APPENDIX 4E - PRELIMINARY FINANCIAL REPORT

(Rules 4.3A)

Name of entity:	**SPICERS LIMITED**
ABN:	**70 005 146 350**
For the year ended:	**30 June 2017**
Previous corresponding period:	30 June 2016

Results for announcement to the market

	2017 A$000	**2016 A$000**		**% Change**
External revenues from ordinary activities:				
• continuing operations	380,666	392,682	down	3%
• discontinued operations	-	30,120	down	100%
	380,666	422,802	down	10%

	2017 A$000	**2016 A$000**		
Net profit for the period after tax:				
• continuing operations	387	1,497	down	74%
• discontinued operations	1,305	3,799	down	66%
	1,692	5,296	down	68%
attributable to:				
Equity holders of Spicers Limited	1,692	5,296	down	68%

Dividends

	Amount per security		**Franked amount per security**
Final dividend - current period	Nil		Nil
Final dividend - previous corresponding period	Nil		Nil
Record date for determining entitlements to the dividend		N/A	
Date dividend is payable		N/A	

Commentary on results for the period

Refer to press release for explanation of results

Net tangible assets per security

		30 June 2017	**30 June 2016**
Net tangible assets attributable to ordinary shareholders (1)	A$000	105,068	110,937
Net tangible assets per ordinary security		$0.05	$(0.22)

(1) Attributable to ordinary shareholders and PaperlinX step-up preference security holders as at 30 June 2016.

Details of entities over which control has been gained or lost

Control lost over the following entities effective 24 October 2016:

Spicers Paper (Shanghai) Co. Ltd

Dividend reinvestment plan

The following dividend plans are currently suspended	Dividend Reinvestment Plan ('DRP')
The last date(s) for receipt of election notices for the dividend plans	N/A
Any other disclosures in relation to dividends	N/A

Details of associates and joint ventures

N/A

Information on audit or review

This report is based on accounts to which one of the following applies.

X	The accounts have been audited.		The accounts have been subject to review.
	The accounts are in the process of being audited or subject to review.		The accounts have *not* yet been audited or reviewed.

The Auditor's report contains a 'material uncertainty related to going concern' and an 'emphasis of matter regarding contingent liabilities'.

A copy of the auditor's report is included in the attached financial report.

Frank Glynn
Company Secretary
Date: 25 August 2017

FULL FINANCIAL REPORT

of Spicers Limited

30 June 2017

Contents

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 $000	2016 $000
Continuing operations			
Revenue from sale of goods		380,666	392,682
Cost of inventory sold *(1)*		(303,100)	(312,733)
Gross profit		77,566	79,949
Other income	9	1,192	1,933
Personnel costs		(39,245)	(40,597)
Logistics and distribution		(22,230)	(22,943)
Sales and marketing		(1,513)	(1,616)
Other expenses		(12,877)	(12,666)
Result from operating activities		2,893	4,060
Net finance costs *(1)*	10	(426)	(885)
Profit before tax		2,467	3,175
Tax expense	11	(2,080)	(1,678)
Profit from continuing operations		387	1,497
Discontinued operations			
Profit from discontinued operations, net of tax	12	1,305	3,799
Profit for the period		1,692	5,296
Profit for the period attributable to:			
Equity holders of Spicers Limited		1,692	5,296
Basic earnings per share (cents)	8	30.9	0.8
Basic earnings per share from continuing operations (cents)	8	30.8	0.2
Diluted earnings per share (cents)	8	30.4	0.8
Diluted earnings per share from continuing operations (cents)	8	30.2	0.2

(1) The Consolidated Entity has reclassified foreign exchange gains and losses in relation to inventory purchases (including prior period comparatives) from 'net finance costs' to 'cost of inventory sold' in order to more accurately reflect the nature of these gains and losses.

Notes 1 to 40 form part of these financial statements and are to be read in conjunction therewith.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

	2017 $000	2016 $000
Profit for the period	1,692	5,296
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Derecognition of actuarial adjustments on defined benefit plans on disposal of controlled entities *(1)*	-	4,198
Total items that will not be reclassified to profit or loss	-	4,198
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of overseas subsidiaries	(2,760)	2,820
Total items that may be reclassified subsequently to profit or loss	(2,760)	2,820
Items reclassified to profit or loss		
Exchange differences on disposal of controlled entities *(1)*	211	(1,304)
Total items reclassified to profit or loss	211	(1,304)
Other comprehensive (loss)/income for the period, net of tax	(2,549)	5,714
Total comprehensive (loss)/income for the period, net of tax	(857)	11,010
Total comprehensive (loss)/income for the period attributable to:		
Equity holders of Spicers Limited	(857)	11,010

(1) Disposal includes sale and loss of control - refer Note 12

Notes 1 to 40 form part of these financial statements and are to be read in conjunction therewith.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Note	2017 $000	2016 $000
Current assets			
Cash and cash equivalents	14	29,928	31,626
Short-term deposits		3,955	3,955
Trade and other receivables	15	74,290	76,112
Inventories	16	87,628	74,905
Total current assets		195,801	186,598
Non-current assets			
Receivables	17	74	920
Property, plant and equipment	18	8,787	9,523
Intangible assets	19	28,262	28,373
Deferred tax assets	21	623	543
Total non-current assets		37,746	39,359
Total assets		233,547	225,957
Current liabilities			
Trade and other payables	22	84,907	64,659
Loans and borrowings	23	2,042	4,893
Income tax payable		2,927	2,867
Employee benefits	24	7,668	7,779
Provisions	25	1,508	5,310
Total current liabilities		99,052	85,508
Non-current liabilities			
Deferred tax liabilities	21	29	108
Employee benefits	24	542	596
Total non-current liabilities		571	704
Total liabilities		99,623	86,212
Net assets		133,924	139,745
Equity			
Issued capital	26	1,936,607	1,895,767
Reserves	27	(11,300)	(8,747)
Accumulated losses		(1,791,383)	(2,002,098)
Total equity attributable to holders of ordinary shares of Spicers Limited		133,924	(115,078)
Issued PaperlinX step-up preference securities		-	276,518
Reserve for own PaperlinX step-up preference securities		-	(21,695)
PaperlinX step-up preference securities	28	-	254,823
Total equity		133,924	139,745

Notes 1 to 40 form part of these financial statements and are to be read in conjunction therewith.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

	Attributable to equity holders of Spicers Limited						
$000	**Issued capital**	**Exchange fluctuation reserve**	**Reserve for own shares**	**Employee share plans reserve**	**Accumulated losses**	**PaperlinX step-up preference securities**	**Total equity**
Balance at 1 July 2016	1,895,767	(10,421)	(158)	1,832	(2,002,098)	254,823	**139,745**
Total comprehensive loss for the period							
Profit for the period	-	-	-	-	1,692	-	**1,692**
Other comprehensive income							
• Exchange differences on translation of overseas subsidiaries	-	(2,760)	-	-	-	-	**(2,760)**
• Reclassification of exchange differences on disposal of controlled entities to Income Statement *(1)*	-	211	-	-	-	-	**211**
Total other comprehensive loss	-	(2,549)	-	-	-	-	**(2,549)**
Total comprehensive (loss)/income for the period	-	(2,549)	-	-	1,692	-	**(857)**
Transactions with owners recorded directly in equity							
• Employee share-based payment transactions	-	-	-	(120)	-	-	**(120)**
• Issue of shares to employees	-	-	116	-	4	-	**120**
• Shares issued to acquire PaperlinX step-up preference securities *(2)*	45,804	-	-	-	209,019	(254,823)	**-**
• Transactions costs attributable to the issue of new ordinary shares *(2)*	(4,964)	-	-	-	-	-	**(4,964)**
Total transactions with owners	40,840	-	116	(120)	209,023	(254,823)	**(4,964)**
Balance at 30 June 2017	1,936,607	(12,970)	(42)	1,712	(1,791,383)	-	**133,924**
Balance at 1 July 2015	1,895,767	(11,937)	(184)	1,794	(2,011,601)	254,823	**128,662**
Total comprehensive income for the period							
Profit for the period	-	-	-	-	5,296	-	**5,296**
Other comprehensive income							
• Derecognition of actuarial adjustments on defined benefit plans on disposal of controlled entities *(1)*	-	-	-	-	4,198	-	**4,198**
• Exchange differences on translation of overseas subsidiaries	-	2,820	-	-	-	-	**2,820**
• Reclassification of exchange differences on disposal of controlled entities to Income Statement *(1)*	-	(1,304)	-	-	-	-	**(1,304)**
Total other comprehensive income	-	1,516	-	-	4,198	-	**5,714**
Total comprehensive income for the period	-	1,516	-	-	9,494	-	**11,010**
Transactions with owners recorded directly in equity							
• Employee share-based payment transactions	-	-	-	16	-	-	**16**
• Write off of employee share reserve on disposal of controlled entities *(1)*	-	-	-	22	-	-	**22**
• Issue of shares to employees	-	-	26	-	9	-	**35**
Total transactions with owners	-	-	26	38	9	-	**73**
Balance at 30 June 2016	1,895,767	(10,421)	(158)	1,832	(2,002,098)	254,823	**139,745**

(1) Disposal includes sale and loss of control - refer Note 12.
(2) Refer Note 5.

Notes 1 to 40 form part of these financial statements and are to be read in conjunction therewith.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 $000	2016 $000
Cash flows from operating activities			
Receipts from customers		380,018	430,689
Payments to suppliers and employees		(371,119)	(440,523)
Dividends received		-	56
Interest received		328	555
Interest paid		(795)	(1,602)
Income taxes paid		(2,145)	(2,764)
Net cash from/(used in) operating activities	32	6,287	(13,589)
Cash flows from investing activities			
Acquisition of:			
• Property, plant and equipment and intangibles		(877)	(1,922)
Net (payments)/proceeds from the disposal of:			
• Controlled entities and businesses (proceeds less transaction costs) - net of cash and bank overdraft disposed		(302)	865
• Property, plant and equipment		19	2,350
• Investments		-	768
Net cash (used in)/from investing activities		(1,160)	2,061
Cash flows from financing activities			
Proceeds from borrowings		188	3,067
Repayment of borrowings		(2,960)	(6,805)
Transaction costs paid for capital structure simplification *(1)*		(3,112)	(421)
Capitalised borrowing costs paid		(24)	-
Other borrowing costs paid		(70)	(236)
Net cash used in financing activities		(5,978)	(4,395)
Net decrease in cash and cash equivalents		(851)	(15,923)
Cash and cash equivalents at the beginning of the period	32	31,626	55,518
Cash and cash equivalents disposed on derecognition of controlled entities		-	(10,728)
Effect of exchange rate changes on cash held		(847)	2,759
Cash and cash equivalents at the end of the period	32	29,928	31,626

(1) Refer Note 5.

Notes 1 to 40 form part of these financial statements and are to be read in conjunction therewith.

Note 1. Reporting entity

Spicers Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is 155 Logis Boulevard, Dandenong South VIC 3175, Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2017 comprises the Company and its subsidiaries (together referred to as the "Consolidated Entity"). The Consolidated Entity is a for-profit entity and is primarily involved in the merchanting of paper, communication materials and diversified materials, including packaging and sign and display.

Note 2. Basis of preparation

(a) Statement of compliance

The Financial Report is a general purpose financial report prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The Financial Report complies with the International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board ("IASB").

The Financial Report was authorised for issue by the Directors of the Company on 25 August 2017.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value; and
- Financial instruments at fair value through profit or loss are measured at fair value.

The methods used to measure fair values are discussed further in Note 4.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

The Company is of the kind referred to in ASIC Corporations Instrument 2016/191 effective 1 April 2016 and in accordance with that Instrument, amounts in the Financial Report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the Financial Report and estimates with a significant risk of material adjustment in the next year are discussed in Note 3(u).

(e) Going concern basis of accounting

In preparing the Consolidated Financial Report, the Directors made an assessment of the ability of the Consolidated Entity to continue as a going concern. An entity is a going concern when it is considered to be able to pay its debts as and when they are due and continue in operation without any intention or necessity to liquidate the entity or to cease trading.

Following asset sales and the commencement of insolvency proceedings in Spicers' businesses in various foreign jurisdictions in previous reporting periods, the Consolidated Entity's continuing operations now consist of trading businesses in Australia, New Zealand and Asia and a corporate support function. The ability of the Consolidated Entity to meet its operational cash requirements and remain in compliance with the terms and covenants included in existing debt facilities in the foreseeable future is dependent in part on meeting forecast trading results and cash flows, and maintaining trading/settlement terms with key creditors (including suppliers and credit insurers). These forecasts are necessarily based on best-estimate assumptions that may or may not occur as expected and are subject to influences and events outside of the control of the Consolidated Entity. The forecasts, taking into account reasonably possible changes in trading performance, show that the Consolidated Entity should be able to operate within the level and terms of its current facilities for at least the next 12 months. Should trading performance not meet expectations, the Consolidated Entity is able to pursue other measures to generate cash such as accessing undrawn debt facilities, working capital reductions or selling assets.

Key matters considered by the Directors in undertaking their going concern assessment include the following:

Debt refinancing

In the current reporting period, the Consolidated Entity replaced one of its two major debt facilities with a new lending provider for an additional three-year period (to financial year 2020). The other major facility expires in March 2018. The Consolidated Entity is well advanced in replacing this facility with a new financier, with terms largely agreed and credit approval in place. However, due to the restrictions placed upon the Consolidated Entity by the recently completed simplification of its capital structure (refer Note 5), the Consolidated Entity cannot enter into this major contract until after the Board renewal process is completed on 6 September 2017. In making their going concern assessment, the Directors have considered the current status of the refinancing negotiations but importantly have had regard to the restrictions imposed by the Board renewal process (see below for further comment). It is noted that any unforeseen delays surrounding the finalisation of the replacement of this debt facility could create a material uncertainty in relation to the going concern assessment of the Consolidated Entity in the absence of other actions to preserve liquidity.

Note 2. Basis of preparation – (continued)

Contingent liabilities

As at the reporting date, insolvency proceedings relating to a number of but not all of the former Spicers' businesses in the UK and Continental Europe are ongoing and are expected to continue for some time. As part of the insolvency proceedings for these businesses, legal claims and other exposures may arise that impact the Consolidated Entity including in respect of, but not limited to, pension plan liabilities, other employee entitlements, former intercompany balances and equity transactions, and other creditors and director/officer indemnities. There is a material uncertainty as to whether a future liability will arise in respect of these matters. As a consequence, the Directors are aware that uncertainties exist in relation to the insolvency proceedings in the UK and Continental Europe which may cast doubt upon the Consolidated Entity's ability to continue as a going concern.

Board renewal process

As noted above, the Company expects to finalise the Board renewal process at an extraordinary general meeting of shareholders on 6 September 2017. Whilst the Directors have completed their review and enquiries in relation to the going concern assessment, they have not been able to make any assessment of the impact of any change in company strategy that may occur under the newly elected Board in relation to key matters such as capital management and cash allocation which, if implemented, may change the Directors' conclusions in relation to going concern. Therefore, the Directors consider that due to the Board renewal process being incomplete at the date of this report, there are uncertainties in relation to the future management of the Consolidated Entity that may impact the Consolidated Entity's ability to realise its assets and discharge its liabilities in the normal course of business.

After making enquiries, and having regard to the pending board renewal process, the Directors have a reasonable expectation that the Consolidated Entity will have adequate resources to continue to operate and meet its obligations as they fall due and remain within the terms of its debt facilities. For these reasons, they continue to adopt the going concern basis in preparing the consolidated Financial Report.

