ENTITIES (continued)

Entities subject to class order relief

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

Pro-Pac Packaging Limited

Plastic Bottles Pty Ltd

Pro-Pac Group Pty Ltd

Integrated Packaging Group Pty Ltd

Integrated Packaging WA Pty Ltd

Goodstone International Pty Ltd

Integrated Packaging Australia Pty Ltd

Integrated Machinery Pty Ltd

Integrated Recycling Pty Ltd

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 2016/785 (as amended) issued by the Australian Securities and Investments Commission ('ASIC').

As parent entity, Pro-Pac Packaging Limited and other group entities, Pro-Pac Group Pty Ltd and Plastic Bottles Pty Ltd as disclosed above are party to the deed of cross guarantee, the Statement of Profit and Loss and Other Comprehensive Income and the Statement of Financial Position of the entities that are party to the deed of cross guarantee are as presented in the Consolidated Statement of Profit and Loss and Other Comprehensive Income on page 26 and Consolidated Statement of Financial Position presented on page 27. PPG Services SDN BHD does not form part of the deed of cross guarantee. The impact on the net assets and profit for the year of the Group is not considered to be material.

NOTE 28: COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Group as lessee

The Group has entered into commercial leases which are non-cancellable. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. Renewals are at the option of the specific entity that holds the lease.

The Group also leases various items of machinery under cancellable operating leases.

There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	Consolidated 2018 $000's	Consolidated 2017 $000's
Within one year	**10,624**	5,531
After one year but not more than five years	**22,096**	14,245
More than five years	**5,643**	117
	38,363	19,893

Figures exclude GST

Finance lease and hire purchase commitments

The Group has finance leases and hire purchase contracts for various items of plant and machinery.

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

NOTE 28: COMMITMENTS AND CONTINGENCIES (continued)

	2018 Minimum payments $000's	**2018 Present value of payments $000's**	**2017 Minimum payments $000's**	**2017 Present value of payments $000's**
Within one year	**1,079**	**992**	**1,230**	**1,098**
After one year but not more than five years	**1,026**	**978**	**1,726**	**1,616**
Total minimum lease payments	**2,105**	**1,970**	**2,956**	**2,714**
Less amounts representing future finance charges	**(135)**	**-**	**(242)**	**-**
Present value of minimum lease payments	**1,970**	**1,970**	**2,714**	**2,714**

	2018 $000's	**2017 $000's**
Representing lease liabilities		
Current	**992**	**1,098**
Non-Current	**978**	**1,616**
	1,970	**2,714**

The weighted average interest rate implicit in the leases is 7.2%.

Contingent Liability

As at statement of financial position date, the Company issued security deposit guarantees and standby letters of credits to the value of $13,378,029 (2017: $5,749,389) to the landlords of rented premises and overseas suppliers.

Capital Expenditure Commitments

As at reporting date the company had commitments for future capital expenditure of $1,873,197.

NOTE 29: RELATED PARTY DISCLOSURE

Parent Entity
Pro-Pac Packaging Limited is the ultimate parent entity of the Group.

Subsidiaries
Interests in subsidiaries are set out in note 27.

Transactions with related party
The Company or members of the Group have entered into the following agreements with the following related party.

All transactions to related parties are on an arms length basis.

NOTE 29: RELATED PARTY DISCLOSURE (continued)

	Consolidated 2018 $000's	Consolidated 2017 $000's
Benammon Holdings controlled by major shareholder		
• Total sales to Pact Group Ltd of companies	**7,195**	**3,907**
• Total purchases to Pact Group Ltd of companies	**7,322**	**7,385**
• Total receipts to Pact Group Ltd of companies	**7,477**	**4,480**
• Total payments to Pact Group Ltd of companies	**7,975**	**8,533**
Equity transactions during the year		
• Allotment ex rights	**28,060**	**-**
• Securities purchase plan	**15**	**-**
• Distribution plan and allotment	**2,063**	**1,803**
Brandon Penn (resigned 16 February 2018)		
• Remuneration paid (fees)	**25**	**435**
• Payments to Morrall Penn Holdings Pty Ltd and The Penn Morrall Partnership for rental related to the Sydney and Brisbane properties (including GST)	**65**	**625**
o 9 Widemere Road, Wetherill Park, NSW	**-**	**515**
o Unit 15/129 Robinson Road, Geebung, QLD	**65**	**110**

