Appendix 4D

Half-year Financial Report

Results for announcement to the market

Pro-Pac Packaging Limited **ABN 36 112 971 874**

Half-year ended ('Reporting Period')	Previous half-year ended ('Corresponding period')
31 December 2018	**31 December 2017**

1. Announced Results

		%		$'000
Revenue from ordinary activities	Up	63 %	to	257,296
Net loss from ordinary activities after tax	Down	4,449 %	to	(144,329)
Net loss for the period attributable to shareholders	Down	4,449 %	to	(144,329)

2. Dividends / Distributions

	Amount per security	Franked Amount per security
Interim dividend	Nil ¢	Nil ¢
Prior year interim dividend	1 ¢	1 ¢
Final dividend for year ended 30 June 2018 paid on 6 November 2018	1 ¢	1 ¢

2.1 Information on dividends

The Company will pay an interim dividend of nil cents per share.

Record date for determining entitlements to the dividend:	-
Last date for receipt of election notices for participation in the Pro-Pac Packaging Limited Dividend Reinvestment Plan:	-

3. Net tangible assets

	Reporting Period	Previous Reporting Period
Net tangible asset backing per ordinary security	8.53¢	3.58 ¢

4. Control gained over entities

On 1 July 2018, the Group acquired the assets of the New Zealand based PolyPak Plastics Limited ('Polypak') for $6.3 million (as adjusted for working capital). The cash transaction was structured as follows:

- 80% cash upfront ($4.7 million) after working capital adjustment, and
- 20% contingent consideration based on meeting certain performance criteria ($1.6 million).

Polypak is a specialist soft flexibles packaging manufacturer and distributor of high-quality polythene bags, films and tubes which are supplied to primary food processors and a range of general packaging customers. The business is based in Glenfield, Auckland.

In December 2018, the Group paid $0.8 million (NZD$0.88 million) to the former owners of Polypak in satisfaction of the business meeting the first of two performance hurdles.

On 1 September 2018, the Group acquired 100% of the units in the Perfection Packaging Unit Trust ('Perfection Packaging') for $49.8 million. The transaction was structured as follows:

- $39.84 million in cash, before working capital adjustment, and
- $9.96 million in shares

The full purchase consideration including working capital and net cash adjustments was $52.4 million.

Perfection Packaging offers a range of hard flexible packaging solutions and focuses on customers in the fast-moving consumer goods market.

The Polypak and Perfection Packaging acquisitions were funded by a capital raising of $59.8 million during the period.

5. Details of associates and joint venture entities

The Group has no associates or joint venture entities.

The interim condensed consolidated financial statements is not subject to a review report that is subject to a modified opinion, emphasis of matter or other matter paragraph. A copy of the review report is included in the attached Interim Condensed Consolidated Financial Report.

For the financial commentary and any other significant information needed by an investor to make an informed assessment of the results for Pro-Pac Packaging limited, please refer to the accompanying Interim Condensed Consolidated Financial Statements.

The interim condensed consolidated financial statements should be read in conjunction with the most recent annual financial report.

K Forbes
………………………………
Ms Kathleen Forbes
Company Secretary
26 February 2019

Pro-Pac Packaging Limited
ABN 36 112 971 874

Interim Condensed Consolidated Financial Statements

For the half-year ended 31 December 2018

Pro-Pac Packaging Limited and its controlled entities

Contents

Pro-Pac Packaging Limited and its controlled entities

Directors' Report

The directors present their report, together with the financial statements, on the consolidated entity consisting of Pro-Pac Packaging Limited and the entities it controlled during the half-year ended 31 December 2018.

Directors

The names of the Company's directors in office during the half-year and up to the date of this report, unless otherwise stated, are:

Name	Period of directorship
Non-executive	
Ahmed Fahour AO – Chairman	Non-Executive Chairman since 1 August 2018, Executive Chairman 27 October 2017 – 31 July 2018
Rupert Harrington	Director
Darren Brown	Director, appointed 2 July 2018
Marina Go	Director, appointed 1 August 2018
Leonie Valentine	Director, appointed 1 August 2018
Elliott Kaplan	Director, resigned 31 August 2018

Principal activities

Pro-Pac Packaging Limited is a company limited by shares that is incorporated and domiciled in Australia. The principal activities of the consolidated entity are the manufacture and distribution of industrial, flexible and rigid packaging products.

Operating and financial review

(a) Group results

During the half-year ended 31 December 2018, the Group earned sales revenue of $257.3 million compared to $158.0 million in the previous corresponding period ('pcp').

The Group's earnings before net finance expenses, income tax, depreciation and amortisation and significant items ('EBITDA') was $17.3 million compared to $9.6 million in the pcp.

The Group's statutory loss after income tax for the half-year ended 31 December 2018 was $144.3 million, compared with a loss of $3.2 million in the pcp, whilst the Group's pre-tax operating profit before significant items was a profit of $9.3 million compared with $5.9 million in the pcp. The current year loss before income tax expense includes $151.7 million (pcp: $9.9 million) of significant items including a non-cash goodwill impairment of $149.0 million (pcp: $nil).

On 1 July 2018, the Group acquired the assets of the New Zealand based Polypak Plastics Limited ('Polypak') for $6.3 million. The cash transaction was structured as follows:

- 80% cash up front, adjusted for working capital, and
- 20% contingent consideration based on meeting certain performance criteria.

Polypak is a specialist soft flexibles packaging manufacturer and distributor of high-quality polythene bags, films and tubes which are supplied to primary food processors and a range of general packaging customers. The business is based in Glenfield, Auckland.

In December 2018, the Group paid $0.8 million (NZD$0.88 million) to the former owners of Polypak in satisfaction of the business meeting the first of two performance hurdles.

On 1 September 2018, the Group acquired 100% of the units in the Perfection Packaging Unit Trust ('Perfection Packaging') for $49.8 million plus working capital and net debt adjustments. The transaction was structured as follows:

- 80% cash upfront ($39.84 million)
- 20% payable in PPG shares to be held in escrow for 2 years ($9.96 million)

The full purchase consideration, including working capital and net cash adjustments was $52.4 million.

Perfection Packaging offers a range of hard flexible packaging solutions and focuses on customers in the fast-moving consumer goods market.

Directors' Report (continued)

Operating and financial review (continued)

(a) Group results (continued)

During the half-year ended 31 December 2018, the Company raised $59.8 million to fund the above acquisitions through a Capital Raising.

The interim condensed consolidated statement of comprehensive income for the half-year ended 31 December 2018 contains certain items of individual and aggregate significance ('significant items'). These items relate to the on-going integration activities of the Integrated Packaging Group acquisition in November 2017 and a non-cash goodwill impairment in December 2018. These items have been excluded from this analysis and the reconciliation as set out below.

