

SPICERS ANNUAL REPORT 2016

Spicers

Spicers offers a full suite of products and services to the printing, signage, visual display and graphics industries – incorporating commercial print, digital media, sign & display, hardware, labels and industrial packaging offerings.

We strive to use our industry expertise and deep technical knowledge to provide optimal solutions for our customers and their changing needs in this digital age.

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Forward Looking Statements

Certain statements in this Annual Report relate to the future, including forward looking statements relating to Spicers Limited's financial position and strategy. These forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or achievements of Spicers to be materially different from future results, performance or achievements expressed or implied by such statements. Neither Spicers nor any other person gives any representation, assurance or guarantee that the occurrence expressed or implied in any forward looking statements in this document will actually occur and you are cautioned not to place undue reliance on such forward looking statements. Subject to any continuing obligations under applicable law or any relevant listing rules of the Australian Securities Exchange, Spicers disclaims any obligation or undertaking to disseminate any updates or revisions to any forward looking statements in this document to reflect any change in expectations in relation thereto or any change in events, conditions or circumstances on which any such statement is based.

Paper

Spicers offers a comprehensive range of coated and uncoated papers (many containing recycled content) to meet the needs of commercial print customers.

We also provide a full range of solutions to serve the ever-evolving digital print and media market, including digital papers, self-adhesive papers and other synthetic substrates.



Sign & Display

Spicers is a leading supplier of innovative solutions to serve the signage, visual display and graphics industries. Our offerings include wide format and finishing equipment, support, rigid and flexible substrates, films and decals.

From point-of-sale graphics and vehicle wraps, through to shop fit out and architectural and construction applications, Spicers has a solution to meet our customers' sign & display needs.

Creating opportunities through diversity

Our business is on a journey of transformation from being a traditional paper merchant and manufacturer to becoming a provider of solutions to customers in a wide variety of industries and markets.

Spicers Limited is a merchant group with market leading positions in Australia, New Zealand and Asia. We have been meeting customers' needs in Australia and New Zealand for almost 100 years.

Spicers now stock, distribute and provide a broad range products and services, supported by expert sales teams and nationwide distribution footprints in the countries we operate in. This creates growth opportunities for Spicers through the diversity of our offerings to customers.

Paper

Spicers offers a comprehensive range of paper related products to customers, covering traditional commercial print uses through to expanding digital print applications:

- Coated and uncoated fine papers (many with recycled content)
- Carbonless paper
- Self-adhesive and label paper
- Speciality papers – coloured, textured, thermal
- Synthetic papers
- Digital (high speed inkjet) papers



▲ Property development kit

A kit developed by Spicers to showcase brochure options to the booming property developer market. It contains an extensive array of property development publications highlighting the wide range of coated, uncoated, speciality and digital papers that designers can select and mix in such brochures.



▲ Wine and Gourmet Companion

This Spicers companion booklet is the perfect accompaniment for creatives, printers and vintners looking for the self-adhesive label that best fits their needs. It offers up a vast variety of coated, uncoated, synthetic and metallic stocks. Each exquisite design is demonstrated via an array of print applications and techniques, with exemplars of each stock unprinted also included.

◀ The 'sense of touch'

Catering for resurging interest in speciality papers, this promotional pictorial book is a celebration of Spicers tactile and luxurious offering of papers from Fedrigoni. With an emotive 'sense of touch', these papers have an irresistibly persuasive character, stirring imaginative memories and possibilities.

Hub magazine ▶

A publication produced to promote the latest developments in Spicers' offerings to customers.



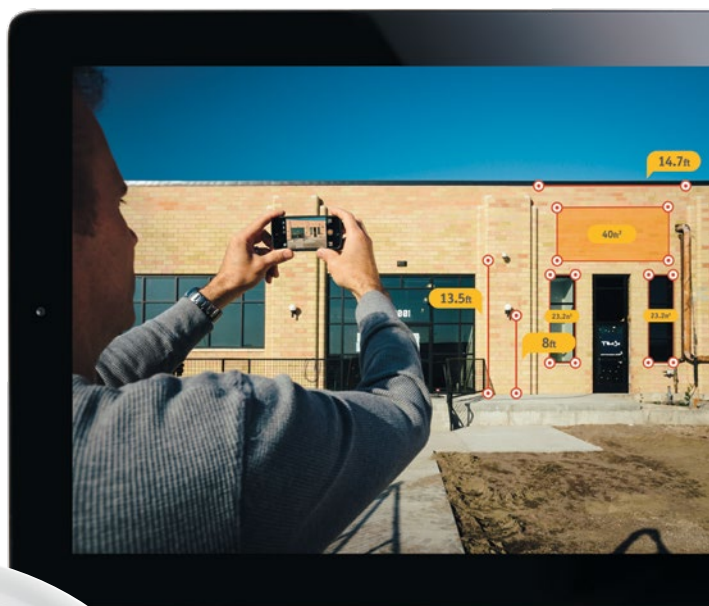
Sign & Display

Spicers provides a wide array of solutions to customers in the signage, visual display and graphics industries. We are also expanding these offerings to customers in new markets, such as architectural and construction:

- Sign and architectural self-adhesive films – clear, coloured, reflective, protective
- Flexible substrates – vinyl, polypropylene, canvas
- Rigid substrates – polypropylene, acrylic, aluminium composite, PVC, board
- Wide and grand format printing and finishing equipment
- Equipment service and support

Spike ►

Spike (from ikeGPS) is a smart laser measurement device that attaches to smartphones or tablets and works together with their camera and GPS functions. As an exclusive distributor in Australia and New Zealand, Spicers promotes these innovative devices for a number of professional uses, including signage design and architectural and construction activities.



Architectural and interior finishes ▲

Spicers' partnership with 3M continues to grow through our latest offering from 3M Di-Noc™. These architectural and interior finishes offer a highly flexible collection of materials that conform to flat or curved surfaces, providing unlimited design potential for architectural elements, doors, drawers, furniture and back-lit applications.



◀ Vinyl solutions

Spicers offers a wide range of advanced vinyl vehicle, reflective and signage solutions from leading manufacturers. These solutions have a brimming palette of colour options. A comprehensive array of first-rate vehicle wraps, reflective and protective films and application tools are carried across all locations in Australia and New Zealand.



Hardware solutions ►

Spicers offers and supports a vast portfolio of wide and grand format printing and finishing equipment. We are proud to partner with leading suppliers, such as Mimaki™, EFI, Kala, Elitron, Fotoba International and ROLLSROLLER® Flatbed Applicator. We provide complete solutions to customers by also supplying substrates and inks alongside these hardware equipment options.

Industrial Packaging

Spicers supplies a wide line-up of packaging materials and industrial supplies, ranging from cardboard and protective packaging through to wrapping films and self-adhesive tapes.



Message from the Chairman



Spicers Limited has reported a statutory profit of \$5.3 million for the 2016 financial year, the Company's first full-year profit since 2008, validating the strategic decisions taken in 2015 to focus the business on the profitable Australian, New Zealand and Asian (ANZA) operations.

Underlying EBIT⁽¹⁾ rose 42.0 per cent to \$4.5 million, with all continuing ANZA businesses contributing to this solid earnings result. Pleasingly strong growth in diversified operations has been delivered, assisting your Company to transform into a broader and more sustainable business. The change of corporate name to Spicers Limited during the 2016 financial year is a marker of this transformation and represents a fresh start for the Company.

Your Board and executive management team is focused on maximising returns in core Commercial Print operations while seeking to vigorously grow diversified revenue streams via a combination of strong organic growth and suitable acquisition opportunities.

Operating results – key features

Spicers New Zealand delivered a strong result, demonstrating the value of a well-diversified business. Sales revenue increased due to gains in market share and robust growth from the 'Total Supply' signage business acquired in October 2014. This revenue growth translated into a significant increase in underlying EBIT⁽¹⁾ of 18.0 per cent, with tight control of gross margins and trading expenses evident across the business.

The Asian business more than doubled its underlying EBIT⁽¹⁾ through a combination of scaling back less profitable operations and changes in product mix to higher margin products.

The Australian business experienced a challenging year. Underlying EBIT⁽¹⁾ of \$5.4 million was down 40.2 per cent on prior year, largely due to competitive pressures in the Commercial Print market and foreign exchange volatility impacting sales pricing. Strong growth from diversified operations partly offset these factors, assisting the Australian business to transform into a broader more diversified operation.

Diversified operations performed strongly overall, with gross revenues up 24.6 per cent year on year. These operations now represent almost a quarter of total gross margin for the Group and we have established prominent positions in key market sectors. This provides confidence in the ability of the Company to succeed in these markets and validates our strategic aim to vigorously grow diversified operations.

Operations and cost structures continue to be simplified and 'right-sized'. This has resulted in a reduction of corporate costs of 24.1 per cent compared to the prior year, with savings flowing directly from the reduced geographical footprint of the Company. We expect further reductions in 2017.

Executive management changes

Mr Andy Preece stepped down as Managing Director in February 2016 and then CEO in May 2016. The Board acknowledges Mr Preece's outstanding contributions in leading the transformation of the ANZA businesses into sustainable and profitable operations, and capably managing the Company's 2015 withdrawal from European operations.

Mr Wayne Johnston was appointed as Finance Director, in addition to his existing CFO responsibilities, in February 2016. He was also interim CEO from May to July 2016 before the appointment of the Company's new CEO. The Board is grateful to Wayne for the leadership and commercial acumen he has shown and continues to bring to the Company.

I would like to thank my fellow Board members, the executive management team and all of our employees for their dedication through the year, and congratulate them on returning the Company to overall profitability. While challenges remain, there are also many strategic opportunities and a much clearer path towards the goal of transforming your Company into a more diversified and agile business generating sustainable profitability.

A handwritten signature in black ink, appearing to read 'Robert Kaye'.

Robert Kaye SC
Chairman

(1) Non-IFRS measure – refer page 15.



David Martin

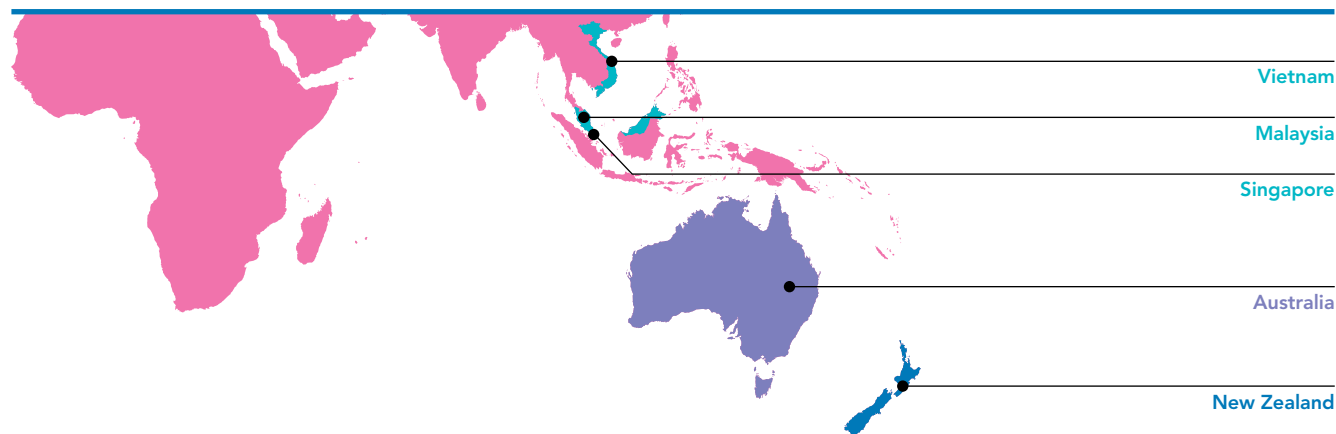
Introducing our new Chief Executive Officer

Mr David Martin was appointed the Company's new Chief Executive Officer on 1 July 2016, and commenced in the role on 18 July 2016. He joins Spicers after a distinguished career with Avery Dennison, a US-listed global company that specialises in providing materials and solutions in the packaging, label, reflective and graphics segments. Over a 22-year career at Avery Dennison, Mr Martin led business operations in Australia, New Zealand, South Africa, Asia and the USA. He has an MBA and brings to Spicers significant experience in business and market development, mergers and acquisitions and organisational transformation.

Mr Martin's appointment comes at a time of great opportunity for Spicers. He has substantial experience in the geographical and diversified markets that Spicers operates in. His appointment and strong leadership will be critical to further developing the Company's strategy of maximising returns in the Commercial Print business while strongly growing diversified revenue streams and operations.

Operating and Financial Review

Spicers locations



Principal business activities

Spicers is a leading distributor and provider of services to customers in the Commercial Print, Sign & Display and Industrial Packaging sectors. The Company has business operations in Australia, New Zealand and Asia (ANZA), with 445 employees and continuing sales revenue of \$393 million.

The Spicer's operations in ANZA stock and distribute a broad range of products and services in the following market sectors:

- Commercial Print (or Fine Paper). A broad range of paper related products are supplied to customers, covering traditional commercial print uses through to expanding digital print applications.

Products and services include:

- coated and uncoated fine papers (many with recycled content);
- carbonless paper;
- self-adhesive label materials;
- speciality papers – coloured, textured, thermal;
- synthetic papers; and
- digital (high speed inkjet) papers.

- Sign & Display. A wide array of solutions are provided to customers in the signage, visual display and graphics industries. These offerings are also being expanded to customers in new markets, such as architectural and construction.

Products and services include:

- sign and architectural self-adhesive films – clear, coloured, reflective, protective;
- flexible substrates – vinyl, polypropylene, canvas;
- rigid substrates – polypropylene, acrylic, aluminium composite, PVC, board;

- wide and grand format printing and finishing equipment; and
- equipment service and support.

- Industrial Packaging. A wide line-up of packaging materials and industrial supplies are supplied to customers, ranging from cardboard and protective packaging through to wrapping films and self-adhesive tapes.

Products are sourced with consideration for environmental and social criteria. All ANZA operations have chain-of-custody certifications, such as Forest Stewardship Council (FSC) or Program for the Endorsement of Forest Certification (PEFC), and are committed to providing a wide range of products with strong environmental credentials.

Strategic direction and prospects

The Company's principal strategic objective is for its businesses operating in Australia, New Zealand and Asia (ANZA) to become increasingly diversified, to offset the ongoing structural decline within the Commercial Print market segment.

The Company aims to achieve this by a combination of:

- Maximising returns in the Commercial Print market sector, by leveraging off strong market positions, established national logistics footprints and valuable long standing relationships with suppliers and customers;
- Driving strong organic growth in diversified operations, via a combination of current diversified revenue streams and developing new diversified business streams, leveraging existing core competencies and key supplier relationships; and
- Investing in appropriate acquisitions within the ANZA region, to transform into a broader wholesale and distribution business. 'Free cash flow' generation from existing business streams and financing accessibility will be vital in supporting this aim.

(1) Non-IFRS measure – refer page 15.

(2) Restated – refer page 15.

Significant changes (including acquisitions and divestments)

The Company's previous German operations commenced insolvency proceedings in October 2015 and were deconsolidated, as the Company effectively lost control of the operations at this point.

Other than this, there were no significant changes in the structure, or state of affairs, of the Company during the financial year ended 30 June 2016.

Financial review for the year ended 30 June 2016

Spicers Limited reported a statutory profit after tax of \$5.3 million for the year ended 30 June 2016 (FY2016) compared to a statutory loss of \$(392.3) million for the prior corresponding period (pcp).

While continuing sales revenue of \$392.7 million fell by 2.8 per cent versus pcp,⁽²⁾ underlying EBIT⁽¹⁾ was up 42.0 per cent on pcp,⁽²⁾ to \$4.5 million.

The New Zealand and Asian businesses delivered strong results significantly up on pcp, while the Australian business experienced a challenging year. Corporate costs were sharply reduced due to the Group's smaller operational footprint following withdrawal from European operations in 2015.

Overall diversified operations continued to perform strongly, with gross revenue up 24.6 per cent on pcp. Diversified gross margin now represents almost a quarter of total Group gross margin.

A statutory profit after tax of \$3.8 million arose on discontinued operations. This was due to the impact from deconsolidation of previous German operations, which entered insolvency proceedings during the first half of FY2016.

The net assets of the Group as at 30 June 2016 were \$139.7 million, including 'net cash' of \$30.7 million.

Financial results summary

The following table summarises financial results for FY2016 in Australian dollars (A\$).

Financial results summary		2016	2015 restated ⁽²⁾
Net sales revenue	A\$000	422,802	2,019,578
Net sales revenue – continuing	A\$000	392,682	403,961
Earnings before interest and tax – continuing	A\$000	4,112	(11,142)
Underlying earnings before interest and tax ⁽¹⁾	A\$000	4,515	3,179
Profit/(loss) before tax – continuing	A\$000	3,175	(12,346)
Profit/(loss) after income tax – continuing	A\$000	1,497	(14,089)
Profit/(loss) after income tax – discontinued	A\$000	3,799	(378,237)
Statutory profit/(loss) after tax	A\$000	5,296	(392,326)
Basic earnings per share	cps	0.8	(59.0)
Net assets/shareholders' equity	A\$000	139,745	128,662
Net debt/(cash)	A\$000	(30,688)	(43,032)
Net cash flow from operations	A\$000	(14,010)	(58,071)

(1) Non-IFRS measure – refer page 15.

(2) Restated – refer page 15.

Operating and Financial Review

continued

The following table shows sales revenue and underlying EBIT⁽¹⁾ by region for the year to 30 June.

		Sales revenue		Underlying EBIT ⁽¹⁾	
		2016	2015 restated ⁽²⁾	2016	2015 restated ⁽²⁾
Operating summary					
<i>Regional segment:</i>					
Australia	A\$000	210,975	219,462	5,355	8,960
New Zealand	A\$000	97,919	92,151	7,198	6,189
Asia	A\$000	83,923	92,443	1,561	677
Corporate/unallocated	A\$000	(135)	(95)	(9,599)	(12,647)
Total continuing operations	A\$000	392,682	403,961	4,515	3,179
Discontinued operations					
Group eliminations	A\$000	–	(2,071)		
Total	A\$000	422,802	2,019,578		

The following table provides a reconciliation of statutory profit/(loss) to underlying EBIT.⁽¹⁾

	2016 A\$000	2015 restated ⁽²⁾ A\$000
For the year ended 30 June		
Statutory profit/(loss) for the period, after tax	5,296	(392,326)
Adjust for following (gains)/losses included in statutory profit:		
(Profit)/loss after tax – discontinued	(3,799)	378,237
Tax expense – continuing	1,678	1,743
Net interest – continuing	937	1,204
Earnings before interest and tax – continuing	4,112	(11,142)
Adjust for continuing significant items:		
Impairment of non-current assets	–	6,995
Loss on disposal of controlled entities	–	(198)
Restructuring costs	403	4,413
Group strategic review costs	–	3,111
Underlying EBIT⁽¹⁾	4,515	3,179

(1) Non-IFRS measure – refer page 15.

(2) Restated – refer page 15.

Revenue

Continuing sales revenue of \$392.7 million fell by 2.8 per cent versus pc⁽²⁾. Revenue in New Zealand was up due to solid performance against a backdrop of generally weak market conditions. Revenue in Australia fell due to ongoing structural decline and competitive pressures in the Commercial Print business. Revenues in the Asian business fell due to a combination of decisions to scale back in some less profitable markets and ongoing structural decline in the Commercial Print market.

Earnings

Underlying EBIT⁽¹⁾ for FY2016 was \$4.5 million, 42.0 per cent higher than pc⁽²⁾. A strong performance from the New Zealand business, an improved EBIT result from the Asian business and reduced Corporate costs from the Company's smaller continuing footprint all contributed towards this result. Earnings in the Australian business were down year-on-year, due to a challenging competitive environment in the Commercial Print market.

Corporate/unallocated costs of \$9.6 million represent a reduction of 24.1 per cent versus pc⁽²⁾. This was due to cost rationalisation and headcount reductions relating to the consolidation of the Company's operating footprint during 2015.