(f) New and amended standards adopted

The Consolidated Entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the "AASB") that are effective for the current reporting period.

New and revised Standards and Interpretations effective for the current reporting period that are relevant to the Consolidated Entity include:

- AASB 2014-3 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations*
- AASB 2014-4 *Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation*
- AASB 2014-9 *Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements*
- AASB 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*
- AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101*.

The adoption of these standards did not have any financial impact on the current reporting period or the prior comparative reporting period.

Note 3. Accounting policies

The following significant accounting policies have been applied by the Consolidated Entity, having regard to its activities, in the preparation of the Consolidated Financial Report ("the Financial Report").

Certain comparative amounts have been reclassified to conform with the current year's presentation.

(a) Basis of consolidation

The Financial Report of the Consolidated Entity is in accordance with Accounting Standard AASB 10 *Consolidated Financial Statements*. In preparing the Financial Report, all balances and transactions between entities included in the Consolidated Entity have been eliminated.

- **Subsidiaries**

Subsidiaries are entities controlled by the Company. Control exists when the Company 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 over the entity. Investments in subsidiaries are carried at cost less accumulated impairment losses.

The financial statements of subsidiaries are included from the date that control commences until the date that control ceases.

In the prior reporting period, the Company lost control of certain subsidiaries when those subsidiaries entered into administration (refer Note 12). In accordance with the requirements of AASB 10, the Company:

- Derecognised the assets and liabilities of the subsidiaries at their carrying amounts at the date when control was lost. Where the Company was unable to obtain asset and liability values immediately prior to the loss of control, the most recent management approved monthly accounts were used to approximate the values on loss of control.
- Reclassified to the income statement, or transferred directly to retained earnings if required by other standards, the amounts previously recognised in other comprehensive income in relation to the subsidiaries. Amounts previously recognised in other comprehensive income were accounted for as if the Company had directly disposed of the related assets or liabilities.
- Recognised any resulting difference as a gain or loss on disposal of discontinued operations (refer Note 12).

Dividend distributions from subsidiaries are recognised by the Company when they are declared by the subsidiaries. Dividends received out of pre-acquisition reserves are recognised in the Income Statement, subject to impairment review.

- **Other entities**

Dividends from other investments are recognised when dividends are received or declared as being receivable.

Note 3. Accounting policies – (continued)

- **PaperlinX step-up preference securities**

In the current reporting period, the Company acquired the 2,626,398 PaperlinX step-up preference securities (SPS Units) it did not already own, and all 2,850,000 SPS Units were redeemed and cancelled - refer Note 5.

In the prior reporting period, the SPS Units were recorded in equity, based on the terms and conditions attached thereto, and were measured as the proceeds received on issue net of the issue costs.

SPS Units acquired by the Consolidated Entity in a prior reporting period as part of an off-market takeover offer were recorded at their carrying value (issue price less issue costs) in the Reserve for own PaperlinX step-up preference securities.

(b) Share capital

- **Ordinary shares**

Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity.

(c) Revenue recognition

Sales revenue comprises revenue earned measured at the fair value of the consideration received or receivable (net of returns, discounts, allowances and the amount of goods and services tax) from the provision of products to entities outside the Consolidated Entity. Sales revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(d) Taxation

- **Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not recognised:

- initial recognition of goodwill;
- the initial recognition of assets or liabilities in a transaction that is not a business combination that affect neither accounting nor taxable profit or loss; and
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

- **Tax consolidation - Australia**

The Australian Federal Government enacted legislation in 2003 to allow companies comprising a parent entity and Australian wholly owned subsidiaries to elect to consolidate and be treated as a single entity for Australian income tax purposes. The Company is the head entity of the Australian tax consolidated group.

The Company elected to form a tax consolidated group effective from 1 July 2003. Under the consolidation rules, the Company chose to reset the tax cost base of certain depreciable assets which will result in additional tax depreciation over the lives of the assets.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the “separate taxpayer within the group” approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Current tax liabilities and assets and deferred tax assets arising from the unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group). Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in the Company’s statement of financial position and their tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the head entity from the subsidiaries in the tax consolidated group are recognised as amounts receivable or payable to other entities in the tax consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution to or distribution from the subsidiary. Distributions firstly reduce the carrying amount of the investment in the subsidiary and are then recognised as revenue.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Note 3. Accounting policies – (continued)

- **Nature of tax funding arrangements and tax sharing agreements - Australia**

The head entity in conjunction with other members of the tax-consolidated group has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts.

The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising inter-entity receivables (payables) in the separate financial statements of the members of the tax consolidated group equal in amount to the tax liability (asset) assumed. The inter-entity receivables/payables are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The Company, as the head entity of the Australian tax consolidated group, in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(e) Goods and Services Tax - Australia

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax ("GST"), except where the amount of GST incurred is not recoverable from the Australian Taxation Office ("ATO"). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as an expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST payable to the ATO is included as a current liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(f) Depreciation

Property, plant and equipment, excluding freehold land, are depreciated at rates based upon their expected useful lives using the straight-line method. Freehold land is not depreciated.

Depreciation rates used for each class of asset are as follows:

Land improvements:	between 1% - 3% (2016: 1% - 3%)
Buildings:	between 1% - 4% (2016: 1% - 4%)
Plant and equipment:	between 4% - 25% (2016: 4% - 25%)

Depreciation is expensed except to the extent it is included in the carrying amount of an asset as an allocation of production overheads.

The residual value, the useful life and the depreciation method applied to an asset are reviewed at least annually.

(g) Employee benefits

The Consolidated Entity's net obligation in respect of long-term service benefits, other than defined benefit superannuation funds, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to Government and/or corporate bonds at the reporting date which have maturity dates approximating the terms of the Consolidated Entity's obligations.

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Consolidated Entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as medical care, housing, cars and subsidised goods and services, are expenses based on the net marginal cost to the Consolidated Entity as the benefits are taken by the employees.

Employee benefits include, where appropriate, forecast future increases in wages and salaries, grossed up for on-costs, and are based on the Consolidated Entity's experience with staff departures.

- **Workers' compensation**

Provision is made for workers' compensation claims in accordance with self-insurance licences held in Victoria and Tasmania. The amount of the Victorian provision is confirmed at each year end by an independent actuary.

Note 3. Accounting policies – (continued)

- **Share-based payments**

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Notes 4 and 29.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Consolidated Entity's estimate of equity instruments (share options and rights) that will eventually vest. At the end of each reporting period, the Consolidated Entity revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss, where the change is unrelated to market conditions, such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee share plans reserve.

The policy described above is applied to all equity-settled share-based payments that were granted after 7 November 2002 and vested after 1 January 2005. For options and performance rights granted before 7 November 2002 and/or vested before 1 January 2005, no expense has been recognised. The shares are recognised when the options and rights are exercised and the proceeds received are allocated to share capital.

- **Employee retirement benefit obligations**

The Consolidated Entity has both a defined benefit plan and defined contribution plans. The defined benefit plan provides defined lump sum benefits based on years of service and final average salary. The defined contribution plans receive fixed contributions from the Consolidated Entity and the Consolidated Entity's legal or constructive obligation is limited to these contributions.

A liability or asset in respect of the defined benefit plan is recognised in the statement of financial position, and is measured as the present value of the defined benefit obligation at the reporting date less the fair value of the plan's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the plan to the reporting date, calculated annually by independent actuaries 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.

Actuarial gains and losses arising from experience adjustments and related changes in actuarial assumptions are charged or credited to other comprehensive income.

Past service costs are recognised immediately in profit or loss, unless the related changes to the plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Future taxes that are funded by the entity and are part of the provision of the existing benefit obligation (e.g. taxes on investment income and employer contributions) are taken into account in measuring the net liability or asset.

(h) Net financing costs

Net financing costs comprise interest, amortisation of transaction costs directly attributable to obtaining debt facilities, unwind of discount on provisions and other financing charges including net non-trading foreign exchange gains and losses, net of interest income on funds invested. These costs are recognised in profit or loss, except to the extent the interest incurred relates to construction of major capital items in which case interest is capitalised as a cost of the asset up to the time it is ready for its intended use or sale.

Interest income is recognised in the Income Statement as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the Income Statement using the effective interest method.

For fixed assets, the capitalised interest and charges are amortised over the expected useful economic lives.

Transaction costs directly attributable to obtaining debt facilities are capitalised on initial recognition of the facility and amortised over the term of the facility.

(i) Property, plant and equipment

Depreciable property, plant and equipment are shown in the Financial Report at cost or deemed cost less accumulated depreciation and impairment losses.

Certain items of property, plant and equipment that had been revalued to fair value prior to 1 July 2004, the Australian Equivalent of International Financial Reporting Standards ("AIFRS") transition date, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Costs include expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets include the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Costs may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Borrowing costs related to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of that asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss.

Note 3. Accounting policies – (continued)

(j) Inventories

Inventories are valued at the lower of cost (including an appropriate proportion of fixed and variable overheads) and net realisable value in the normal course of business.

The cost of inventories is based on the first-in first-out or weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. The provision for impairment losses is based on an ageing analysis.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Consolidated Entity's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

(l) Foreign currency

- **Transactions**

The Consolidated Entity is exposed to changes in foreign currency exchange rates as a consequence of the need to purchase items denominated in foreign currency as part of its activities. Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of transaction. Monetary assets and liabilities at balance date are translated to Australian dollars at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities measured at historical cost are translated using the exchange rate at the date of the transaction. All material foreign currency transactions which are not offset by a natural hedge are subject to forward exchange contracts or currency options, and any exchange gains/losses arising from the effect of currency fluctuations on the underlying transactions are offset by the exchange gains/losses on the forward exchange contract or currency option. As a result, exchange rate movements on such foreign currency transactions are largely offset within the Income Statement. Where an entity designates transactions to be accounted for as a cash flow hedge, any gains/losses are recorded in other comprehensive income as outlined below.

- **Translation of foreign subsidiaries**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised in other comprehensive income and presented in the exchange fluctuation reserve in equity.

Any exchange gains/losses arising on transactions entered into to hedge the currency fluctuations on the net investment in foreign subsidiaries are recorded, net of tax, in the exchange fluctuation reserve on consolidation where it is determined to be an effective hedge. When a foreign operation is disposed of, the cumulative amount in the exchange fluctuation reserve related to that foreign operation is reclassified to profit and loss as part of the gain or loss on disposal.

(m) Financial instruments

The Consolidated Entity is exposed to changes in interest rates, foreign currency exchange rates and commodity prices from its activities. The Consolidated Entity uses the following financial instruments to hedge these risks: interest rate swaps, forward exchange contracts, currency options and interest rate options. Financial instruments are not held for trading purposes.

- **Derivative instruments**

Derivative instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured to their fair value. Attributable transaction costs are recognised in profit or loss as incurred.

Changes in the fair value of derivative instruments are recognised immediately in the Income Statement.

- **Financial instruments included in liabilities**

Trade and other payables are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Consolidated Entity and are stated at amortised cost.

Interest bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost. Any difference between cost and redeemable value is recognised as interest expense, on an effective interest basis in net financing costs over the period of the borrowings.

Amounts owed to former subsidiaries, which are recognised for the first time upon the loss of control of those subsidiaries, are recognised initially at fair value and subsequently at either amortised cost or fair value through profit and loss, depending on the nature of the liability and the basis on which it is managed and its performance is evaluated.

Note 3. Accounting policies – (continued)

- **Financial instruments included in assets**

Trade debtors and other receivables are carried at amortised cost less any impairment losses. Collectability of overdue accounts is assessed on an ongoing basis. Specific provision is made for all doubtful accounts.

Investments are initially recorded at cost and are subject to impairment testing at each reporting date. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

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.

Loans and receivables and held-to-maturity financial assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables and held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

Amounts owed by former subsidiaries, which are recognised for the first time upon the loss of control of those subsidiaries, are recognised initially at fair value and subsequently at either amortised cost or fair value through profit and loss, depending on the nature of the asset and the basis on which it is managed and its performance is evaluated.

(n) Leased assets

Leases under which the Consolidated Entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability to the lessor is recognised as a finance lease obligation.

Lease payments are apportioned between finance expenses and a reduction of the lease obligation so as to achieve a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(o) Intangible assets

- **Goodwill**

Goodwill is not amortised but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less impairment losses where applicable.

Gains and losses on the disposal of an entity include the carrying value of goodwill relating to the entity sold. Goodwill is allocated to cash generating units for the purpose of impairment testing.

- **Other intangible assets**

Other intangible assets that are acquired by the Consolidated Entity are stated at cost less accumulated amortisation and impairment losses.

Amortisation is calculated over the cost of the asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of the assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

Amortisation rates used for other intangible assets are as follows:

Computer software: 10.0% - 40.0% (2016: 10% - 40.0%)
Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(p) Business combinations

Business combinations are accounted for by applying the acquisition method as at the acquisition date. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

For every business combination, the Consolidated Entity identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Consolidated Entity takes into consideration potential voting rights that are currently exercisable.

The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Consolidated Entity in exchange for control of the acquiree.

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Consolidated Entity reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date. The measurement period is the period from the date of acquisition to the date the Consolidated Entity obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

Note 3. Accounting policies – (continued)

(q) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists the asset's recoverable amount is estimated. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Impairment losses recognised in respect of cash generating units are allocated first to any goodwill allocated to the cash generating unit, and then to other assets in the unit on a pro rata basis.

- **Recoverable amount**

The recoverable amount of receivables carried at cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

- **Reversals of impairment**

An impairment loss in respect of goodwill recorded in profit or loss in one period is not permitted to be reversed to profit or loss in a subsequent period.

In respect of other assets, an impairment loss is reversed only if there is an indication that the impairment loss may no longer exist or there has been a change in estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(r) Provisions

A provision is recognised when there is a present legal or constructive obligation that can be estimated reliably, as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

- **Surplus leased premises**

Provision is made for non-cancellable operating lease rentals payable on surplus leased premises when the expected future benefits to be obtained are lower than the unavoidable costs of meeting the obligations under these contracts.

The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Consolidated Entity recognises any impairment loss on the assets associated with that contract.

- **Restructuring**

A provision for restructuring is recognised when the Consolidated Entity has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been publicly announced. Future operating costs are not provided for.

- **Environmental remediation**

A provision for environmental remediation is recognised when a legal or constructive obligation to remediate exists due to the impact of a past event, and the provision can be reliably estimated.

(s) Earnings per share

The Company presents basic and diluted Earnings per Share ("EPS") data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to members of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

(t) Discontinued operation

A discontinued operation is a component of the Consolidated Entity's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as discontinued, the comparative consolidated income statement is re-presented as if the operation had been discontinued from the start of the comparative period.

(u) Accounting estimates and judgements

The Consolidated Entity makes estimates and assumptions concerning the future. Actual results may at times vary from estimates. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- **Revisions of accounting estimates**

Revisions to accounting estimates are recognised prospectively in current and future periods when the estimates are revised.

Note 3. Accounting policies – (continued)

- **Fair value of financial assets and liabilities**

Amounts owed to and by former subsidiaries, which are recognised for the first time upon the loss of control of those subsidiaries, are recognised initially at fair value and subsequently at amortised cost or fair value through profit and loss, depending on the nature of the asset or liability and the basis on which it is managed and its performance evaluated. To determine fair value, the Consolidated Entity makes estimates and assumptions regarding future cash flows, the credit risk of the entity and its capacity to pay.

- **Impairment of non-current assets**

The Consolidated Entity assesses whether non-current assets (including assets held for sale) are impaired at least annually. These calculations involve an estimation of the recoverable amount of the cash generating units to which the non-current assets are allocated based on forecast future cash flows and certain related assumptions. These assumptions are discussed in Note 20.