$'000	**31 December 2018**	31 December 2017	Change
Sales revenue	257,296	157,969	63%
EBITDA [1,3]	17,303	9,552	80%
EBITDA margin	6.7%	6.1%	+0.6 pts
Less: Depreciation and amortisation	(4,029)	(2,060)	96%
EBIT [2, 3]	13,274	7,492	77%

Reconciliation from Interim Condensed Consolidated Statement of Income: $'000	**31 December 2018**	31 December 2017
Reported operating loss before net finance expenses	(138,401)	(2,413)
Add back: significant items	151,675	9,905
Add back: depreciation and amortisation	4,029	2,060
EBITDA[1, 3]	17,303	9,552

[1] EBITDA is a non-IFRS financial measure and is calculated as earnings before net finance expenses, income tax, depreciation and amortisation
[2] EBIT is a non-IFRS financial measure and is calculated as earnings before net finance expenses and income tax
[3] Before significant items

EBITDA of $17.3 million was 80% higher than the pcp. Earnings were favourably impacted by the contribution from acquisitions.

Pre-tax significant items for the half-year were an expense of $151.7 million. This includes a non-cash goodwill impairment of $149.0 million and $2.7 million relating to on-going integration activities.

Net finance expenses for the half-year were $4.0 million, an increase of $2.4 million compared to the pcp. The increase was due to higher average net debt during the period, as a result of funding acquisitions, and working capital.

Pro-Pac Packaging Limited and its controlled entities

Directors' Report (continued)

Operating and financial review (continued)

(b) Segment results

Industrial and Flexibles segment - $'000	**31 December 2018**	31 December 2017	Change
Sales revenue[1]	223,684	127,089	76%
EBITDA [2, 3]	16,621	7,160	132%
EBITDA margin	7.4%	5.6%	+1.8 pts

Reconciliation from interim condensed consolidated financial statements - $'000	**31 December 2018**	31 December 2017
Reported EBITDA	(134,091)	789
Add back: significant items	150,712	6,371
EBITDA[2, 3]	16,621	7,160

[1] Sales revenue is revenue from contracts with customers, excluding intercompany revenue
[2] EBITDA is a non-IFRS financial measure and is calculated as earnings before net finance expenses, income tax, depreciation and amortisation
[3] Before significant items

Sales revenue in the Industrial and Flexibles operating segment increased by $96.6 million, due to:

- An incremental four month's sales revenue contribution from the 6 November 2017 acquisition of Integrated Packaging Group Pty Ltd of $77.6 million;
- A six-month contribution from the 1 July 2018 acquisition of the assets of Polypak Plastics Limited of $5.9 million; and
- A four-month contribution from the 1 September 2018 acquisition of 100% of the units in the Perfection Packaging Unit Trust of $16.0 million.

The Industrial & Flexibles operating segment's result was negatively impacted by weaker than anticipated sales to the agriculture sector of the market due to drought conditions.

Excluding the contribution from recent acquisitions, sales revenue was slightly down when compared to the pcp. Gross margins of the business were impacted by higher input costs (such as resin and energy costs) and unfavourable exchange movements. Earnings before interest, depreciation, amortisation and tax (and before significant items) increased to $16.6 million from $7.2 million, predominantly due to the contribution from acquisitions.

Rigid segment $'000	**31 December 2018**	31 December 2017	Change
Sales revenue[1]	33,612	30,880	9%
EBITDA [2, 3]	4,784	4,353	9%
EBITDA margin	14.3%	14.2%	0.1 pt

Reconciliation from Interim Condensed Consolidated Financial Statements - $'000	**31 December 2018**	31 December 2017
Reported EBITDA	4,784	3,242
Add back: significant items	-	1,111
EBITDA [2, 3]	4,784	4,353

[1] Sales revenue is revenue from contracts with customers, excluding intercompany revenue
[2] EBITDA is a non-IFRS financial measure and is calculated as earnings before net finance expenses, income tax, depreciation and amortisation
[3] Before significant items

The increase in sales revenue in the Rigid packaging operating segment was primarily due to improved sales to the health and veterinary sectors of the market. Earnings before interest, depreciation, amortisation and tax (and before significant items) increased to $4.8 million from $4.4 million. Operational improvements assisted with maintaining profit margins in the face of increased input costs.

Directors' Report (continued)

Operating and financial review (continued)

Corporate and head office costs, unallocated to operating segments, for the half-year of $4.1 million are $2.1 million higher than the pcp and include:

- Additional senior management roles with respect to the Integrated Packaging Group acquisition;
- Non-recurring consulting and personnel costs; and
- Increased compliance and other costs.

(c) Statement of financial position

$'000	31 December 2018	30 June 2018	Change
Current assets	235,350	191,486	23%
Non-current assets	134,776	235,834	(43%)
Total assets	**370,126**	427,320	(13%)
Current liabilities	127,470	111,646	14%
Non-current liabilities	100,493	95,568	5%
Total liabilities	**227,963**	207,214	10%
Net assets	**142,163**	220,106	(35%)
Net debt[1,2] (included in assets and liabilities above)	98,799	101,258	(2%)

[1] Net debt is a non-IFRS financial measure and is calculated as interest bearing liabilities less cash and cash equivalents

[2] Net debt as at 30 June 2018 has been restated to include the reclassification of unsecured interest bearing trade finance from trade and other payables of $7.2 million

The increase in current assets of $43.9 million includes $18.2 million from acquisitions. The balance primarily relates to higher seasonal working capital.

The net assets of the Group have been impacted by a non-cash goodwill impairment of $149.0 million.

(d) Financing Metrics

	31 December 2018	30 June 2018
Gearing[1, 2]	3.4x	3.8x

[1] Gearing is a non-IFRS financial measure and is calculated as net debt divided by rolling twelve months EBITDA, adjusted for trailing EBITDA of material acquisitions
[2] Gearing in the pcp excludes the subsequent reclassification of trade finance of $7.2 million to net debt

(e) Cash flow

$'000	31 December 2018	31 December 2017	Change
Cash flow from operating activities	(1,580)	14,539	(111%)
Payment for property, plant and equipment	(3,479)	(4,397)	(21%)
Payment for controlled entities	(42,436)	(129,131)	(67%)
Payment for business assets	(5,455)	(2,761)	98%
Net proceeds from issuance of shares	59,800	54,802	9%

The cash flow from operating activities was significantly impacted by an increase in working capital in anticipation of a strong agricultural selling season which did not eventuate. A working capital reduction plan has been implemented to assist with an improvement in cash reserves.