After including significant items, the Continuing profit after tax of \$1.5 million was a significant improvement on pc⁽²⁾. A substantial loss was recorded in the pc⁽²⁾, due to a combination of Asia goodwill impairment and restructuring costs.

Statutory profit

Statutory profit after tax for FY2016 was \$5.3 million, consisting of a profit after tax from continuing operations of \$1.5 million and a profit after tax of \$3.8 million on discontinued operations.

The profit after tax on discontinued operations arose from the positive impact of the deconsolidation of the German operations, which entered insolvency proceedings during the period. It also included non-recurring costs from managing the exit of the European businesses.

The statutory loss of \$392.3 million reported in the pc⁽²⁾ reflected write-offs and losses on disposal recorded on the Company's exit and divestment of operations outside of the continuing ANZA region during the 2015 financial year.

Diversified results – continuing operations

The performance of continuing diversified businesses for the year ended 30 June 2016 is highlighted in the following table and commentary. These operations consist primarily of Sign & Display and Industrial Packaging.

Diversified – continuing		2016	2015	% change
Diversified revenue (gross)	A\$000	75,891	60,899	24.6

Diversified revenue grew 24.6 per cent compared to pc⁽²⁾. This was due to a combination of strong organic growth and a full year contribution from New Zealand signage business 'Total Supply' (acquired in October 2014).

Diversified gross margin also continues to grow strongly, up 23.0 per cent year-on-year. It now represents almost a quarter of the Company's total gross margin. Percentage margins achieved for diversified sales are generally higher than those in the Commercial Print business.

Spicers in Australia and New Zealand holds prominent positions in the Sign & Display market. The Company is focused on continuing to grow Sign & Display and other complementary diversified operations via a combination of organic growth and suitable acquisition opportunities.

(1) Non-IFRS measure – refer page 15.

(2) Restated – refer page 15.

Operating and Financial Review

continued

Operating performance by regional segment

The following table shows underlying EBIT⁽¹⁾ and sales revenue by region for the year to 30 June.

Australia

		2016	2015	% change
Net sales revenue	A\$000	210,975	219,462	(3.9)
Profit before interest and tax	A\$000	4,924	6,674	(26.2)
Underlying EBIT ⁽¹⁾	A\$000	5,355	8,960	(40.2)
Underlying EBIT ⁽¹⁾ /sales revenue	%	2.5	4.1	(160) bpts
Expense/sales revenue	%	20.9	22.1	(120) bpts
Average working capital/sales revenue	%	28.9	25.5	340 bpts

Australian sales revenue fell by 3.9 per cent from pcp, with ongoing structural decline in Commercial Print revenues partly offset by vigorous growth in diversified operations.

Underlying EBIT⁽¹⁾ of \$5.4 million was 40.2 per cent below pcp. Competitive pressures in the Commercial Print market impacted upon this result. Sales were subdued and increases in paper product costs due to unfavourable Australian dollar foreign exchange movements in the early months of FY2016 were unable to be fully passed on in the market. The weaker result for the Commercial Print business was partly compensated for by strong growth in sales from diversified operations.

Expenses as a percentage of sales were lower than pcp due to several cost saving initiatives implemented. These include a full year contribution from property 'right-sizing' actions taken in Victoria and New South Wales during FY2015.

Average working capital levels were unfavourable to pcp. This was largely due to an increase in inventory levels during the first half of FY2016. Corrective actions were taken to reduce total inventory levels during the second half of FY2016.

New Zealand

		2016	2015	% change
Net sales revenue	NZD000	106,762	99,072	7.8
Profit before interest and tax	NZD000	7,730	6,611	16.9
Underlying EBIT ⁽¹⁾	NZD000	7,848	6,653	18.0
Underlying EBIT ⁽¹⁾ /sales revenue	%	7.4	6.7	70 bpts
Expense/sales revenue	%	17.6	18.0	(40) bpts
Average working capital/sales revenue	%	19.9	19.4	50 bpts

Spicers New Zealand delivered another strong performance in FY2016.

Sales revenue was up 7.8 per cent on a combination of market share gains in the Commercial Print operations in a declining market and robust growth in revenue from the 'Total Supply' signage business.

Underlying EBIT⁽¹⁾ was NZD7.8 million, strongly up 18.0 per cent on pcp. Underlying EBIT⁽¹⁾ to sales margin for the period was a notable 7.4 per cent. Tight control of gross profit margins and trading expenses in the Commercial Print business coupled with strong growth in Total Supply's earnings contributed to this.

Average working capital levels remained relatively constant and within an acceptable target range during the period.

The strong overall performance of the New Zealand business and contribution to this from the 'Total Supply' business is demonstrative of the importance of a combination of maximising returns from Commercial Print and a well-diversified business offering.

(1) Non-IFRS measure – refer page 15.

(2) Restated – refer page 15.

Asia

		2016	2015	% change
Net sales revenue	SGD000	84,889	101,151	(16.1)
Profit/(loss) before interest and tax	SGD000	1,510	(6,860)	122.0
Underlying EBIT ⁽¹⁾	SGD000	1,578	741	113.0
Underlying EBIT ⁽¹⁾ /sales revenue	%	1.9	0.7	120 bpts
Expense/sales revenue	%	9.7	9.0	70 bpts
Average working capital/sales revenue	%	26.2	24.5	170 bpts

The overall profitability of the Asian business was significantly higher than pcpc. Singapore and Malaysia provided solid results, while less profitable operations in Hong Kong and Shanghai were scaled down and exited during the financial year.

Sales revenue was down 16.1 per cent versus pcpc. This was largely due to withdrawal from some unprofitable export markets and exits from 'permanent business establishment' operations in Hong Kong and Shanghai.

Underlying EBIT⁽¹⁾ was SGD1.6 million (pcpc SGD0.7 million) and underlying EBIT⁽¹⁾ to sales margin was 1.9 per cent (pcpc 0.7 per cent). These significant improvements were due to favourable changes in product mix to higher value added products, improved margin management and tight control of trading expenses.

Profit before interest and tax for the period was SGD1.5 million. The significant loss before interest and tax in the pcpc was largely due to the impairment of goodwill in December 2014.

Discontinued

		2016	2015 restated ⁽²⁾
Net sales revenue	A\$000	30,120	1,617,688
Profit/(loss) before interest and tax	A\$000	3,673	(366,795)
Profit/(loss) after interest and tax	A\$000	3,799	(378,237)

After the Company's withdrawal from many of its European businesses during FY2015, the only remaining business in Germany continued to operate until it commenced insolvency proceedings in October 2015. Consequently, Germany's trading results for the first three months of FY2016 are included in this result and represent the 'discontinued' net sales revenue for the year.

The profit after interest and tax of A\$3.8 million on discontinued operations arose primarily from the impact of the deconsolidation of previous German operations during the period.

Results for the pcpc⁽²⁾ include impairments and losses on deconsolidation or sale of business operations in the Europe region and Canada during 2015.

(1) Non-IFRS measure – refer page 15.

(2) Restated – refer page 15.

Operating and Financial Review

continued

Financial position

	As at 30 June 2016 A\$000	As at 30 June 2015 A\$000
Consolidated balance sheet		
Current assets	186,598	245,161
Non-current assets	39,359	39,958
Total assets	225,957	285,119
Current liabilities	85,508	144,901
Non-current liabilities	704	11,556
Total liabilities	86,212	156,457
Net assets/shareholders' equity	139,745	128,662
Net debt/(cash)	(30,688)	(43,032)
Funds employed (net debt + net assets)	109,057	85,630

The Company's consolidated balance sheet as at June 2016 now represents the net assets of the continuing ANZA businesses and Corporate office. The prior year June 2015 balance sheet still included the assets and liabilities of the Company's German operations, which were deconsolidated when they entered insolvency during the first half of FY2016. This explains a majority of the significant changes in 'Total assets' and 'Total liabilities' balances from June 2015 to June 2016.

Net assets/shareholders' equity increased by \$11.1 million from June 2015 to June 2016.

Cash flow and working capital

	Continuing A\$000	Discontinued A\$000	2016 A\$000	2015 A\$000
Cash flow				
Operating receipts and payments (excluding working capital movement and restructuring)	5,510	(5,471)	39	(20,495)
Working capital movement	(6,071)	(1,769)	(7,840)	1,981
Restructuring	(2,078)	(320)	(2,398)	(27,311)
Net interest paid	(944)	(103)	(1,047)	(9,906)
Income taxes paid	(1,425)	(1,339)	(2,764)	(2,340)
Net cash flow from operations	(5,008)	(9,002)	(14,010)	(58,071)
Capital expenditure	(1,416)	(506)	(1,922)	(8,908)
Net proceeds from sale of assets and businesses	31	3,952	3,983	55,961
Net cash flow before financing	(6,393)	(5,556)	(11,949)	(11,018)
Continuing cash flow				
		2H 2016 A\$000	1H 2016 A\$000	2016 A\$000
Operating receipts and payments (excluding working capital movement and restructuring)		1,956	3,554	5,510
Working capital movement		8,793	(14,864)	(6,071)
Restructuring		(816)	(1,262)	(2,078)
Net interest paid		(471)	(473)	(944)
Income taxes paid		(420)	(1,005)	(1,425)
Net cash flow from operations		9,042	(14,050)	(5,008)
Capital expenditure		(416)	(1,000)	(1,416)
Net proceeds from sale of assets and businesses		–	31	31
Net cash flow before financing		8,626	(15,019)	(6,393)

(1) Non-IFRS measure – refer page 15.

(2) Restated – refer page 15.

Net cash outflow from operations of \$(14.0) million for FY2016 full year was split \$(9.0) million discontinued and \$(5.0) million on continuing operations.

A \$9.0 million cash inflow from continuing operations during the second half partly reversed a first half outflow of \$(14.0) million. Seasonal factors, such as a build-up in debtor balances from higher sales months immediately prior to Christmas and southern hemisphere summer holidays, generally cause higher first half working capital balances. Corrective actions taken also reduced inventory levels during the second half.

The discontinued cash outflow from operations related primarily to the operating losses of the Company's previous German operations prior to entering insolvency proceedings in October 2015. There were also residual cash outflows associated with the Group's withdrawal from Europe.

Net proceeds from the sale of assets and businesses of \$4.0 million were primarily from the disposal of a freehold property by the German operations prior to commencing insolvency proceedings, receipt of escrow instalments from the previous sales of the Spicers North American businesses and the sale of an investment in a Japanese paper trading business.

Debt and interest

Debt	2016 A\$000	2015 A\$000	% change v actual
Gross debt	4,893	16,441	(70)
Cash and cash equivalents	31,626	55,518	(43)
Short-term deposits	3,955	3,955	–
Net debt/(cash)	(30,688)	(43,032)	29

Interest expense	2016 A\$000	2015 restated ⁽²⁾ A\$000	% change v actual
<i>Continuing:</i>			
Cash net interest on bank debt	937	1,204	(22)
<i>Discontinued:</i>			
Cash net interest on bank debt	104	8,835	(99)
Non-cash interest	25	450	(94)
Net interest expense	1,066	10,489	(90)

The Company's 'net cash' position at June 2016 was \$30.7 million. Changes in this position compared to June 2015 were largely due to the operating cash flow movements noted in the 'cash flow and working capital' section above.

At June 2016, gross debt drawn by the Company was only \$4.9 million. Gross debt reported at June 2015 included a debtor pledged financing facility of the previous German operations.

Continuing interest expense for FY2016 was lower than pcp,⁽²⁾ reflecting lower levels of average daily debt positions and improvements in base interest rates. FY2015 discontinued net interest expense includes interest on receivables financing facilities and other bank debt in European and Canadian operations prior to the Group's withdrawal from these Regions.

Funding update

The Group has primary financing facilities in Australia and New Zealand backed by the pledging of debtors and inventory. The Asian operations have cash on hand and make minimal use of available debt funding facilities.

Given net cash inflows from working capital reductions in the months immediately prior, actual gross debt levels drawn on these facilities at 30 June 2016 were relatively low and significantly below maximum capacity levels of the facilities.

The maturity dates of these primary funding facilities all fall during the financial year ending 30 June 2018 and their weighted average life was 1.5 years as at June 2016.

(1) Non-IFRS measure – refer page 15.

(2) Restated – refer page 15.

Operating and Financial Review

continued

Material business risks (financial and non-financial)

As part of the Spicers risk management process, with the assistance of the Risk and Internal Audit Manager, the risk profile of the Company is reviewed and updated at least annually by management and provided to the Audit and Risk Committee for their consideration and approval. The risk profile update process is based on discussions with members of the Board and senior management team, as well as consideration of other external and internal information relevant to the Company's risk profile.

The most recent update of the Company's risk profile was completed in June 2016. Following is a summary of the most significant risks facing continuing business operations as assessed in this update.

1. Structural decline in 'core' paper markets

This relates to the rate of declining consumption of paper due to structural factors, including changing technologies and consumer preferences, resulting in the Company's core 'Commercial Print' sector being impacted by falling consumption and/or pricing.

Existing strategic responses and key business processes to mitigate this risk include focusing on profitable 'digital printing' and 'niche' paper products; diversifying into non-paper segments and product markets to reduce exposure; pricing and margin management; restructuring and cost reductions; customer credit risk management; strong strategic relationships with customers and suppliers; and high standards of customer service.

2. Execution of diversification strategy

There is a risk that the diversification of the Company into new business segments and product markets to reduce reliance on 'core' paper products is either not successful or the level of growth in diversified business is not sufficient to offset the loss of revenues and profits from an ongoing reduction in paper volumes. The business must also ensure that it understands new markets and products diversified into and properly manages any risks associated with these. Successful execution of any business acquisitions made to support diversified growth is also vital.

Existing strategies and key business processes to mitigate this risk include targeting strong organic growth in existing diversified business segments; identifying and successfully executing opportunities for acquisitions in diversified business segments; identifying new business segments and product markets to expand into, including via leveraging key supplier relationships; and developing people skills and specialist knowledge of diversified products, via both external recruitment and internal training.

3. Competitive landscape

This relates to the risk of competitive pressures caused by aggressive competitor actions, supplier and supply chain related factors (for example, nature and extent of supplier 'channels to market'), and changes (for example consolidation) in the customer base of the business. This risk has linkages with ongoing structural decline in core paper markets.

Existing strategies and key business processes to mitigate this risk include breadth of the Company's product offerings; strong customer and supplier relationships; high standards of customer service; pricing and margin management; and staff retention measures.

4. Financing availability and flexibility

Pressures on the accessibility and flexibility of financing, including the role of the capital structure, could impact upon the availability of financing to support the strategic objectives of the business, such as diversifying via acquisition, and to respond to market conditions. Such pressures may arise from existing debt liabilities maturing or as a result of adverse effects from the other significant risks, such as rapid declines in core paper markets, working capital movements and possible contingent liabilities related to withdrawal from European operations. Effective management and use of cash available is also critical.

Existing strategies and key business processes to mitigate this risk include refinancing and extending existing financing facilities; exploring other financing options; continuous review and monitoring of financing lines and associated covenants; structured budgeting and re-forecasting processes, including cash flow and liquidity planning; and effective working capital management processes.

In addition to the above material business risks for continuing operations, there are possible contingent liabilities relating to the Company's withdrawal from Europe during 2015. These may include legal claims, pension plan liabilities and other related exposures.

Economic, environmental and sustainability risks

The existence of any material exposures to economic, environmental and sustainability risks was also considered as part of the recent risk profile update. Sustainability and environmental factors relevant to the Company are detailed in the 'Sustainability' section of this Annual Report (pages 16–17), with the key areas being supply chain sustainability factors such as forestry and other environmental certification processes, talent management, and health and safety management.

Regarding material economic exposures, the countries that the business operates in are not currently considered to be subject to major macro-economic country level risks, although major political and/or financial system risks can never be discounted from materialising in the future. Continued volatility of the US dollar (and other key currencies) against local currencies does present foreign exchange management risks. Key business processes to mitigate this risk include review of strategic foreign exchange risk management options; and processes for hedging of foreign currency purchase transactions.

Dividend and distributions

There was no dividend paid on the ordinary shares for the year ended 30 June 2016.

No distributions relating to the PaperlinX Step-up Preference securities were paid in the year ended 30 June 2016.

Non-IFRS information

Spicers financial results are reported under International Financial Reporting Standards (IFRS). The tables and analysis provided in this document also include certain non-IFRS measures, including underlying Earnings Before Interest and Tax (EBIT). These measures are presented to enable understanding of the underlying performance of the Company without non-trading items. Non-IFRS measures have not been subject to audit or review.

The non-IFRS measures used throughout this document are defined as:

- Underlying Earnings Before Interest and Tax (EBIT): statutory profit/(loss) before interest, tax, impairment of non-current assets, restructuring, 'group strategic review' costs and results from discontinued operations.

Restated comparative data

The prior corresponding period (pcp) data has been re-presented to reflect the loss of control of the previous operations in Germany as discontinued operations from the start of the period.

Sustainability

1. Our people

The Company has approximately 445 employees across Australia, New Zealand and Asia (ANZA).

Spicers employs a blend of employees in areas such as sales (external and internal), marketing, warehousing and logistics, and support (HR, IT, Finance). Activities are organised at sites that support team member engagement, development and health and safety as outlined here.

Engaging and supporting our people

With a business background in paper-related industries and a strategy to diversify into non-paper revenue streams, the right blend of skills and experience are needed in our people to support the Company evolving into a more diversified and agile business generating sustainable profitability.

The Company has structured Human Resources (HR) processes and policies established to support and develop our people. These include a set of Company 'Values' and 'Code of Conduct' to foster appropriate behaviours and ethical conduct in our people. Training (a combination of online and face-to-face) is provided to all relevant employees on competition and fair market practices. A 'Speak-up' reporting service is also in place to allow our employees to confidentially raise any concerns they may have about improper conduct.

Online employee surveys are conducted to measure engagement and seek feedback. An 'Ideas to Life' initiative is run to foster innovation and continuous improvement within the business. Going forward 'cross functional' employee teams will be formed to complete various business improvement projects.

Leadership development, talent identification and succession planning activities are a key priority for the Company. Formal processes are established for Board (HR & Remuneration Committee) level and executive management consideration of these activities. Performance appraisals are also held annually for all employees. These are primarily forward looking and focused on talent and skills development.

Diversity in the workplace

Spicers' diversity objective was reviewed during the financial year ended 30 June 2016, given the significant change in operational footprint of the Company following withdrawal from European and Canadian operations in 2015.

The new diversity objective applicable from 1 July 2016 is to increase the proportion of females in management roles to 25 per cent by 30 June 2019. To work towards this objective, focus areas will include identifying, developing and mentoring high potential females as well as reviewing recruitment, personal development and employment practices.

At 30 June 2016, the proportion of female employees in the business were:

- 21.0 per cent in a management role (versus a comparable 21.5 per cent in the prior year); and
- 31.5 per cent of all employees were female (up from 30.8 per cent in the prior year).

Health and Safety management

The Company provides and maintains high standards of health and safety in every operational site. Our online Health and Safety system provides incident and accident management and automated monthly reporting.

The number of lost time injuries in the ANZA operations during the year to 30 June 2016 (FY2016) was consistent with the prior year. More positively the total number of recordable safety incidents reported and days lost fell significantly. 84 per cent of sites experienced no recordable safety incidents or lost injury days during FY2016 (up from 63 per cent in FY2015). A key achievement during the year was the relocation of operations in Queensland to a new site, without incident.

Health and Safety activities within the business operations remain acutely focused on achieving the goal of 'zero harm' and providing a safe workplace for every employee.

2. Environmental sustainability

As a leading wholesale and distribution business, a key sustainability focus of the Company is to continuously improve the supply chains of its ANZA operations. This encompasses resources used in fulfilling orders and conducting day-to-day business, as well as waste management. We continue to promote responsible and sustainable business practices across the organisation, which positively impacts our operational footprint.

Supply chain focus

Products are sourced with consideration of environmental and social criteria. Measures to improve environmental impact, such as use of certified forest fibres, alternative renewable energy sources, reducing chemical, energy and water usage and effluent, and manufacturing products that contain recycled content, are discussed with our key suppliers.