- **Defined benefit plan obligations**

Various actuarial assumptions are utilised in the determination of the Consolidated Entity's defined benefit plan obligations.

- **Tasmania closure costs**

Management have made estimates and judgements to determine the costs associated with the closure of the Tasmanian manufacturing operations. The closure costs have been disclosed in discontinued operations. If the final amounts relating to the site closures differ from the current estimate, variations will be brought to account in future periods. If required, these adjustments will be disclosed in the Income Statement as income or expense from discontinued operations.

- **Contingent liabilities**

Management have made estimates and judgements in relation to the likelihood of certain contingent liabilities, refer Note 36.

(v) Non-current assets held for sale

Non-current assets that are expected to be recovered through sale are classified as held for sale. The assets have been valued and are measured at the lower of their carrying amount and fair value less cost to sell. Non-current assets held for sale are also subject to an impairment assessment.

(w) Segment reporting

The Consolidated Entity determines and presents operating segments based on the information that is internally provided to the Chief Executive Officer (CEO), who is the Consolidated Entity's chief operating decision maker. An operating segment is a component of the Consolidated Entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Consolidated Entity's other components. All operating segments' operating results are regularly reviewed by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, income tax assets and liabilities and centrally managed funding balances.

Segment information is further split between continuing operations and discontinued operations.

(x) New standards and interpretations not yet adopted

A number of standards, amendments to standards and interpretations which may be relevant to the Company or Consolidated Entity were available for early adoption but have not been applied by the Consolidated Entity in these financial statements. The new standards with the most significant potential impact on the Company and the Consolidated Entity are AASB 9 *Financial Instruments*, AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases.* A preliminary analysis of the transition impact has been undertaken, and whilst the full evaluation is not yet complete, the Consolidated Entity's initial assessment in relation to these standards is detailed below.

AASB 9 Financial Instruments

AASB 9 *Financial Instruments*, AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, AASB 2014-1 *Amendments to Australian Accounting Standards [Part E - Financial Instruments],* AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)* brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace AASB 139 *Financial Instruments: Recognition and Measurement* in the final version of AASB 9. AASB 9 will become applicable to annual reporting periods beginning on or after 1 January 2018.
The new standard will require the Consolidated Entity to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete. However, the Consolidated Entity has performed a preliminary assessment of the potential impact of adoption of AASB 9 based on its positions at the reporting date.

Classification – financial assets
AASB 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. AASB 9 contains three principal classification categories for financial assets – measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing AASB 139 categories of held to maturity, loans and receivables and available for sale.
At reporting date, the Consolidated Entity's financial assets mainly comprised trade and other receivables, cash and cash equivalents and short-term deposits, which are expected to be classified and measured at amortised cost under AASB 9. Based on its preliminary assessment, the Consolidated Entity does not believe that the new classification requirements, if applied at 30 June 2017, would have had a material impact on its accounting for these financial assets.

Note 3. Accounting policies – (continued)

Impairment – financial assets and contract assets

AASB 9 replaces the 'incurred loss' model in AASB 139 with a forward-looking 'expected credit loss' (ECL) model. Under AASB 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument. Lifetime ECL measurement always applies for trade receivables without a significant financing component.

The Consolidated Entity has not yet finalised the impairment methodologies that it will apply under AASB 9, however it believes that impairment losses are unlikely to be materially higher or more volatile for assets in the scope of the IFRS 9 impairment model (mainly trade receivables without a significant financing component), particularly given the nature and size of the existing customer base and historical loss data.

Classification – financial liabilities

AASB 9 largely retains the existing requirements in AASB 139 for the classification of financial liabilities. However, under AASB 139 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under AASB 9, these fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

At reporting date, the Consolidated Entity has other payables designated at FVTPL. Based on the Consolidated Entity's preliminary assessment, it is unlikely that the new classification requirements, if applied at the reporting date, would have had a material impact on the recognition of changes in the fair value of liabilities designated as at FVTPL. The effect on future periods will depend on the value of other payables designated at FVTPL and the own credit risk attributable to those liabilities in future periods.

Hedge accounting

AASB 9 will require the Consolidated Entity to ensure that hedge accounting relationships are aligned with the Consolidated Entity's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. AASB 9 also introduces new requirements regarding rebalancing of hedge relationships and prohibiting voluntary discontinuation of hedge accounting.

Although the Consolidated Entity hedges foreign currency transactions which are not offset by a natural hedge (refer Note 3(l)), during the current and prior reporting periods, it did not apply hedge accounting to these activities. Therefore, the changes to hedge accounting under AASB 9 are unlikely to have an impact on the Consolidated Entity unless it decides to implement hedge accounting in future reporting periods.

AASB 15 Revenue from Contracts with Customers

AASB 15 *Revenue from Contracts with Customers,* AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15,* AASB 2015-8 *Amendments to Australian Accounting Standards - Effective Date of AASB 15* outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers.

AASB 15 will supersede the current revenue recognition guidance including AASB 118 *Revenue* and the related interpretations when it becomes effective.

Under AASB 15, an entity recognises revenue when (or as) a performance obligation is satisfied, that is when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Currently, the Consolidated Entity's sales revenue is measured at the fair value of the consideration received or receivable, net of returns, trade and settlement discounts and customer rebates paid or payable. Sales revenue is recognised when goods are delivered to the customer and the substantial risks and rewards of ownership have passed to the customer.

The Consolidated Entity recognises revenue from the following major sources:

- Sale of print and packaging products
- Sale of sign and display products, including hardware.

For the year ended 30 June 2017, print and packaging products and sign and display products (excluding hardware) accounted for approximately 95% of the Consolidated Entity's sales revenue. These categories typically involve the supply of products to customers from stock maintained in distribution centres or as an agent for suppliers. Under AASB 15, revenue will be recognised when the performance obligation is satisfied through transfer of control of the goods to the customer. As this is similar to the Consolidated Entity's current recognition criteria under AASB 118, there is unlikely to be a material change to the quantum or timing of revenue recognition for these products.

In some cases, print and packaging products and sign and display products (excluding hardware) are provided on a 'bill and hold' basis, where the Consolidated Entity bills the customer for a product but retains physical possession of the product until it is transferred to the customer at a point in time in the future. AASB 15 acknowledges that for some contracts a customer may obtain control of a product even though that product remains in an entity's physical possession. AASB 15 provides certain criteria that must be met in relation to documentation of the arrangement, identification of the product, readiness to ship etc which, on initial assessment, appears consistent with the Consolidated Entity's current policy on bill and hold arrangements. The only additional requirement under AASB 15 for bill and hold is the need to consider whether the entity has any remaining performance obligations – for example custodial services – to which a portion of the transaction price should be allocated. Although not currently quantified, this is unlikely to be a material amount.

The Hardware category mainly comprises revenue from the provision of printers and related equipment, but may also include installation and servicing of hardware, plus the provision of consumables such as ink. Under AASB 15 there may be a requirement to separate revenue into hardware, installation, servicing and consumables (if more than an initial supply is bundled into the transaction), with the recognition of revenue for servicing and, potentially, consumables occurring later than for the hardware and installation. Although the potential quantum of this revenue deferral has not yet been determined, it is unlikely to be material given that the Hardware category in total contributed less than 5% of the Consolidated Entity's gross revenue for the year ended 30 June 2017.

Note 3. Accounting policies – (continued)

AASB 16 Leases

AASB 16 *Leases* will replace AASB 117 *Leases*, Interpretation 4 *Determining whether an Arrangement contains a Lease*, Interpretation 115 *Operating Leases - Incentives* and Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* AASB 16 Leases introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. AASB 16 will become effective for annual reporting periods beginning on or after 1 January 2019.

AASB 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. The distinction between operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting and replaced by a model where a right-of-use asset and a corresponding liability are recognised for all leases by lessees, except for short-term leases and leases of low value assets.

At reporting date, the Consolidated Entity has non-cancellable operating lease commitments, mainly in relation to warehouses. The current standard AASB 117 does not require the recognition of any right-of-use asset or liability for future payments for these leases, instead certain information is disclosed as operating lease commitments in Note 35. A preliminary assessment indicates that these arrangements will meet the definition of a lease under AASB 16, and so the Consolidated Entity will recognise a right-of-use asset and a corresponding lease liability in respect of all these leases unless they qualify as low value or short-term leases. In addition, the nature of expenses related to those leases will change as AASB 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.
As a lessee, the Consolidated Entity can apply the standard using a:

- Retrospective approach, or
- Modified retrospective approach with optional practical expedients.

The Consolidated Entity has not yet determined which transition approach to apply.

The Consolidated Entity has not yet quantified the impact on its reported assets and liabilities of adoption of AASB 16. The quantitative impact will depend on the transition method chosen, the extent to which the Consolidated Entity uses the practical expedients and recognition exemptions, and any additional or replacement leases entered into prior to adoption.

Other standards, amendments to standards and interpretations which may be relevant to the Company or Consolidated Entity which were available for early adoption but have not been applied by the Consolidated Entity in the financial statements are:

- AASB 2014-10 A*mendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*, AASB 2015-10 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128* addresses a conflict between the requirements of AASB 128 *Investments in Associates and Joint Ventures* and AASB 10 *Consolidated Financial Statements*. AASB 2014-10 will become applicable to annual reporting periods beginning on or after 1 January 2018. The potential effect, if any, on the Consolidated Entity's Financial Report has not yet been determined.
- AASB 2016-1 *Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses* amends AASB 112 *Income Taxes* to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value. AASB 2016-1 will become applicable to annual reporting periods beginning on or after 1 January 2017. The potential effect, if any, on the Consolidated Entity's Financial Report has not yet been determined.
- AASB 2016-2 *Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107* amends AASB 107 *Statement of Cash Flows* to require entities preparing financial statements in accordance with Tier 1 requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. AASB 2016-2 will become applicable to annual reporting periods beginning on or after 1 January 2017. The potential effect, if any, on the Consolidated Entity's Financial Report has not yet been determined.
- AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions* clarifies: estimating the fair value of cash-settled share-based payments; the classification of a share-based payment arrangement which has a ‘net settlement feature’; and accounting for modification of share-based payments that change the transaction from cash-settled to equity-settled. AASB 2016-5 will become applicable to annual reporting periods beginning on or after 1 January 2018. The potential effect, if any, on the Consolidated Entity's Financial Report has not yet been determined.
- AASB 2017-2 *Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016* which amends AASB 12 *Disclosure of Interests in Other Entities*, to clarify the interaction of AASB 12 with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*. AASB 2017-2 will become applicable to annual reporting periods beginning on or after 1 January 2017. The potential effect, if any, on the Consolidated Entity's Financial Report has not yet been determined.

Note 4. Determination of fair values

A number of the Consolidated Entity’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made to determine fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings are based on the quoted market prices for similar items.

(b) Intangible assets

The fair value of intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

Note 4. Determination of fair values – (continued)

(c) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(d) Trade and other receivables

The fair value of trade and other receivables is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(e) Derivatives

The fair value of forward exchange contracts is determined by reference to the contractual forward price and the forward price from external sources at balance date for the same currency pair, amount and maturity date.

(f) Non-derivative financial assets and liabilities

Fair value, which is determined for measurement or disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

For financial assets and liabilities arising upon loss of control of former subsidiaries (refer Note 12), fair value is calculated based on either the ability of the subsidiary or former subsidiary to pay given its current and projected capacity, or the present value of future cash flows, discounted at a market rate of interest having regard to the credit risk of the subsidiary or former subsidiary.

(g) Share-based payment transactions

The fair value of employee share options and rights are measured utilising either:

- a discounted cash flow technique. The value of the share-based payments is the face value of the share at grant date less the present value of the dividends expected to be paid on the share but not received by the holder during the vesting period; or
- the Black-Scholes methodology to produce a Monte-Carlo simulation model which allows for the incorporation of the total shareholder return performance hurdles that must be met before the share-based payments vest to the holder. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk free interest rate (based on government bonds).

Service and non-market performance conditions attached to the transactions are not taken into account in determining the fair value.

(h) Financial guarantees

For financial guarantee contract liabilities, the fair value at initial recognition is determined using a probability weighted discounted cash flow approach. The method takes into account the probability of default by the guaranteed party over the term of the contract, the loss given default (being the proportion of the exposure that is not expected to be recovered in the event of default) and exposure at default (being the maximum loss at the time of default).

Note 5. Simplification of capital structure

Background

On 11 October 2016, the Company announced that it had been in discussions with The Trust Company (RE Services) Limited (the "RE"), the responsible entity of the PaperlinX SPS Trust ("SPS"), regarding a proposed transaction to simplify the Company's capital structure, and had tabled a non-binding, conditional proposal. On 20 December 2016, it was announced that the Company and the RE had entered into a binding Implementation Agreement ("the Agreement") to simplify the capital structure.

The RE proposed a scheme of arrangement to eligible SPS unitholders for all PaperlinX step-up preference securities not held by the Company to be transferred to the Company in exchange for 545 Spicers ordinary shares per SPS Unit. The Company sought shareholder approval via an ordinary resolution to issue new Spicers ordinary shares to SPS unitholders under the terms of the Trust Scheme.

Respective Company shareholder and SPS unitholder meetings held on 14 June 2017 approved the Trust Scheme and issue of new Spicers ordinary shares with overwhelming majorities. A New South Wales Supreme Court hearing held on 20 June 2017 granted the judicial advice required to implement the Trust Scheme.

Implementation

The Trust Scheme was implemented on 27 June 2017. The Company acquired the remaining 2,626,398 SPS Units it did not already own in exchange for 1,431,386,910 new Spicers ordinary shares. On the same day, the PaperlinX SPS Trust was removed from the official list of the Australian Stock Exchange.

In relation to the Trust Scheme implementation:

- The carrying value of SPS Units acquired (initial issue price of $100 less issue costs) was $254.8 million, which was added to the Reserve for own PaperlinX step-up preference securities
- The fair value of Spicers ordinary shares issued as consideration was $45.8 million (1.431 billion shares at 3.2 cents per share)
- A $209.0 million gain on consolidation resulted from the acquisition of the SPS Units (the difference between the carrying value of the SPS Units acquired and the fair value of Spicers ordinary shares issued as consideration). The gain was taken directly to retained earnings as a transaction with owners
- Transaction costs of $5.0 million were capitalised into issued capital as these costs were directly attributable to the issue of new equity.

On 30 June 2017, the SPS Units were redeemed and cancelled. On cancellation, the Reserve for own PaperlinX step-up preference securities of $276.5 million ($21.7 million at the beginning of the current reporting period plus $254.8 million added on implementation of the Trust Scheme) was offset against the carrying value of issued SPS Units ($276.5 million), removing the PaperlinX step-up preference securities from the Consolidated Entity's equity.

A post-implementation corporate restructure commenced on 30 June 2017. The purpose of the restructure is to simplify the Consolidated Entity's structure by unwinding the arrangements that were put in place in relation to the SPS Units. The restructure only affects the stand alone financial statements of wholly owned legal entities, as relevant intra-group balances are eliminated in the Consolidated Entity. At the reporting date, the restructure is ongoing. Refer Notes 33 and 39 for details of the steps completed.

Board renewal

As part of the Implementation Agreement with the RE, the Company's Directors agreed to a comprehensive Board renewal process. The process will result in shareholders voting to elect a new board of directors at an extraordinary general meeting of the Company, to be held on 6 September 2017. The current Chairman (Mr Robert Kaye) and fellow Director Mr Mike Barker will step down from the Board at the meeting.