Directors' Report (continued)

Significant changes in the state of affairs

During the half-year ended 31 December 2018, the company appointed Ernst & Young (EY) as its external auditors. There have been no other significant changes in the state of affairs during the six-month period.

Significant events subsequent to balance date

Subsequent to balance date, Mr Grant Harrod, Chief Executive Officer, completed his notice period and exited the business on 22 February 2019. The Company is currently searching for an external replacement. In the interim, Mr Rick Rostolis, Chief Financial Officer, has been appointed Acting Chief Executive Officer.

There has not been any other matter or circumstance that has arisen since the end of the financial period that has significantly affected or may significantly affect the operations of the Group, the results of the operation or the state of affairs of the Group in future financial years.

Dividend

The directors have determined that no interim dividend will be declared.

Auditor's Independence Declaration

A copy of the auditor's Independence declaration, as required under Section 307C of the *Corporations Act 2001*, is set out on Page 7.

Rounding of Accounts

The Group is of a kind referred to in the Australian Securities and Investment Commission (Rounding in Financial/Directors' Reports) Instrument 2016/191, and in accordance with that Instrument, amounts in the interim condensed consolidated financial statements and Directors' Report have been rounded to the nearest thousand dollars, unless stated otherwise.

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

Ahmed Fahour AO
Chairman

Melbourne
26 February 2019

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

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

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

As lead auditor for the review of the interim condensed consolidated financial statements of Pro-Pac Packaging Limited for the half-year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Ernst & Young

Kester Brown
Partner
26 February 2019

Pro-Pac Packaging Limited and its controlled entities

Interim Condensed Consolidated Statement of Comprehensive Income

For the half-year ended 31 December

$'000	Notes	31 December 2018	31 December 2017
Revenue from contracts with customers	3	**257,296**	157,969
Other operating gains/(losses)		599	(197)
Raw materials and consumables used		(161,276)	(101,626)
Employee benefits expenses		(42,685)	(24,715)
Occupancy, distribution, administration and selling expenses		(36,631)	(21,879)
Depreciation and amortisation expenses		(4,029)	(2,060)
Significant expenses	6	(151,675)	(9,905)
Operating loss		**(138,401)**	(2,413)
Finance expenses		(4,164)	(1,596)
Finance income		188	52
Net finance expenses		**(3,976)**	(1,544)
Loss before income tax expense		**(142,377)**	(3,957)
Income tax (expense) / benefit	7	(1,952)	784
Loss after income tax expense, attributable to shareholders		**(144,329)**	(3,173)
Other comprehensive Income/(expenses)			
Items that may be reclassified to profit or loss:			
Net unrealised loss on cash flow hedges		(494)	(869)
Exchange differences on translation of foreign operations		530	-
Other comprehensive Income/(expenses) net of tax		**36**	(869)
Total comprehensive loss for the half-year		**(144,293)**	(4,042)
Loss per share (cents per share)			
Basic loss per share		(19.51)	(0.95)
Diluted loss per share		(19.51)	(0.95)

The above statement should be read in conjunction with the accompanying notes

Pro-Pac Packaging Limited and its controlled entities

Interim Condensed Consolidated Statement of Financial Position

As at 31 December 2018

$'000	Notes	31 December 2018	30 June 2018
Assets			
Current assets			
Cash		15,544	3,206
Trade and other receivables	8	105,006	83,221
Inventories		102,303	95,463
Prepayments		12,497	9,126
Current financial assets	8	-	470
Total current assets		**235,350**	191,486
Non-current assets			
Property, plant and equipment		61,357	36,490
Intangible assets		67,670	184,689
Deferred tax assets	7	5,623	14,530
Other financial assets	8	126	125
Total non-current assets		**134,776**	235,834
Total Assets		**370,126**	427,320
Liabilities			
Current liabilities			
Trade and other payables	8	95,508	86,029
Interest bearing loans and borrowings	8	17,930	13,240
Other current financial liabilities	8	23	-
Income tax payable		400	292
Provisions		13,609	12,085
Total current liabilities		**127,470**	111,646
Non-current liabilities			
Interest bearing loans and borrowings	8	96,413	91,224
Provisions		4,080	4,344
Total non-current liabilities		**100,493**	95,568
Total Liabilities		**227,963**	207,214
Net Assets		**142,163**	220,106
Equity			
Issued capital	9	291,618	217,695
Reserves		1,286	1,250
(Accumulated losses) / Retained earnings		(150,741)	1,161
Total Equity		**142,163**	220,106

The above statement should be read in conjunction with the accompanying notes

Pro-Pac Packaging Limited and its controlled entities

Interim Condensed Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2018

$'000	Note	Issued Capital	(Accumulated losses) / retained earnings	Option reserve	Cash-flow hedge reserve	Foreign currency translation reserve	Total Equity
Balance as at 1 July 2018		**217,695**	**1,161**	**278**	**471**	**501**	**220,106**
Loss for the period		-	(144,329)	-	-	-	(144,329)
Other comprehensive loss							
Foreign currency translation		-	-	-	-	530	530
Movement in cash flow hedges		-	-	-	(494)	-	(494)
Total comprehensive (loss) / income		**-**	**(144,329)**	**-**	**(494)**	**530**	**(144,293)**
Dividends paid	12	-	(7,573)	-	-	-	(7,573)
Shares - businesses acquired	5, 9	9,960	-	-	-	-	9,960
Shares - dividend re-investment plan	9	5,223	-	-	-	-	5,223
Issue of shares	9	59,800	-	-	-	-	59,800
Share issue costs	9	(1,060)	-	-	-	-	(1,060)
At 31 December 2018		**291,618**	**(150,741)**	**278**	**(23)**	**1,031**	**142,163**

$'000	Note	Issued Capital	(Accumulated losses) / retained earnings	Option reserve	Cash-flow hedge reserve	Foreign currency translation reserve	Total Equity
Balance as at 1 July 2017		98,194	14,427	177	885	-	113,683
Loss for the period		-	(3,173)	-	-	-	(3,173)
Other comprehensive loss							
Movement in cash flow hedges		-	-	-	(869)	-	(869)
Total comprehensive (loss) / income		**-**	**(3,173)**	**-**	**(869)**	**-**	**(4,042)**
Issue of shares		113,713	-	-	-	-	113,713
Dividends paid		-	(2,389)	-	-	-	(2,389)
At 31 December 2017		211,907	8,865	177	16	-	220,965