All ANZA operations are committed to maintaining 'chain-of-custody' and other environmental certifications, such as Forest Stewardship Council (FSC) or Program for the Endorsement of Forest Certification (PEFC) for sustainably sourced and manufactured papers. We provide a wide range of products with strong sustainability and environmental credentials, particularly recycled paper products.

The development of sustainable products and services helps our customers and their clients achieve their sustainability goals.

Operational footprint

The Company's operations include warehouses, transportation, and offices. Our ANZA businesses take responsibility for legal compliance and the management of environmental impacts related to their business activities.

Emphasis is also placed on initiatives that reduce operating costs, such as energy efficiency and waste management. The majority of our sites collect and recycle waste paper, cardboard and other materials, such as wood, pallets, plastics, acrylic and PVC. We reuse delivery pallets and we have developed a special reusable delivery frame for sign and display media, thereby eliminating the need for unnecessary packaging and pallets.

Our team is committed to continuing improvements and taking social responsibility for environmental challenges.

3. Community connections

Our community support is directed by country management to relevant local issues and charitable and non-profit organisations. This can include charitable contributions of cash and paper donations, cause-related marketing initiatives and employee giving and involvement activities. Due to the reduced operational footprint of the Group and challenging economic conditions, our community activities continue but the level of investment has been scaled back.

We provide education and development to the printing and design communities via ongoing marketing activities and interaction with customers. We also work with a number of industry groups in Australia, New Zealand and Asia to tackle environmental and sustainability aspects specific to the print and paper industry.

Corporate Governance

The Directors recognise the importance of good corporate governance in ensuring Board and Management accountability. The Company is committed to applying the Corporate Governance Principles and Recommendations (3rd Edition) published by the ASX Corporate Governance Council, in a manner appropriate to its circumstances, to promote ethical conduct and integrity in the Company's activities and decisions.

The Company's Corporate Governance Statement and related policies are available on the Company's website at www.spicerslimited.com.au/corporate-governance/corporate-governance.htm. It is also attached to ASX release 'Appendix 4G and 2016 Corporate Governance Statement', lodged at the same time as this Annual Report.

Directors of Spicers Limited



Robert Kaye SC

**LLB (Syd), LLM (Cambridge) (Hons)
Independent Non-executive Director
(Chairman)**

Appointed a Director in September 2012 and Chairman effective 28 March 2013. He is also Chairman of the Nomination & Governance Committee.

Robert was admitted to legal practice in 1978 and employed as a solicitor at Allen, Allen & Hemsley Solicitors. Thereafter, he pursued his legal career at the NSW Bar and was appointed Senior Counsel in 2003, practising in commercial law. He has been involved extensively in an array of commercial matters, both advisory and litigious in nature, and served on a number of NSW Bar Association committees, including the Professional Conduct Committee. He has also served as a director for various private companies. In the conduct of his practice as a barrister, he has acted for many financial institutions and commercial enterprises, both public and private, and given both legal and strategic advice. He has had significant mediation experience and been involved in the successful resolution of complex commercial disputes.

Currently he is a Non-executive Director of Magontec Limited (effective 16 July 2013) and UGL Limited (effective 10 August 2015). He was appointed a Non-executive Director of Collins Foods Limited (effective 7 October 2014) and appointed non-executive Chairman of the Board of Collins Foods Limited (effective 25 March 2015).

Michael (Mike) Barker

**MA (Oxon), FIAA, FIA
Independent Non-executive Director**

Appointed a Director in September 2012, he held the position of Chairman from 1 October 2012 to 28 March 2013. He is Chairman of the Audit & Risk Committee and the Remuneration & Human Resources Committee.

Mike is an actuary, with a career background in institutional investment management. He has served as a Non-executive Director on a number of Boards in the financial and property sectors.

Mike's last executive role was Director of NatWest Investment Management in London from 1994 to 1996, responsible for Marketing and Sales in Europe and Asia. Prior to that he held senior positions in Sydney, Australia, with County NatWest Investment Management (1986 to 1994) and Aetna Life and Casualty (1968 to 1986). Mike has been extensively involved with the Actuaries Institute in the areas of education and governance and was elected a Life Member in 2007.

He was previously a Non-executive Director of Metlife Insurance Ltd (1 May 2001 to 31 December 2012).

Wayne Johnston

**B.Bus (Acc.), ASCPA
Finance Director &
Chief Financial Officer**

Wayne was appointed Chief Financial Officer for Spicers Limited (formerly PaperlinX Limited) effective 1 May 2015, subsequently joining the Spicers Limited Board as Finance Director effective 24 February 2016.

He joined the Company in 2009 and performed a number of senior finance roles before being appointed Deputy CFO in August 2010 and additionally Executive General Manager Corporate Services in June 2012 (also becoming an additional Company Secretary on 1 July 2012). In addition, he was Acting CEO of the Company between May and July 2016 whilst a search for a new CEO was undertaken.

Prior to joining Spicers, he had a long career at Symbion Health Limited (formerly Mayne Group Limited), where he occupied a number of commercial and corporate finance roles.

Senior Management



David Martin

Chief Executive Officer

David was appointed as Chief Executive Officer of Spicers Limited effective 18 July 2016.

He has joined Spicers after a long and distinguished career with Avery Dennison, a NYSE listed multinational company that specialises in providing materials and solutions in the packaging, label, reflective and graphics segments.

David led various divisions across Australia and New Zealand, Asia, South Africa and the USA during his 22 years at Avery Dennison. His most recent role was as Vice President and General Manager, ASEAN, Australia and New Zealand.

David has an MBA from the University of South Australia and comes with significant experience in business and market development, across many geographies and market segments. Previous to his business leadership roles, David's background includes sales and marketing and operations leadership roles within Avery Dennison and 3M.

Wayne Johnston

Finance Director & Chief Financial Officer

Wayne was appointed Chief Financial Officer for Spicers Limited (formerly PaperlinX Limited) effective 1 May 2015, subsequently joining the Spicers Limited Board as Finance Director effective 24 February 2016.

He joined the Company in 2009 and performed a number of senior finance roles before being appointed Deputy CFO in August 2010 and additionally Executive General Manager Corporate Services in June 2012 (also becoming an additional Company Secretary on 1 July 2012). In addition, he was Acting CEO of the Company between May and July 2016 whilst a search for a new CEO was undertaken.

Prior to joining Spicers, he had a long career at Symbion Health Limited (formerly Mayne Group Limited), where he occupied a number of commercial and corporate finance roles.

Directors' Report

Statutory matters

The Directors of Spicers Limited present their report for the year ended 30 June 2016.

Directors

The names of the Directors of Spicers Limited ('the Company') in office at any time during or since the end of the financial year are:

Current Directors:

Mr Robert Kaye SC (Independent Non-executive Director).

Mr Michael Barker (Independent Non-executive Director).

Mr Wayne Johnston was appointed to the Board as Finance Director on 24 February 2016.

Past Directors:

Mr Andrew (Andy) Preece resigned as Managing Director on 24 February 2016.

Details of the qualifications, experience and special responsibilities of each of the Directors are set out on page 19 of this Annual Report.

Operating and Financial Review

The Operating and Financial Review is set out on pages 6 to 15 and forms part of the Directors' report.

Dividends

The Company did not pay any dividends on its ordinary shares during the financial year.

Environmental regulation

The Company did not have any activities that were directly subject to environmental regulation during the year. The Company supports forestry certification and chain-of-custody programmes for many paper products purchased from suppliers.

Matters subsequent to the reporting date

Subsequent to 30 June 2016, except for matters disclosed in Note 40 of the consolidated financial statements, no matter or circumstance of a material and unusual nature has arisen (other than those occurring as a result of the normal volatility of business) that has significantly affected or may significantly affect:

- (a) the Company's operations in future financial years; or
- (b) the results of those operations in future financial years; or
- (c) the Company's state of affairs in future financial years.

Indemnities and insurance

Under its Constitution, the Company must indemnify each Officer (including Directors) of the Company and may indemnify Officers of subsidiary companies, to the relevant extent (as permitted by law) against any liability incurred by the Officer in or arising out of the conduct of the business of the Company or its subsidiary or arising out of the discharge of their duties as an Officer.

The Company has an agreement with each of the Directors of the Company at the date of this report, and certain present and former Officers of the Company, indemnifying those Officers against liabilities to any person other than the Company or a related body corporate that may arise from their acting as Officers of the Company. The indemnity is provided notwithstanding that the Officers may have ceased to hold office, except where the liability arises out of the conduct involving a lack of good faith or unlawful activity.

The Company has in place Directors' and Officers' liability insurance. The premium paid for this insurance cover is determined by the insurance market and is considered reasonable given the circumstances of the Company.

Details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' insurance are not disclosed because such disclosure is prohibited under the terms of the contracts.

Company Secretaries

Mr Wayne Johnston, B. Bus (Acc), ASCPA, joined the Company in 2009, and was appointed Company Secretary of Spicers Limited on 1 July 2012. He is the Finance Director and Chief Financial Officer.

Mr Frank Glynn, B.Comm, CA, CTA, joined the Company in 2000 and was appointed Company Secretary on 1 December 2015. Mr Glynn has held various senior finance positions within the Company during his 16-year career.

Directors' Report

Statutory matters continued

Directors' meetings

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year are detailed in the table below.

	Board of Directors		Audit Committee		Nomination & Governance Committee		Remuneration & Human Resources Committee	
Current Directors	A	B	A	B	A	B	A	B
Robert Kaye SC	16	16	4	4	3	3	4	3
Michael Barker	16	16	4	4	3	3	4	4
Wayne Johnston ⁽¹⁾	5	5	1	1	1	1	2	2
Former Director								
Andrew (Andy) Preece ⁽²⁾	11	11	3	3	2	2	2	2

A – Number of meetings held during the time the Director held office or was a member of the relevant committee during the year.

B – Number of meetings attended.

(1) Appointed as a Director on 24 February 2016.

(2) Resigned as a Director on 24 February 2016.

Directors' interests

The relevant interest of each Director in the share capital of Spicers Limited, as notified by Directors to the ASX according to Section 205 G(1) of the *Corporations Act 2001*, as at the date of this report, is as follows:

	Fully paid ordinary shares
Robert Kaye SC	1,002,246
Michael Barker	1,000,000
Wayne Johnston	469,130

Non-audit services

In addition to the statutory audit work during the year, the Company's auditors, KPMG, have provided certain non-audit services, being other services totalling \$14,000, and taxation services totalling \$10,911. Details are provided in Note 37 of the Full Financial Report.

The Company has strict criteria relating to the engagement of the auditor for non-audit services. The Board did not consider KPMG's involvement in those non-audit services as impairing its independence due to the auditor independence policies operated and adhered to by KPMG and the Company.

The Directors have reviewed the nature of non-audit services being provided, as well as their cost, and believe the provision of these services does not impair the integrity and objectivity of the auditors and is compatible with the general standard of independence for auditors imposed by the *Corporations Act*. In the current year, the Company has also engaged the services of other accounting firms to perform a variety of non-audit assignments.

Auditor's Lead Partner role

Ms P Stragalinos rotated off the lead partner role in the year as required by KPMG's and the Company's auditor independence policies. Mr B W Szentirmay of KPMG has taken up the lead partner role for the audit of the Company's 2016 Financial Report.

Rounding

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

Remuneration Report

The Remuneration report set out on pages 24 to 35 forms part of the Directors' Report.

Auditor's Independence Declaration

The Auditor's Independence Declaration is set out on page 23 and forms part of the Directors' Report.

This report is made in accordance with a resolution of the Directors.

Dated at Melbourne 26 August 2016



Robert Kaye SC
Chairman



Wayne Johnston
Finance Director

Directors' Report

Auditor's Independence Declaration



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Spicers Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the year ended 30 June 2016 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

A handwritten signature in black ink, appearing to be 'BW Szentirmay'.

BW Szentirmay
Partner

Melbourne
26 August 2016

Directors' Report

Remuneration Report

1. Introduction

The Directors of Spicers Limited ('Spicers' and/or 'the Company') present this Remuneration Report for the year ended 30 June 2016 in accordance with Section 300A of the *Corporations Act 2001*.

This Remuneration Report outlines the policies and processes that underpin the remuneration arrangements for Key Management Personnel (KMP). For the purposes of this report, KMP are those who have the authority and responsibility for planning, directing and controlling the activities of Spicers, and includes all Directors of the Board, both executive and non-executive. The term 'executive KMP' refers to the Chief Executive Officer (CEO), the Finance Director and Chief Financial Officer (CFO) and other previous senior executives who have been classified as KMP in the past.

This audited Remuneration Report has been adopted by the Board on 26 August 2016 and it forms part of the Directors' Report for the year ended 30 June 2016.

The roles of the Nomination & Governance Committee and the Remuneration & Human Resources Committee in relation to Board and executive KMP remuneration are explained in the Company's Corporate Governance Statement, in the Corporate Governance section on the www.spicerslimited.com.au website and lodged as an attachment to ASX appendix 4G at the same date as this Annual Report.

Unless otherwise stated, all amounts included in this Remuneration Report are in Australian dollars (\$).

2. Overview of Spicers' remuneration arrangements

2.1 Remuneration policy and principles

The policy of the Company is to set remuneration practices that attract and retain team members who can deliver business results, as well as to align executive KMP remuneration with shareholder interests. Rewards are linked to the achievement of the key financial targets and strategic goals, which the Board believes correlate to the creation of long-term shareholder value.

The key principles that underpin the remuneration policy include:

- All elements of remuneration will be set at levels that the Board considers appropriate to the relevant market practice for comparable roles.
- A significant portion of executive KMP remuneration will be 'at-risk'.
- Payment of incentive-based rewards will be dependent upon achieving specific definable, controllable and measurable performance targets.
- Reward outcomes are directly related to the performance of the business for which the executive KMP is accountable.

2.2 Executive KMP remuneration mix

Remuneration for the Company's executive KMP during the financial year ended 30 June 2016 (FY2016) consisted of fixed and variable elements:

1. Total Fixed Remuneration (TFR), which includes components such as base salary, motor vehicle, health insurance and mandatory superannuation/pension plan.
2. Variable or 'at-risk' pay included in the Short-Term Incentive (STI) plan, which is awarded up to a maximum percentage of the executive KMP's TFR (100 per cent for the previous CEO, 45 per cent for others) dependent on assessment of achievement of performance targets.

Details of awards granted to executive KMPs in relation to the FY2016 STI plan are detailed in section 4.2 of this report.

No grants were made during FY2016 to executive KMP under Company Long-Term Incentive (LTI) plans. Details of LTI plans currently active can be found in section 4.4.

2.3 Setting and reviewing executive KMP remuneration

For FY2016, the Board aimed to position executive KMP TFR at the median of relevant listed Australian companies comparable to Spicers.

The TFR for the CEO is reviewed annually by the Nomination & Governance Committee and as part of the appointment process when there is any change in CEO (as was the case at the end of FY2016). For other executive KMPs, TFR is reviewed annually by the Remuneration & Human Resources Committee on the basis of recommendations from the CEO and, if required, remuneration information provided by independent consultants.

In FY2016 the base salaries of the former CEO and the CFO were adjusted downwards by an appropriate percentage (20 per cent and 10 per cent respectively as per their employment agreements) upon completion of the Company's withdrawal from Europe.

2.4 Evaluating the performance of executive KMPs

The Company has formal processes for evaluating the performance of executive KMPs. The annual performance review occurs after the end of the financial year and is a joint assessment with the CEO and executive KMP of the:

1. executive KMP's performance against the goals for the previous 12 months, and agreement on the goals to be achieved during the following 12 months;
2. extent to which the executive KMP demonstrates the necessary leadership and behavioural competencies; and
3. personal and career development actions undertaken by the executive KMP during the year and those planned for the following 12 months, which may enhance the executive's opportunity for progression to more senior roles within the Company.

Additionally, the executive KMP's STI plan contains specific financial targets such as earnings and working capital ratios. The CEO's performance is similarly evaluated with the Chairman of the Company.

3. Key Management Personnel during FY2016

The KMP disclosed in this report are listed in the table below.

Table 1: Disclosed KMP

Name	Position	Dates KMP in FY2016
Non-executive Directors		
R G Kaye SC	Chairman and Non-executive Director	1 July 2015 – 30 June 2016
M D Barker	Non-executive Director	1 July 2015 – 30 June 2016
Executive KMP		
W K Johnston	Chief Financial Officer	1 July 2015 – 24 February 2016
	Finance Director and CFO	24 February 2016 – 30 June 2016
Former executive KMP		
A J Preece	Managing Director and CEO	1 July 2015 – 24 February 2016
	Chief Executive Officer	24 February 2016 – 24 May 2016

In addition, on 1 July 2016, the Company announced the appointment of Mr David Martin as CEO, with a commencement date of 18 July 2016. While he was thus not an executive KMP during FY2016, key conditions of his employment arrangements and remuneration package for FY2017 forward are disclosed in parts of this report.

3.1 KMP changes during FY2016

During the year, there were the following KMP changes within the Company:

- On 24 February 2016, Mr Andrew (Andy) Preece stepped down as Managing Director and CEO. He resigned from the Company's Board effective immediately, but continued operationally as Chief Executive Officer until 24 May 2016.
- Mr Wayne Johnston was appointed to the Company's Board as Finance Director (in addition to his existing CFO executive KMP responsibility) on 24 February 2016. Additionally he took on acting CEO responsibility on 24 May 2016, pending the appointment of a new CEO.

3.2 CEO's service agreement and remuneration

Former CEO

As formerly stated, Mr Preece ceased to be CEO on 24 May 2016. Mr Preece had an employment agreement that comprised the following key terms:

- A remuneration package that included a Total Fixed Remuneration (TFR) component of NZ\$776,000 (A\$712,000 equivalent converted at FY2016 average exchange rate). The base salary of this TFR component was adjusted downwards by 20 per cent (TFR was previously NZ\$956,000) from 1 November 2015 forward following completion of the Company's withdrawal from Europe.

- A STI up to a maximum annual award of 100 per cent of TFR. This maximum was only to be paid if outstanding performance was achieved by both the Company and Mr Preece, with the percentage pro-rated as appropriate.
- Either party was able to terminate the employment agreement by giving nine months' written notice. The agreement could be terminated immediately and without notice on the grounds of, but not limited to, dishonesty, fraud, negligence, dereliction of duty, wilful disobedience, misconduct or breach of duty.
- Mr Preece is serving a 'garden leave' period, from 24 May 2016 (the date he ceased to operationally be CEO) to 23 November 2016, based upon a nine-month notice period from his formal resignation as Managing Director and CEO (on 23 February 2016). All expected remuneration relating to this 'garden leave' period has been included in this FY2016 Remuneration Report, given his 'period of service' has been treated as effectively complete by 30 June 2016.

Current CEO

On 1 July 2016, the Company announced the appointment of Mr David Martin as Chief Executive Officer, with a commencement date of 18 July 2016. While he was thus not an executive KMP during FY2016, the key terms of his employment agreement are disclosed as follows:

- TFR of \$674,575, which includes base salary (\$585,000), superannuation contributions (\$55,575) and a motor vehicle allowance (\$34,000).
- A STI up to a maximum annual award of 45 per cent of TFR, being \$303,559. This maximum will only be paid if outstanding performance is achieved by both the Company and Mr Martin, and the percentage will be pro-rated as appropriate.
- A LTI of up to a maximum annual award of 20 per cent of TFR, being \$134,915. This maximum will only be paid if outstanding performance is achieved by both the Company and Mr Martin, and the percentage will be pro-rated as appropriate.
- Mr Martin must provide six months' notice upon resigning. The Company notice period is twelve months. The employment contract may be immediately terminated in the case of the Company determining the employee has engaged in conduct justifying summary dismissal, including but not limited to serious or wilful misconduct, performing acts that bring the Company into disrepute and material breaches of the employment contract.
- A six-month post-employment restraint period applies.

The Company engaged an independent remuneration consultant to provide recommendations on benchmarking of the competitiveness of the package offered to Mr Martin (refer section 8).