As part of the Board renewal process, the Company has given an undertaking that until the extraordinary general meeting is held and a new Board is elected, it will not undertake any "prescribed occurrences". These prescribed occurrences are set out in the Implementation Agreement (refer ASX release dated 20 December 2016 entitled "Scheme Implementation Agreement"). Broadly, the Consolidated Entity is prevented from entering into significant non-trading agreements or transactions, including the acquisition or disposal of businesses and assets (with some specific exceptions), and entering into new loans, advances or financing arrangements.

Note 6. Operating segments

The Consolidated Entity comprises the following main business segments, based on the Consolidated Entity's management and internal reporting system.

Segment	**Description of operations**
Merchanting: - Australia - New Zealand - Asia	International merchant supplying the printing and publishing industry and office supplies.
Discontinued operations	Comprises merchanting operations in North America (Canada and USA) and Europe (Continental Europe, United Kingdom and Ireland). Also comprises paper manufacturing. Refer Note 12 for further details.

Corporate and head office costs, continuing eliminations and amounts which have not been allocated to the Merchanting or Discontinued operations segments are classified as Unallocated.

Note 6. Operating segments – (continued)

	Note	Merchanting Australia $000	Merchanting New Zealand $000	Merchanting Asia $000	Unallocated $000	Total Continuing Operations $000	Discontinued Operations $000	Group Eliminations $000	Group $000
For the year ended 30 June 2017									
External sales revenue		201,581	101,058	78,027	-	380,666	-	-	380,666
Inter-segment sales revenue		235	-	8	(243)	-	-	-	-
Total revenue		201,816	101,058	78,035	(243)	380,666	-	-	380,666
Profit/(loss) before net finance costs, tax and significant items		2,345	7,477	1,851	(6,722)	4,951	(387)	-	4,564
Net other finance costs		-	-	-	(71)	(71)	(551)	-	(622)
Underlying profit/(loss) before interest and tax		2,345	7,477	1,851	(6,793)	4,880	(938)	-	3,942
Significant items (pre-tax)	7	(812)	(594)	(260)	(392)	(2,058)	2,198	-	140
Profit/(loss) before interest and tax		1,533	6,883	1,591	(7,185)	2,822	1,260	-	4,082
Net interest					(355)	(355)	(1)	-	(356)
Profit/(loss) before tax					(7,540)	2,467	1,259	-	3,726
Tax (expense)/benefit - pre-significant items					(2,252)	(2,252)	46	-	(2,206)
Tax benefit - significant items	7				172	172	-	-	172
Profit/(loss) for the period					(9,620)	387	1,305	-	1,692
The profit/(loss) before tax includes:									
Depreciation and amortisation	18,19	(545)	(419)	(204)	(93)	(1,261)	-	-	(1,261)
Depreciation, amortisation and impairment		(545)	(419)	(204)	(93)	(1,261)	-	-	(1,261)
Capital expenditure		140	484	142	111	877	-	-	877
As at 30 June 2017									
Total assets		97,267	71,263	52,128	11,624	232,282	1,265	-	233,547
Total liabilities		42,030	20,013	12,583	11,084	85,710	13,914	(1)	99,623
Net assets/(liabilities)		55,237	51,250	39,545	540	146,572	(12,649)	1	133,924
For the year ended 30 June 2016									
External sales revenue		210,840	97,919	83,923	-	392,682	30,120	-	422,802
Inter-segment sales revenue		135	-	-	(135)	-	-	-	-
Total revenue		210,975	97,919	83,923	(135)	392,682	30,120	-	422,802
Profit/(loss) before net finance costs, tax and significant items *(1)*		4,235	6,906	1,517	(8,195)	4,463	(3,780)	-	683
Net other finance costs *(1)*		-	-	-	52	52	(676)	-	(624)
Underlying profit/(loss) before interest and tax		4,235	6,906	1,517	(8,143)	4,515	(4,456)	-	59
Significant items (pre-tax)	7	(431)	(109)	(104)	241	(403)	8,129	-	7,726
Profit before interest and tax		3,804	6,797	1,413	(7,902)	4,112	3,673	-	7,785
Net interest					(937)	(937)	(129)	-	(1,066)
Profit/(loss) before tax					(8,839)	3,175	3,544	-	6,719
Tax (expense)/benefit - pre-significant items					(1,710)	(1,710)	255	-	(1,455)
Tax benefit - significant items	7				32	32	-	-	32
Profit/(loss) for the period					(10,517)	1,497	3,799	-	5,296
The profit/(loss) before tax includes:									
Depreciation and amortisation	18,19	(694)	(550)	(207)	(78)	(1,529)	(506)	-	(2,035)
Impairment	20	-	-	-	-	-	768	-	768
Depreciation, amortisation and impairment		(694)	(550)	(207)	(78)	(1,529)	262	-	(1,267)
Capital expenditure		1,064	99	57	196	1,416	506	-	1,922
As at 30 June 2016									
Total assets		87,856	67,329	49,966	16,515	221,666	4,291	-	225,957
Total liabilities		28,859	17,240	9,209	12,406	67,714	18,504	(6)	86,212
Net assets/(liabilities)		58,997	50,089	40,757	4,109	153,952	(14,213)	6	139,745

(1) The Consolidated Entity has reclassified foreign exchange gains and losses in relation to inventory purchases from 'net other finance costs' to 'profit/(loss) before net finance costs, tax and significant items' in order to more accurately reflect the nature of these gains and losses.

Note 7. Individually significant items

		Continuing			Discontinued			Total		
For the year ended 30 June	Note	Pre -tax $000	Tax impact $000	Post -tax $000	Pre -tax $000	Tax impact $000	Post -tax $000	Pre -tax $000	Tax impact $000	Post -tax $000
2017										
Gain on disposal of controlled entities	12	-	-	-	2,198	-	2,198	2,198	-	2,198
Restructuring costs *(1)*		(2,058)	172	(1,886)	-	-	-	(2,058)	172	(1,886)
Total individually significant items		(2,058)	172	(1,886)	2,198	-	2,198	140	172	312
2016										
Gain on disposal of controlled entities	12	-	-	-	7,361	-	7,361	7,361	-	7,361
Impairment reversal - non-current assets	20	-	-	-	768	-	768	768	-	768
Restructuring costs *(1)*		(403)	32	(371)	-	-	-	(403)	32	(371)
Total individually significant items		(403)	32	(371)	8,129	-	8,129	7,726	32	7,758

(1) Restructuring costs are included in 'other expenses' in the Consolidated Income Statement.

Note 8. Earnings per share

	Continuing		Discontinued		Total	
	2017	2016	2017	2016	2017	2016
Profit for the period ($000)	387	1,497	1,305	3,799	1,692	5,296
Add gain on purchase of PaperlinX step-up preference securities ($000) *(1)*	209,019	-	-	-	209,019	-
Profit for the period attributable to holders of ordinary shares in Spicers Limited ($000)	209,406	1,497	1,305	3,799	210,711	5,296
Weighted average number of shares - basic (thousands)	680,868	665,181	680,868	665,181	680,868	665,181
Basic EPS (cents)	30.8	0.2	0.1	0.6	30.9	0.8
Weighted average number of shares - diluted (thousands)	692,463	685,211	692,463	685,211	692,463	685,211
Diluted EPS (cents)	30.2	0.2	0.2	0.6	30.4	0.8

(1) As required by AASB 133 Earnings per share, *includes the difference between the fair value of Spicers ordinary shares issued and the net carrying value of PaperlinX step-up preference securities acquired through the Trust Scheme Implementation - refer Note 5.*

The options to purchase shares and rights on issue during the current and prior reporting periods have not been included in determining the basic earnings per share.

The options to purchase shares and rights on issue during the current and prior reporting periods have been included in determining the diluted earning per share. As a result, the weighted average number of shares on issue increased by 11.6 million for the current reporting period (2016: 20.0 million).

Nil options or rights have been issued since 30 June 2017 up to the date of this report.

Nil rights have vested and been exercised since 30 June 2017 up to the date of this report. No options on issue at balance date have been exercised up to the date of this report.

Nil options and nil rights have lapsed since 30 June 2017 in respect of the plan period ended 30 June 2017.

Note 9. Other income from continuing operations

	2017 $000	2016 $000
Dividends	-	56
Rent	705	1,147
Net loss on disposal of non-current assets	(105)	(236)
Other	592	966
Total other income	1,192	1,933

Note 10. Net finance costs from continuing operations

	2017 $000	2016 $000
Net interest		
Interest expense	(749)	(1,497)
Interest income	394	560
Net interest	(355)	(937)
Net other finance costs		
Net other foreign exchange gains *(1)*	131	174
Other borrowing costs	(202)	(122)
Net other finance costs	(71)	52
Total net finance costs	(426)	(885)

(1) The Consolidated Entity has reclassified foreign exchange gains and losses in relation to inventory purchases (including prior period comparatives) from 'net finance costs' to 'cost of inventory sold' in order to more accurately reflect the nature of these gains and losses.

Note 11. Income tax expense

	2017 $000	2016 $000
Prima facie income tax expense attributable to profit from continuing and discontinued operations at the Australian tax rate of 30% (2016: 30%)	(1,118)	(2,016)
Add/(deduct) the tax effect of:		
• Tax losses not brought to account	(1,772)	(1,193)
• Overseas tax rate differential	213	(222)
• Over provision in prior years	28	375
• Other non-deductible/non-assessable items	(48)	(695)
• Non-assessable impairment reversals - significant item	-	230
• Non-assessable gain on disposal of controlled entities - significant items *(1)*	663	2,098
Total tax expense in income statement	(2,034)	(1,423)
comprising:		
Tax expense from continuing operations	(2,080)	(1,678)
Tax benefit from discontinued operations	46	255
	(2,034)	(1,423)
Recognised in the income statement		
Current tax expense		
• Current year	(2,221)	(2,037)
• Over provision in prior years	28	375
Deferred tax benefit	159	239
Total tax expense in income statement	(2,034)	(1,423)

(1) Disposal includes sale and loss of control - refer Note 12.

The balance of the consolidated franking account as at the reporting date was $Nil (2016: $Nil).

Note 12. Discontinued operations

Discontinued operations comprise merchanting operations sold or derecognised because they are under the control of an administrator, and manufacturing operations sold or closed down.

Discontinued Merchanting

Discontinued merchanting comprises operations in Europe and North America which were sold or entered into administration and were derecognised in prior reporting periods.

The German paper merchanting operation and its immediate parent entity commenced administration processes on 19 October 2015 and progressed to full insolvency proceedings on 28 December 2015. The German operations were derecognised in the prior reporting period as at 30 September 2015.

Discontinued Manufacturing

Discontinued paper manufacturing comprises:

Tas Paper – Wesley Vale Mill and Burnie Mill were closed in 2009-10. Current year transactions relate to holding costs on retained property.

Australian Paper – sold effective 31 May 2009.

	Europe Merchanting		North America Merchanting		Manufacturing & Group Elims		Total Discontinued Operations	
	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000
Revenue	-	30,120	-	-	-	-	-	30,120
Other income	-	537	-	-	243	143	243	680
Trading expenses	-	(34,053)	(210)	(84)	(420)	(443)	(630)	(34,580)
Result from operating activities before significant items, net finance costs, and tax	-	(3,396)	(210)	(84)	(177)	(300)	(387)	(3,780)
Significant items - (loss)/profit on disposal *(1)*	2,328	7,322	(95)	(300)	(35)	339	2,198	7,361
Significant items - other	-	-	-	-	-	768	-	768
Net other finance costs	(551)	(676)	-	-	-	-	(551)	(676)
Result before interest and tax	1,777	3,250	(305)	(384)	(212)	807	1,260	3,673
Net interest	-	(67)	(1)	(37)	-	(25)	(1)	(129)
Result before tax	1,777	3,183	(306)	(421)	(212)	782	1,259	3,544
Tax benefit	-	-	46	255	-	-	46	255
Profit for the period	1,777	3,183	(260)	(166)	(212)	782	1,305	3,799

(1) Disposal includes sale, loss of control and commencement of voluntary winding-up.

Cash flows from discontinued operations

	2017 $000	2016 $000
Net cash used in operating activities	(390)	(9,002)
Net cash (used in)/from investing activities	(302)	3,446
Net cash used in financing activities (excluding internal transactions)	-	(925)
Net cash used in discontinued operations	(692)	(6,481)

Note 13. Dividends and distributions

(a) Dividends on Spicers Limited ordinary shares

No dividends have been declared or paid on Spicers Limited ordinary shares during the current or prior reporting periods.

(b) Distributions on PaperlinX step-up preference securities

No distributions were declared or paid on PaperlinX step-up preference securities (SPS Units) during the current or prior reporting periods. In the current reporting period the Company acquired the 2,626,398 SPS Units it did not already own, and all 2,850,000 SPS Units were redeemed and cancelled - refer Notes 5 and 28.

Note 14. Cash and cash equivalents

	2017 $000	2016 $000
Cash on hand and at bank	18,314	19,834
Deposits at call	11,614	11,792
Total cash and cash equivalents	29,928	31,626

Under certain regional asset backed loan facilities, lender approval is required to transfer cash between entities within the Consolidated Entity. Balances subject to these approvals at reporting date were $3.8 million (2016: $6.1 million).

Note 15. Trade and other receivables

	2017 $000	2016 $000
Trade debtors	73,065	74,135
Provision for impairment losses	(2,075)	(2,695)
Net trade debtors	70,990	71,440
Accrued rebates	215	269
Amounts receivable on sale of property, plant and equipment, controlled entities and investments	847	2,347
Other debtors	1,264	1,050
Prepayments	974	1,006
Total trade and other receivables	74,290	76,112

The Consolidated Entity's exposure to credit and currency risk and impairment losses related to trade and other receivables are disclosed in Note 30.

The amount of receivables pledged as part of the regional loan facilities at balance date was $nil (2016: $2.9 million).

Note 16. Inventories

	2017 $000	2016 $000
Finished goods	91,840	78,212
Provision for impairment losses	(4,212)	(3,307)
Net finished goods	87,628	74,905
Total inventories	87,628	74,905

The amount of provision charged to the Consolidated Income Statement for diminution in value of inventories was $(0.6) million for continuing operations (2016: $0.9 million) and $nil for discontinued operations (2016: $0.1 million).

Note 17. Receivables - non-current

	2017 $000	2016 $000
Amounts receivable on sale of property, plant and equipment, controlled entities and investments	74	920
Total receivables non-current	74	920

Note 18. Property, plant and equipment

$000	Land	Land improve-ments	Buildings	Plant and equipment	Total
Cost or deemed cost:					
Balance at 1 July 2016	1,516	742	18,969	60,104	81,331
Additions	-	-	58	696	754
Disposals	-	-	(127)	(4,346)	(4,473)
Foreign currency movements	-	-	(254)	(115)	(369)
Balance at 30 June 2017	1,516	742	18,646	56,339	77,243
Depreciation and impairment losses:					
Balance at 1 July 2016	(1,516)	(742)	(15,435)	(54,115)	(71,808)
Depreciation	-	-	(267)	(901)	(1,168)
Disposals	-	-	127	4,227	4,354
Foreign currency movements	-	-	81	85	166
Balance at 30 June 2017	(1,516)	(742)	(15,494)	(50,704)	(68,456)
Carrying amount as at 30 June 2017	-	-	3,152	5,635	8,787
Cost or deemed cost:					
Balance at 1 July 2015	1,516	742	22,652	63,083	87,993
Additions	-	-	14	1,692	1,706
Disposals	-	-	(3)	(2,246)	(2,249)
Disposal of businesses *(1)*	-	-	(4,086)	(2,822)	(6,908)
Foreign currency movements	-	-	392	397	789
Balance at 30 June 2016	1,516	742	18,969	60,104	81,331
Depreciation and impairment losses:					
Balance at 1 July 2015	(1,516)	(742)	(18,877)	(57,061)	(78,196)
Depreciation	-	-	(375)	(1,577)	(1,952)
Disposals	-	-	2	1,978	1,980
Disposal of businesses *(1)*	-	-	4,086	2,822	6,908
Foreign currency movements	-	-	(271)	(277)	(548)
Balance at 30 June 2016	(1,516)	(742)	(15,435)	(54,115)	(71,808)
Carrying amount as at 30 June 2016	-	-	3,534	5,989	9,523

(1) Includes businesses sold and derecognised on loss of control - refer Note 12.