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

Pro-Pac Packaging Limited and its controlled entities

Interim Condensed Consolidated Statement of Cash Flows

For the half-year ended 31 December 2018

$'000	Notes	31 December 2018	31 December 2017
Operating activities			
Receipts from customers		271,755	168,022
Payments to suppliers		(222,135)	(126,003)
Payments to employees		(45,567)	(24,905)
Interest received		188	52
Interest paid		(4,141)	(1,585)
Income tax paid		(1,680)	(1,042)
Net cash flows (used in) / from operating activities		**(1,580)**	14,539
Investing activities			
Payments for property, plant and equipment		(3,479)	(4,774)
Proceeds from sale of property, plant and equipment		-	377
Acquisition of controlled entities, net of cash acquired	5	(42,436)	(129,131)
Payment for unincorporated businesses	5	(5,455)	(2,761)
Net cash flows used in investing activities		**(51,370)**	(136,289)
Financing activities			
Payment of finance lease liabilities		(640)	(681)
Hire purchase and finance leases raised		403	385
Proceeds from borrowings		11,652	94,286
Repayment of borrowings		(2,517)	(25,500)
Proceeds from share issue	9	59,800	54,802
Transaction costs of issue of shares	9	(1,060)	(1,482)
Dividend paid		(2,350)	(2,389)
Net cash flows from financing activities		**65,288**	119,421
Net increase / (decrease) in cash and cash equivalents		**12,338**	(2,329)
Cash & cash equivalents at 1 July		**3,206**	12,259
Cash & cash equivalents at end of the period		**15,544**	9,930

The above statement should be read in conjunction with the accompanying notes

Pro-Pac Packaging Limited and its controlled entities

Notes to the Interim Condensed Consolidated Financial Statements

Note 1: Corporate information

The interim condensed consolidated financial statements of Pro-Pac Packaging Limited and its controlled entities (collectively, the Group) for the half-year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on 26 February 2019. Pro-Pac Packaging Limited (the Company) is a limited company, incorporated and domiciled in Australia, whose shares are publicly traded. The registered office is located in NSW, Australia. The Group is principally engaged in the manufacturing and distribution of packaging.

Note 2: Basis of preparation and changes to the Group's accounting policies

2.1. Basis of preparation

The interim condensed consolidated financial statements for the half-year ended 31 December 2018 have been prepared in accordance with AASB 134 Interim Financial Reporting. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 30 June 2018. The interim condensed consolidated financial statements presents reclassified comparative information where required for consistency with the current period presentation.

2.2. Going concern

The Group has secured syndicated financing facilities of $102.0 million (30 June 2018: $102.0 million), of which $100.9 million was utilised at 31 December 2018 (30 June 2018: $97.3 million).

In addition, the Group had cash at bank of $15.5 million as at 31 December 2018 (30 June 2018: $8.1 million) and an unused $5.0 million bank overdraft ancillary facility (30 June 2018: $4.9 million utilised).

Notwithstanding the loss after tax and negative cash flows from operating activities during the half-year ended 31 December 2018, the directors believe the Group is a going concern based on the following factors:

- The directors review of current trading performance; and
- The directors review of forecast trading results and cash flows.

Consequently, the interim condensed consolidated financial statements for the half-year ended 31 December 2018 have been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. In making this assessment, the directors have considered the future cash requirements of the business.

The interim condensed consolidated financial statements for the half-year ended 31 December 2018 does not include any adjustments relating to the recoverability and classification of recorded assets amounts nor to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

2.3. Changes in significant accounting policies

This note explains the impact of the adoption of AASB 15 *Revenue from Contracts with Customers* on the Group's financial statements and also discloses the new accounting policies that have applied from 1 July 2018, where they are different to those applied in prior periods.

AASB 15 Revenue from Contracts with Customers
AASB 15 supersedes AASB 111 Construction Contracts, AASB 118 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised when, or as control transfers to the customer at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Notes to the Interim Condensed Consolidated Financial Statements

Note 2: Basis of preparation and changes to the Group's accounting policies (continued)

2.3. Changes in significant accounting policies (continued)

The Group adopted AASB 15 using the full retrospective method of adoption. The impact of AASB 15 has been assessed by management and determined the application does not have material impact on the previous period financial statements and therefore the comparative financial information is not restated and no catch-up adjustment is recognised in opening retained earnings as at 1 July 2017. The Group did not apply any of the practical expedients available on transition.

The Group is in the business of manufacturing and distribution of packaging products.

(a) Sale of goods
The Group's contracts with customers for the sale of products generally include either one performance obligation or are bundled together with delivery services. The Group allocates the transaction price to each performance obligation based on a stand-alone selling price basis. The Group has concluded that revenue from sale of products should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of AASB 15 did not have a material impact on the timing of revenue recognition.

(i) Variable consideration
Some contracts for the sale of products provide customers with a right of return and volume rebates which give rise to variable consideration. The variable consideration is estimated at contract inception using the expected value method based on forecast volumes and is constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty is subsequently resolved.

(ii) Warranty obligations
The Group generally provides warranties for general repairs of defects that existed at the time of sale, as required by law. As such, most warranties are assurance-type warranties under AASB 15, which the Group accounts for under AASB 137 Provisions, Contingent Liabilities and Contingent Assets, consistent with its practice prior to the adoption of AASB 15.

(b) Rendering of service
Distribution services are occasionally provided together with the sale of products to a customer. In the case of contracts with multiple performance obligations, the transaction price is allocated to different performance obligations based on their stand-alone selling prices. Revenue from distribution services is recognised over time, using an input method to measure progress towards complete satisfaction of the service. The requirements of AASB 15 did not have a material impact on revenue recognition from sales of distribution services given the short delivery terms.

(c) Presentation and disclosure requirements
As required for the interim condensed consolidated financial statements, the Group disaggregated revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash-flows are affected by economic factors. The Group also disclosed the information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to Note 3 for disclosure on disaggregated revenue.

(d) Significant judgments made by management
A key judgement applied by management is whether the goods manufactured for customers have an alternate use to the Group, including whether these goods can be repurposed and sold without significant economic loss to the Group. Where the goods are manufactured for a specific customer with no alternate use and where at all times throughout the contract the Group has the enforceable right to payment for performance completed to date, a performance obligation would be the service of manufacturing of the specific goods (revenue recognised over time) rather than the sale of goods (revenue recognised at point in time). Management has concluded goods to have alternate use for the Group and therefore revenue from sale of goods is recognised at the point in time when the customer obtains control over the goods.