NOTE 30: KEY MANAGEMENT PERSONNEL DISCLOSURE

Key Management Personnel at 30 June 2018

Ahmed Fahour	Executive Chairman (Non-Executive 1 August 2018)
Elliott Kaplan	Non-executive Director (resigned 31 August 2018)
Rupert Harrington	Non-executive Director (appointed 6 November 2017)
Brandon Penn	Non-executive Director (resigned 16 February 2018)
Grant Harrod	Chief Executive Officer
Mark Saus	Chief Financial Officer and Company Secretary

Total remuneration made to above key management personnel during the year ended 30 June 2018 was $1,474,081 (2017: $1,005,434). Details of remuneration made to above key management personnel are disclosed in the Directors' Report on page 11.

Remuneration of Key Management Personnel

Excluding the Directors, there are only two staff members of the Company who qualify as 'Key Management Personnel' for the purposes of this report. For more details refer to the remuneration report as included in Directors' Report.

NOTE 31: PARENT ENTITY INFORMATION

Set out below is the supplementary information about the parent entity.

	Parent	
	2018	**2017**
	$'000	**$'000**
Profit for the year	**8,192**	**7,715**
Total comprehensive income	**8,192**	**7,715**
Total current assets	**231**	**8,415**
Total assets	**216,186**	**99,440**
Total current liabilities	**950**	**1,222**
Total liabilities	**950**	**1,222**
Equity		
Contributed equity	**215,160**	**98,194**
Retained profits/(accumulated losses)	**76**	**24**
Total equity	**215,236**	**98,218**

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment.

NOTE 32: BUSINESS COMBINATIONS

Significant acquisition made in the twelve months to 30 June 2018:

On 6 November 2017, the Company acquired the Integrated Packaging (IPG) business, a leading Australasian flexible packaging manufacturer. The business has four flexible packaging production sites in Australia, one in New Zealand, and various distributions sites across Australia, New Zealand, Canada and United States.

The acquisition price of $182.5 million was paid in cash and equity. As a result of this transaction, the Company recognised $94.7 million of preliminary acquired net identifiable assets resulting in a preliminary goodwill of $87.9 million. A detailed purchase price allocation will be completed before 31 October 2018.

The acquired business contributed revenues of $131.1 million and earnings before, abnormals, interest and tax of $2.9 million to the consolidated entity for the period from 6 November 2017 to 30 June 2018. If the acquisition occurred on 1 July 2017 the full year contributions would have been revenues of $209.4 million and earnings before abnormals, interest and tax of $9.1 million.

NOTE 32: BUSINESS COMBINATIONS (continued)

Integrated Packaging Group	**$000's**
Trade and other receivables	57,513
Inventories	49,113
Property, plant and equipment	13,351
Deferred tax assets	10,709
Customer contracts	1,400
Brand names	21,472
Trade and other payables	(49,486)
Current tax liabilities	(616)
Current provisions	(3,048)
Non-current provisions	(5,744)
Fair value of net identifiable assets acquired	**94,664**
Add goodwill	87,851
Acquisition date fair value of total consideration transferred	**182,515**
Purchase consideration	
Cash paid	119,940
Equity Issued	62,575
Total purchase consideration	**182,515**
Cash flows on acquisition	
Cash consideration - paid	119,940
Net cash used	**119,940**
Acquisition costs expensed to profit or loss	**1,406**
Acquisition costs capitalised to equity	**1,482**

NOTE 33: EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

In July 2018, the Company acquired New Zealand based soft flexible packaging manufacturer and distributor Polypak. The Company has entered into agreement to also acquire Victorian based hard flexible manufacturer Perfection Packaging, to be completed in September 2018.

The acquisitions are funded by a combination of: $9.96 million shares (Consideration Shares) issued to the vendors of Perfection Packaging at an issue price of $0.39 per share, a $55.8 million fully underwritten placement of shares in two tranches at an issue price of $0.34 per share (Placement) approved by shareholders at the EGM on 3 September 2018; and a $4.0 million fully underwritten Share Purchase Plan (SPP) at an issue price of $0.34 per share (Placement and SPP together, Capital Raising).