Refer Note 20 for details of the impairment review.

Note 19. Intangible assets

$000	Goodwill	Computer software	Total
Cost or deemed cost:			
Balance at 1 July 2016	70,156	2,523	72,679
Additions	-	123	123
Disposals/retirements	-	(88)	(88)
Foreign currency movements	(512)	(5)	(517)
Balance at 30 June 2017	69,644	2,553	72,197
Amortisation and impairment losses:			
Balance at 1 July 2016	(42,207)	(2,099)	(44,306)
Amortisation	-	(93)	(93)
Disposals/retirements	-	84	84
Foreign currency movements	377	3	380
Balance at 30 June 2017	(41,830)	(2,105)	(43,935)
Carrying amount as at 30 June 2017	27,814	448	28,262
Cost or deemed cost:			
Balance at 1 July 2015	68,068	7,265	75,333
Additions	-	216	216
Disposal of businesses *(1)*	-	(5,248)	(5,248)
Foreign currency movements	2,088	290	2,378
Balance at 30 June 2016	70,156	2,523	72,679
Amortisation and impairment losses:			
Balance at 1 July 2015	(42,001)	(6,987)	(48,988)
Amortisation	-	(83)	(83)
Disposal of businesses *(1)*	-	5,248	5,248
Foreign currency movements	(206)	(277)	(483)
Balance at 30 June 2016	(42,207)	(2,099)	(44,306)
Carrying amount as at 30 June 2016	27,949	424	28,373

(1) Includes businesses sold and derecognised on loss of control - refer Note 12.

Amortisation of intangible assets is included in "other" expenses in the Consolidated Income Statement.

Note 20. Impairment of non-current assets

Impairment review

As required under AASB 136 *Impairment of Assets*, the Consolidated Entity performs an impairment assessment when there is an indication or 'trigger' of a possible impairment of its non-current assets and in addition, at least annually performs an impairment review of goodwill and indefinite life intangible assets, regardless of whether an impairment trigger has been identified. An impairment review was performed at 30 June 2017.

Cash generating units

For the purposes of undertaking impairment testing for goodwill and indefinite life intangible assets, cash generating units ("CGUs") are identified. CGUs are the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Consolidated Entity's CGUs during the current and prior reporting periods are:

- Merchanting Australia
- Merchanting New Zealand
- Merchanting Asia

Note 20. Impairment of non-current assets – (continued)

The carrying amount of intangible assets with indefinite useful lives is $nil (2016: $nil). The carrying amount of goodwill is as follows:

	Goodwill	
	2017 $000	2016 $000
CGU:		
• New Zealand	27,814	27,949
Total	27,814	27,949

Impairment testing – goodwill and property, plant and equipment

Impairment testing compares the carrying value of an individual asset or CGU with its recoverable amount based on a value in use calculation.

The assumptions used for determining the recoverable amount of each asset and CGU are based on past experience and expectations for the future. Cash flow projections have been based on Management approved budgets and forecasts. These budgets and forecasts use management estimates to determine income, expenses, working capital movements, capital expenditure and cash flows for each CGU. The projected cash flows for each CGU are discounted using an appropriate discount rate and terminal growth rate.

The following assumptions have been used in determining the recoverable amount of the CGUs to which goodwill and property, plant and equipment has been allocated:

Discount rate: 11.1% - 14.8% (2016: 11.1% - 14.8%). The discount rate represents the pre-tax discount rate applied to the cash flow projections. The discount rate reflects the market determined, risk adjusted discount rate.

Terminal growth rate: Terminal growth rate: 0.0% - 2.0% (2016: 0.0% - 2.0%). The terminal growth rate represents the growth rate applied to extrapolate cash flows beyond the five year forecast period. The growth rate is based upon expectations of the CGU's long-term performance.

Gross margin: An overall improvement in gross profit percentage as a result of a change in the sales mix from lower margin core paper to higher margin diversified products over the forecast period and operational efficiencies in the core paper business.

Trading expenses: An overall improvement in the ratio of trading expenses to sales as a result of certain Board approved restructuring programs and operating efficiencies over the forecast period.

Sales volumes: For the core paper business, sales volumes are forecast to remain flat or decline based on industry forecasts for each CGU. For the diversified business, volume growth is based on management's estimates of market growth and market share.

Sales prices: Forecast to increase or decrease based on assumptions about local industry conditions and, where relevant, exchange rates.

Results and sensitivity analysis by CGU

New Zealand: The Merchanting New Zealand CGU contains all of the Consolidated Entity's goodwill. The valuation exceeds the carrying value. There would need to be a 120bps increase in the discount rate, a 110bps decrease in gross paper margin, or a 75bps increase in trading expenses to sales, all other things being equal, for an impairment of goodwill to arise in future reporting periods.

Australia: There is no goodwill and there are no other intangible assets in the Merchanting Australia CGU. The valuation for the CGU marginally exceeds the carrying value. Therefore, any adverse movement in a key assumption may lead to a shortfall in valuation which could result in an impairment of property, plant and equipment in future reporting periods. The Merchanting Australia CGU's property, plant and equipment mainly comprises racking, converting and other warehouse equipment.

Asia: There is no goodwill and there are no other intangible assets in the Merchanting Asia CGU. The valuation for this CGU exceeds the carrying value. There would need to be a 40bps increase in the discount rate, a 20bps decrease in gross paper margin, or a 15bps increase in trading expenses to sales, all other things being equal, for a potential impairment of property, plant and equipment to arise in future reporting periods.

Impairment testing – other intangibles

New Zealand CGU:

At reporting date the CGU has $0.2 million of intangible assets relating to computer software. There is no indication of impairment for these assets.

Impairment testing - investments

During the prior reporting period, the Consolidated Entity sold its investment in EurAsia Paper Marketing Ltd for $0.8 million. This investment related to the Consolidated Entity's discontinued paper manufacturing operations. As the investment had been fully impaired in prior reporting periods, an impairment reversal equal to the sale proceeds was booked in the prior reporting period.

Impairment loss and reversals

There were no impairment charges or reversals in relation to property, plant and equipment, intangibles or investments in the current reporting period.

In the prior reporting period, there was a $0.8 million reversal of an impairment against an investment in the discontinued paper manufacturing operations.

Note 21. Deferred tax balances

	2017 $000	2016 $000
Deferred taxes		
Deferred tax assets	623	543
Deferred tax liabilities	(29)	(108)
Net deferred tax balances	594	435
Movement in net deferred tax balances during the reporting period:		
Opening balance	435	196
Recognised in profit or loss	159	239
Closing balance	594	435
Deferred tax balances are attributable to the following:		
Provisions and employee benefits	586	501
Property, plant and equipment	(47)	(73)
Intangible assets	(33)	(37)
Other items	88	44
Net deferred tax balances	594	435
Unrecognised deferred tax assets *(1)*		
Capital losses - no expiry date	150,799	150,789
Revenue losses - no expiry date	151,659	150,912
Total unrecognised deferred tax assets	302,458	301,701

(1) Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Consolidated Entity can utilise the benefits thereon.

Note 22. Trade and other payables

	2017 $000	2016 $000
Trade creditors	56,846	41,069
Accrued expenses	673	710
GST	2,762	2,718
Rebates	2,546	2,842
Other creditors	22,080	17,320
Total trade and other payables	84,907	64,659

Note 23. Loans and borrowings

	Currency	Nominal interest rate *(1)*	Year of Maturity	2017 $000	2016 $000
Current					
• Bank loans - secured *(2)*	AUD	BBSR *(3)*	2018	-	2,934
• Bank loans - secured *(2)*	NZD	BKBM *(4)*	2017	-	26
• Bank loans - secured *(5)*	NZD	BKBM *(4)*	2019	-	-
• Other bank loans - secured	MYR	various	uncommitted	2,060	2,060
• Capitalised borrowing costs				(18)	(127)
Bank loans - secured				2,042	4,893
Total loans and borrowings - current				2,042	4,893
Total loans and borrowings				2,042	4,893

(1) Excludes company specific margins.
(2) These bank loans are facilities secured by certain assets.
(3) BBSR: Bank Bill Swap Rate.
(4) BKBM: Bank Bill Market Rate.
(5) Secured by the assets of the New Zealand business.

The asset backed facility in Australia involves the securitisation of receivables and includes regional covenant measures comprising a fixed charge ratio, net worth test and a limit on capital expenditure.

During the current reporting period, a new multi-option loan facility was entered into in New Zealand, replacing the existing debtors and inventory facility. The new facility matures in October 2019, and includes financial covenant measures comprising leverage and minimum interest coverage ratios. This facility is secured by the assets of the New Zealand business.

Reconciliation of consolidated loans and borrowings

	Note	2017 $000	2016 $000
Current loans and borrowings		2,042	4,893
Non-current loans and borrowings		-	-
Total loans and borrowings		2,042	4,893
Cash and cash equivalents	14	(29,928)	(31,626)
Short-term deposits		(3,955)	(3,955)
Net (cash) / borrowings		(31,841)	(30,688)

Note 24. Employee benefits

	2017 $000	2016 $000
Current		
Leave entitlements	5,589	5,663
Australian self-insured workers' compensation *(1)*	1,842	1,913
Other entitlements	237	203
Total current employee benefits	7,668	7,779
Non-current		
Leave entitlements	542	596
Total non-current employee benefits	542	596
Total employee benefits		
Current	7,668	7,779
Non-current	542	596
Total employee benefits	8,210	8,375

(1) Amount provided in Victoria is $1.207 million (2016: $1.278 million) and Tasmania is $0.635 million (2016: $0.635 million).

Note 25. Provisions

Restructuring

Provisions have been raised for the costs associated with employee redundancies, relocation and office/warehouse closure costs arising from restructuring programs in Australia and New Zealand.

Other

Other provisions relate to environmental works and transaction costs associated with the closure of Tas Paper.

$000	Restruct-uring	Other	Total
Current			
Balance at 1 July 2016	5,141	169	5,310
Provided/(released) during the year	(1,306)	-	(1,306)
Paid during the year	(2,497)	-	(2,497)
Foreign currency movements	1	-	1
Balance at 30 June 2017	1,339	169	1,508
Balance at 1 July 2015	4,410	935	5,345
Provided/(released) during the year	4,838	(102)	4,736
Paid during the year	(1,833)	(689)	(2,522)
Transfers	-	25	25
Disposal of businesses *(1)*	(2,396)	-	(2,396)
Foreign currency movements	122	-	122
Balance at 30 June 2016	5,141	169	5,310

$000	Restruct-uring	Other	Total
Total provisions			
Balance at 30 June 2017			
Current	1,339	169	1,508
Total provisions	1,339	169	1,508
Balance at 30 June 2016			
Current	5,141	169	5,310
Total provisions	5,141	169	5,310

(1) Includes businesses sold and derecognised on loss of control - refer Note 12.

Note 26. Share capital

	2017 $000	2016 $000
Issued capital		
Issued and paid-up share capital - 2,096,568,171 ordinary shares (June 2016: 665,181,261)	1,936,607	1,895,767
Total issued capital	1,936,607	1,895,767

	Note	2017 thousands of shares	2016 thousands of shares
Movement in issued shares			
Ordinary shares on issue at beginning of reporting period		665,181	665,181
Shares issued as consideration for PaperlinX step-up preference securities acquired	5	1,431,387	-
Ordinary shares on issue at end of reporting period		2,096,568	665,181

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

In prior reporting periods, the Consolidated Entity granted share options and rights to executives and other employees. Share options and rights granted under employee share plans carry no entitlement to dividends and no voting rights. Refer Note 29 for details of rights and options issued under employee share plans.

Note 27. Reserves

Reserve for own shares

The reserve for own shares represents the cost of shares in the Consolidated Entity acquired by an independent trustee and held by a trust established to administer the granting and vesting of options and rights under employee share plans. No gain or loss is recognised in the Income Statement on the purchase, sale, issue or cancellation of the Consolidated Entity's own equity instruments. Further information on own shares is contained in Note 29.

Exchange fluctuation reserve

The exchange fluctuation reserve records the foreign currency differences arising from the translation of the financial statements of foreign subsidiaries and the impact of transactions that form part of the Company's net investment in a foreign operation, net of tax. Refer to Note 3(l).

Employee share plans reserve

The reserve relates to equity settled share options and rights granted to employees under employee share plans. Further information on share-based payments is set out in Note 29.

Note 28. PaperlinX step-up preference securities

The PaperlinX SPS Trust was established for the purpose of issuing a new security called PaperlinX step-up preference securities ("SPS Units"). The SPS Units were perpetual, preferred units in the PaperlinX SPS Trust and on 30 March 2007, 2,850,000 SPS Units were issued at an issue price of $100 per security, raising $285 million.

In a prior reporting period, the Company acquired 223,602 SPS Units as part of an off-market takeover offer.

On 27 June 2017, the Company acquired the remaining 2,626,398 SPS Units it did not already own, and the PaperlinX SPS Trust was removed from the official list of the Australian Stock Exchange.

On 30 June 2017, the SPS Units were redeemed and cancelled - refer Note 5.

Note 29. Share-based payment arrangements

At 30 June 2017, the Consolidated Entity had the following share-based payment arrangements:

Options

In prior reporting periods, the Company issued options to certain senior management at a fixed exercise price at a date in the future subject to specific performance criteria, market conditions and/or service conditions being achieved. If exercised, the exercise price is recognised in equity. The options are independently valued at the grant date. These values have been determined using an appropriate valuation model (either Monte Carlo simulation model or a discounted cash flow technique, as appropriate) incorporating assumptions in relation to the following: the life of the option; the vesting period; the volatility in the share price (range of 20.0 per cent to 74.0 per cent); the dividend yield (range of Nil per cent to 7.25 per cent); and the risk-free interest rate (range of 2.55 per cent to 5.95 per cent). The values of the options are expensed to the Consolidated Income Statement over the applicable measurement period.

In the event that the specified performance criteria, market conditions and/or service conditions are not fully achieved, the number of options will be proportionally reduced.

At balance date there are 7,061,100 (2016: 12,061,100) unissued shares of the Company which are under option.