Directors' Report

Remuneration Report continued

4. FY2016 Company performance and remuneration outcomes

4.1 Company performance – a key driver of remuneration

As detailed in Table 2, the profitability of the Company (when formerly PaperlinX) was significantly impacted in previous years by structural challenges and poor performance in its previous European operations, culminating in significant losses related to the Company's withdrawal from Europe during FY2015. In FY2016 Spicers (with a reduced footprint of operations in Australia, New Zealand and Asia) generated its first group net profit since 2008.

Table 2: Company performance background

	2016	2015	2014	2013	2012
Profit/(Loss) attributable to owners of the Company (\$m)	5.3	(392.3)	(63.6)	(92.8)	(266.7)
Basic earnings per share (cents)	0.8	(59.0)	(7.0)	(15.2)	(43.8)
Dividends per ordinary share (cents)	–	–	–	–	–
Change in share price (%)	4.0	(35.9)	(25.0)	(8.8)	(64.4)
Return on average shareholders' equity (%)	3.9	(165.0)	(18.4)	(23.5)	(40.5)

Given the lack of profitability over recent years, and the importance of growing profitability in future years, there is a significant weighting on profit for the STI plans as outlined in Table 3 following.

4.2 FY2016 short-term incentives

The STI plan comprised key profitability and working capital financial targets, with the most significant weighting on profit. These financial measures were identified as the key drivers to achieving budgets, improving performance and ultimately enhancing shareholder returns.

Details of the FY2016 STI plan for executive KMP are included in Table 3.

Table 3: Key features of the executive KMP FY2016 STI plan

Purpose of the STI plan	Focus performance on achieving profitability and other key financial measures.
Remuneration base for payment	Total Fixed Remuneration.
Percentage that can be earned	33.3% at minimum (budget) up to 100% for achievement of stretch performance. 0% for below budget/target performance.
Performance and service period	12 months performance period (1 July 2015 until 30 June 2016).
Performance assessed	August 2016.
Performance conditions	75% 'underlying' EBIT; 25% average working capital as a percentage of sales.
Why these were chosen	To drive profitability, returns and accelerate strategic initiatives.
Assessment of performance conditions	Performance conditions are evaluated on a quantitative basis, then reviewed and approved by the Remuneration & HR Committee.
Payment method of STI earned	100% cash.
Why this method was chosen	Immediate cash component is intended to emphasise the importance of short-term performance and profitability. Deferred equity component not considered appropriate given restrictions of the Company's current capital structure.
Cash payment made	September 2016.
Board discretion	The Board may vary these conditions to resolve anomalies or in other exceptional circumstances.

Under the FY2016 STI plan, overall Company 'underlying' EBIT and working capital financial targets were not achieved. The Board has thus determined FY2016 STI annual awards for executive KMP to be zero.

Table 4: FY2016 STI cash and deferred equity awards

	STI % maximum potential	% of STI earned in year	% of STI forfeited in year	STI cash payable (\$)	Deferred equity (\$)	Deferred equity (no. of rights)
Executive KMP						
W K Johnston	45% of TFR	0%	100%	–	–	–
Former executive KMP						
A J Preece	100% of TFR	0%	100%	–	–	–

4.3 FY2013 and FY2014 STI deferred equity plans

In FY2013 and FY2014, short-term incentive plans with deferred equity components were issued. As illustrated in Table 5, entitlements under these plans either vested during FY2016 or were still active at 30 June 2016.

Table 5: Previous STI deferred equity plans vested during FY2016 or still active at 30 June 2016

Name	STI deferred equity rights – number	
	FY2013 rights – vested during FY2016 ⁽¹⁾	FY2014 rights – balance at 30 June 2016 ⁽²⁾
Executive KMP		
W K Johnston	175,573	198,557
Former executive KMP		
A J Preece ⁽³⁾	257,363	1,815,814
J W P Smallenbroek ⁽⁴⁾	1,014,034	–

(1) The qualifying period for FY2013 equity rights ended on 20 August 2015. Under the terms of the FY2013 STI equity rights plan, these rights vested and were issued to the relevant executive KMP as ordinary shares in the Company on this date.

(2) The qualifying period for FY2014 equity rights ended on 19 August 2016. Under the terms of the FY2014 STI equity rights plan, these rights vested and were issued to the relevant executive KMP as ordinary shares in the Company on this date.

(3) Resigned as Managing Director & CEO and ceased to be executive KMP from 24 May 2016. FY2014 deferred equity rights vested (under normal plan rules and timelines) and were issued to Mr Preece as ordinary shares in the Company on 19 August 2016 as part of separation arrangements.

(4) Ceased to be CFO and executive KMP from 1 May 2015. FY2013 deferred equity rights vested (under normal plan rules and timelines) and were issued to Mr Smallenbroek as ordinary shares in the Company on 20 August 2015 as part of termination arrangements.

Refer to Table 9 for movements in executive KMP equity rights during FY2016 and Table 14 for executive KMP remuneration value details ('prior rights') of these FY2014 equity rights in FY2016.

Directors' Report

Remuneration Report continued

4.4 Long-term incentive plans

4.4.1 Executive KMP and prior long-term incentive options plans

Executive KMP during the FY2016 period (Mr Johnston and Mr Preece) did not receive, and did not have any previously issued, awards under prior LTI options plans.

No new awards under LTI options plans were issued to any other persons during FY2016. Total LTI options currently on issue remain unchanged from those disclosed in the FY2015 Remuneration Report. Twelve million options are currently on issue to (FY2015) former executive KMP, Mr J W P Smallenbroek, and thirty-five million options previously issued to (FY2015) former executive KMP, Mr A J Price were cancelled on 19 August 2015 following Board approval.

Table 6 below provides further details of the options still on issue.

Table 6: Executive Director and Executive options plans – options on issue

Former executive KMP	Number of options	Exercise price \$	Date of grant	When exercisable	Expiry date
J W P Smallenbroek ⁽¹⁾	1,000,000	\$0.10	10 April 2014	10 April 2016	10 April 2017
	1,000,000	\$0.15	10 April 2014	10 April 2016	10 April 2017
	1,000,000	\$0.20	10 April 2014	10 April 2017	10 May 2017
	1,000,000	\$0.30	10 April 2014	10 April 2017	10 May 2017
	1,000,000	\$0.40	10 April 2014	10 April 2017	10 May 2017
	1,000,000	\$0.50	10 April 2014	10 April 2019	10 May 2019
	6,000,000	\$0.07	28 October 2014	28 October 2016	28 October 2017

(1) Ceased to be CFO and executive KMP from 1 May 2015.

4.4.2 New executive KMP long-term incentive plan

The Board plans to develop a new LTI plan for executive KMP. However, as at the date of this report, this LTI plan has not yet been formulated and finalised.

It is the Board's intention for this new LTI plan to operate with long-term 'performance hurdle' periods (for example three years). Performance hurdles will be based on measures related to significantly growing Company earnings over relevant periods.

The Board believes that this intended approach will create strong alignment between the new LTI plan and ultimately enhancing long-term shareholder returns.

4.4.3 Prohibition on hedging of incentive remuneration

The Company's policy is that where any (current or former) executive KMP or their closely related parties hedge or attempt to hedge the executive KMP's incentive remuneration, including performance rights or options, or the executive KMP's initial grant of options (whether rights and options are vested or unvested), the executive KMP will forfeit those rights or options.

This policy is included in the plan rules and in communication materials when making a new grant to executive KMPs.

Shares are not transferred into the executive KMP's name until vested rights or options are exercised and therefore, until that time, the executive has no ownership of Spicers securities.

Additionally, any attempt by an executive KMP or their closely related parties to dispose of the rights or options has no legal basis and the transaction would not be recognised by the Company. In such a case, the executive KMP would forfeit their rights or options, and those entitlements would automatically lapse.

5. KMP equity instruments

5.1 Options

The reconciliation of the movement in equity compensation in the form of options for KMP during FY2016 is as follows:

Table 8: KMP options held

	Maximum potential entitlement – number of options					Vested and exercisable at 30 June
	Opening balance	Granted as compensation	Exercised	Cancelled/ Lapsed	Closing balance	
2016						
Former executive KMP						
A J Price ⁽¹⁾	35,000,000	–	–	(35,000,000)	–	–
J W P Smallenbroek ⁽²⁾	12,000,000	–	–	–	12,000,000	2,000,000
	47,000,000	–	–	(35,000,000)	12,000,000	2,000,000
2015						
Former executive KMP						
A J Price ⁽¹⁾	35,000,000	–	–	–	35,000,000	–
J W P Smallenbroek ⁽²⁾	6,000,000	6,000,000	–	–	12,000,000	–
	41,000,000	6,000,000	–	–	47,000,000	–

(1) Terminated as Managing Director & CEO and ceased to be executive KMP from 18 February 2015. On 19 August 2015, following Board approval, the Company cancelled the 35 million options formerly issued to Mr Price.

(2) Ceased to be CFO and executive KMP from 1 May 2015.

Directors' Report

Remuneration Report continued

5.2 Rights

The reconciliation of the movement in equity compensation in the form of rights for KMP during FY2016 is as follows:

Table 9: KMP rights held

	Maximum potential entitlement – number of rights					Closing balance
	Opening balance	Other movements	Granted as compensation	Vested and exercised ⁽¹⁾	Lapsed	
2016						
Executive KMP						
W K Johnston ⁽²⁾	374,130	–	–	(175,573)	–	198,557
Former executive KMP						
A J Preece ^{(3) (4)}	2,073,177	–	–	(257,363)	–	1,815,814
J W P Smallenbroek ⁽⁵⁾	1,014,034	–	–	(1,014,034)	–	–
	3,461,341	–	–	(1,446,970)	–	2,014,371
2015						
Executive KMP						
A J Preece	2,073,177	–	–	–	–	2,073,177
W K Johnston ⁽⁶⁾	–	374,130	–	–	–	374,130
Former executive KMP						
J W P Smallenbroek ⁽⁵⁾	1,014,034	–	–	–	–	1,014,034
C J Turner ⁽⁷⁾	7,210,603	(7,210,603)	–	–	–	–
	10,297,814	(6,836,473)	–	–	–	3,461,341

(1) The qualifying period for FY2013 STIP award deferred equity rights ended on 20 August 2015. Under the terms of the FY2013 STI equity rights plan, these rights vested and were issued to relevant (current and former) executive KMP as ordinary shares in the Company on this date.

(2) The qualifying period for Mr Johnston's FY2014 equity rights (198,557) ended on 19 August 2016. Under the terms of the FY2014 STI equity rights plan, these rights vested and were issued to Mr Johnston as ordinary shares in the Company on this date.

(3) Resigned as Managing Director & CEO and ceased to be executive KMP from 24 May 2016.

(4) The qualifying period for Mr Preece's FY2014 equity rights (1,815,814) ended on 19 August 2016. Under the terms of the FY2014 STI equity rights plan, these rights vested and were issued to Mr Preece as ordinary shares in the Company on this date.

(5) Ceased to be CFO and executive KMP from 1 May 2015.

(6) Appointed as CFO and became KMP on 1 May 2015, equity rights held on becoming KMP included in 'other movements'.

(7) Ceased to be executive KMP from completion of the sale of Spicers Canada on 2 March 2015. Mr Turner's deferred equity plan rights were converted into a final cash payment immediately prior to completion of the sale of Spicers Canada.

5.3 Shareholdings

The reconciliation of the relevant interest in the share capital of the Company held by KMP during FY2016, excluding the potential entitlement amounts (refer sections 5.1–5.2), is set out in Table 10.

Table 10: KMP shareholdings

	Opening balance	Purchased	Earned as remuneration	Became/ (ceased to be) KMP	Exercise of options	Sold	Closing balance	Shares held nominally at reporting date
2016								
Non-executive Directors								
R G Kaye	1,002,246	–	–	–	–	–	1,002,246	–
M D Barker	1,000,000	–	–	–	–	–	1,000,000	–
Executive KMP								
W K Johnston	95,000	–	175,573	–	–	–	270,573	–
Former executive KMP								
A J Preece ⁽¹⁾	500,200	–	257,363	(757,563)	–	–	–	–
Total	2,597,446	–	432,936	(757,563)	–	–	2,272,819	–
2015								
Non-executive Directors								
R G Kaye	1,002,246	–	–	–	–	–	1,002,246	–
M D Barker	1,000,000	–	–	–	–	–	1,000,000	–
Executive KMP								
A J Preece	500,200	–	–	–	–	–	500,200	–
W K Johnston ⁽²⁾	–	–	–	95,000	–	–	95,000	–
Former executive KMP								
A J Price ⁽³⁾	9,015,344	1,000,000	–	(10,015,344)	–	–	–	–
J W P Smallembroek ⁽⁴⁾	44,620	–	–	(44,620)	–	–	–	–
C J Turner ⁽⁵⁾	155,908	–	–	(155,908)	–	–	–	–
Total	11,718,318	1,000,000	–	(10,120,872)	–	–	2,597,446	–

(1) Resigned as Managing Director & CEO and ceased to be executive KMP from 24 May 2016.

(2) Appointed as CFO and became executive KMP on 1 May 2015.

(3) Terminated as Managing Director & CEO and ceased to be executive KMP from 18 February 2015.

(4) Ceased to be CFO and executive KMP from 1 May 2015.

(5) Ceased to be executive KMP from completion of the sale of Spicers Canada on 2 March 2015.

Directors' Report

Remuneration Report continued

6. CEO and executive KMP service agreement provisions

The Company has entered into service agreements with its CEO, CFO and former executive KMPs. Details of the periods of notice required to terminate the contract and the termination payments provided under each contract are outlined in Table 11. Actual payments may also depend on local legal requirements. Payment in lieu of notice is calculated using the executive KMP's TFR. In addition to the specified termination payments, on termination the CEO and executive KMPs are entitled to receive their statutory entitlements of accrued leave, together with any superannuation or pension plan benefits.

Table 11: Service agreement provisions

	Company notice/payment period	KMP notice
Executive KMP		
D Martin ⁽¹⁾	12 months	6 months
W K Johnston ⁽²⁾	12 months	6 months
Former executive KMP		
A J Preece ⁽³⁾	9 months	9 months

(1) Appointed as CEO on 1 July 2016, with a commencement date of 18 July 2016.

(2) Appointed to the Board as Finance Director (in addition to existing CFO responsibility) on 24 February 2016.

(3) Resigned as Managing Director & CEO and ceased to be executive KMP from 24 May 2016.

Further details of the service agreements and remuneration of Mr Martin (as current CEO) and Mr Preece (as former CEO) are provided in section 3.2 above.

Mr Preece is serving a 'garden leave' period, from 24 May 2016 (the date he ceased to operationally be CEO) to 23 November 2016, based upon a nine-month notice period from his formal resignation as Managing Director and CEO (on 23 February 2016). All remuneration relating to this 'garden leave' period has been included in the FY2016 Remuneration Report. This includes TFR, fringe benefits, superannuation contributions and accrued holiday leave to be paid out on leaving. None of this remuneration is considered to be a termination benefit under the *Corporations Act 2001*.

7. Non-executive Director remuneration

7.1 Policy on Non-executive Director remuneration

The remuneration of individual Non-executive Directors is approved by the Board as a whole on the recommendation of the Nomination & Governance Committee, and having regard to the principles that the remuneration should:

- be competitive with other listed Australian companies to attract and retain suitably qualified and experienced Non-executive Directors;
- appropriately reflect the current level of complexity of the Company arising from its business segment and geographic mix; and
- provide additional remuneration for the responsibilities of specific Non-executive Directors in chairing the Board and its committees.

Non-executive Directors do not receive any performance-based remuneration.

7.2 Directors' fees

The current aggregate fees are within the maximum sum of \$1.26 million per annum formerly approved by shareholders at the 2007 Annual General Meeting.

The schedule of annual fee rates, excluding the Superannuation Guarantee contribution, for the Board and Chairs of Board Committees is set out in Table 12. The Non-executive Directors agreed to a reduction in annual fee rates from 1 September 2015 onwards, as set out in table 12, in recognition of the reduced scale and complexity of the Company following its withdrawal from Europe and the sale of its Canadian operations.

Table 12: Fees for Board and Chairs of Board Committees

	From 1 September 2015 \$	To 31 August 2015 \$
Board position – Annual fee		
Chairman	180,000	300,000
Non-executive Director (base fee)	80,000	100,000
Chair of Board Committee – Additional annual fee		
Audit & Risk Committee	10,000	15,000
Remuneration & HR Committee	10,000	15,000

8. Engagement of remuneration consultants

The Board engaged Godfrey Remuneration Group ('GRG') during FY2016 as an adviser to provide recommendations on benchmarking of the competitiveness of the package to be offered to the new CEO (Mr D Martin). Fees incurred for this advice were \$8,000.

The Board is satisfied that this advice was provided free from any undue influence from the executive KMP. Protocols were established for the advice to be provided direct to the Non-executive Directors, and the Non-executive Directors conducted their own enquiries to confirm the independence of GRG and no undue influence being applied by the executive KMP.

9. KMP remuneration – FY2016

Details of the remuneration of each Non-executive Director and executive KMP are set out in tables 13 and 14.

Table 13: Non-executive Directors' remuneration

		Salary and fees \$	Non-cash benefits \$	Post-employment benefits Superannuation contribution \$	Total \$
Non-executive Directors					
R G Kaye ⁽¹⁾	2016	200,000	–	19,000	219,000
	2015	300,000	–	28,500	328,500
M D Barker	2016	105,000	–	9,975	114,975
	2015	130,000	–	12,350	142,350
Total					
	2016	305,000	–	28,975	333,975
	2015	430,000	–	40,850	470,850

(1) A proportion of the office and secretarial expenses of Mr Kaye is reimbursed to him by the Company, representing actual use of these resources in his role as Chairman of the Company. In FY2016, these expenses reimbursed to Mr Kaye amounted to \$28,829 (FY 2015: \$31,298) for office costs and \$12,000 for secretarial costs (FY2015: \$9,250).

Directors' Report

Remuneration Report continued

Table 14: Executive KMP remuneration

		Short-term benefits					Post-employment benefits
		Salary and fees \$	Cash short-term incentives \$	Non-cash benefits \$	Discretionary share purchase \$	Other income \$	Super-annuation contribution \$
Executive KMP							
W K Johnston, Finance Director & CFO ^{(2) (3)}	2016	477,182	–	56,228	–	–	51,333
	2015	85,086	38,070	8,041	–	–	9,166
Former executive KMP							
A J Preece, Managing Director & CEO ^{(4) (5)}	2016 ⁽⁶⁾	987,070	–	54,903	–	225,332	39,482
	2015	627,490	119,059	27,480	–	–	21,027
A J Price, Managing Director & CEO ⁽⁷⁾	2016	–	–	–	–	–	–
	2015	537,078	–	132,960	–	–	46,047
J W P Smallenbroek, CFO ⁽⁸⁾	2016	–	–	–	–	–	–
	2015	389,969	–	4,498	–	16,743	57,128
C J Turner, President Spicers Canada Limited ⁽⁹⁾	2016	–	–	–	–	–	–
	2015 ⁽¹⁰⁾	312,289	327,855	21,688	–	53,266	16,506
Total							
2016		1,464,252	–	111,131	–	225,332	90,815
2015		1,951,912	484,984	194,667	–	70,009	149,874

(1) The value of equity plans included as remuneration in the table represents the aggregate of amounts determined for both market based and non-market based performance hurdles:

- Market based – represents the number of share rights and options granted to executive KMPs under the Company's equity incentive plans at the grant date valuation;
- Non-market based – represents the proportion of the value of the maximum potential number of share rights and options to which the executive KMPs may become entitled under the Company's equity incentive plans, which is calculated based on an estimate of the probability of the performance criteria being achieved.

The value of options plans and rights plans is calculated using appropriate valuation models and allocated evenly over the vesting period of each plan.

All amounts are calculated in accordance with AASB2 Share Based Payments.

(2) Appointed as CFO on 1 May 2015. Prior to this date his former role was not determined as KMP, thus remuneration included only from 1 May 2015 onwards. The FY2015 cash short-term incentive covering the whole FY2015 period is included as this was determined and awarded post Mr Johnston becoming KMP on 1 May 2015.