NOTE 34: AUDITORS' REMUNERATION

	Consolidated 2018 $	**Consolidated 2017** $
Amounts paid or due payable to UHY Haines Norton for:		
- audit of the group's financial report	**98,400**	**96,500**
- review of the group's half-year financial report	**42,600**	**30,000**
Amounts paid or due payable to KPMG as component auditor for:		
- audit of the Integrated Packaging Group subsidiaries	**161,864**	**-**

NOTE 35: ACCOUNTING STANDARDS ISSUED OR AMENDED

A number of accounting standards have either been issued or amended since year end but are not effective for the financial year ended 30 June 2018. The Group does not at this time believe these have any material impact on the 2018 financial report or for the ensuing year.

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 26 to 67, are in accordance with the Corporations Act 2001 and:
   a) comply with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
   b) give a true and fair view of the consolidated entity's financial position at 30 June 2018 and of its performance for the year ended on that date; and
   c) comply with International Financial Reporting Standards as disclosed in Note 2 (b) to the financial statements.

2. The Chief Executive Officer and Chief Financial Officer have each declared that:

   a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;

   b) the financial statements and notes for the financial year comply with the accounting standards; and

   c) the financial statements and notes for the financial year give a true and fair view; and

3. in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

4. At the date of this declaration, there are reasonable grounds to believe that the entities that are party to the deed of cross guarantee as described in note 27 to the financial statements will be able to meet any obligation or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the Board of Directors pursuant to section 295 (5) (a) of the Corporations Act 2001.

On behalf of the Board on 20 September 2018.

Ahmed Fahour - AO	**Darren Brown**
Chairman	**Director**

UHY Haines Norton
Chartered Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Members of Pro-Pac Packaging Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Pro-Pac Packaging Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

i. giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
ii. Complying with Australian Accounting Standards and the *Corporations Regulations 2001.*

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters.

IMPAIRMENT ASSESSMENT FOR GOODWILL & OTHER INDEFINITE LIFE INTANGIBLE ASSETS

Why a key audit matter	How our audit addressed the risk

As per note 13 of the Consolidated Financial Statements, the intangibles balance as at 30 June 2018 was $184.7 million (2017: $71.3 million).
 	
We focused on this area because of:
 	
▪ The significance of this asset to the Group's consolidated statement of financial position. The intangible asset balance allocated to the two cash generating units (CGUs) / business segments represents approximately 43% of total assets; and
▪ The inherent uncertainty and subjectivity associated with impairment testing due to the significant level of judgement involved in estimating future cash flows, discount rates, terminal growth rate etc.
	Our audit procedures included, amongst others:
	
	▪ We evaluated management's goodwill impairment assessment process and tested controls such as the review of forecasts by management;
	▪ We assessed management's determination of the Group's CGUs based on our understanding of the nature of the Group's business units. We compared this to the internal reporting of the Group to assess how earnings are monitored and reported;
	▪ We compared the previous year's forecasts for 2017 with the actual results for 2017 to assess the Group's accuracy of forecasting. We applied skepticism to the current forecast in areas where the previous forecast was not achieved and/or where future uncertainty is greater or volatility is expected;
	▪ We assessed the assumptions and methodology used by management for the impairment test, in particular, those assumptions relating to the discount rate and EBITDA growth rates. To do this we:
	  o evaluated the appropriateness of the discount rate adopted. We developed an acceptable range of discount rates based on market data and industry research. We found that the discount rate used by the Group was within the acceptable range;
	  o evaluated the underlying cash flow assumptions of each CGU with reference to current year results and expected customer pipelines and considered external industry information and market data;
	  o checked the calculations in the valuation model for mathematical accuracy;

- We performed a sensitivity analysis on all CGUs in key areas being the discount rate, revenue growth and terminal growth rate assumptions; and
- We assessed the Group's disclosures of the quantitative and qualitative considerations in relation to the valuation of goodwill, by comparing these disclosures to our understanding of the matter and as per the requirements of the accounting standards.