Each option entitles the holder to purchase one fully paid ordinary share in the Company at the exercise price, subject to the satisfaction of the terms of the option agreements. The details of options on issue at balance date and movements during the reporting period are as follows:

					Number of options					
Grant date	Initial measurement/ service date	Expiry date	Exer-cise price	Fair value at date of grant	Opening balance	Granted	Lapsed / Cancelled	Exercised	Closing balance	Exercisable at balance date
2017										
14/4/2000	14/4/2003	*(1)*	$3.13	$0.360	10,000	-	-	-	10,000	10,000
20/11/2000	20/11/2003	*(1)*	$3.32	$0.330	12,500	-	-	-	12,500	12,500
19/4/2001	19/4/2004	*(1)*	$3.50	$0.920	10,000	-	-	-	10,000	10,000
13/9/2001	13/9/2004	*(1)*	$4.12	$0.470	19,600	-	-	-	19,600	19,600
20/9/2002	20/9/2005	*(1)*	$5.13	$0.640	9,000	-	-	-	9,000	9,000
10/4/2014	10/4/2016	10/4/2017	$0.10	$0.006	1,000,000	-	(1,000,000)	-	-	-
10/4/2014	10/4/2016	10/4/2017	$0.15	$0.004	1,000,000	-	(1,000,000)	-	-	-
10/4/2014	10/4/2017	10/5/2017	$0.20	$0.003	1,000,000	-	(1,000,000)	-	-	-
10/4/2014	10/4/2017	10/5/2017	$0.30	$0.002	1,000,000	-	(1,000,000)	-	-	-
10/4/2014	10/4/2017	10/5/2017	$0.40	$0.001	1,000,000	-	(1,000,000)	-	-	-
10/4/2014	10/4/2019	10/5/2019	$0.50	$0.003	1,000,000	-	-	-	1,000,000	-
28/10/2014	28/10/2014	28/10/2017	$0.07	$0.029	6,000,000	-	-	-	6,000,000	6,000,000
					12,061,100	-	(5,000,000)	-	7,061,100	6,061,100
Weighted average exercise price					$0.19	-	$0.23	-	$0.16	$0.11
2016										
14/4/2000	14/4/2003	*(1)*	$3.13	$0.360	10,000	-	-	-	10,000	10,000
20/11/2000	20/11/2003	*(1)*	$3.32	$0.330	12,500	-	-	-	12,500	12,500
19/4/2001	19/4/2004	*(1)*	$3.50	$0.920	10,000	-	-	-	10,000	10,000
13/9/2001	13/9/2004	*(1)*	$4.12	$0.470	19,600	-	-	-	19,600	19,600
20/9/2002	20/9/2005	*(1)*	$5.13	$0.640	9,000	-	-	-	9,000	9,000
25/10/2013	25/10/2015	25/10/2016	$0.10	$0.019	5,000,000	-	(5,000,000)	-	-	-
25/10/2013	25/10/2015	25/10/2016	$0.15	$0.013	5,000,000	-	(5,000,000)	-	-	-
25/10/2013	25/10/2016	24/11/2016	$0.20	$0.011	5,000,000	-	(5,000,000)	-	-	-
25/10/2013	25/10/2016	24/11/2016	$0.30	$0.007	5,000,000	-	(5,000,000)	-	-	-
25/10/2013	25/10/2016	24/11/2016	$0.40	$0.005	5,000,000	-	(5,000,000)	-	-	-
25/10/2013	25/10/2018	24/11/2018	$0.50	$0.010	10,000,000	-	(10,000,000)	-	-	-
10/4/2014	10/4/2016	10/4/2017	$0.10	$0.006	1,000,000	-	-	-	1,000,000	1,000,000
10/4/2014	10/4/2016	10/4/2017	$0.15	$0.004	1,000,000	-	-	-	1,000,000	1,000,000
10/4/2014	10/4/2017	10/5/2017	$0.20	$0.003	1,000,000	-	-	-	1,000,000	-
10/4/2014	10/4/2017	10/5/2017	$0.30	$0.002	1,000,000	-	-	-	1,000,000	-
10/4/2014	10/4/2017	10/5/2017	$0.40	$0.001	1,000,000	-	-	-	1,000,000	-
10/4/2014	10/4/2019	10/5/2019	$0.50	$0.003	1,000,000	-	-	-	1,000,000	-
28/10/2014	28/10/2014	28/10/2017	$0.07	$0.029	6,000,000	-	-	-	6,000,000	6,000,000
					47,061,100	-	(35,000,000)	-	12,061,100	8,061,100
Weighted average exercise price					$0.28	-	$0.31	-	$0.19	$0.11

(1) Options issued to employees on commencement of employment are not subject to performance conditions and do not have an expiry date. However, on termination, vested options must be exercised within a specified period of the termination date (not exceeding twelve months).

Note 29. Share-based payment arrangements – (continued)

Since balance date up to the date of this report in respect of the plan period ended 30 June 2017, nil options have been granted, lapsed or exercised and no options on issue at balance date have been exercised up to the date of this report.

Rights

In prior reporting periods, the Company offered rights to certain senior management to receive shares at an exercise price of $nil at a date in the future, subject to specific performance criteria being achieved. The rights are independently valued at the grant date using the Monte Carlo simulation model or a discounted cash flow technique. The value of the rights are expensed to the Income Statement over the applicable measurement period.

In the event that the specified performance criteria are not fully achieved, the number of rights will be proportionally reduced.

At reporting date there are nil (2016: 3,063,989) unissued shares of the Company which are subject to performance rights. Each performance right entitles the holder to receive one fully paid ordinary share in the Company when the relevant performance conditions are met. The details of the performance rights on issue at balance date and movements during the reporting period are as follows:

Grant date	Initial measurement/ service date	Expiry date	Exercise price	Fair value at date of grant	Number of rights: Opening balance	Granted	Cancelled	Lapsed	Exercised	Closing balance
2017										
1/7/2013	30/6/2016	*(1)*	$nil	$0.04	3,063,989	-	-	-	(3,063,989)	-
					3,063,989	-	-	-	(3,063,989)	-
2016										
18/12/2012	30/6/2015	*(1)*	$nil	$0.05	1,702,652	-	-	-	(1,702,652)	-
1/7/2013	30/6/2016	*(1)*	$nil	$0.04	3,063,989	-	-	-	-	3,063,989
					4,766,641	-	-	-	(1,702,652)	3,063,989

(1) These performance rights have no expiry date. They vest and are automatically exercised at the end of the service period, subject to meeting performance criteria.

Nil rights were exercisable as at balance date.

Since balance date up to the date of this report in respect of the plan period ended 30 June 2017, nil rights have been exercised and nil rights have been granted, cancelled or lapsed.

Employee shares

The Company has established a number of employee share plans to administer the granting and vesting of the options and rights. These plans have appointed an independent trustee to acquire and hold, in an independent trust, the Company's shares that will ultimately vest to these senior executives. The participating senior executives are the sole beneficiaries of the trust.

Despite having no beneficial interest in the trust, under the relevant accounting standards, the Company consolidates the trust in the financial statements of the Consolidated Entity and therefore any Company shares held by the trust on behalf of the participating senior executives are recorded in the Statement of Financial Position in the reserve for own shares (refer Note 27). The voting rights attached to the shares are held in trust, and the dividends attached to the shares are retained by the trust. During the reporting period 3,063,989 shares were distributed by the trust to satisfy issues under share-based payment plans.

The reconciliation of the number of shares acquired by the trust that are available for distribution by the trust under current share-based payment arrangements and recorded in the reserve for own shares is as follows:

	Opening balance	Shares acquired by the trust	Distributed by the trust	Closing balance
2017				
Number of shares	4,158,660	-	(3,063,989)	1,094,671
2016				
Number of shares	5,861,312	-	(1,702,652)	4,158,660

Share-based payments expense

	2017 $000	2016 $000
Equity settled share-based payments expense	-	(40)
Total share-based payments expense	-	(40)

Note 30. Financial risk management and financial instrument disclosures

Overview
The Consolidated Entity has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk.

This note presents information about the Consolidated Entity's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Audit Committee, which is responsible for developing and monitoring risk management policies. The Audit Committee reports periodically to the Board of Directors on its activities.

Risk management policies and procedures have been established to identify and analyse the risks faced by the Consolidated Entity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Consolidated Entity's activities. The Consolidated Entity, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Consolidated Entity's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Consolidated Entity. The Audit Committee is assisted in its oversight role by the Internal Audit and Risk Management function. Internal Audit and Risk Management personnel undertake both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to senior management and the Audit Committee.

Credit risk
Credit risk is the risk of financial loss to the Consolidated Entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Trade and other receivables
The credit risk on financial assets of the Consolidated Entity, other than investments in shares, is the carrying amount of receivables, net of provisions for impairment loss against doubtful debts. The Consolidated Entity minimises its concentrations of this credit risk by undertaking transactions with a large number of customers and counterparties in various countries. Australia has 53% of the Consolidated Entity's trade and other receivables with New Zealand and Asia having 24% and 22% respectively. No individual customers comprise more than 10 percent of an individual country's trade and other receivables balance at balance date.

The Consolidated Entity has established a credit policy under which each new customer is analysed for creditworthiness before appropriate payment and delivery terms and conditions are offered. The Consolidated Entity's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and approved per authority levels outlined in the credit policy. These limits are reviewed in accordance with the credit policy frequency guidelines. Customers that fail to meet the Consolidated Entity's benchmark creditworthiness may transact with the Consolidated Entity only on a prepayment or cash only basis.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, geographic location, industry, ageing profile, maturity and existence of previous financial difficulties. The Consolidated Entity's trade and other receivables relate mainly to the Consolidated Entity's wholesale customers. Sales to customers that are graded as "high risk" are on a prepayment or cash only basis.

Goods are sold subject to retention of title clauses or, where applicable, the registration of a security interest, so that in the event of non-payment the Consolidated Entity may have a secured claim. In certain circumstances the Consolidated Entity requires collateral or personal guarantees in respect of trade and other receivables.

The Consolidated Entity has established an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on amounts owing beyond specified credit terms.

The Consolidated Entity also utilises credit insurance in all jurisdictions as a further measure to mitigate credit risk.

Foreign exchange contracts
In order to manage any exposure which may result from non-performance by counterparties, foreign exchange contracts are only entered into with major financial institutions. In addition, the Board must approve these financial institutions for use, and specific internal guidelines have been established with regard to instruments, limits, dealing and settlement procedures.

The maximum credit risk exposure on foreign exchange contracts is the full amount of the foreign currency the Consolidated Entity pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay the Consolidated Entity.

Guarantees
Details of guarantees provided by the Company and the Consolidated Entity are detailed in Notes 33 and 36 respectively.

Note 30. Financial risk management and financial instrument disclosures – (continued)

Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated Entity's reputation.

Typically the Consolidated Entity ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

In managing liquidity risk around debt maturing in the short-term, management commence negotiation with the relevant counterparties at the earliest opportunity in order to obtain a satisfactory extension of required funding beyond the maturity date. Where appropriate, other courses of action are taken in parallel in order to minimise liquidity risk. Such action could include sourcing of new finances, the raising of capital, or sale of non-core assets.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Consolidated Entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Consolidated Entity enters into Board approved instruments including derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within policies approved by the Board.

The Consolidated Entity does not enter into commodity contracts.

Currency risk - transactional

The Consolidated Entity is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the group entities. The major functional currencies of the continuing group entities are the Australian dollar (AUD), the New Zealand dollar (NZD), the Singapore dollar (SGD) and the Malaysian ringgit (MYR). Primarily the transactions undertaken by the continuing group entities are denominated in their functional currency.

In relation to recognised assets and liabilities denominated in a currency other than the entity's functional currency, the Consolidated Entity's policy is to hedge all material foreign currency trading exposures. This is done via a natural hedge, such as a similarly denominated receivable or cash balance, or through approved derivative contracts. It is the Consolidated Entity's policy to recognise both the cost of entering into a forward foreign exchange contract and the net exchange gain/loss arising thereon, between the date of inception and year end, as a net foreign currency receivable or net foreign currency payable in the financial statements. This is calculated by reference to the movement in the fair value of the derivative contract from the date of inception of the contract to that at year end.

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities or forecast future cash flows in foreign currencies and for which no hedge accounting is applied are recognised in the Income Statement. Both the changes in fair value of the forward contracts and the unrealised gains and losses relating to the monetary items are recognised as part of "net finance costs" (see Note 10).

Accounts payable and interest bearing liabilities, which include amounts repayable in foreign currencies, are shown at their Australian dollar equivalents. All material foreign currency liabilities are either fully hedged or matched by equivalent assets in the same currencies, such assets representing a natural hedge.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Consolidated Entity, primarily AUD and NZD for the continuing businesses. This provides an economic hedge and no derivatives are entered into for currency risk on interest payments.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Consolidated Entity ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Currency risk - translational

Foreign currency earnings translation risk arises predominantly as a result of earnings in NZD, SGD, and MYR being translated into AUD and from the location of other individually minor foreign currency earnings. The Consolidated Entity does not enter into derivative contracts to hedge this exposure.

Foreign currency net investment translation risk is partially hedged through the Consolidated Entity's policy of originating debt in the currency of the asset, resulting in an overall reduction in the net assets that are translated. The remaining translation exposure is not hedged.

Interest rate risk

The Consolidated Entity adopts a practice of targeting approximately 40 to 60 percent of its exposure to changes in interest rates on borrowings to be on a fixed rate basis. This can be achieved by entering into interest rate swaps and interest rate options. The Consolidated Entity is exposed to adverse movements in interest rates under various debt facilities. The Consolidated Entity from time to time enters into interest rate swaps that swap floating rate interest bearing liabilities into a fixed rate of interest. The Consolidated Entity, if required, will enter into interest rate derivatives. The Company currently does not undertake interest rate hedging but interest rate exposures are continually monitored and if conditions change significantly interest rate hedging may recommence.

Note 30. Financial risk management and financial instrument disclosures – (continued)

Capital management

The Consolidated Entity engages in active capital management so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Consolidated Entity defines as net profit before interest and tax divided by total shareholders' equity.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Consolidated Entity's target is to achieve a return on average funds employed (net debt plus total equity) of between 12 and 15 percent. During the year ended 30 June 2017 the return was 3.8 percent (2016: 7.2 percent). This underperformance is largely due to lower earnings in the Merchanting Australia segment. The weighted average interest rate on interest-bearing borrowings was 6.6 percent (2016: 5.6 percent).

The Board has established various incentive plans whereby remuneration is through shares in the Company. For this purpose an independent trustee may acquire on market and hold, in an independent trust, shares in the Company. Primarily the shares are intended to be used for issuing shares under the Consolidated Entity's share options and rights programmes. The Consolidated Entity has the option to issue 'new' shares to satisfy these same obligations. The Consolidated Entity does not have a defined share buy-back plan.

Exposure to credit risk

The carrying amount of the financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Note	2017 $000	2016 $000
Current net trade receivables		70,990	71,440
Forward exchange contracts		(4)	102
Current other receivables		3,304	4,570
Total current trade and other receivables	15	74,290	76,112
Non-current other receivables		74	920
Total non-current trade and other receivables	17	74	920
Total trade and other receivables		74,364	77,032
Cash and cash equivalents	14	29,928	31,626
Short-term deposits		3,955	3,955
		108,247	112,613

The Consolidated Entity's maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was:

	2017 $000	2016 $000
Australia	39,145	40,831
New Zealand	17,532	17,600
Asia	16,265	16,927
Europe	1,420	-
North America	2	1,674
Total trade and other receivables	74,364	77,032

Receivables relate to wholesale and end-user customers.

The ageing of trade debtors at the reporting date was:

	Note	Gross 2017 $000	Gross 2016 $000
Not past due		62,890	64,853
Past due 0-30 days		7,785	6,443
Past due 31-120 days		1,075	782
Past due 121 days to one year		60	1,156
Past due more than one year		1,255	901
Total gross trade debtors	15	73,065	74,135

Note 30. Financial risk management and financial instrument disclosures – (continued)

Impairment losses

The movement in allowance for impairment in respect of trade debtors during the reporting period was as follows:

	Note	2017 $000	2016 $000
Balance at 1 July		(2,695)	(11,962)
Impairment loss recognised		(231)	(922)
Net write-off		755	192
Disposal of businesses *(1)*		-	10,506
Foreign currency movements		96	(509)
Balance at 30 June	15	(2,075)	(2,695)

(1) Includes businesses sold and derecognised on loss of control - refer Note 12.