(3) Appointed to the Board as Finance Director (in addition to existing CFO executive KMP responsibility) on 24 February 2016.

(4) Appointed to the Board as Managing Director & CEO on 24 February 2015, prior to this date was also executive KMP in his former role as Executive General Manager Australia, New Zealand and Asia.

(5) Resigned as Managing Director and from the Company's Board on 24 February 2016, and ceased to be executive KMP as CEO from 24 May 2016.

(6) In addition to FY 2016 remuneration expenses, the disclosed amounts includes for the period from 1 July 2016 until end of 'garden leave' and employment – salary & fees = \$263,302, non-cash benefits = \$22,556, other income (holiday leave payout) = \$225,332, superannuation contributions = \$14,247.

(7) Terminated as Managing Director & CEO effective 18 February 2015.

(8) Ceased to be CFO and executive KMP from 1 May 2015.

(9) Ceased to be executive KMP from completion of the sale of Spicers Canada on 2 March 2015.

(10) Prior deferred equity plan rights were converted into a final cash short-term incentive payment immediately prior to completion of the sale of Spicers Canada, negative 'prior rights' balance relates to reversal of equity rights remuneration expense to the date of this conversion.

The former executive KMPs included in this table were based in countries other than Australia and were thus not paid in Australian dollars. As this table is shown in A\$, yearly variations due to currency fluctuations will occur.

	Termination benefits	Equity plans ⁽¹⁾				Total		
	Termination payment including annual and long service leave \$	Current FY Short-term incentive rights \$	Current FY Executive options \$	Prior rights \$	Prior options \$	Total \$	Proportion of remuneration performance related \$	Percentage of remuneration consisting of rights and options %
	–	–	–	2,606	–	587,349	2,606	0.4
	–	–	–	939	–	141,302	39,009	0.7
	–	–	–	23,831	–	1,330,618	23,831	1.8
	–	–	–	28,171	–	823,227	147,230	3.4
	–	–	–	–	–	–	–	–
	–	–	–	–	–	716,085	–	–
	–	–	–	–	–	–	–	–
	476,786	–	174,000	17,441	–	1,136,565	191,441	16.8
	–	–	–	–	–	–	–	–
	–	–	–	(155,694)	–	575,910	172,161	–
	–	–	–	26,437	–	1,917,967		
	476,786	–	174,000	(109,143)	–	3,393,089		

FULL FINANCIAL REPORT OF SPICERS LIMITED

As at 30 June 2016

FULL FINANCIAL REPORT OF SPICERS LIMITED

AS AT 30 JUNE 2016

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CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 \$000	2015 Restated (1) \$000
Continuing operations			
Revenue from sale of goods		392,682	403,961
Cost of inventory sold		(311,277)	(318,264)
Gross profit		81,405	85,697
Other income	8	1,933	3,639
Personnel costs		(40,597)	(43,413)
Logistics and distribution		(22,943)	(26,348)
Sales and marketing		(1,616)	(1,389)
Impairment charge - non-current assets	20	-	(6,995)
Other expenses		(12,666)	(20,782)
Result from operating activities		5,516	(9,591)
Net finance costs	9	(2,341)	(2,755)
Profit/(loss) before tax		3,175	(12,346)
Tax expense	10	(1,678)	(1,743)
Profit/(loss) from continuing operations		1,497	(14,089)
Discontinued operations			
Profit/(loss) from discontinued operations, net of tax	11	3,799	(378,237)
Profit/(loss) for the period		5,296	(392,326)
Profit/(loss) for the period attributable to:			
Equity holders of Spicers Limited		5,296	(392,326)
Basic earnings per share (cents)	7	0.8	(59.0)
Basic earnings per share from continuing operations (cents)	7	0.2	(2.1)
Diluted earnings per share (cents)	7	0.8	(59.0)
Diluted earnings per share from continuing operations (cents)	7	0.2	(2.1)

(1) Refer Note 11.

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 2016

	Note	2016 \$000	2015 \$000
Profit/(loss) for the period		5,296	(392,326)
Other comprehensive income:			
<i>Items that will not be reclassified to profit or loss</i>			
Actuarial adjustments on defined benefit pension plans	31	-	(32,742)
Derecognition of actuarial adjustments on defined benefit plans on disposal of controlled entities (1)	31	4,198	158,836
Derecognition of deferred tax assets	10	-	(18,908)
Income tax benefit relating to items that will not be reclassified to profit or loss	10	-	898
Income tax expense relating to derecognition of actuarial adjustments on defined benefit plans on disposal of controlled entities (1)	10	-	(4,303)
Total items that will not be reclassified to profit or loss		4,198	103,781
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of overseas subsidiaries		2,820	8,648
Total items that may be reclassified subsequently to profit or loss		2,820	8,648
<i>Items reclassified to profit or loss</i>			
Exchange differences on disposal of controlled entities (1)		(1,304)	95,524
Total items reclassified to profit or loss		(1,304)	95,524
Other comprehensive income for the period, net of tax		5,714	207,953
Total comprehensive income/(loss) for the period, net of tax		11,010	(184,373)
Total comprehensive income/(loss) for the period attributable to:			
Equity holders of Spicers Limited		11,010	(184,373)

(1) Disposal includes sale and loss of control - refer Note 11.

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 2016

	Note	2016 \$000	2015 \$000
Current assets			
Cash and cash equivalents (1)	13	31,626	55,518
Short-term deposits (1)		3,955	3,955
Trade and other receivables	14	76,112	100,937
Inventories	15	74,905	83,049
Assets held for sale	16	-	1,702
Total current assets		186,598	245,161
Non-current assets			
Receivables	17	920	3,578
Property, plant and equipment	18	9,523	9,797
Intangible assets	19	28,373	26,345
Deferred tax assets	21	543	238
Total non-current assets		39,359	39,958
Total assets		225,957	285,119
Current liabilities			
Trade and other payables	22	64,659	110,724
Loans and borrowings	23	4,893	16,441
Income tax payable		2,867	4,037
Employee benefits	24	7,779	8,354
Provisions	25	5,310	5,345
Total current liabilities		85,508	144,901
Non-current liabilities			
Deferred tax liabilities	21	108	42
Employee benefits	24	596	11,514
Total non-current liabilities		704	11,556
Total liabilities		86,212	156,457
Net assets		139,745	128,662
Equity			
Issued capital	26	1,895,767	1,895,767
Reserves	27	(8,747)	(10,327)
Accumulated losses		(2,002,098)	(2,011,601)
Total equity attributable to holders of ordinary shares of Spicers Limited		(115,078)	(126,161)
Issued PaperlinX step-up preference securities		276,518	276,518
Reserve for own PaperlinX step-up preference securities		(21,695)	(21,695)
PaperlinX step-up preference securities	28	254,823	254,823
Total equity		139,745	128,662

(1) The Consolidated Entity has reclassified balances relating to short-term deposits from "cash and cash equivalents" to "short-term deposits" in order to more accurately reflect the nature of these balances.

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 2016

	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 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
• Effect of 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
Balance at 1 July 2014	1,895,738	(116,109)	(284)	2,197	(1,723,056)	254,823	313,309
Total comprehensive loss for the period							
Loss for the period	-	-	-	-	(392,326)	-	(392,326)
Other comprehensive income							
• Actuarial adjustments on defined benefit plans	-	-	-	-	(32,742)	-	(32,742)
• Derecognition of actuarial adjustments on defined benefit plans on disposal of controlled entities (1)	-	-	-	-	158,836	-	158,836
• Exchange differences on translation of overseas subsidiaries	-	8,648	-	-	-	-	8,648
• Reclassification of exchange differences on disposal of controlled entities to Income Statement (1)	-	95,524	-	-	-	-	95,524
• Derecognition of deferred tax assets	-	-	-	-	(18,908)	-	(18,908)
• Income tax benefit on other comprehensive income	-	-	-	-	898	-	898
• Income tax expense relating to derecognition of actuarial adjustments on disposal of controlled entities (1)	-	-	-	-	(4,303)	-	(4,303)
Total other comprehensive income	-	104,172	-	-	103,781	-	207,953
Total comprehensive (loss)/income for the period	-	104,172	-	-	(288,545)	-	(184,373)
Transactions with owners recorded directly in equity							
• Employee share-based payment transactions	-	-	-	3,533	-	-	3,533
• Write off of employee share reserve on disposal of controlled entities (1)	-	-	-	(3,936)	-	-	(3,936)
• Issue of shares to employees	29	-	100	-	-	-	129
Total transactions with owners	29	-	100	(403)	-	-	(274)
Balance at 30 June 2015	1,895,767	(11,937)	(184)	1,794	(2,011,601)	254,823	128,662

(1) Disposal includes sale and loss of control - refer Note 11.

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 2016

	Note	2016 \$000	2015 \$000
Cash flows from operating activities			
Receipts from customers		430,268	2,026,473
Payments to suppliers and employees		(440,523)	(2,072,298)
Dividends received		56	-
Interest received		555	1,783
Interest paid		(1,602)	(11,689)
Income taxes paid		(2,764)	(2,340)
Net cash used in operating activities	32	(14,010)	(58,071)
Cash flows from investing activities			
Acquisition of:			
• Controlled entities and businesses (net of cash and bank overdraft acquired)		-	(5,008)
• Property, plant and equipment and intangibles		(1,922)	(3,900)
Net proceeds from the disposal of:			
• Controlled entities and businesses (proceeds less transaction costs) - net of cash and bank overdraft disposed		865	51,277
• Property, plant and equipment		2,350	4,103
• Investments		768	581
Net cash from investing activities		2,061	47,053
Cash flows from financing activities			
Proceeds from borrowings		3,067	34,575
Repayment of borrowings		(6,805)	(46,037)
Other borrowing costs paid		(236)	(1,927)
Net cash used in financing activities		(3,974)	(13,389)
Net decrease in cash and cash equivalents		(15,923)	(24,407)
Cash and cash equivalents at the beginning of the period (1)	32	55,518	103,062
Cash and cash equivalents disposed on derecognition of controlled entities		(10,728)	(30,070)
Effect of exchange rate changes on cash held		2,759	6,933
Cash and cash equivalents at the end of the period (1)	32	31,626	55,518

(1) The Consolidated Entity has reclassified balances relating to short-term deposits from "cash and cash equivalents" to "short-term deposits" in order to more accurately reflect the nature of these balances.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT 30 JUNE 2016

Note 1. Reporting entity

Spicers Limited (the "Company"), formerly known as PaperlinX Limited, 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 2016 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 merchandising 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 26 August 2016.

(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 the current and comparative 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 will pursue other measures to generate cash such as accessing undrawn debt facilities, working capital reductions or selling assets.

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 pension plan liabilities, other employee entitlements, trade 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. The Directors noted as part of their deliberations that no new material matters have arisen or have otherwise been communicated to the Company in the twelve month period since the reporting of the prior year financial statements.

After making enquiries, 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.

AS AT 30 JUNE 2016

Note 2. Basis of preparation – (continued)

(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.

There are no new and revised Standards and Interpretations effective for the current reporting period that are relevant to the Consolidated Entity. Therefore, there is no financial impact on the current reporting period or the prior comparative reporting period from new and revised Standards and Interpretations.

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 current and prior reporting periods, the Company lost control of a number of subsidiaries when those subsidiaries entered into administration (refer Notes 11 and 39). In accordance with the requirements of AASB 10, the Company has:

- Derecognised the assets and liabilities of the subsidiaries at their carrying amounts at the date when control was lost. Where the Company has been unable to obtain asset and liability values immediately prior to the loss of control, the most recent management approved monthly accounts have been 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 are 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 11).

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.

• PaperlinX Step-up Preference Securities

The PaperlinX Step-up Preference Securities are recorded in equity, based on the terms and conditions attached thereto, and are measured as the proceeds received on issue net of the issue costs. The distributions paid/payable thereon are recorded as a distribution from retained earnings. PaperlinX Step-up Preference Securities acquired by the Consolidated Entity as part of an off-market takeover offer are 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.

AS AT 30 JUNE 2016

Note 3. Accounting policies – (continued)

(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.

• 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.

Note 3. Accounting policies – (continued)

(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% (2015: 1% - 3%)
Buildings:	between 1% - 4% (2015: 1% - 4%)
Plant and equipment:	between 4% - 25% (2015: 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.

• 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 Note 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.

Note 3. Accounting policies – (continued)

• **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 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.

(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.

AS AT 30 JUNE 2016

Note 3. Accounting policies – (continued)

(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.

• 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.

Note 3. Accounting policies – (continued)

(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% (2015: 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.

(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.

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Note 3. Accounting policies – (continued)

(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, after deduction of any distribution on the PaperlinX step-up preference securities, 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.

• 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. These assumptions are discussed in Note 31.

• 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.

Note 3. Accounting policies – (continued)

(v) 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.

(w) 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.

(x) New standards and interpretations not yet adopted

The following 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:

- 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.
- 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. It replaces AASB 111, AASB 118, Interpretation 13, Interpretation 15, Interpretation 18 and Interpretation 131. AASB 15 will become applicable to annual reporting periods beginning on or after 1 January 2018.
- 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*. The Standard will provide a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. AASB 16 will become applicable to annual reporting periods beginning on or after 1 January 2019.
- AASB 2014-4 *Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation* includes amendments to provide additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. AASB 2014-4 will become applicable to annual reporting periods beginning on or after 1 January 2016.
- AASB 2015-1 *Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle* includes amendments to a number of pronouncements as a result of the IASB's 2012-2014 annual improvements cycle. AASB 2015-1 will become applicable to annual reporting periods beginning on or after 1 January 2016.
- AASB 2015-2 *Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101* amends AASB 101 *Presentation of Financial Statements* to provide clarification regarding the disclosure requirements in AASB 101. AASB 2015-2 will become applicable to annual reporting periods beginning on or after 1 January 2016.
- 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.
- 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 Consolidated Entity has not yet determined the potential effect, if any, of the new and amending standards and interpretations on the Consolidated Entity's Financial Report.

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.

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Note 4. Determination of fair values – (continued)

(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.

(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 11), 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. Operating segments

As a result of the sale of the Canadian business and the exit from Europe, the Consolidated Entity has changed the basis for segment reporting to align it with the remaining continuing merchanting businesses. The previous single segment of Merchanting Australia, New Zealand, Asia (ANZA) has been split into the three businesses. In addition, the regional head office costs of ANZA are segmented to Unallocated given they represent costs that are better aligned to the group corporate/head office function. Comparative reporting period numbers have been restated to reflect the new segment classification.

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 11 for further details.
Unallocated	Comprises corporate operations; head office costs related to the ANZA region; continuing eliminations and amounts which have not been allocated to the Merchanting or Discontinued operations segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

Note 5. 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 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	5,355	7,198	1,561	(8,195)	5,919	(3,780)	-	2,139
Net other finance costs	-	-	-	(1,404)	(1,404)	(676)	-	(2,080)
Underlying profit/(loss) before interest and tax	5,355	7,198	1,561	(9,599)	4,515	(4,456)	-	59
Significant items (pre-tax) 6	(431)	(109)	(104)	241	(403)	8,129	-	7,726
Profit/(loss) before interest and tax	4,924	7,089	1,457	(9,358)	4,112	3,673	-	7,785
Net interest	-	-	-	(937)	(937)	(129)	-	(1,066)
Profit/(loss) before tax	-	-	-	(10,295)	3,175	3,544	-	6,719
Tax (expense)/benefit - pre-significant items	-	-	-	(1,710)	(1,710)	255	-	(1,455)
Tax benefit - significant items 6	-	-	-	32	32	-	-	32
Profit/(loss) for the period	-	-	-	(11,973)	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
For the year ended 30 June 2015								
- Restated (1)								
External sales revenue	219,367	92,151	90,372	-	401,890	1,617,688	-	2,019,578
Inter-segment sales revenue	95	-	2,071	(95)	2,071	-	(2,071)	-
Total revenue	219,462	92,151	92,443	(95)	403,961	1,617,688	(2,071)	2,019,578
Profit/(loss) before net finance costs, tax and significant items	8,960	6,189	677	(11,096)	4,730	(31,472)	-	(26,742)
Net other finance costs	-	-	-	(1,551)	(1,551)	(2,983)	-	(4,534)
Underlying profit/(loss) before interest and tax	8,960	6,189	677	(12,647)	3,179	(34,455)	-	(31,276)
Significant items (pre-tax) 6	(2,286)	(39)	(6,946)	(5,050)	(14,321)	(332,340)	-	(346,661)
Profit/(loss) before interest and tax	6,674	6,150	(6,269)	(17,697)	(11,142)	(366,795)	-	(377,937)
Net interest	-	-	-	(1,204)	(1,204)	(9,285)	-	(10,489)
Loss before tax	-	-	-	(18,901)	(12,346)	(376,080)	-	(388,426)
Tax expense - pre-significant items	-	-	-	(1,754)	(1,754)	(2,186)	-	(3,940)
Tax benefit - significant items 6	-	-	-	11	11	29	-	40
Loss for the period	-	-	-	(20,644)	(14,089)	(378,237)	-	(392,326)
The loss before tax includes:								
Depreciation and amortisation 18,19	(881)	(489)	(204)	(76)	(1,650)	(6,042)	-	(7,692)
Impairment charges 20	(468)	-	(6,527)	-	(6,995)	(56,871)	-	(63,866)
Depreciation, amortisation and impairment	(1,349)	(489)	(6,731)	(76)	(8,645)	(62,913)	-	(71,558)
Capital expenditure	1,494	3,175	14	471	5,154	1,694	-	6,848
As at 30 June 2015								
- Restated (1)								
Total assets	91,362	67,626	50,923	16,062	225,973	59,146	-	285,119
Total liabilities	33,576	19,576	11,771	17,635	82,558	74,149	(250)	156,457
Net assets/(liabilities)	57,786	48,050	39,152	(1,573)	143,415	(15,003)	250	128,662

(1) Refer Note 11.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

Note 6. Individually significant items

For the year ended 30 June	Note	Continuing			Discontinued			Total		
		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
2016										
Gain on disposal of controlled entities	11	-	-	-	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
2015 - Restated (2)										
Gain/(loss) on disposal of controlled entities	11	198	-	198	(271,136)	-	(271,136)	(270,938)	-	(270,938)
Impairment charge - non-current assets	20	(6,995)	-	(6,995)	(56,871)	-	(56,871)	(63,866)	-	(63,866)
Restructuring costs (1)		(4,413)	11	(4,402)	(4,333)	29	(4,304)	(8,746)	40	(8,706)
Group strategic review costs (1)		(3,111)	-	(3,111)	-	-	-	(3,111)	-	(3,111)
Total individually significant items		(14,321)	11	(14,310)	(332,340)	29	(332,311)	(346,661)	40	(346,621)

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

(2) Refer Note 11.

Note 7. Earnings per share

	Continuing		Discontinued		Total	
	2016	2015 Restated (1)	2016	2015 Restated (1)	2016	2015
Profit/(loss) for the period attributable to holders of ordinary shares in Spicers Limited (\$000)	1,497	(14,089)	3,799	(378,237)	5,296	(392,326)
Weighted average number of shares - basic (thousands)	665,181	665,181	665,181	665,181	665,181	665,181
Basic EPS (cents)	0.2	(2.1)	0.6	(56.9)	0.8	(59.0)
Weighted average number of shares - diluted (thousands)	685,211	665,181	685,211	665,181	685,211	665,181
Diluted EPS (cents)	0.2	(2.1)	0.6	(56.9)	0.8	(59.0)

(1) Refer Note 11.

The options to purchase shares and rights on issue during the current and comparative 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 reporting period (weighted average 20.0 million shares) have been included in determining the diluted earnings per share for the current reporting period.

The options to purchase shares and rights on issue during the comparative reporting period (weighted average 58.1 million shares) have not been included in determining the diluted earnings per share for the prior period because they are anti-dilutive.

Nil options or rights have been issued since 30 June 2016 up to the date of this report.