ACCOUNTING FOR BUSINESS COMBINATION

Why a key audit matter	How our audit addressed the risk
As per note 32 of the Consolidated Financial Statements, the Group acquired the Integrated Packaging (IPG) business in November 2017. We focused on this area because of: ▪ The significance of the business acquired. IPG contributed revenue of $131.1M to Group revenue; and ▪ The inherent uncertainty and subjectivity associated in the determination of the fair values of the identifiable assets acquired and liabilities assumed in the transactions.	Our audit procedures included, amongst others: ▪ We reviewed management's process over the determination of the appropriate accounting treatment to be adopted for acquisition accounting to test its compliance with the requirements of the accounting standards; ▪ We reviewed management's processes for the selection of the external valuers for the purpose of performing a purchase price allocation, the determination of the scope of work of the valuers, and the review and acceptance of the external valuation report. We evaluated the qualifications and competence of the external valuers. We reviewed the terms of engagement for the valuers to determine whether there were any matters that might have affected their objectivity or limited the scope of their work; ▪ Where complete, we compared the valuation methodologies and key assumptions used in deriving these fair values to generally accepted market practices and market data, and tested the integrity of the inputs in the valuation to supporting documents; and ▪ We assessed whether disclosures presented in the financial report were in accordance with the audited balances and as per the requirements of the accounting standards

REVENUE RECOGNITION

Why a key audit matter	How our audit addressed the risk
As per the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Group's revenue for the year ended 30 June 2018 was $371.7 million (2017: $229.4 million) We focused on revenue recognition because: ▪ Revenue is an important measure used to evaluate the performance of the company; ▪ Of the amounts involved.; and ▪ Revenue is generally recognized when the risks and rewards of the underlying products have been transferred to the customer and tend not to have multiple deliverable elements. There is a risk that sales may be materially misstated if recognized before the risks and rewards have been transferred.	Our audit procedures included, amongst others: ▪ Assessing the appropriateness of the Company's revenue recognition accounting policies and its compliance with the Australian accounting standards; ▪ Where appropriate, we tested the operating effectiveness of the internal controls over the recording of revenue; ▪ We tested the accuracy of the revenue recorded by checking that the revenue was recognised based on the transfer of the risks and rewards of ownership of goods, or in the accounting period in which services were rendered by agreeing a sample of revenue items to contract and delivery dockets, with specific focus on transactions which occurred around the 2018 year end; ▪ We also tested journal entries posted to revenue accounts to identify any unusual or irregular items, and assess their reasonableness; and ▪ We assessed the quantitative and qualitative disclosures made in the financial report, by comparing these disclosures to our understanding of the matter and as per the requirements of the accounting standards.

PROVISION FOR INVENTORY OBSOLESCENCE

Why a key audit matter	How our audit addressed the risk
As per note 11 of the Consolidated Financial Statements, the provision for inventory obsolescence balance as at 30 June 2018 was $5,098,000 (2017: $489,000). We focused on this area because: ▪ The inventory provision is an estimate based on certain assumptions relating to obsolescence. Management has identified a risk of obsolescence predominantly with inventory aged over 18 months. The Group's policy is to review inventory on a line by line basis and remove 'dead stock' from inventory and write it off completely, and create a proportional write-down by way of a provision on the remaining inventory items over 18 months. Thus, the obsolescence provision requires significant judgement.	Our audit procedures included, amongst others: ▪ Evaluating the assumptions and estimates applied to the obsolescence calculations by testing the accuracy of historical information and data trends, as well as by performing analytical procedures on obsolescence levels and write down rates; and ▪ Performing net realisable value testing on a sample of inventory items to assess whether these appeared to be impaired.