Impairment losses are provided for based on a review of specific amounts receivable at year-end, and a further percentage allowance is made based on an escalating scale of amounts due past credit terms. The percentage is primarily based on historical default rates and management estimates.

When a specific receivable is considered uncollectable it is written off to the Consolidated Income Statement in the current period. Any provision held in respect of this trade receivable is written back to the Consolidated Income Statement in the same period.

In a number of jurisdictions the Consolidated Entity has credit risk insurance to mitigate its exposure to doubtful debts. Given the difficult trading conditions within the paper industry, the Consolidated Entity cannot guarantee the availability of this insurance in the future to the levels previously provided by the external insurers.

Exposure to liquidity risk

The following are the contractual maturities of financial liabilities, excluding the impact of netting arrangements.

		Contractual Cash Flows			
	Carrying amount $000	Total $000	1 year or less $000	1 to 5 years $000	More than 5 years $000
2017					
Non-derivative financial liabilities					
Trade and other payables	84,654	84,654	84,654	-	-
Interest bearing loans and borrowings	2,042	2,060	2,060	-	-
Derivative financial liabilities					
Other foreign exchange contracts	253	253	253	-	-
2016					
Non-derivative financial liabilities					
Trade and other payables	64,495	64,495	64,495	-	-
Interest bearing loans and borrowings	4,893	5,020	5,020	-	-
Derivative financial liabilities					
Other foreign exchange contracts	164	164	164	-	-

Note 30. Financial risk management and financial instrument disclosures – (continued)

Exposure to currency risks

The Consolidated Entity's exposure at the reporting date to foreign currency risk arising on transactions entered into by operating entities of the Consolidated Entity where the transaction currency was not the functional currency of the operating entity was as follows, based on notional amounts:

	2017			
Exposure (in local currency)	**AUD $000**	**EUR €000**	**USD $000**	**SGD $000**
Trade and other receivables	641	374	1,861	-
Trade and other payables	(968)	(3,549)	(14,499)	(7)
Loans and borrowings	-	(5,677)	-	(2,175)
Gross balance sheet exposure	(327)	(8,852)	(12,638)	(2,182)
Foreign exchange contracts	14	4,303	17,233	-
Net balance sheet exposure	(313)	(4,549)	4,595	(2,182)

	2016			
Exposure (in local currency)	**AUD $000**	**EUR €000**	**USD $000**	**HKD $000**
Trade and other receivables	596	512	1,242	-
Trade and other payables	(659)	(1,820)	(10,221)	-
Loans and borrowings	-	(5,677)	-	(62,300)
Gross balance sheet exposure	(63)	(6,985)	(8,979)	(62,300)
Foreign exchange contracts	8	1,678	13,154	-
Net balance sheet exposure	(55)	(5,307)	4,175	(62,300)

The following exchange rates were used to translate these significant foreign denominated exposures into the Consolidated Entity's functional currency (AUD) at the end of the reporting period:

	Reporting date spot rate	
	2017	**2016**
EUR	0.6629	0.6605
USD	0.7622	0.7360
SGD	1.0590	-
HKD	-	5.7792

Sensitivity analysis

A 10 percent strengthening of the Australian dollar against the following currencies at the reporting date would have increased/(decreased) pre-tax profit on translation by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for the comparative reporting period.

	2017 $000	**2016 $000**
EUR	624	731
USD	(548)	(516)
SGD	187	-
HKD	-	980

A 10 percent weakening of the Australian dollar against the above currencies at the reporting date would have had the equal but opposite effect on the above currencies to the amounts shown above, assuming that all other variables remain constant.

Note 30. Financial risk management and financial instrument disclosures – (continued)

Exposure to interest rate risks

Profile
At the reporting date the interest rate profile of the Consolidated Entity's interest bearing financial instruments was:

	Floating interest $000	Fixed interest $000	Total $000	Effective interest rate % (1)
2017				
Financial assets				
Cash and cash equivalents	25,928	4,000	29,928	1.1
Short-term deposits	-	3,955	3,955	2.7
Financial liabilities				
Interest bearing loans and borrowings	2,060	-	2,060	6.6
2016				
Financial assets				
Cash and cash equivalents	25,626	6,000	31,626	1.5
Short-term deposits	-	3,955	3,955	2.9
Financial liabilities				
Interest bearing loans and borrowings	5,020	-	5,020	5.6

(1) Excludes company specific margins.

Fair value sensitivity analysis for fixed rate instruments

The Consolidated Entity does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Consolidated Entity does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

An increase of 100 basis points in interest rates at the reporting date would have increased profit by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for the comparative reporting period.

	2017 $000	2016 $000
Floating interest	279	316

A decrease of 100 basis points in interest rates at the reporting date would have an equal and opposite effect on profit by the amounts shown above, assuming that all other variables remain constant.

Fair values

Instruments traded on organised markets are valued by reference to market prices prevailing at the reporting date.

The carrying values and net fair values of financial assets and liabilities approximate each other as at the reporting date for the Consolidated Entity.

The net fair value of foreign exchange contracts is assessed as the estimated amount that the Consolidated Entity expects to pay or receive to terminate the contracts or replace the contracts at their current market rates as at the reporting date. This is based on independent market quotations and determined using standard valuation techniques.

The fair value of foreign exchange option contracts is determined by using option pricing models that include externally sourced inputs for a comparable contract at balance date.

For forward foreign exchange contracts, the net fair value is taken to be the unrealised gain or loss at the reporting date.

Included in trade and other receivables are amounts owed by former subsidiaries of the Consolidated Entity. Included in trade and other payables are amounts owed to former subsidiaries of the Consolidated Entity. Upon loss of control of the former subsidiaries (refer Note 12), the financial assets and liabilities are recognised for the first time at fair value and subsequently at either amortised cost or fair value through profit and loss depending on the nature of the asset or liability and the basis on which it is managed and its performance is evaluated. Fair value is calculated based on either the ability of the subsidiary or former subsidiary to pay given their current and projected capacity, or the present value of future cash flows, discounted at a market rate of interest having regard to the credit risk of the subsidiary or former subsidiary.

Fair value hierarchy

The table below analyses financial instruments carried or disclosed at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

Note 30. Financial risk management and financial instrument disclosures – (continued)

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

		Carrying amount				Fair value			
$000	**Note**	**Fair value hedging instru-ments**	**Loans and receiv-ables**	**Other financial assets/ liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
2017									
Financial assets measured at fair value									
Foreign exchange contracts		(4)	-	-	(4)	-	(4)	-	(4)
		(4)	-	-	(4)				
Financial assets not measured at fair value									
Cash and cash equivalents	14	-	29,928	-	29,928				
Short-term deposits		-	3,955	-	3,955				
Trade and other receivables		-	74,368	-	74,368				
		-	108,251	-	108,251				
Financial liabilities measured at fair value									
Foreign exchange contracts		(253)	-	-	(253)	-	(253)	-	(253)
Trade and other payables		-	-	(9,985)	(9,985)			(9,985)	(9,985)
		(253)	-	(9,985)	(10,238)				
Financial liabilites not measured at fair value									
Trade and other payables		-	-	(74,669)	(74,669)				
Bank loans - secured	23	-	-	(2,042)	(2,042)	-	(2,060)	-	(2,060)
		-	-	(76,711)	(76,711)				
2016									
Financial assets measured at fair value									
Foreign exchange contracts		102	-	-	102	-	102	-	102
		102	-	-	102				
Financial assets not measured at fair value									
Cash and cash equivalents	14	-	31,626	-	31,626				
Short-term deposits		-	3,955	-	3,955				
Trade and other receivables		-	76,930	-	76,930				
		-	112,511	-	112,511				
Financial liabilities measured at fair value									
Foreign exchange contracts		(164)	-	-	(164)	-	(164)	-	(164)
Trade and other payables		-	-	(9,450)	(9,450)	-	-	(9,450)	(9,450)
		(164)	-	(9,450)	(9,614)				
Financial liabilites not measured at fair value									
Trade and other payables		-	-	(55,045)	(55,045)				
Bank loans - secured	23	-	-	(4,893)	(4,893)	-	(5,020)	-	(5,020)
		-	-	(59,938)	(59,938)				

The reconciliation of movements in the fair value of financial liabilities measured at fair value within Level 3 of the fair value hierarchy is set out below:

	2017 $000	**2016 $000**
Opening balance	9,450	8,575
Net change in fair value	552	579
Foreign currency movements	(17)	296
Closing balance	9,985	9,450

The "net change in fair value" for the period is included in "net other finance costs" in the Consolidated Income Statement.

Note 31. Employee retirement benefit obligations

The Consolidated Entity participates in a variety of retirement benefit arrangements. The following table covers the material defined benefit plans, that is those with benefits linked to years of service and/or final salary. At the reporting date, the only defined benefit plan is the Australian Spicers Superannuation Fund. The principal benefits of the Australian defined benefit plan are provided as a lump sum.

The Spicers Superannuation Fund is backed by external assets through a separate sponsored fund whereby the Consolidated Entity's cash contributions are determined by the plan's actuary. The funding requirements are based on the plan's actuarial measurement framework set out in the funding policies of the plan. Employee contributions are paid in accordance with the plan's rules.

Defined benefit plans were derecognised in the prior reporting period on loss of control of the German businesses.

The Consolidated Entity participates in a variety of other retirement arrangements of a defined contribution nature, where Consolidated Entity and member contributions are fixed according to the plan rules. These plans are accounted for on a cash basis, and their details are not included in the table below.

The defined benefit obligation has been determined in accordance with the measurement and assumption requirements of AASB119. This requires the projected unit credit method to attribute the defined benefits of employees to past service.

	2017 $000	2016 $000
The amounts recognised in the Statement of Financial Position are determined as follows:		
Present value of the defined benefit obligation	10,059	10,120
Less fair value of plan assets	(10,702)	(10,179)
Add limitation on recoupment of net surplus position	643	59
Net liability in the Statement of Financial Position	-	-

Note 32. Reconciliation of cash flows from operating activities

	Note	2017 $000	2016 $000
Reconciliation of profit after tax to net cash from operating activities			
Profit for the period		1,692	5,296
Add back non-cash items:			
• Depreciation and amortisation of property, plant, equipment and intangibles	18,19	1,261	2,035
• Impairment (reversals)/charges - non-current assets	20	-	(768)
• Profit on disposal of controlled entities	7	(2,198)	(7,361)
• Loss on disposal of property, plant and equipment		105	236
• Profit on disposal of assets held for sale		-	(538)
• Employee share based payments expense	29	-	40
• Amortisation of capitalised borrowing costs		132	(17)
Add back other items classified as investing/financing:			
• Borrowing costs expensed		70	236
(Increase)/decrease in trade and other receivables		(2,365)	6,638
Increase in inventories		(14,766)	(1,200)
Increase/(decrease) in trade and other payables		21,006	(12,857)
Increase/(decrease) in provisions and employee benefits		1,462	(3,988)
Increase in current and deferred taxes		(112)	(1,341)
Net cash from/(used in) operating activities		6,287	(13,589)
Reconciliation of cash			
For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank, net of outstanding bank overdrafts. Cash as at 30 June as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:			
Cash and cash equivalents		29,928	31,626
		29,928	31,626

Note 33. Parent entity disclosures

As at and throughout the financial year ended 30 June 2017, the parent company of the Consolidated Entity was Spicers Limited.

Comprehensive Income

	Parent Entity	
For the year ended 30 June	**2017 $000**	**2016 $000**
Profit/(loss) before tax	288,549	(20,429)
Tax expense	(1)	-
Total comprehensive income/(loss) for the period, net of tax	288,548	(20,429)

Statement of Financial Position

	Parent Entity	
As at 30 June	**2017 $000**	**2016 $000**
Current assets	3,955	3,955
Total assets	45,303	47,403
Current liabilities	5,389	95
Total liabilities	5,389	336,882
Net assets/(liabilities)	39,914	(289,479)
Equity		
Issued capital	1,936,608	1,895,767
Accumulated losses	(1,896,694)	(2,185,246)
Total equity	39,914	(289,479)

In the prior reporting period, the total liabilities of the parent entity predominantly comprised subordinated loan notes held by PaperlinX SPS LLC (a wholly owned subsidiary of the parent entity) plus interest payable on the subordinated loan notes.

On 30 June 2017 as part of a (non-cash) post-implementation corporate restructure arising from the capital structure simplification process, the parent entity redeemed the subordinated loan notes in exchange for PaperlinX SPS LLC redeeming the PaperlinX SPS LLC Preference Shares held by the parent entity. As the carrying value of the subordinated loan notes and accumulated interest was significantly higher that the carrying (fair) value of the PaperlinX SPS LLC Preference Shares, a gain on redemption was recorded in profit or loss in the parent entity. The gain eliminates in the Consolidated Entity.

Further information on the capital simplification process can be found in Note 5, and section 5.5 of the Spicers Prospectus lodged with the Australian Securities and Investments Commission on 4 May 2017, which is available on the Company's website – www.spicerslimited.com.au.

Contingent liabilities

	Parent Entity	
	2017 $000	**2016 $000**
Contingent liabilities arising in respect of related bodies corporate:		
• Bank guarantees (government)	2,172	2,087
• Loan guarantees (subsidiaries)	13,030	14,002
Total contingent liabilities	15,202	16,089

Refer to Note 36 for details.

The Company does not have any contractual commitments for the acquisition of property, plant and equipment.

Note 34. Capital expenditure commitments

	2017 $000	**2016 $000**
Capital expenditure contracted but not provided for:		
• Property, plant and equipment	86	107
• Acquisition of controlled entities *(1)*	824	-
Total capital expenditure commitments	910	107

(1) Refer Note 40.

Note 35. Lease commitments

Operating leases

	2017 $000	2016 $000
Operating lease commitments		
Lease expenditure contracted but not provided for:		
• Not later than one year	10,393	8,247
• Later than one year but not later than five years	20,264	13,710
• Later than five years	3,339	4,279
Total operating lease commitments	33,996	26,236

The Consolidated Entity enters into operating leases from time to time in relation to property, plant and equipment. The major component relates to building leases. Leases generally provide the Consolidated Entity with a right of renewal at which time all terms are renegotiated.

Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on the relevant index or operating criteria.

Finance leases

The Consolidated Entity did not have any finance leases in the current or prior reporting periods.

Note 36. Contingent liabilities

	2017 $000	2016 $000
Contingent liabilities arising in respect of related bodies corporate:		
• Bank guarantees (trade)	455	455
• Other guarantees	2,172	2,087
Total contingent liabilities	2,627	2,542

The bank guarantees (trade), the beneficiaries of which are third parties, are primarily in relation to rental leases.

Other guarantees, the beneficiaries of which are government departments, include bank guarantees in relation to the specific requirement of self-insurance licences for workers' compensation in Australia.

Under the terms of the ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, effective 29 September 2016, the Company and certain subsidiaries have entered into approved deeds for the cross guarantee of liabilities with those subsidiaries identified in Note 39.

There are a number of legal claims and exposures which arise from the ordinary course of business. There is significant uncertainty as to whether a future liability will arise in respect of these items. The amount of the liability, if any, which may arise cannot be reliably measured at this time.