3,063,989 rights have vested and been exercised since 30 June 2016 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 2016 in respect of the plan period ended 30 June 2016.

Note 8. Other income from continuing operations

	2016 \$000	2015 Restated (1) \$000
Dividends	56	-
Rent	1,147	1,505
Net loss on disposal of non-current assets	(236)	(51)
Other	966	2,185
Total other income	1,933	3,639

(1) Refer Note 11.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

Note 9. Net finance costs from continuing operations

	2016	2015
	Restated (1)	
	\$000	\$000
Net interest		
Interest expense	(1,497)	(1,841)
Interest income	560	637
Net interest	(937)	(1,204)
Net other finance costs		
Net other foreign exchange losses	(1,282)	(1,418)
Other borrowing costs	(122)	(133)
Net other finance costs	(1,404)	(1,551)
Total net finance costs	(2,341)	(2,755)

(1) Refer Note 11.

Note 10. Income tax expense

	2016	2015
	Restated (1)	
	\$000	\$000
Prima facie income tax (expense)/benefit attributable to profit/(loss) from continuing and discontinued operations at the Australian tax rate of 30% (2015: 30%)	(2,016)	116,528
Add/(deduct) the tax effect of:		
• Tax losses not brought to account	(1,193)	(8,302)
• Prior year booked tax losses written off in the current year	-	(194)
• Overseas tax rate differential	(222)	(27,809)
• Amortisation of goodwill allowable	-	310
• Over/(under) provision in prior years	375	(5)
• Other non-deductible/non-assessable items	(695)	468
• Non-deductible impairment expenses - significant item	-	(15,423)
• Non-assessable impairment reversals - significant item	230	-
• Non-assessable gain on disposal of controlled entities - significant items (2)	2,098	-
• Non-deductible loss on disposal of merchanting businesses - discontinued significant item (2)	-	(69,473)
Total tax expense in income statement	(1,423)	(3,900)
comprising:		
Tax expense from continuing operations	(1,678)	(1,743)
Tax benefit/(expense) from discontinued operations	255	(2,157)
	(1,423)	(3,900)
Recognised in the income statement		
Current tax expense		
• Current year	(2,037)	13,865
• Over/(under) provision in prior years	375	(5)
Deferred tax benefit/(expense)	239	(17,760)
Total tax expense in income statement	(1,423)	(3,900)
Recognised in other comprehensive income		
Tax effect of actuarial adjustments on defined benefit plans	-	898
Tax effect of derecognition of actuarial adjustments	-	(18,908)
Tax effect of derecognition of actuarial adjustments on disposal of controlled entities (2)	-	(4,303)
Total tax expense recognised in other comprehensive income	-	(22,313)

(1) Refer Note 11.

(2) Disposal includes sale and loss of control - refer Note 11

The balance of the consolidated franking account as at the reporting date was \$Nil (2015: \$Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

Note 11. Discontinued operations

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

Discontinued Merchandising

Discontinued merchandising comprises operations in Europe and North America.

Europe

Predominantly comprises:

Germany – paper merchandising 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 current reporting period as at 30 September 2015.

United Kingdom – entered administration on 1 April 2015. Derecognised in the prior reporting period as at 28 February 2015.

Netherlands – commenced administration process on 14 April 2015. Derecognised in the prior reporting period as at 31 March 2015.

Austria – commenced administration process on 28 April 2015. Derecognised in the prior reporting period as at 31 March 2015.

Poland – sold in the prior reporting period. Sale completed May 2015.

Spain – sold in the prior reporting period. Sale completed May 2015.

Scandinavia – sold in the prior reporting period. Sale completed June 2015.

Ireland – sold in the prior reporting period. Sale completed June 2015.

Belgium and Czech Republic – derecognised in the prior reporting period as at 31 May 2015 due to their parent entity entering administration in June 2015. Belgium subsequently entered administration on 9 July 2015.

North America

Predominantly comprises the Canadian operations which were sold in the prior reporting period, with the transaction completing on 3 March 2015. Also includes the USA operations which were sold in a previous reporting period.

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. Current year transactions relate to retained provisions.

	Europe Merchandising		North America Merchandising		Manufacturing & Group Elims		Total Discontinued Operations	
	2016	2015 Restated	2016	2015 Restated	2016	2015 Restated	2016	2015 Restated
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Revenue	30,120	1,344,959	-	272,729	-	-	30,120	1,617,688
Other income	537	2,536	-	-	143	10	680	2,546
Trading expenses	(34,053)	(1,387,447)	(84)	(263,976)	(443)	(283)	(34,580)	(1,651,706)
Result from operating activities before significant items, net finance costs, and tax	(3,396)	(39,952)	(84)	8,753	(300)	(273)	(3,780)	(31,472)
Significant items - (loss)/profit on disposal	7,322	(232,306)	(300)	(38,506)	339	(324)	7,361	(271,136)
Significant items - other	-	(29,045)	-	(32,159)	768	-	768	(61,204)
Net other finance costs	(676)	(2,797)	-	(186)	-	-	(676)	(2,983)
Result before interest and tax	3,250	(304,100)	(384)	(62,098)	807	(597)	3,673	(366,795)
Net interest	(67)	(8,506)	(37)	(604)	(25)	(175)	(129)	(9,285)
Result before tax	3,183	(312,606)	(421)	(62,702)	782	(772)	3,544	(376,080)
Tax benefit/(expense) pre-significant items	-	(309)	255	(1,877)	-	-	255	(2,186)
Tax expense significant items - operating activities	-	29	-	-	-	-	-	29
Tax expense	-	(280)	255	(1,877)	-	-	255	(2,157)
Profit/(loss) for the period	3,183	(312,886)	(166)	(64,579)	782	(772)	3,799	(378,237)

Cash flows from discontinued operations

	2016 \$000	2015 Restated \$000
Net cash used in operating activities	(9,002)	(78,928)
Net cash from investing activities	3,446	53,085
Net cash used in financing activities (excluding internal transactions)	(925)	(15,091)
Net cash used in discontinued operations	(6,481)	(40,934)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

Note 11. Discontinued operations – (continued)

Effect of disposal on the financial position of the Consolidated Entity

The effect of the derecognition of the German operations (Discontinued - Europe Merchanting) on the financial position of the Consolidated Entity is set out below:

	Total 2016 \$000
Cash and cash equivalents	(10,728)
Trade and other receivables	(16,844)
Inventories	(11,990)
Trade and other payables	34,358
Loans and borrowings	8,461
Internal payables	619
Employee benefits	11,558
Provisions	2,396
Net liabilities/(assets) disposed	17,830

No proceeds were received or are receivable upon derecognition of the German operations.

Note 12. 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 comparative reporting period. Refer Note 28 for restrictions on dividend payments.

(b) Distributions on PaperlinX step-up preference securities

On 16 June 2016, the Company announced that the distribution for the period 1 January 2016 to 30 June 2016 would not be paid. The interim distribution rate for the period 1 July 2016 to 31 December 2016 is 6.7600%. The distribution is payable at the discretion of the directors of the Company.

Note 13. Cash and cash equivalents

	2016 \$000	2015 \$000
Cash on hand and at bank	19,834	41,788
Deposits at call (1)	11,792	13,730
Total cash and cash equivalents	31,626	55,518

(1) The Consolidated Entity has reclassified balances relating to short-term deposits from "cash and cash equivalents" to "short-term deposits" in order to more accurately reflect the nature of these balances.

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 \$6.1 million (2015: \$33.2 million).

Note 14. Trade and other receivables

	2016 \$000	2015 \$000
Trade debtors	74,135	101,203
Provision for impairment losses	(2,695)	(11,962)
Net trade debtors	71,440	89,241
Accrued rebates	269	936
Amounts receivable on sale of property, plant and equipment, controlled entities and investments	2,347	6,158
Other debtors	1,050	1,586
Prepayments	1,006	3,016
Total trade and other receivables	76,112	100,937

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 \$2.7 million (2015: \$4.9 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

Note 15. Inventories

	2016 \$000	2015 \$000
Finished goods	78,212	88,072
Provision for impairment losses	(3,307)	(5,023)
Net finished goods	74,905	83,049
Total inventories	74,905	83,049

The amount of provision charged to the Income Statement for diminution in value of inventories was \$0.9 million for continuing operations (2015: \$0.1 million) and \$0.1 million for discontinued operations (2015: \$0.1 million).

The amount of inventories pledged as part of the regional loan facility in New Zealand at balance date was \$0.03 million (2015: \$1.2 million).

Note 16. Assets held for sale

	2016 \$000	2015 \$000
Property, plant and equipment	-	1,702
Total assets held for sale	-	1,702

A warehouse, part of the Discontinued Operations segment (Europe Merchanting), was reclassified as held for sale during the comparative reporting period. The warehouse was sold and settlement occurred during the current reporting period.

Note 17. Receivables - non-current

	2016 \$000	2015 \$000
Amounts receivable on sale of property, plant and equipment, controlled entities and investments	920	3,287
Other debtors	-	291
Total receivables non-current	920	3,578

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

Note 18. Property, plant and equipment

\$000	Land	Land improve- ments	Buildings	Plant and equipment	Total
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
Cost or deemed cost:					
Balance at 1 July 2014	6,158	742	43,896	228,463	279,259
Additions	-	-	127	2,763	2,890
Disposals	-	-	(801)	(14,872)	(15,673)
Acquisition of businesses	-	-	66	200	266
Disposal of businesses (1)	(4,814)	-	(21,865)	(155,832)	(182,511)
Foreign currency movements	172	-	1,229	2,361	3,762
Balance at 30 June 2015	1,516	742	22,652	63,083	87,993
Depreciation and impairment losses:					
Balance at 1 July 2014	(2,034)	(742)	(32,702)	(205,522)	(241,000)
Depreciation	-	-	(689)	(4,629)	(5,318)
Impairment charges	(1,188)	-	(1,466)	(11,188)	(13,842)
Disposals	-	-	520	14,314	14,834
Disposal of businesses (1)	1,703	-	15,992	152,054	169,749
Foreign currency movements	3	-	(532)	(2,090)	(2,619)
Balance at 30 June 2015	(1,516)	(742)	(18,877)	(57,061)	(78,196)
Carrying amount as at 30 June 2015	-	-	3,775	6,022	9,797

(1) Includes businesses sold and derecognised on loss of control - refer Note 11.

Refer Note 20 for details of the impairment review.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

Note 19. Intangible assets

\$000	Goodwill	Computer software	Brand names	Other	Total
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
Cost or deemed cost:					
Balance at 1 July 2014	254,618	93,157	19,174	9,236	376,185
Additions	-	1,010	-	-	1,010
Acquisition of businesses	2,651	31	-	-	2,682
Disposal of businesses (1)	(193,076)	(87,443)	(19,893)	(9,710)	(310,122)
Foreign currency movements	3,875	510	719	474	5,578
Balance at 30 June 2015	68,068	7,265	-	-	75,333
Amortisation and impairment losses:					
Balance at 1 July 2014	(187,154)	(80,883)	(19,174)	(6,951)	(294,162)
Amortisation	-	(2,215)	-	(159)	(2,374)
Impairment charges	(38,598)	(9,763)	-	(1,663)	(50,024)
Disposal of businesses (1)	187,357	86,284	19,893	9,167	302,701
Foreign currency movements	(3,606)	(410)	(719)	(394)	(5,129)
Balance at 30 June 2015	(42,001)	(6,987)	-	-	(48,988)
Carrying amount as at 30 June 2015	26,067	278	-	-	26,345

(1) Includes businesses sold and derecognised on loss of control - refer Note 11.

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 2016.

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:

Continuing:

- Merchanting Australia
- Merchanting New Zealand
- Merchanting Asia

Discontinued:

- Canada - the Canadian business was sold during the prior reporting period.
- Continental Europe - Control over the German business was lost during the current reporting period - refer Note 11. The Scandinavian, Polish and Spanish businesses were sold during the prior reporting period. Control over the Netherlands, Austrian, Belgian and Czech Republic businesses was lost during the prior reporting period.
- United Kingdom and Ireland - the Irish business was sold and control of the United Kingdom operations was lost during the prior reporting period.
- Paper Manufacturing - Australian Paper was sold in a previous reporting period and Tas Paper was closed down in a previous reporting period.

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

The carrying amount of intangible assets with indefinite useful lives is \$nil (2015: \$nil). The carrying amount of goodwill is as follows:

	Goodwill	
	2016 \$000	2015 \$000
Continuing CGUs:		
• New Zealand	27,949	26,067
Total	27,949	26,067

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.

Continuing CGUs - Current Reporting Period

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

Discount rate:	11.1% - 14.8% (2015: 10.9% - 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% (2015: 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.

The New Zealand CGU contains all of the Consolidated Entity's goodwill. The valuation for the New Zealand CGU exceeds the carrying value. There would need to be a 60bps increase in the discount rate or a 60bps decrease in gross paper margin or a 40bps increase in trading expenses to sales, all other things being equal, in order for an impairment of goodwill to arise in future reporting periods.

Continuing CGUs - Comparative Reporting Period

Ongoing weak demand for core paper products in Asia resulted in an impairment charge of \$6.5 million being booked against the carrying value of Asia's goodwill in the comparative reporting period (Merchanting Asia segment).

An item of plant and equipment in Australia which was decommissioned was subject to an impairment charge of \$0.5 million in the comparative reporting period (Merchanting Australia segment).

Discontinued CGUs - Comparative Reporting Period
Canada:

An impairment charge of \$32.1 million was booked against the carrying value of goodwill in the comparative reporting period (Discontinued operations segment - North America Merchanting).

Continental Europe:

The goodwill in this CGU related to Scandinavia and was written off on sale of the business (refer Note 11) in the comparative reporting period.

An impairment charge of \$6.3 million was booked against the carrying value of property, plant and equipment in Benelux in the comparative reporting period (Discontinued operations segment - Europe Merchanting).

United Kingdom and Ireland:

An impairment charge of \$7.1 million was booked against the carrying value of property, plant and equipment in the United Kingdom in the comparative reporting period (Discontinued operations segment - Europe Merchanting).

AS AT 30 JUNE 2016

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

Continuing CGUs:

New Zealand:

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.

Discontinued CGUs:

Canada:

There was no indication of impairment for Canada's computer software and other intangible assets during the comparative reporting period prior to the sale of the business.

Continental Europe:

An impairment charge of \$6.8 million was booked against the carrying value of computer software in the comparative reporting period (Discontinued operations segment - North America Merchanting).

The fully impaired value of brands was derecognised on loss of control of the relevant entities during the comparative reporting period (refer Note 11).

United Kingdom and Ireland:

An impairment charge of \$3.0 million was booked against the carrying value of computer software and \$1.7 million was booked against the carrying value of other intangibles in the comparative reporting period (Discontinued operations segment - Europe Merchanting).

The fully impaired value of brands was derecognised on loss of control of the relevant entities during the comparative reporting period (refer Note 11).

Impairment testing - investments

During the current reporting period, the Consolidated Entity sold its investments 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 current reporting period.

Impairment loss and reversals

A summary of impairment (charges)/reversals by asset category is as follows:

\$000	Invest- ments	Property, plant and equipment				Intangibles			
		Land	Buildings	Plant and equip't	Total	Goodwill	Computer software	Other intangibles	Total
2016									
Impairment reversals:									
Discontinued CGUs:									
• Paper Manufacturing	768	-	-	-	-	-	-	-	-
Total discontinued operations	768	-	-	-	-	-	-	-	-
Total impairment reversals	768	-	-	-	-	-	-	-	-
2015									
Impairment charges:									
Continuing CGUs:									
• Australia	-	-	-	(468)	(468)	-	-	-	-
• Asia	-	-	-	-	-	(6,527)	-	-	(6,527)
Total continuing operations	-	-	-	(468)	(468)	(6,527)	-	-	(6,527)
Discontinued CGUs:									
• Continental Europe	-	-	-	(6,304)	(6,304)	-	(6,766)	-	(6,766)
• United Kingdom and Ireland	-	(1,188)	(1,466)	(4,416)	(7,070)	-	(2,996)	(1,664)	(4,660)
• Canada	-	-	-	-	-	(32,071)	-	-	(32,071)
Total discontinued operations	-	(1,188)	(1,466)	(10,720)	(13,374)	(32,071)	(9,762)	(1,664)	(43,497)
Total impairment charges	-	(1,188)	(1,466)	(11,188)	(13,842)	(38,598)	(9,762)	(1,664)	(50,024)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

Note 21. Deferred tax balances

	2016 \$000	2015 \$000
Deferred taxes		
Deferred tax assets	543	238
Deferred tax liabilities	(108)	(42)
Net deferred tax balances	435	196
Movement in net deferred tax balances during the reporting period:		
Opening balance	196	21,361
Recognised in profit or loss	239	(17,760)
Recognised in other comprehensive income	-	(3,405)
Closing balance	435	196
Deferred tax balances are attributable to the following:		
Provisions and employee benefits	501	190
Property, plant and equipment	(73)	(127)
Intangible assets	(37)	(34)
Other items	44	167
Net deferred tax balances	435	196
Unrecognised deferred tax assets (1)		
Capital losses - no expiry date	150,789	150,950
Revenue losses - no expiry date	150,912	220,139
Total unrecognised deferred tax assets	301,701	371,089

(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

	2016 \$000	2015 \$000
Trade creditors	41,069	61,123
Accrued expenses	710	2,657
Sales tax, GST and VAT	2,718	3,571
Rebates	2,842	2,065
Other creditors	17,320	41,308
Total trade and other payables	64,659	110,724

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

Note 23. Loans and borrowings

	Currency	Nominal interest rate (1)	Year of Maturity	2016 \$000	2015 \$000
Current					
• Bank loans - secured (2)	AUD	BBSR (3)	2018	2,934	445
• Bank loans - secured (2)	NZD	BKBM (4)	2017	26	5,699
• Bank loans - secured (2)	EUR	Euribor (5)	2016	-	8,873
• Other bank loans - secured	various	various	various	2,060	1,532
• Capitalised borrowing costs				(127)	(108)
Bank loans - secured				4,893	16,441
Total loans and borrowings - current				4,893	16,441
Total loans and borrowings				4,893	16,441

(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) Euribor: Euro Inter Bank Offer Rate.

The regional asset backed facilities in Australia and NZ have availability periods of 13 to 21 months, and include regional covenant measures. These vary by region and include fixed charge coverage ratios, net worth and capital expenditure tests. These facilities have restrictions on the ability to draw down and move cash within the Consolidated Entity.

The regional asset backed facility in Australia involves the securitisation of receivables. In New Zealand, the regional facility is secured by both receivables and inventory.

Reconciliation of consolidated loans and borrowings

	Note	2016 \$000	2015 \$000
Current loans and borrowings		4,893	16,441
Non-current loans and borrowings		-	-
Total loans and borrowings		4,893	16,441
Cash and cash equivalents (1)	13	(31,626)	(55,518)
Short-term deposits (1)		(3,955)	(3,955)
Net (cash) / borrowings		(30,688)	(43,032)

(1) The Consolidated Entity has reclassified balances relating to short-term deposits from "cash and cash equivalents" to "short-term deposits" in order to more accurately reflect the nature of these balances.

Note 24. Employee benefits

	Note	2016 \$000	2015 \$000
Current			
Leave entitlements		5,663	5,812
Australian self-insured workers' compensation (1)		1,913	2,323
Other entitlements		203	219
Total current employee benefits		7,779	8,354
Non-current			
Defined benefit obligations	31	-	10,338
Leave entitlements		596	621
Other entitlements		-	555
Total non-current employee benefits		596	11,514
Total employee benefits			
Current		7,779	8,354
Non-current		596	11,514
Total employee benefits		8,375	19,868

(1) Amount provided in Victoria is \$1.278 million (2015: \$1.687 million) and Tasmania is \$0.635 million (2015: \$0.636 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

Note 25. Provisions

Restructuring

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

Other

Other provisions relate to remediation for the divested Australian Paper operations, as well as environmental works and transaction costs associated with the closure of Tas Paper.