Note 2: Basis of preparation and changes to the Group's accounting policies (continued)

2.3. Changes in significant accounting policies (continued)

AASB 9 Financial Instruments
AASB 9 *Financial Instruments* replaces AASB 139 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of accounting for financial instruments; classification and measurement, impairment, and hedge accounting.

The Group has applied AASB 9 retrospectively except for hedge accounting which has been applied prospectively.

(a) Classification and measurement
Except for certain trade receivables, under AASB 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Under AASB 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding on specified dates ('the SPPI criterion').

The new classification and measurement of the Group's debt financial assets are that debt instruments at amortised cost are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet SPPI criterion. This category includes the Group's *Trade and other receivables*.

The assessment of the Group's business models was made as of 1 July 2018 and then applied retrospectively. The accounting for the Group's financial liabilities remain largely the same as it was under AASB 139.

(b) Impairment
The adoption of AASB 9 has changed the Group's accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. AASB 9 requires the Group to record an allowance for ECL's for all debt financial assets not held at FVPL. ECL's are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The short fall is then discounted at an approximation to the asset's original effective interest rate.

For *Trade and other receivables* the Group has applied AASB 9's simplified approach and has calculated ECL's based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted to forward-looking factors specific to the debtors and the economic environment. Individual debts that are known to be uncollectible are written off when identified.

The adoption of the ECL requirements of AASB 9 did not result in a material change in impairment allowances of the Group's debt financial assets. There was no change in retained earnings. The statement of financial position as at 30 June 2018 and the statement of comprehensive income for the half-year ended 31 December 2017 did not need to be restated. Other than this change in the calculation of the ECL approach, the accounting for the Group's financial assets remains largely the same as it was under AASB 139.

(c) Hedge accounting
The Group applied hedge accounting prospectively. At the date of the initial application, all the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Consistent with prior periods, the Group has continued to designate the change in fair value of the derivatives in the Group's cash flow hedge relationships to other comprehensive income and, as such, the adoption of the hedge accounting requirements of AASB 9 had no significant impact on the Group's financial statements.

Notes to the Interim Condensed Consolidated Financial Statements

Note 3: Revenue

Segments	31 December 2018			31 December 2017		
$'000	Rigid	Industrial and Flexibles	Total	Rigid	Industrial and Flexibles	Total
Type of goods or services						
Sale of manufactured goods[1]	9,714	133,754	143,468	9,094	36,877	45,971
Sale of distribution goods[2]	23,898	89,930	113,828	21,786	90,212	111,998
Revenue from contracts with customers	**33,612**	**223,684**	**257,296**	30,880	127,089	157,969
Timing of revenue recognition						
Goods and services transferred at a point in time	33,612	223,684	257,296	30,880	127,089	157,969
Revenue from contracts with customers	**33,612**	**223,684**	**257,296**	30,880	127,089	157,969

[1] The Group manufactures flexible packaging materials and related products, incorporating products such as stretch and shrink wrap, agricultural silage packaging, fresh produce bags, barrier and lidding films and industrial protective films. It also manufactures plastic containers and closures and related products.
[2] The Group sources and distributes goods to its customers.

Note 4: Segment Information

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.

(a) Description of operating segments

Pro-Pac Packaging Limited is organised into the following operating segments:

❖ **Industrial and Flexibles packaging**

The Industrial and Flexibles packaging operating segment manufactures, sources and distributes industrial and flexible packaging materials and related products and services, incorporating products such as stretch and shrink wrap, agricultural silage packaging, fresh produce bags, barrier and lidding films and industrial protective films. The Industrial & Flexibles packaging operating segment also installs, supports and maintains packaging machines.

During the period, the Group acquired the business assets of Polypak, a New Zealand based soft flexible packaging manufacturer and distributor, and Perfection Packaging, a hard flexible manufacturer based in Victoria.

❖ **Rigid packaging**

The Rigid packaging operating segment manufactures, sources and distributes plastic containers and closures and related products and services.

(b) Seasonality of operations

Higher revenues and operating profits are usually expected in the first-half of the year rather than in the second half-year. Higher sales in the first-half of the year are mainly attributed to the increased demand for agricultural flexible packaging during the harvest season.

(c) Unallocated costs

Corporate and head office costs for the half-year of $4.1 million are $2.1 million higher than the half-year ended 31 December 2017 and include:

- Additional senior management roles with respect to the Integrated Packaging Group acquisition;
- Non-recurring consulting and personnel costs; and
- Increased compliance and other costs.

Notes to the Interim Condensed Consolidated Financial Statements

Note 4: Segment Information (continued)

Half-year ended 31 December - $'000	Rigid Packaging		Industrial and Flexibles Packaging		Intercompany Eliminations / Unallocated Costs		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Revenue								
External revenue	33,612	30,880	223,684	127,089	-	-	257,296	157,969
Intersegment revenue	5,817	4,955	10,654	4,495	(16,471)	(9,450)	-	-
Total revenue	39,429	35,835	234,338	131,584	(16,471)	(9,450)	257,296	157,969
Earnings/(losses) before interest, income tax, depreciation and amortisation, before significant items[1]	4,784	4,353	16,621	7,160	(4,102)	(1,961)	17,303	9,552
Significant items	-	(1,111)	(150,712)	(6,371)	(963)	(2,423)	(151,675)	(9,905)
Earnings/(losses) before interest, income tax, depreciation and amortisation	**4,784**	3,242	**(134,091)**	789	**(5,065)**	(4,384)	**(134,372)**	(353)
Depreciation and amortisation	**(760)**	(769)	**(3,042)**	(1,230)	**(227)**	(61)	(4,029)	(2,060)
Finance income							188	52
Finance expenses							(4,164)	(1,596)
Loss before income tax expense							**(142,377)**	(3,957)
Income tax (benefit) / expense							(1,952)	784
Loss after income tax expense							**(144,329)**	(3,173)

[1] EBITDA before significant items is a non-IFRS financial measure and is calculated as earnings before net finance expenses, income tax, depreciation and amortisation and significant items.