Sale warranties and indemnities

The Consolidated Entity has given certain warranties and indemnities to the purchasers of the Canada, USA, and Italy operations. Warranties have been given in relation to matters including the sale assets, taxes, people, legal, environmental and intellectual property. Indemnities have also been given in relation to matters including legal and employee claims and pre-completion taxes. Where it is not possible to quantify the potential financial obligation (if any) of the Consolidated Entity for future claims under these warranties and indemnities, no amounts have been disclosed.

Subsidiaries in administration

The Consolidated Entity withdrew from its former operations in Europe during the 2015 calendar year. Several European subsidiaries in the United Kingdom, Netherlands, Belgium, Austria and Germany were placed into insolvency proceedings during this period.

These European insolvency proceedings are ongoing and are expected to continue for some time. As part of the Consolidated Entity's previous European operations and/or these proceedings, legal claims and other exposures may arise that impact the Consolidated Entity, including in respect of, but not limited to, pension plan liabilities, other employee entitlements, former intercompany balances and equity transactions, and other creditors and director/officer indemnities.

There is a material uncertainty as to whether a future liability will arise in respect of these matters. The amount of any potential liability, if any, is unascertainable at this time and will depend on a variety of factors.

These matters have been taken into consideration in undertaking the going concern assessment – refer Note 2(e).

Note 37. Auditors' remuneration

	2017 $	2016 $
Audit and review services		
Auditors of the Consolidated Entity - KPMG Australia		
Audit and review of financial statements	384,533	369,534
Overseas KPMG firms		
Audit and review of financial statements	145,254	134,652
	529,787	504,186
Other auditors *(1)*		
Audit and review of local statutory financial statements	68,177	78,158
	597,964	582,344
Other services		
Auditors of the Consolidated Entity - KPMG Australia		
Other services - capital simplification due diligence services	100,000	-
Other services	9,500	14,000
Overseas KPMG firms		
Taxation services	9,506	10,911
Other auditors		
Other services	-	3,080
	119,006	27,991
Total auditors' remuneration	716,970	610,335

(1) One business uses other auditors to provide audit services for local statutory accounts.

The auditors of the Company are KPMG Australia. From time to time, KPMG provides other services to the Company, which are subject to the corporate governance procedures adopted by the Company which encompass the restriction of non-audit services provided by the auditor of the Company, the selection of service providers and the setting of their remuneration. The guidelines adopted by KPMG for the provision of other services are designed to ensure their statutory independence is not compromised. In the current reporting period, the Company has engaged the services of other accounting firms to perform non-audit assignments.

Note 38. Related parties

Key management personnel (KMP) compensation

	2017 $	2016 $
Short-term benefits	1,406,427	2,105,715
Post-employment benefits	129,249	119,790
Other long-term benefits	40,105	-
Equity plans	-	26,437
	1,575,781	2,251,942

Transactions with entities in the Consolidated Entity

The Company provided management, accounting and administrative services to other entities in the Consolidated Entity during the current and prior reporting periods. These services were provided on commercial terms and conditions.

Other related party disclosures

The ownership interest in subsidiaries is disclosed in Note 39.

Loans to Directors of subsidiaries total $nil (2016: $nil).

Communications Power Incorporated (Aust) Pty Ltd, a substantial shareholder of the Company during the reporting period (until 27 June 2017), entered into an agreement with the Company to provide property advice and consultancy services in relation to the Consolidated Entity's owned and leased properties. The agreement was terminated in February 2017 by mutual consent. The contract terms were based on market rates for these types of services and amounts were payable on a monthly basis. Amounts incurred under the contract during the reporting period were $0.15 million (2016: $0.28 million) of which $nil (2016: $0.07 million) was accrued at balance date.

Note 39. Group entities

Acquisitions

No businesses/entities were acquired during the current or prior reporting periods.

Cross guarantee

The Company and the specified subsidiary companies listed in this note have entered into an approved deed for the cross guarantee of liabilities.

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, effective 29 September 2016, these wholly-owned subsidiaries are relieved from the Corporations Act 2001 requirements for the preparation, audit and lodgement of Financial Reports.

It is a condition of the Corporations Instrument that the Company and each of these subsidiaries enter into a deed of cross guarantee. The effect of the deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up any of these subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. These subsidiaries have also given similar guarantees in the event that the Company is wound up.

The consolidated Income Statement and consolidated Statement of Financial Position comprising the Company and the wholly-owned subsidiaries which are a party to the deed as at the reporting date, after eliminating all transactions between parties to the deed of cross guarantee, are set out below:

Income Statement

	Deed of Cross Guarantee Consolidated	
For the year ended 30 June	**2017 $000**	**2016 $000**
Income Statement		
Profit/(loss) before tax	281,886	(30,369)
Tax expense	(1)	(3)
Profit/(loss) for the period	281,885	(30,372)
Accumulated losses at beginning of period	(2,147,004)	(2,116,642)
Employee share options and rights	4	10
Accumulated losses at end of period	(1,865,115)	(2,147,004)

Note 39. Group entities – (continued)

Statement of Financial Position

	Deed of Cross Guarantee Consolidated	
As at 30 June	**2017 $000**	**2016 $000**
Statement of Financial Position		
Current assets		
Cash and cash equivalents	8,300	12,044
Short-term deposits	3,955	3,955
Trade and other receivables	40,489	39,833
Inventories	52,592	44,120
Total current assets	105,336	99,952
Non-current assets		
Receivables	73	920
Investments in other Consolidated Entity subsidiaries	28,448	32,769
Property, plant and equipment	3,509	4,026
Intangible assets	284	229
Total non-current assets	32,314	37,944
Total assets	137,650	137,896
Current liabilities		
Trade and other payables	43,194	28,843
Loans and borrowings	10,550	15,469
Income tax payable	2,000	2,000
Employee benefits	7,180	7,111
Provisions	1,125	5,239
Total current liabilities	64,049	58,662
Non-current liabilities		
Payables	-	85,791
Loans and borrowings	-	251,000
Employee benefits	448	498
Total non-current liabilities	448	337,289
Total liabilities	64,497	395,951
Net assets/(liabilities)	73,153	(258,055)
Equity		
Issued capital	1,936,608	1,895,767
Reserves	1,660	1,664
Accumulated losses	(1,865,115)	(2,147,004)
	73,153	(249,573)
PaperlinX step-up preference securities	-	(8,482)
Total equity	73,153	(258,055)

In the prior reporting period, the non-current liabilities of the deed of cross guarantee entities predominantly comprised subordinated loan notes held by PaperlinX SPS LLC (a wholly owned subsidiary of the Company which is not a party to the deed of cross guarantee) plus interest payable on the subordinated loan notes.

On 30 June 2017 as part of a (non-cash) post-implementation corporate restructure arising from the capital structure simplification process, the Company redeemed the subordinated loan notes in exchange for PaperlinX SPS LLC redeeming the PaperlinX SPS LLC Preference Shares held by the Company. As the carrying value of the subordinated loan notes and accumulated interest was significantly higher that the carrying value (fair value) of the PaperlinX SPS LLC Preference Shares, a gain on redemption was recorded in profit or loss for the deed of cross guarantee entities. The gain eliminates in the Consolidated Entity.

Further information on the capital simplification process can be found in Note 5, and section 5.5 of the Spicers Prospectus lodged with the Australian Securities and Investments Commission on 4 May 2017, which is available on the Company's website – www.spicerslimited.com.au.

Note 39. Group entities – (continued)

Subsidiaries listing

	Note	Country of incorporation	Consolidated subsidiary interest 2017	2016
PaperlinX Services Pty Ltd	*(1)*	Australia	100%	100%
Tas Paper Pty Ltd	*(1)*	Australia	100%	100%
PaperlinX SPS Trust		Australia	100%	100%
PaperlinX SPS LLC		USA	100%	100%
Spicers Australia Pty Ltd	*(1)*	Australia	100%	100%
Pebmis Pty Ltd	*(1)*	Australia	100%	100%
Paper Associates Pty Ltd	*(1)*	Australia	100%	100%
PaperlinX Holdings Coöperatieve UA		Netherlands	100%	100%
PPX Canada Limited		Canada	100%	100%
Spicers Holdings (Asia) Pte Ltd		Singapore	100%	100%
Spicers Paper (Singapore) Pte Ltd		Singapore	100%	100%
Spicers Paper (Hong Kong) Ltd		Hong Kong	100%	100%
Spicers Paper (Malaysia) Sdn Bhd		Malaysia	100%	100%
Spicers Paper (Shanghai) Co. Ltd	*(2)*	China	-	100%
PaperlinX Investments Pty Ltd	*(1)*	Australia	100%	100%
Spicers (N.Z.) Ltd		New Zealand	100%	100%
Total Supply Limited		New Zealand	100%	100%

(1) Subsidiaries entered into an approved deed for the cross guarantee of liabilities.
(2) Spicers Paper (Shanghai) Co. Ltd was liquidated effective 24 October 2016.

Note 40. Events subsequent to balance date

Acquisition of Sign Technology Ltd

On 3 July 2017, the Consolidated Entity acquired Sign Technology Ltd, a leading supplier of LED and neon sign components in New Zealand. Sign Technology Ltd has current annual sales revenues of NZ$1.3 million.

Dividends on the Company's ordinary shares

No final dividend has been declared for the reporting period ended 30 June 2017.

DIRECTORS' DECLARATION

1 In the opinion of the Directors of Spicers Limited (the “Company”):

(a) the consolidated financial statements and notes, and the Remuneration report in the Directors’ report are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Consolidated Entity’s financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

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

2 There are reasonable grounds to believe that the Company and the consolidated entities identified in Note 39 will be able to meet any obligations or liabilities to which they are or may become subject by virtue of the Deed of Cross Guarantee between the Company and those consolidated entities pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.

3 The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2017.

4 The Directors draw attention to Note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

Robert Kaye SC	**Wayne Johnston**
Chairman	Finance Director

Dated at Melbourne, in the State of Victoria this 25 August 2017.

Independent Auditor's Report

To the shareholders of Spicers Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Spicers Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group***'s financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2017
- Consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 *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 fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty related to going concern

We draw attention to Note 2(e), "Going concern basis of accounting" in the Financial Report. The conditions disclosed in Note 2(e) indicate a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. Our opinion is not modified in respect of this matter.

In concluding there is a material uncertainty related to going concern we evaluated the extent of uncertainty regarding events or conditions casting doubt in the Group's assessment of going concern, which is impacted by the pending Board of director renewal process. Our approach included evaluating the feasibility, quantum and timing of the Group's plans to obtain replacement debt financing or access to alternative funding sources to address going concern, given the significant upcoming Board renewal process. We assessed the Group's going concern disclosures for consistency with our understanding of these events and the Group's plans to address it.

Emphasis of matter regarding contingent liabilities

We also draw attention to Note 36 in the Financial Report regarding the insolvency administrations of certain former subsidiaries. As part of these proceedings, legal claims and other exposures may arise that impact the Group, and accordingly there is a material uncertainty as to whether such claims or exposures give rise to a future liability. Our opinion is not modified in respect of this matter.

Key Audit Matters

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the ***Key Audit Matters***:

- Valuation of intangible assets and property, plant & equipment (PPE)
- Capital structure simplification

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of intangible assets and property, plant & equipment (PPE) ($37,049K)	
Refer to Note 20 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
A key audit matter for us was the Group's annual testing of intangible assets (including goodwill) and PPE for impairment, given the size of the balance (16% of total assets) as at 30 June 2017. We focused on the significant forward-looking and other assumptions the Group applied in their value in use models, including: • the paper industry in which the Group operates has experienced market structural decline for a number of years which	Our procedures included: • We considered the appropriateness of the value in use method applied by the Group to perform the annual test of intangible assets and PPE for impairment against the requirements of the accounting standards. • We compared the forecast cash flows contained in the value in use models to management's approved forecasts, and

impacts critical inputs such as forecast paper sale volumes and gross margin, as well as longer term growth rate assumptions, including terminal value. This is expected to continue into the forecast period, increasing the risk of inaccurate forecasting; • the discount rate which is complicated in nature and varies according to the conditions and environment that the specific Cash Generating Unit (CGU) operates in. The Group's impairment models are sensitive to changes in the assumptions mentioned above, which can reduce the available headroom. This focused our audit effort on the feasibility and consistency of these key assumptions with the Group's plan and strategy. In addition to the above, the carrying amount of the net assets of the Group exceeded the Group's market capitalisation at year end, increasing the possibility of intangible assets and PPE being impaired. This further increased our audit effort in this key audit area. We involved valuation specialists to supplement our senior audit team members, with experience of the business and the industry, in assessing this key audit matter.	considered the key events included in the management's plan and strategy. • We challenged the Group's significant forecast cash flow and growth assumptions, including the impact of the expected continuation of the structural market decline. We compared forecast growth rates to published studies of industry trends and expectations, and considered differences for the Group's operations. We used our knowledge of the Group, its past performance, business and customers, and our industry experience. • We assessed the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the models. We noted previous trends where constrained market conditions existed and how they impacted the business, for use in further testing. • Working with our valuation specialists, we independently developed a discount rate range using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in. • We considered the sensitivity of the models by varying key assumptions such as forecast paper sale volumes, gross margin, terminal growth rates and discount rates, within a reasonably possible range, to identify those CGUs at higher risk of impairment and to focus our further procedures. • We qualitatively assessed the key factors in the Group's assessment of differences between the year-end market capitalisation and the carrying amount of the net assets based on our knowledge of the Group. • We assessed the disclosures in the financial report using our understanding of the issue obtained from our testing and against the requirements of the accounting standards.

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Capital structure simplification	
Refer to Note 5 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
On 27 June 2017, a scheme of arrangement to simplify the Group's capital structure was implemented. The capital structure simplification is a key audit matter due to the audit complexity associated with accounting for the transaction and its associated tax implications. This required the involvement of our tax specialists and senior team members. The transaction significantly changed the capital structure of the Group, involved a complex series of approvals, and has a pervasive impact on a number of legal entities within the Group. It is also relevant to our assessment of the Group's ability to continue as a going concern, as the transaction may directly or indirectly impact the Group's future strategy and operations, including: • The ability to source debt or equity funding and manage associated liquidity risk; • The ability to undertake other corporate transactions such as mergers and acquisitions; and • Simplification of the Group's legal entity structure and reduction of associated administration and other costs.	Our procedures included: • We read the Implementation Agreement, Spicers' Prospectus, PaperlinX SPS Trust's Unitholder Booklet, documentation of regulatory approval, shareholders' and unitholders' approvals, and other relevant documents relating to the simplification of capital structure. We considered the appropriateness of the Group's method of measurement and accounting for this capital transaction (including transaction costs) against the requirements of the accounting standards. • Working with our tax specialists, we analysed the tax implications of the transaction based on the conditions contained in the private ruling obtained by the Group from the Australian Tax Office. We assessed the appropriateness of the taxation accounting against the accounting standard requirements. • We compared the Group's assumptions included in its going concern assessment relating to the capital transaction, to the assumptions included in forecast cash flow and other financial information, as tested by us in the valuation of intangible assets and PPE Key Audit Matter above. • We assessed the disclosures contained in the financial report based on the testing performed, our understanding of the matter and the requirements of the accounting standards.

Other Information

Other Information is financial and non-financial information in Spicers Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Remuneration report and 5-year history. The Operating and financial review report, Sustainability report, Corporate governance report, Shareholding information and Investor information are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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: http://www.auasb.gov.au/auditors_files/ar2.pdf This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Spicers Limited for the year ended 30 June 2017, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' 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 responsibilities

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our Audit conducted in accordance with *Australian Auditing Standards*.

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BW Szentirmay
Partner

Melbourne
25 August 2017