\$000	Restructuring	Other	Total
Current			
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
Balance at 1 July 2014	23,895	4,322	28,217
Provided/(released) during the year	7,616	283	7,899
Paid during the year	(26,169)	(4,889)	(31,058)
Transfers	562	1,225	1,787
Disposal of businesses (1)	(1,597)	-	(1,597)
Foreign currency movements	103	(6)	97
Balance at 30 June 2015	4,410	935	5,345

\$000	Restructuring	Other	Total
Non-current			
Balance at 1 July 2015	-	-	-
Balance at 30 June 2016	-	-	-
Balance at 1 July 2014	2,910	1,573	4,483
Provided/(released) during the year	(13)	69	56
Transfers	(847)	(940)	(1,787)
Unwind of discount	289	162	451
Disposal of businesses (1)	(2,399)	(880)	(3,279)
Foreign currency movements	60	16	76
Balance at 30 June 2015	-	-	-

\$000	Restructuring	Other	Total
Total provisions			
Balance at 30 June 2016			
Current	5,141	169	5,310
Total provisions	5,141	169	5,310
Balance at 30 June 2015			
Current	4,410	935	5,345
Total provisions	4,410	935	5,345

(1) Includes businesses sold and derecognised on loss of control - refer Note 11.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

Note 26. Share capital

	2016 \$000	2015 \$000
Issued capital		
Issued and paid-up share capital - 665,181,261 ordinary shares (June 2015: 665,181,261)	1,895,767	1,895,767
Total issued capital	1,895,767	1,895,767

	2016 thousands of shares	2015 thousands of shares
Movement in issued shares		
Ordinary shares on issue at beginning of reporting period	665,181	665,181
Ordinary shares on issue at end of reporting period	665,181	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 other shareholders and creditors and are fully entitled to any proceeds of liquidation.

The Consolidated Entity has 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 ("PSPS"). The PSPS are perpetual, preferred units in the PaperlinX SPS Trust and on 30 March 2007, 2,850,000 PSPS were issued at an issue price of \$100 per security, raising \$285 million. The PSPS are listed on the ASX under 'PXUPA'.

Distributions on the PSPS are at the discretion of The Trust Company (RE Services) Limited ("the Responsible Entity") and ultimately, the Directors of Spicers Limited. Distributions are paid on a floating rate, unfranked, non-cumulative, discretionary and semi-annual basis. If a distribution is not paid in full, the distribution does not accumulate and may never be paid on the PSPS. If a distribution is not paid in full, the Company will be restricted from paying dividends or making other distributions on any class of its share capital until such time as two consecutive distributions are paid by the PaperlinX SPS Trust or an optional distribution is paid equal to the unpaid amount of scheduled distributions for the 12 months preceding (but not including) the payment date of the optional distribution.

The distribution rate was the 180 day bank bill swap rate plus a margin of 2.40%. On the first periodic remarketing date, 30 June 2012, the PSPS were stepped-up so that the distribution rate for future discretionary distributions is the 180 day bank bill swap rate plus a margin of 4.65%. The next remarketing date is 31 December 2016.

During the reporting period no distribution (2015: no distribution) was paid on the PSPS - refer Note 12(b).

The "Reserve for own PaperlinX step-up preference securities" of \$21.7 million (2015: \$21.7 million) in the Statement of Financial Position contains the PSPS acquired and retained by the Company as part of an off-market takeover offer which closed on 28 February 2014 and comprises the carrying value (issue price less issue costs) of the 223,602 PSPS acquired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

Note 29. Share-based payment arrangements

At 30 June 2016, the Consolidated Entity had the following share-based payment arrangements:

Options

The Company has 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 value 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 12,061,100 (2015: 47,061,100) 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	Cancelled	Exercised	Closing balance	Exercisable at balance date
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

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

					Number of options					
	Initial measurement/ service date		Exercise price	Fair value at date of grant	Opening balance	Granted	Lapsed	Exercised	Closing balance	Exercisable at balance date
Grant date		Expiry date								
2015										
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	20,000	-	(10,000)	-	10,000	10,000
13/9/2001	13/9/2004	(1)	\$4.12	\$0.470	21,700	-	(2,100)	-	19,600	19,600
20/9/2002	20/9/2005	(1)	\$5.13	\$0.640	11,000	-	(2,000)	-	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	-
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
					41,075,200	6,000,000	(14,100)	-	47,061,100	6,061,100
Weighted average exercise price										
					\$0.31	\$0.07	\$3.82	-	\$0.28	\$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).

Since balance date up to the date of this report in respect of the plan period ended 30 June 2016, 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

The Company has 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 3,063,989 (2015: 4,766,641) 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:

					Number of rights					
Grant date	Initial measurement/ service date	Expiry date	Exercise price	Fair value at date of grant	Opening balance	Granted	Cancelled	Lapsed	Exercised	Closing balance
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
2015										
18/12/2012	30/6/2015	(1)	\$nil	\$0.05	7,066,088	-	(4,325,355)	-	(1,038,081)	1,702,652
1/7/2013	30/6/2016	(1)	\$nil	\$0.04	9,854,530	-	(6,233,294)	-	(557,247)	3,063,989
					16,920,618	-	(10,558,649)	-	(1,595,328)	4,766,641

(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.

3,063,989 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 2016, 3,063,989 rights have been exercised and nil rights have been granted, cancelled or lapsed.

AS AT 30 JUNE 2016

Note 29. Share-based payment arrangements – (continued)
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 1,702,652 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
2016				
Number of shares	5,861,312	-	(1,702,652)	4,158,660
2015				
Number of shares	7,100,000	356,640	(1,595,328)	5,861,312

Share-based payments expense

	2016 \$000	2015 \$000
Equity settled share-based payments expense	(40)	(283)
Total share-based payments expense	(40)	(283)

AS AT 30 JUNE 2016

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 50% of the Consolidated Entity's trade and other receivables with New Zealand and Asia having 23% and 22% respectively. With the exception of one customer in New Zealand, 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.

AS AT 30 JUNE 2016

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) and Singapore dollar (SGD). 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 9).

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 Euro dollars (EUR) 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 to be continually monitored and if conditions change significantly interest rate hedging may recommence.

AS AT 30 JUNE 2016

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, excluding non-redeemable preference shares.

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 2016 the return was 7.3 percent (2015: (110.1) percent). This underperformance is largely due to trading losses in the discontinued German operations and lower earnings in the Merchanting Australia segment, partially offset by a gain on disposal of the German operations. The weighted average interest rate on interest-bearing borrowings was 5.6 percent (2015: 4.5 percent).

The Board has established various incentive plans whereby remuneration is through shares in the Company. For this purpose the employee share plans may acquire shares in the company on market through an independent trust (refer Note 29). 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	2016 \$000	2015 \$000
Current net trade receivables		71,440	89,241
Forward exchange contracts		102	568
Current other receivables		4,570	11,128
Total current trade and other receivables	14	76,112	100,937
Non-current other receivables		920	3,578
Total non-current trade and other receivables	17	920	3,578
Total trade and other receivables		77,032	104,515
Cash and cash equivalents (1)	13	31,626	55,518
Short-term deposits (1)		3,955	3,955
		112,613	163,988

(1) The Consolidated Entity has reclassified balances relating to short-term deposits from "cash and cash equivalents" to "short-term deposits" in order to more accurately reflect the nature of these balances.

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

	2016 \$000	2015 \$000
Australia	40,831	41,513
New Zealand	17,600	18,172
Asia	16,927	19,699
Europe	-	18,127
North America	1,674	7,004
Total trade and other receivables	77,032	104,515

Receivables relate to wholesale and end-user customers.

The ageing of trade debtors at the reporting date was:

	Note	Gross 2016 \$000	Gross 2015 \$000
Not past due		64,853	77,511
Past due 0-30 days		6,443	15,068
Past due 31-120 days		782	2,884
Past due 121 days to one year		1,156	1,281
Past due more than one year		901	4,459
Total gross trade debtors	14	74,135	101,203

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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	2016 \$000	2015 \$000
Balance at 1 July		(11,962)	(27,907)
Impairment loss recognised		(922)	(17,779)
Net write-off		192	4,451
Acquisition of businesses		-	(48)
Disposal of businesses (1)		10,506	29,421
Foreign currency movements		(509)	(100)
Balance at 30 June	14	(2,695)	(11,962)

(1) Includes businesses sold and derecognised on loss of control - refer Note 11.

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.

	Carrying amount \$000	Contractual Cash Flows			
		Total \$000	1 year or less \$000	1 to 5 years \$000	More than 5 years \$000
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	-	-
2015					
Non-derivative financial liabilities					
Trade and other payables	110,724	110,724	110,724	-	-
Interest bearing loans and borrowings	16,441	16,549	16,549	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

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

Exposure to currency risks

The Consolidated Entity's exposure 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:

Exposure (in local currency)	2016				
	AUD \$000	EUR €000	USD \$000	JPY ¥m	HKD \$000
Trade and other receivables	596	512	1,242	-	-
Trade and other payables	(659)	(1,820)	(10,221)	(221)	-
Loans and borrowings	-	(5,677)	-	-	(62,300)
Gross balance sheet exposure	(63)	(6,985)	(8,979)	(221)	(62,300)
Foreign exchange contracts	8	1,678	13,154	345	-
Net balance sheet exposure	(55)	(5,307)	4,175	124	(62,300)

Exposure (in local currency)	2015				
	AUD \$000	EUR €000	USD \$000	GBP £000	CAD \$000
Trade and other receivables	444	746	4,490	-	3,000
Trade and other payables	(1,082)	(3,181)	(11,571)	(34)	(1)
Loans and borrowings	-	(5,864)	-	-	-
Gross balance sheet exposure	(638)	(8,299)	(7,081)	(34)	2,999
Foreign exchange contracts	49	2,521	13,146	-	-
Net balance sheet exposure	(589)	(5,778)	6,065	(34)	2,999

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

	Reporting date spot rate	
	2016	2015
EUR	0.6605	0.6839
USD	0.7360	0.7598
JPY	76.6295	94.0210
HKD	5.7792	5.9472

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.

	2016 \$000	2015 \$000
EUR	731	768
USD	(516)	(726)
JPY	(147)	13
HKD	980	954

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.

AS AT 30 JUNE 2016

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)
2016				
Financial assets				
Cash and cash equivalents (2)	25,626	6,000	31,626	1.5
Short-term deposits (2)	-	3,955	3,955	2.9
Financial liabilities				
Interest bearing loans and borrowings	5,020	-	5,020	5.6
2015				
Financial assets				
Cash and cash equivalents (2)	45,518	10,000	55,518	1.3
Short-term deposits (2)	-	3,955	3,955	2.9
Financial liabilities				
Interest bearing loans and borrowings	16,549	-	16,549	4.5

(1) Excludes company specific margins.

(2) The Consolidated Entity has reclassified balances relating to short-term deposits from "cash and cash equivalents" to "short-term deposits" in order to more accurately reflect the nature of these balances.

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.

	2016 \$000	2015 \$000
Floating interest	316	390

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 11), 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

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.

\$000	Note	Carrying amount				Fair value				
		Fair value hedging instru- ments	Loans and receiv- ables	Other financial assets/ liabilities	Total	Level 1	Level 2	Level 3	Total	
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 (1)		13	-	31,626	-	31,626				
Short-term deposits (1)			-	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 liabilities 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)				
2015										
Financial assets measured at fair value										
Foreign exchange contracts			568	-	-	568	-	568	-	568
			568	-	-	568				
Financial assets not measured at fair value										
Cash and cash equivalents (1)		13	-	55,518	-	55,518				
Short-term deposits (1)			-	3,955	-	3,955				
Trade and other receivables			-	103,947	-	103,947				
			-	163,420	-	163,420				
Financial liabilities measured at fair value										
Foreign exchange contracts			(0)	-	-	(0)	-	(0)	-	(0)
Trade and other payables			-	-	(8,575)	(8,575)			(8,575)	(8,575)
			(0)	-	(8,575)	(8,575)				
Financial liabilities not measured at fair value										
Trade and other payables			-	-	(102,149)	(102,149)				
Bank loans - secured		23	-	-	(16,441)	(16,441)	-	(16,549)	-	(16,549)
			-	-	(118,590)	(118,590)				

(1) The Consolidated Entity has reclassified balances relating to short-term deposits from "cash and cash equivalents" to "short-term deposits" in order to more accurately reflect the nature of these balances.

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:

	2016 \$000	2015 \$000
Opening balance	8,575	-
Net change in fair value	579	-
Initial recognition at fair value	-	8,575
Foreign currency movements	296	-
Closing balance	9,450	8,575

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

Note 31. Employee retirement benefit obligations

The Consolidated Entity participates in a variety of retirement benefit arrangements. The following tables cover 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 local 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 current reporting period on loss of control of the German businesses. Defined benefit plans were derecognised in the comparative reporting period on disposal via sale of the Canadian and Irish businesses and the loss of control of the UK, Netherlands and Austrian businesses.

The Consolidated Entity also 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 schedules below.

The defined benefit obligations have 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.

	2016 \$000	2015 \$000
The amounts recognised in the Statement of Financial Position are determined as follows:		
Present value of the defined benefit obligation	10,120	19,292
Less fair value of plan assets	(10,179)	(9,747)
Add limitation on recoupment of net surplus position	59	793
Net liability in the Statement of Financial Position	-	10,338
Changes in the present value of the defined benefit obligations are as follows:		
Balance at the beginning of year	19,292	555,524
Current service costs	449	3,415
Interest on obligation	427	5,975
Past service credits	-	717
Actuarial gains and losses arising from:		
- changes in financial assumptions	820	66,004
- experience adjustments	(105)	867
Contributions by members	64	292
Disposal/loss of control of controlled entities and businesses (1)	(10,690)	(613,561)
Exchange differences on foreign plans	484	16,490
Benefits paid	(470)	(15,273)
Other	(151)	(1,158)
Balance at end of year (2)	10,120	19,292
Changes in the fair value of plan assets are as follows:		
Balance at the beginning of year	9,747	447,646
Interest on plan assets	422	2,595
Return on plan assets excluding interest income	(80)	34,129
Contributions by employer	465	8,516
Contributions by members	64	292
Assets disposed of on sale/loss of control of controlled entities and businesses (1)	-	(481,070)
Exchange differences on foreign plans	-	13,308
Benefits paid	(288)	(15,253)
Other	(151)	(416)
Closing fair value of plan assets	10,179	9,747
Less limitation on recoupment of net surplus position	(59)	(793)
Balance at end of year (2)	10,120	8,954

(1) Relates to the derecognition on loss of control of Germany during the current reporting period, and due to the disposal via sale of Canada and Ireland, and derecognition on loss of control of the UK, Netherlands and Austria during the comparative reporting period. Refer Notes 11 and 36.

(2) Balance comprises the Australian plan in the current reporting period and the Australian and German plans in the comparative reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

Note 31. Employee retirement benefit obligations – (continued)

	2016 \$000	2015 \$000
Expense recognised in the Income Statement:		
Current service costs	449	3,415
Net interest on obligation	5	3,380
Past service credits	-	717
Total recognised expense	454	7,512
Amount recognised in the Statement of Comprehensive Income:		
Actuarial losses on defined benefit obligations	(715)	(66,871)
Actuarial (losses)/gains on fair value of plan assets	(21)	34,922
Movement in limitation on recoupment of net surplus position	736	(793)
Actuarial losses derecognised on sale/loss of control of controlled entities and businesses (1)	4,198	158,836
Less tax effect, where applicable	-	(22,313)
Total recognised comprehensive income	4,198	103,781
Cumulative actuarial gains and losses recognised in the Statement of Comprehensive Income:		
Cumulative losses at beginning of year	10,890	132,273
Actuarial losses recognised during the year	-	32,742
Actuarial (losses)/gains derecognised on sale/loss of control of controlled entities and businesses (1)	(4,198)	(158,836)
Exchange differences on foreign plans	143	4,711
Cumulative losses at end of year	6,835	10,890

(1) Refer Note 11.

Principal actuarial assumptions

The principal actuarial assumptions at the reporting date used to calculate the net liability and the principal economic assumptions used in making recommendations to determine the employer companies' contributions are detailed below.

	2016	2015
Discount rate	3.30%	1.7% to 4.4%
Salary increase rate	2.75%	0.0% to 2.75%
Inflation	2.50%	1.5% to 2.5%

Assumptions regarding future mortality have been based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit obligation at the reporting date were as follows:

	2016	2015
Average longevity at retirement age for current pensioners (years):		
Males	19	19
Females	23	23
Average longevity at retirement age for future pensioners (years):		
Males	22	22
Females	26	26

At 30 June 2016, the weighted-average duration of the defined benefit obligation was 7.5 years.

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	2016 \$000	2015 \$000
Increase / (Decrease) in DBO		
Discount rate (1% increase)	(754)	(1,473)
Discount rate (1% decrease)	903	2,303
Salary increase rate (1% increase)	953	(9,610)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

Note 31. Employee retirement benefit obligations – (continued)

Plan assets

Plan assets are invested in the following categories expressed as a weighted average:

	2016	2015
Equity securities	18%	18%
Bonds	26%	26%
Property	10%	10%
Other	46%	46%
Total plan assets	100%	100%
	2016	2015
	\$000	\$000
Equity securities	1,832	1,754
Bonds	2,647	2,534
Property	1,018	975
Other	4,682	4,484
Total plan assets	10,179	9,747

All equity securities and bonds have quoted prices in active markets and are selected in accordance with the respective plan's strategic investment policies.

Defined benefit plans

	Plans as at 30 June 2016			Plans as at 30 June 2015		
	Plan assets \$000	Defined benefit obligation \$000	Surplus/ (deficit) \$000	Plan assets \$000	Defined benefit obligation \$000	Surplus/ (deficit) \$000
Plans with funded obligations:						
Spicers Superannuation Fund (Australia)	10,120	10,120	-	8,954	8,954	-
PaperlinX Deutschland GmbH (Germany)	-	-	-	-	2,345	(2,345)
Deutsche Papier Holding (Germany)	-	-	-	-	7,993	(7,993)
	10,120	10,120	-	8,954	19,292	(10,338)

Historical information

	2016 \$000	2015 \$000	2014 \$000	2013 \$000	2012 \$000
Present value of defined benefit obligation	10,120	19,292	555,524	508,106	435,674
Fair value of plan assets	(10,179)	(9,747)	(447,646)	(381,978)	(333,583)
(Surplus) / Deficit in the plans (1)	(59)	9,545	107,878	126,128	102,091
Plan asset (gain)/loss due to experience	80	(34,129)			
Plan liability (gain)/loss due to experience	(105)	867			

(1) Before limitation on recoupment of net surplus positions \$0.06million (2015: \$0.8 million, 2014: \$nil, 2013: \$nil, 2012: \$3.8 million).

Future contributions

Based on the periodic funding valuations and local funding requirements, the Consolidated Entity estimates \$0.5 million in contributions to be paid to its defined benefit plan during the year ending 30 June 2017 (actual contributions for year ended 30 June 2016: \$0.5 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

Note 32. Reconciliation of cash flows from operating activities

	Note	2016 \$000	2015 \$000
Reconciliation of profit/(loss) after tax to net cash from operating activities			
Profit/(loss) for the period		5,296	(392,326)
Add back non-cash items:			
• Depreciation and amortisation of property, plant, equipment and intangibles	18,19	2,035	7,692
• Impairment (reversals)/charges - non-current assets	20	(768)	63,866
• (Profit)/loss on disposal of controlled entities	6	(7,361)	270,938
• (Profit)/loss on disposal of property, plant and equipment		236	(953)
• Profit on disposal of assets held for sale		(538)	-
• Employee share based payments expense	29	40	283
• Amortisation of capitalised borrowing costs		(17)	570
Add back other items classified as investing/financing:			
• Borrowing costs expensed		236	1,927
Decrease in trade and other receivables		6,217	31,100
(Increase)/decrease in inventories		(1,200)	20,700
Decrease in trade and other payables		(12,857)	(49,818)
Decrease in provisions and employee benefits		(3,988)	(13,577)
(Increase)/decrease in current and deferred taxes		(1,341)	1,559
Decrease in other non-current liabilities		-	(32)
Net cash used in operating activities		(14,010)	(58,071)
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 (1)		31,626	55,518
		31,626	55,518

(1) The Consolidated Entity has reclassified balances relating to short-term deposits from "cash and cash equivalents" to "short-term deposits" in order to more accurately reflect the nature of these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

Note 33. Parent entity disclosures

As at and throughout the financial year ended 30 June 2016, the parent company of the Consolidated Entity was Spicers Limited, formerly known as PaperlinX Limited.