The following table presents assets and liabilities information for the Group's operating segments as at 31 December 2018 and 30 June 2018, respectively:

$'000	Rigid Packaging		Industrial and Flexibles Packaging		Intercompany Eliminations		Total	
	31 Dec 2018	30 June 2018	**31 Dec 2018**	30 June 2018	**31 Dec 2018**	30 June 2018	**31 Dec 2018**	30 June 2018
Segment assets	**46,867**	45,934	**302,527**	365,133	**(561)**	(2,707)	**348,833**	408,360
Deferred tax asset							5,623	14,530
Other unallocated assets							15,670	4,430
Unallocated assets							**21,293**	18,960
Total Group assets							**370,126**	427,320
Segment liabilities	**14,694**	12,383	**99,032**	99,307	**(595)**	(1,387)	**113,131**	110,303
Other unallocated liabilities							114,832	96,911
Unallocated liabilities							**114,832**	96,911
Total Group liabilities							**227,963**	207,214

Notes to the Interim Condensed Consolidated Financial Statements

Note 5: Business Combinations

(a) Acquisition of Perfection Packaging Unit Trust

On 1 September 2018, the Group acquired 100% of the units in the Perfection Packaging Unit Trust ('Perfection Packaging'). Perfection Packaging offers a range of hard flexible packaging solutions and focuses on customers in the fast moving consumer goods market. The business is included in the Industrial and Flexibles operating segment for the purposes of Segment Reporting (refer Note 4). The acquisition has been accounted for using the acquisition method and remains provisional at 31 December 2018. The goodwill arises from the value in the business and the expected synergies with the rest of the Group.

The interim condensed consolidated financial statements includes the results of Perfection Packaging for the four month period from the acquisition date. The fair value of the identifiable assets and liabilities of Perfection Packaging as at the date of acquisition were:

$'000	Note	1 September 2018
Cash		1,763
Trade and other receivables		9,419
Inventories		5,031
Other assets		969
Property, plant and equipment		10,240
Trade and other payables		(6,336)
Current provisions		(653)
Non-current provisions		(558)
Net identifiable assets/(liabilities) acquired at fair value		**19,875**
Purchase consideration		
Cash paid, adjusted for working capital and net borrowings paid out		42,436
Cash outflow from investing activities		**42,436**
Equity Issued[1]	9	9,960
Total acquisition date fair value consideration		**52,396**
[1] 25,538,462 shares were issued to the vendor at an agreed price of $0.39 per share which agrees to market prices at time of agreement		
Goodwill arising on acquisition		**32,521**
Acquisition costs expensed in profit or loss		25
Acquisition costs capitalised to equity		-
Revenue, from date of acquisition		15,967
Profit before tax, from date of acquisition		1,940
Revenue, if acquisition had occurred on 1 July		24,310
Profit before tax, if acquisition had occurred on 1 July		2,989

Note 5: Business Combinations (continued)

(b) Acquisition of the business assets of Polypak Plastics Limited

On 1 July 2018, the Group acquired the business assets of Polypak Plastics Limited ('Polypak'), a company based in New Zealand. The investment is aimed at increasing market share and providing a platform for growth opportunities in the New Zealand market. The business is included in the Industrial and Flexibles operating segment for the purposes of Segment Reporting (refer to Note 4). The acquisition has been accounted for using the acquisition method and remains provisional as at 31 December 2018. The goodwill arises from the value in the business and the expected synergies with the rest of the Group.

The fair value of the identifiable net assets and liabilities of Polypak as at the date of acquisition, converted to Australian dollars, were:

$'000	Note	1 July 2018
Inventories		1,036
Other assets		6
Property, plant and equipment		970
Trade and other payables		(727)
Current provisions		(174)
Fair value of net identifiable assets acquired		**1,111**
Purchase consideration		
Cash paid, adjusted for working capital		4,648
Contingent consideration paid		807
Outflow of cash – investing activities		**5,455**
Contingent consideration - not yet due[1]	8	806
Total acquisition date fair value consideration		**6,261**
[1] The maximum contingent consideration is $1.6 million (NZD $1.8 million)		
Goodwill arising on acquisition		**5,150**
Acquisition costs expensed to profit or loss		**-**
Acquisition costs capitalised to equity		-
Revenue, from date of acquisition		5,892
Profit before tax, from date of acquisition		718
Revenue, if acquisition had occurred on 1 July		5,892
Profit before tax, if acquisition had occurred on 1 July		718

(c) Information on prior year acquisitions

On 6 November 2017, the Group acquired 100% of the voting shares of Integrated Packaging Group Pty Ltd ('IPG'). Within twelve months of the acquisition, the purchase price accounting of IPG was finalised resulting in an amended carrying value of goodwill from $87.8 million at 30 June 2018 to $82.1 million, down $5.7 million. The amendment was primarily due to an independent valuation of IPG's property, plant and equipment which resulted in an increase in its carrying value. The interim condensed consolidated statement of comprehensive income contains all of the revenues and profit before tax of IPG for the half-year ended 31 December 2018.

Note 5: Business Combinations (continued)

(d) Impairment testing of goodwill and intangible assets with indefinite lives

The Group performs its annual impairment test in June and when circumstances indicate that the carrying value may be impaired. The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment.

As at 31 December 2018, the market capitalisation of the Group was below the book value of its equity, indicating a potential impairment of goodwill. As a result, management performed an assessment as at 31 December 2018, of the carrying value of the cash generating units ('CGU') being:

- Industrial and Flexibles packaging, and
- Rigid packaging.

The Group used the CGU's value-in-use ('VIU') to determine their recoverable amounts. As a result of this assessment, management has recognised a non-cash goodwill impairment of $149.0 million against the recoverable value of the Industrial and Flexibles CGU. Prior to the goodwill impairment the carrying value of the goodwill in the Industrial and Flexibles CGU was $172.1 million. The discussion below outlines the Group's methodology and approach to testing the recoverable amount of each CGU.

Methodology and Testing of Recoverable Amount

Value-in-Use
The recoverable amount of all CGUs has been determined based on a VIU calculation. The recoverable amounts are based on earnings before interest, income tax, depreciation and amortisation, and significant items ('EBITDA') as a surrogate for operating cash flows, less expected working capital movements and sustainable levels of maintenance capital expenditure.

Key assumptions

The following key assumptions have been used to determine the recoverable amounts of the Group's CGU's and the assumptions adopted are set out below,

(i) Discount rates
Discount rates applied in determining the recoverable amounts are based on the pre-tax weighted average cost of capital of the respective industries which the CGU's operate in, which is considered reflective of the current market assessment of the risks specified to each CGU taking into consideration the time value of money. The pre-tax discount rates adopted were 11.85% (30 June 2018: 10.40%) for the Rigid CGU and 12.11% (30 June 2018: 10.40%) for the Industrial and Flexibles CGU.

(ii) Growth rates
The earnings forecast in the first year of the forecast period is in line with recent EBITDA forecasts approved by the directors. The EBITDA assumptions adopted to determine the forecast cash flows for the second year and each subsequent year within the forecast period ('EBITDA compound annual growth rates') are in line with, or below independent published expectations of growth in these industries. The EBITDA compound annual growth rates adopted were 1.90% (30 June 2018: 2.60%) for the Rigid CGU and 0.79% (30 June 2018: 3.00%) for the Industrial and Flexibles CGU.