BORROWINGS

Why a key audit matter	How our audit addressed the risk
As per note 17 of the Consolidated Financial Statements, the bank loan balance as at 30 June 2018 was $95.3 million (2017: $25.5 million). We focused on this area because: ▪ The Group has significant borrowings with banks, which have been used to fund acquisitions and the Group's working capital requirements.	Our audit procedures included, amongst others: ▪ We obtained confirmations from the Group's banks to confirm all borrowings, including amounts and terms; ▪ We assessed whether the loan balances were stated at amortised cost in line with AASB 139; ▪ We reviewed the Group's compliance with the debt covenants;

▪ As at 30 June 2018, the Group had a bank loan of $95.3M representing approximately 46% of total liabilities; and ▪ There is a risk that if the loan covenants are not complied with, the Group would be required to repay the balance on demand thus creating a going concern risk.	▪ We assessed whether the classification of borrowings between current and non-current was reasonable and; ▪ Where debt is regarded as non-current, we tested whether the Group has the unconditional right to defer payment such that there were no repayments required within 12 months from the balance date.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:
https://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 12 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Pro-Pac Packaging Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

M Nicholaeff

UHY Haines Norton

M. D. Nicholaeff
Partner

UHY Haines Norton
Chartered Accountants

Sydney
20th September 2018

ADDITIONAL COMPANY INFORMATION

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 14 September 2018.

(a) Distribution of equity securities

Table 1: The number of holders, by size of holding, in each class of security are (includes ESPP shares):

Holdings Ranges	Holders	Total Units	%
1-1,000	104	10,308	0.001
1,001-5,000	308	1,022,905	0.130
5,001-10,000	295	2,488,090	0.317
10,001-100,000	1,348	53,868,983	6.862
100,001 and over	281	727,695,871	92.690
Totals	**2,336**	**785,086,157**	**100.00**

There are 183 holders of unmarketable parcels totalling 147,789 shares representing 0.01882% of the Company's issued capital.

(b) Twenty largest holders

Table 2: The names of the twenty largest holders, in each class of security are:

Rank	Holder	Number	%
1	BENNAMON PTY LTD	354,196,803	45.12%
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	66,578,664	8.48%
3	APC I PTY LTD <ADVENT V TRUST A A/C>	44,843,139	5.71%
4	APC II PTY LTD <ADVENT V TRUST B A/C>	44,843,139	5.71%
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	23,981,155	3.05%
6	EQUITAS NOMINEES PTY LIMITED <PB-600762 A/C>	23,929,608	3.05%
7	J P MORGAN NOMINEES AUSTRALIA LIMITED	22,195,886	2.83%
8	BNP PARIBAS NOMS PTY LTD <DRP>	14,124,478	1.80%
9	SELJAX PTY LTD <THE CADAVDAN A/C>	12,769,231	1.63%
10	HYLMIC PTY LTD <THE JOMY A/C>	12,769,231	1.63%
11	BEACHLANE PTY LTD <BEACHLANE INVESTMENT A/C>	10,600,000	1.35%
12	MR JOHN JOSEPH CERINI	9,865,214	1.26%
13	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	8,467,400	1.08%
14	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	3,016,176	0.38%
15	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSI EDA	2,416,666	0.31%
16	WILBOW GROUP PTY LTD <WILBOW GROUP A/C>	2,306,523	0.29%
17	MR ALASTAIR SPIERS & MRS UNA SPIERS <SPIERS SUPER FUND A/C>	1,600,000	0.20%
18	MS PATSY SEOW LEE CH'NG	1,315,356	0.17%
19	AKAT INVESTMENTS PTY LIMITED <TAG FAMILY - CORE A/C>	1,250,000	0.16%
20	SONHILL INVESTMENTS PTY LTD <PETERSON SUPER FUND A/C>	1,205,517	0.15%
	Total Securities of Top 20 Holdings	**661,970,148**	**84.32%**

(c) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with Section 671B of the Corporations Act 2001 are:

Holder	Number *(Ordinary Shares)*
Bennamon Pty Limited	354,196,803
Investors Mutual	65,237,176
APC I PTY LTD <ADVENT V TRUST A A/C>	44,843,139
APC II PTY LTD <ADVENT V TRUST B A/C>	44,843,139

(d) Voting rights

All ordinary shares carry one vote per share without restriction.

(e) Restricted securities

Restricted securities total 16,810,000 as outlined below:

ESPP Shares under escrow until 6 October 2018	1,900,000 ESPP shares
ESPP Shares under escrow until 29 November 2020	14,910,000 ESPP shares
Total Restricted securities	**16,810,000 ESPP shares**

(f) Business objectives

The Company has used its cash and assets that arereadily convertible to cash in a way consistent with its business objectives