(iii) Long-term growth rate
A long term growth rate adopted to extrapolate cash flows beyond the five-year forecast period is considered in line with, or below external market expectations of long-term growth in these industries. The long term growth rates adopted were 2.00% (30 June 2018: 2.0%) for the Rigid CGU and 2.00% (30 June 2018: 2.00%) for the Industrial and Flexibles CGU.

Sensitivity analysis
At 31 December 2018, the amount by which the recoverable amount exceeded its carrying amount ("Headroom") for each CGU is as follows:

$'000	**Rigid**	**Industrial and Flexibles**
Headroom	12,916	-

Notes to the Interim Condensed Consolidated Financial Statements

Note 5: Business Combinations (continued)

(d) Impairment testing of goodwill and intangible assets with indefinite lives (continued)

The table below summarises the value assigned to each key assumption used in determining the recoverable amount, together with the value of each key assumption at which the recoverable amount is equal to its carrying amount ("Breakeven") when moved in isolation, for each CGU.

	Rigid		Industrial and Flexibles	
	Adopted Assumption %	Breakeven Assumption %	Adopted Assumption %	Breakeven Assumption %
Discount rate	11.85	15.73	12.11	12.11
EBITDA compound annual growth rates	1.90	(6.61)	0.79	0.79
Long-term growth rates	2.00	(6.35)	2.00	2.00

The directors have assessed the potential impact of reasonable possible changes in the key assumptions on the recoverable amount of each CGU. The table below discloses the sensitivity of the recoverable amount of each CGU to reasonable possible changes in each key assumption when moved in isolation.

	Rigid		Industrial and Flexibles	
Unfavourable movement of 100 basis points	Revised Assumption %	Impact on Recoverable Amount $'000	Revised Assumption %	Impact on Recoverable Amount $'000
Discount rate	12.85	(4,198)	13.11	(15,260)
EBITDA compound annual growth rates	0.90	(1,681)	(0.21)	(4,960)
Long-term growth rates	1.00	(3,184)	1.00	(6,097)

(e) Reconciliation of goodwill

The reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period is presented below:

$'000	31 December 2018
Gross carrying amount	
At 1 July 2018	162,050
Acquisition of Polypak	5,150
Acquisition of Perfection Packaging	32,521
Finalisation of business combination fair value recognition (IPG)	(5,734)
Foreign currency translation impact	219
At 31 December 2018	**194,206**
Accumulated Impairment Losses	
At 1 July 2018	-
Impairment losses recognised during the reporting period	(149,000)
Net book value	
At 1 July 2018	162,050
At 31 December 2018	**45,206**

Notes to the Interim Condensed Consolidated Financial Statements

Note 6: Significant items

The interim condensed consolidated statement of comprehensive income for the half-year ended 31 December 2018 contains certain items of individual and aggregate significance. These are as follows:

Half-year ended 31 December 2018 - $'000	**Other expenses**	**Non-cash items**	**Total Pre-tax**	**Tax impact**	**Net, after tax**
Goodwill impairment[1]	-	149,000	149,000	-	149,000
Onerous leases and exit costs[2]	823	-	823	(247)	576
Loss on disposal of assets[2]	-	319	319	-	319
Redundancy costs[2]	643	-	643	(193)	450
Relocation costs[2]	176		176	(53)	123
Consultants, temporary staff[2]	474	-	474	(142)	332
Legal fees and other costs[2]	240	-	240	(72)	168
Total Significant Items	**2,356**	**149,319**	**151,675**	**(707)**	**150,968**

[1] Refer to Note 5 for goodwill impairment assessment
[2] These items relate to the on-going integration activities

Half-year ended 31 December 2017 - $'000	Other expenses	Non-cash items	Total Pre-tax	Tax impact	Net, after tax
Discontinued stock lines	-	3,597	3,597	(1,079)	2,518
Onerous leases and exit costs	1,827	-	1,827	(548)	1,279
Loss on disposal of assets	-	1,075	1,075	-	1,075
Redundancy costs	112	-	112	(34)	78
Consultants, temporary staff	497	-	497	(149)	348
Legal fees and other costs	2,797	-	2,797	(839)	1,958
Total Significant Items	5,233	4,672	9,905	(2,649)	7,256

Note 7: Tax

Reconciliation of prima facie income tax applicable to profit before income tax at the statutory income tax rate to the income tax expense:

$'000	**31 December 2018**	31 December 2017
Loss before income tax	**(142,377)**	(3,957)
Prima facie income tax benefit at 30% (2017: 30%)	**42,713**	1,187
Effect of differential tax rates	**(58)**	(3)
Non-deductible goodwill impairment loss	**(44,700)**	-
Other non-deductible expenses	**(96)**	(323)
Other	**189**	(77)
Income tax benefit/(expense)	**(1,952)**	784

Note 8: Financial assets and financial liabilities

Set out below is an overview of financial assets and liabilities, other than cash and short term deposits, held by the Group as at 31 December 2018 and 30 June 2018.

$'000	31 December 2018	30 June 2018
Financial assets at amortised cost:		
Trade and other receivables	105,006	83,221
Other financial assets	126	125
Derivative designated as a hedge instrument:		
Cash flow hedge	-	470
Total	**105,132**	83,816
Total current	**105,006**	83,691
Total non-current	**126**	125
Financial liabilities at amortised cost:		
Trade and other payables (excluding contingent consideration)	93,662	84,983
Bank overdraft	-	4,918
Current finance leases and hire purchase contracts	1,222	993
Current interest bearing loans and borrowings		
- Current portion of a secured loan of $102.0 million (30 June 2018: $102.0 million) from a syndicate of banks, at variable interest rates	5,034	5,011
- Current unsecured trade financing	11,674	7,236
Non-current interest bearing loans and borrowings		
- Non-current portion of a secured loan of $102.0 million (30 June 2018: $102.0 million) from a syndicate of banks, at variable interest rates	95,901	90,247
Non-current finance leases and hire purchase contracts	512	977
Financial liabilities at Fair Value:		
Contingent consideration liabilities	1,846	1,046
Derivatives designated as hedging instruments:		
Cash flow hedge	23	-
Total	**209,875**	195,411
Total current	**113,462**	104,186
Total non-current	**96,413**	91,225

(a) Secured facilities

During the half-year, an amended agreement was signed on 21 December 2018. The amendment had no material impact on the carrying value of the secured facilities.

(b) Contingent consideration

In accordance with the Polypak asset purchase agreement, a portion of the purchase consideration was determined to be contingent, based on the performance of the acquired business. The first payment of $0.8 million (NZ$0.88 million) was paid in December 2018 as the performance hurdle was satisfactorily met.

The second potential payment of up to NZD$0.88 million is dependent on achieving agreed profit targets for the twelve months ending 30 June 2019. As at 31 December 2018, the key performance indicators showed it was highly probable that the second payment would be made. The provision recognised as at 31 December 2018 of $0.8 million is based on the weighted average of possible outcomes.

Note 8: Financial assets and financial liabilities (continued)

On 11 September 2017, the Group acquired the business assets of Selmac Group Pty Ltd (formerly known as Cosmic Packaging Pty Ltd), a business that sources produce packaging and related products from local and international suppliers for distribution into the Australian market. Total purchase consideration was $3.4 million comprised as follows:

- $2.4 million paid on completion of the acquisition; and
- Contingent consideration of $1.0 million with payments to be made over 3 years on achievement of agreed annual profit targets.

(c) Risk management activities

Cash flow hedges for currency risks

As a result of its international activities, the Group is exposed to foreign currency risk on part of its sales and purchases. In order to reduce this risk, the Group regularly determines its net exposure to the primary currencies (USD, CAD) based on actual sales and purchases and in some cases enters into foreign currency forward contracts to hedge these exposures. As at 31 December 2018, an unrealised loss was recognised in Other Comprehensive Income.

(d) Fair values

The carrying amount of financial assets and liabilities are a reasonable approximation of the fair value. The financial liabilities at fair value, being contingent consideration, are a Level 3 fair value measurement with significant unobservable inputs. The financial liabilities recorded as hedging instruments are based on a Level 2 fair value measurement with significant observable inputs.

Note 9: Issued capital

During the half-year ended 31 December 2018, the Company raised $59.8 million in cash through a capital raising. The reconciliation of the number of shares and issued capital at the beginning and end of the reporting period is presented below:

For the half-year to 31 December 2018	Number of Shares	Issued Capital $'000
At 1 July 2018	**583,665,341**	**217,695**
July 2018 - Share placement at 34 cents per share	66,539,771	22,624
August 2018 - Share placement at 34 cents per share	11,764,706	4,000
September 2018 - Share placement at 34 cents per share	97,577,877	33,176
September 2018 - Shares issued to the Perfection Packaging vendors as consideration at 39 cents per share	25,538,462	9,960
November 2018 - Shares issued under dividend reinvestment plan at 21.29 cents per share	24,964,031	5,223
Cancellation of ESPP shares	(2,220,000)	-
Share issue costs	-	(1,060)
At 31 December 2018	**807,830,188**	**291,618**

For the half-year to 31 December 2017	Number of Shares	Issued Capital $'000
At 1 July 2017	241,771,819	98,194
November 2017 Shares issued	161,181,634	55,195
November 2017 Shares issued to vendors as consideration	158,421,024	60,000
November 2017 Employee Share Performance Plan shares cancelled	(1,000,000)	-
December 2017 Employee Share Performance Plan issued	14,910,000	-
Share issue costs	-	(1,482)
At 31 December 2017	**575,284,477**	**211,907**

Note 10: Commitments and contingencies

As at 31 December 2018, the Group had capital expenditure commitments of $0.1 million (30 June 2018: 1.9 million).

Note 11: Related party disclosures

The Group has entered into the following transactions with the following related parties. All transactions with related parties are at arms-length basis. The following table provides the total amount of transactions that have been entered into with related parties during the half-year ended 31 December 2018 and 31 December 2017 as well as balances with related parties as at 31 December 2018 and 30 June 2018.

(a) Entity with significant influence over the Group

Trading transactions during the six-month period with Bennamon Pty Ltd were:

$'000	Sales	Purchases	Receivable	Payable
Entities related to major shareholder, Bennamon Pty Ltd				
Pact Group Ltd companies 2018	**5,310**	**3,712**	**940**	**952**
Pact Group Ltd companies 2017	3,219	3,813	1,132	1,210

Equity transactions during the half-year period with Bennamon Pty Ltd were:

Number of ordinary shares	Share purchase plan	Share placement	Purchases on market	Dividend Reinvestment Plan
Bennamon Pty Ltd	-	90,861,012	17,493,523	16,636,769

(b) Key management personnel

Equity transactions during the six-month period with key management personnel were:

Number of ordinary shares	Share purchase plan	Share placement	Purchases on market	Dividend Reinvestment Plan
A Fahour [1]	-	6,139,353	1,070,392	-
R. Harrington [1]	44,118	577,512	2,000,000	192,805
D. Brown	-	-	496,138	-
L. Valentine	-	-	90,000	-
Executive management				
M. Saus[2]	(300,000)	-	-	-

[1] On 3 September 2018, the company held an Extraordinary General Meeting where the Share Placement was approved by shareholders

[2] On 14 September 2018, Mark Saus, Chief Financial Officer, resigned and 300,000 Share Purchase Plan shares were cancelled

Note 12: Distributions made and proposed

	For the half-year ended 31 December	
Dividends to the equity holders of the parent:- $'000	**2018**	2017
Dividends on ordinary shares declared and paid Final dividend for 2018: 1.0 cents per share (2017: 1.0 cents per share)	(7,573)	(2,389)
Proposed dividend on ordinary shares Interim dividend for 2019: nil cents per share (2018: 1.0 cents per share)	-	(5,751)

Note 13: Events after the reporting period

During the period subsequent to balance date, Mr Grant Harrod, Chief Executive Officer, completed his notice period and exited the business on 22 February 2019, following his resignation during the half-year ended 31 December 2018. The Company is currently searching for an external replacement. In the interim, Mr Rick Rostolis, (Group Chief Financial Officer) has been appointed Acting Chief Executive Officer.

No other matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Pro-Pac Packaging Limited and its controlled entities

Directors' Declaration

In accordance with a resolution of the Directors of Pro-Pac Packaging Limited, I state that:

In the opinion of the Directors:

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

(i) give a true and fair view of its financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

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

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

Signed in accordance with a resolution of directors made pursuant to section 303 (5) (a) of the *Corporations Act 2001.*

On behalf of the Board

Ahmed Fahour AO
Chairman
Melbourne
26 February 2019

Darren Brown
Director

Building a better
working world

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

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

Independent Auditor's Review Report to the Members of Pro-Pac Packaging Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Pro-Pac Packaging Limited (the Company) and its subsidiaries (collectively the Group), which comprises the interim condensed consolidated statement of financial position as at 31 December 2018, the interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

Ernst & Young

Kester Brown
Partner

Melbourne
26 February 2019