Comprehensive Income

For the year ended 30 June	Parent Entity	
	2016	2015
	\$000	\$000
Loss before tax	(20,429)	(728,106)
Other comprehensive income for the period, net of tax	-	-
Total comprehensive loss for the period, net of tax	(20,429)	(728,106)

Statement of Financial Position

As at 30 June	Parent Entity	
	2016	2015
	\$000	\$000
Current assets	3,955	3,955
Total assets	47,403	47,371
Current liabilities	95	142
Total liabilities	336,882	316,615
Net (liabilities)/assets	(289,479)	(269,244)
<i>Equity</i>		
Issued capital	1,895,767	1,895,767
Reserve for own shares	-	(184)
Accumulated losses	(2,185,246)	(2,164,827)
Total equity	(289,479)	(269,244)

The total liabilities of the Company predominantly comprise a loan and other payables owing to one of its wholly owned subsidiaries. During the current reporting period, the loan term was extended and the loan and other payables continue to be payable beyond 12 months of the balance date and therefore are classified as non-current liabilities.

In the comparative reporting period, the loss and the net assets of the Company were impacted by the impairment of receivables from subsidiaries as a result of the sale and derecognition of investments in Europe and the sale of the Canadian operations.

Contingent liabilities

	Parent Entity	
	2016	2015
	\$000	\$000
Contingent liabilities arising in respect of related bodies corporate:		
• Bank guarantees (government)	2,087	1,677
• Loan guarantees (subsidiaries)	14,002	18,022
Total contingent liabilities	16,089	19,699

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

	2016	2015
	\$000	\$000
Capital expenditure contracted but not provided for:		
• Property, plant and equipment	107	829
Total capital expenditure commitments	107	829

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

Note 35. Lease commitments

Operating leases

	2016 \$000	2015 \$000
Operating lease commitments		
Lease expenditure contracted but not provided for:		
• Not later than one year	8,247	12,428
• Later than one year but not later than five years	13,710	27,621
• Later than five years	4,279	4,779
Total operating lease commitments	26,236	44,828

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 comparative reporting periods.

Note 36. Contingent liabilities

	2016 \$000	2015 \$000
Contingent liabilities arising in respect of related bodies corporate:		
• Bank guarantees (trade)	455	548
• Other guarantees	2,087	1,677
Total contingent liabilities	2,542	2,225

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 Class Order 98/1418 dated 13 August 1998 (as amended), the Company and certain subsidiaries have entered into approved deeds for the cross guarantee of liabilities with those subsidiaries identified in Note 39.

A subsidiary has provided a guarantee in relation to a property lease to the landlord in Germany. The annual rental expense is \$1.7 million and the lease period ends in 2020.

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, Italy, Slovakia, Hungary, Slovenia, Croatia and Serbia 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

In the current reporting period the Consolidated Entity's German subsidiaries, and in the comparative reporting period a number of UK and European subsidiaries, were placed into administration, as set out in Note 11. As at the reporting date, these administration proceedings are ongoing and are expected to continue for some time. As part of these proceedings, legal claims and other exposures may arise that impact the Consolidated Entity, including in respect of pension plan liabilities, other employee entitlements, trade 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 the liability, if any, which may arise cannot be reliably measured at this time. These matters have been taken into consideration in undertaking the going concern assessment - refer Note 2(e).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

Note 37. Auditors' remuneration

	2016 \$	2015 \$
Audit and review services		
Auditors of the Consolidated Entity - KPMG Australia		
Audit and review of financial statements	369,534	713,252
Overseas KPMG firms		
Audit and review of financial statements	134,652	377,984
	504,186	1,091,236
Other auditors (1)		
Audit and review of local statutory financial statements	78,158	115,206
	582,344	1,206,442
Other services		
Auditors of the Consolidated Entity - KPMG Australia		
Other services	14,000	-
Overseas KPMG firms		
Taxation services	10,911	17,654
Other auditors		
Other services	3,080	26,815
	27,991	44,469
Total auditors' remuneration	610,335	1,250,911

(1) Two businesses use 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

	2016 \$	2015 \$
Short-term benefits	2,105,715	3,131,572
Post-employment benefits	119,790	190,724
Equity plans	26,437	64,857
Termination benefits	-	476,786
	2,251,942	3,863,939

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 comparative 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 (2015: \$nil).

Communications Power Incorporated (Aust) Pty Ltd, a substantial shareholder of the Company, has 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 contract terms are based on market rates for these types of services and amounts are payable on a monthly basis. Amounts incurred under the contract during the reporting period were \$0.28 million (2015: \$0.42 million) of which \$0.07 million (2015: \$0.10 million) was accrued at balance date.

AS AT 30 JUNE 2016

Note 39. Group entities

Acquisitions

No businesses/entities were acquired during the current reporting period. In the comparative reporting period (on 1 October 2014), the Consolidated Entity acquired 100% of the shares in Total Supply Limited, a leading sign industry supplier in New Zealand.

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 Class Order 98/1418 dated 13 August 1998 (as amended), 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 Class Order 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

For the year ended 30 June	Deed of Cross Guarantee Consolidated	
	2016 \$000	2015 \$000
Income Statement		
Loss before tax	(30,369)	(417,022)
Tax expense	(3)	(77)
Loss for the period	(30,372)	(417,099)
Accumulated losses at beginning of period	(2,116,642)	(1,699,543)
Employee share options and rights	10	-
Accumulated losses at end of period	(2,147,004)	(2,116,642)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

Note 39. Group entities – (continued)

Statement of Financial Position

As at 30 June	Deed of Cross Guarantee Consolidated	
	2016 \$000	2015 \$000
Statement of Financial Position		
Current assets		
Cash and cash equivalents (1)	12,044	19,579
Short-term deposits (1)	3,955	3,955
Trade and other receivables	39,833	45,294
Inventories	44,120	40,319
Total current assets	99,952	109,147
Non-current assets		
Receivables	920	1,711
Investments in other Consolidated Entity subsidiaries	32,769	35,962
Property, plant and equipment	4,026	3,921
Intangible assets	229	73
Total non-current assets	37,944	41,667
Total assets	137,896	150,814
Current liabilities		
Trade and other payables	28,843	35,279
Loans and borrowings	15,469	9,047
Income tax payable	2,000	2,000
Employee benefits	7,111	7,399
Provisions	5,239	2,698
Total current liabilities	58,662	56,423
Non-current liabilities		
Payables	85,791	70,598
Loans and borrowings	251,000	251,000
Employee benefits	498	539
Total non-current liabilities	337,289	322,137
Total liabilities	395,951	378,560
Net liabilities	(258,055)	(227,746)
Equity		
Issued capital	1,895,767	1,895,767
Reserves	1,664	1,611
Accumulated losses	(2,147,004)	(2,116,642)
	(249,573)	(219,264)
PaperlinX Step-up Preference Securities	(8,482)	(8,482)
Total equity	(258,055)	(227,746)

(1) The Consolidated Entity has reclassified balances relating to short-term deposits from "cash and cash equivalents" to "short-term deposits" in order to more accurately reflect the nature of these balances.

Non-current liabilities mainly comprise a loan and other payables owing to a wholly owned subsidiary of the Consolidated Entity. During the current reporting period, the loan term was extended and the loan and other payables continue to be payable beyond 12 months of the balance date and therefore are classified as non-current liabilities.

In the comparative reporting period, the net assets of the Consolidated Deed of Cross Guarantee group, comprising the Company and the wholly owned subsidiaries which are parties to the deed at the reporting date, were significantly impacted by the sale and derecognition of investments in Europe and the sale of the Canadian operations (refer Note 11).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

AS AT 30 JUNE 2016

Note 39. Group entities – (continued)

Subsidiaries listing

	Note	Country of incorporation	Consolidated subsidiary interest	
			2016	2015
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), (2)	Australia	100%	100%
Pebmis Pty Ltd	(1)	Australia	100%	100%
Paper Associates Pty Ltd	(1)	Australia	100%	100%
Deutsche Papier Holding GmbH	(3)	Germany	-	100%
PaperlinX VTS GmbH	(3)	Germany	-	100%
PaperlinX Deutschland GmbH	(3)	Germany	-	100%
PaperlinX Holdings Coöperatieve UA		Netherlands	100%	100%
PPX Canada Limited		Canada	100%	100%
Spicers Holdings (Asia) Pte Ltd	(2)	Singapore	100%	100%
Spicers Paper (Singapore) Pte Ltd		Singapore	100%	100%
Winpac Paper Pte Ltd	(4)	Singapore	-	100%
Spicers Paper (Hong Kong) Ltd		Hong Kong	100%	100%
Spicers Paper (Malaysia) Sdn Bhd		Malaysia	100%	100%
Spicers Paper (Shanghai) Co. Ltd		China	100%	100%
PaperlinX Investments Pty Ltd	(1)	Australia	100%	100%
Spicers (N.Z.) Ltd	(2)	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) Subsidiaries renamed since 30 June 2015:

Spicers Australia Pty Ltd (formerly PaperlinX Australia Pty Ltd)

Spicers Holdings (Asia) Pte Ltd (formerly PaperlinX Holdings (Asia) Pte Ltd)

Spicers (N.Z.) Ltd (formerly PaperlinX (N.Z.) Ltd)

(3) Subsidiaries entered into administration since 30 June 2015, refer Note 11.

(4) Winpac Paper Pte Ltd was liquidated effective 23 February 2016.

Note 40. Events subsequent to balance date

Dividends on the Company's ordinary shares

No final dividend has been declared for the reporting period ended 30 June 2016.

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 2016 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 Class Order 98/1418.
- 3 The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the acting Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2016.
- 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
Chairman



Wayne Johnston
Finance Director

Dated at Melbourne, in the State of Victoria this 26 August 2016.



Independent auditor's report to the members of Spicers Limited

Report on the financial report

We have audited the accompanying financial report of Spicers Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2016, and consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 40 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Spicers Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report of the Group also complies with International Financial Reporting Standards as disclosed in note 2(a).

Emphasis of matter regarding contingent liabilities

Without modification to the opinion set out above, we 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 there is a material uncertainty as to whether such claims or exposures give rise to a future liability.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2016. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Spicers Limited for the year ended 30 June 2016, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

BW Szentirmay
Partner

Melbourne
26 August 2016

SHAREHOLDING INFORMATION AS AT 26 AUGUST 2016

1. Number of shareholders

There were 36,030 shareholders and all issued shares carry voting rights on a one-for-one basis.

2. Distribution of shareholding

Range of holdings	Number of shareholders	% of holders	Number of shares	% of shares
1 - 1,000	21,370	59.31	7,999,004	1.20
1,001 - 5,000	11,077	30.74	24,241,507	3.65
5,001 - 10,000	1,519	4.22	10,973,299	1.65
10,001 - 100,000	1,591	4.42	48,309,492	7.26
100,001 - over	473	1.31	573,657,959	86.24
Total	36,030	100.00	665,181,261	100.00

3. Unmarketable parcels

There were 34,549 shareholders holding less than a marketable parcel of shares in the Company (i.e. valued at less than \$500), based on the Company's share price of \$0.030. The unmarketable parcel of shares is equivalent to 16,667 shares or below.

4. Listing

The Company's ordinary shares are quoted on the Australian Securities Exchange.

5. Twenty largest shareholders

	Number of shares	% of shares
J P Morgan Nominees Australia Limited	84,240,687	12.65
Hishenk Pty Ltd	80,000,000	12.03
Communications Power Incorporated (Aust) Pty Ltd	60,000,000	9.02
Citicorp Nominees Pty Limited	44,135,460	6.64
National Nominees Limited	19,236,367	2.88
HSBC Custody Nominees (Australia) Limited	18,884,825	2.84
AJP Investment Services Pty Ltd <Camnat Super Fund A/C>	8,815,344	1.33
Medi Info Pty Ltd	7,000,000	1.05
Communications Power Incorporated (Aust) Pty Ltd	5,400,000	0.81
Ace Property Holdings Pty Ltd	5,200,000	0.78
CK Super Pty Ltd <CK Super Fund A/C>	4,700,000	0.71
CVC Limited	4,637,864	0.70
Sun Phoong Corporation Pty Ltd	4,549,940	0.68
Napier Earthquake Company Pty Ltd <Superannuation Fund A/C>	4,500,000	0.68
Mr John Schotkamp	4,500,000	0.68
Medi Info Pty Ltd <Tauber Family A/C>	4,243,146	0.64
HSBC Custody Nominees (Australia) Limited - GSCO ECA	4,164,501	0.63
L & G Super Fund Pty Ltd <Gunn & Taylor Exec S/F A/C>	3,330,000	0.50
Mr Jason Alan Carroll	3,314,147	0.50
Model Sites Pty Ltd	3,000,000	0.45
Total top 20 shareholders	373,852,281	56.20
Total remaining holders balance	291,328,980	43.80
Total issued shares	665,181,261	100.00

6. Geographic location of shareholders by registered address:

	Number of shareholders	Number of shares
Australian Capital Territory	505	4,526,265
New South Wales	9,133	288,315,745
Northern Territory	66	532,442
Queensland	4,376	33,463,802
South Australia	1,887	19,768,624
Tasmania	837	3,705,708
Victoria	14,777	269,786,378
Western Australia	1,788	18,511,633
Total Australia	33,369	638,610,597
Canada	125	871,475
Germany	51	32,438
Hong Kong	29	9,131,104
Ireland	22	503,505
New Zealand	586	6,057,054
Singapore	23	125,623
Spain	58	390,298
Switzerland	72	201,850
United Kingdom	617	1,831,423
United States of America	995	4,347,465
Other	83	3,078,429
Total Overseas	2,661	26,570,664

7. Register of substantial shareholders

The names of substantial shareholders of the Company as disclosed in the substantial shareholder notifications to the Company are as follows:

	Number of shares	Percentage of total share capital held
Allan Gray Australia Pty Ltd	111,814,965	16.81
Hishenk Pty Ltd	79,650,000	11.97
Communications Power Incorporated (Aust) Pty Ltd	55,500,000	8.34

8. Unquoted equity securities

Issued pursuant to the PaperlinX Employee Share/Option Plan.

Options

Options over ordinary shares issued at either no cost or a cost of one cent per option exercisable at prices ranging from \$Nil to \$5.13 per share.

The vesting of certain options depends on the achievement of PaperlinX's long-term incentive plan performance conditions.

- Number of employees participating 5
- Number of securities 12,061,100

Performance rights

The Company has issued performance rights to certain senior management. Each performance right gives a contingent interest to one PaperlinX ordinary share.

The vesting of performance rights depends upon the achievement of PaperlinX's long-term incentive plan performance conditions.

- Number of employees participating nil
- Number of securities nil

9. Company Secretary

Mr Frank Glynn and Mr Wayne Johnston.

FIVE YEAR HISTORY

FOR YEARS ENDED 30 JUNE

	Actual 2016	Actual Restated ⁽¹⁾ 2015	Actual 2014	Actual 2013	Actual 2012
(\$AUD million except where indicated)					
Paperlinx consolidated financial performance					
Sales revenue	423	2,020	2,833	2,806	4,113
Profit/(loss) from ordinary activities before income tax	6.7	(388.4)	(52.5)	(85.5)	(251.5)
Profit/(loss) from ordinary activities after income tax	5.3	(392.3)	(63.6)	(92.8)	(266.7)
Earnings from ordinary activities before significant items, interest and income tax by segments ⁽²⁾					
Merchanting Australia	5.3	9.0	n/a	n/a	n/a
Merchanting New Zealand	7.2	6.2	n/a	n/a	n/a
Merchanting Asia	1.6	0.6	n/a	n/a	n/a
Merchanting Australia, New Zealand, Asia	n/a	n/a	15.3	12.6	10.9
Unallocated	(9.6)	(12.6)	(11.8)	(13.3)	(22.8)
Merchanting Europe Exit	n/a	n/a	(8.0)	n/a	n/a
Merchanting Europe	n/a	n/a	n/a	(35.8)	(23.6)
Merchanting Canada	n/a	n/a	n/a	12.3	8.3
Underlying (loss)/profit before interest and income tax	4.5	3.2	(4.5)	(24.2)	(27.2)
Discontinued operations	(4.4)	(34.4)	(2.7)	2.7	8.0
Total EBIT pre significant items	0.1	(31.2)	(7.2)	(21.5)	(19.2)
Significant Items	7.7	(346.7)	(32.6)	(51.7)	(214.0)
Total EBIT post significant items	7.8	(377.9)	(39.8)	(73.2)	(233.2)
Financial statistics					
Depreciation, amortisation and impairment expense	(1.3)	(71.6)	(7.9)	(38.7)	(145.9)
Net interest expense	(1.1)	(10.5)	(12.7)	(12.3)	(18.3)
Cash flow from operating activities	(14.0)	(58.1)	50.7	(41.7)	(62.3)
Capital expenditure - acquisitions	-	5.0	-	3.1	-
Capital expenditure - plant & equipment	1.9	3.9	7.6	9.0	14.0
Financial position summary					
Current assets	187	245	920	1,003	1,104
Non-current assets	39	40	147	158	195
Total assets	226	285	1,067	1,161	1,299
Current liabilities	85	145	461	531	675
Non-current liabilities	1	11	293	268	177
Total liabilities	86	156	754	799	852
Net assets / total shareholders' equity	140	129	313	362	447
Financial ratios					
Basic earnings per share (cents)	0.8	(59.0)	(7.0)	(15.2)	(43.8)
Earnings per share growth (%)	101.4	(742.9)	53.9	65.3	(104.7)
Return on average funds employed (%)	7.2	(110.1)	(7.9)	(13.6)	(25.5)
Return on average shareholders' equity (%)	3.9	(165.0)	(18.4)	(23.5)	(40.5)
Net tangible assets (\$ millions)	111	102	210	251	312
Net interest cover (times)	7.3	(36.0)	(3.1)	(6.0)	(12.7)
Gearing (Net debt/net debt and shareholders' equity) (%)	(28.1)	(50.3)	23.0	25.3	24.8
Gearing (Net debt/shareholders' equity) (%)	(22.0)	(33.4)	29.9	33.9	33.0
Other information					
Fully paid ordinary shares as at 30 June (millions)	665.2	665.2	665.2	609.3	609.3
Weighted average number of shares (millions)	685.2	665.2	628.6	609.3	608.3
Number of shareholders as at 30 June	36,030	37,113	39,742	41,719	44,619
Employee numbers as at 30 June	445	625	3,459	4,042	4,850

(1) The comparative amounts disclosed have been re-presented as if the operations discontinued during the current year had been discontinued from the start of the comparative year.

(2) As defined in the respective reporting periods.

Investor information

Share Registry

Shareholders with queries about anything related to their shareholding, including updating their personal details, should contact the Spicers Limited Share Registry in Melbourne, Australia:

- by telephone (within Australia) 1300 662 058 or (outside Australia) +61 3 9415 4021
- by facsimile +61 3 9473 2555
- by going online at www.investorcentre.com

Alternatively, shareholders may wish to write to: Spicers Limited Share Registry, Computershare Investor Services Pty Ltd, GPO Box 2975, Melbourne, Victoria 3000, Australia.

Details of individual shareholdings can be checked conveniently and simply by visiting our Share Registry's website at www.investorcentre.com to log in as an existing user or register as a new user. New users need to key in their Securityholder Reference Number (SRN) or Holder Identification Number (HIN), a postcode and a company name or ASX code to enable access to personal information.

Tax file numbers

Spicers Limited is required to withhold tax at the rate of 49 per cent on any unfranked component of dividends or interest paid to investors resident in Australia who have not supplied the Company with a tax file number (TFN) or exemption form. Investors are not required by law to provide their TFN if they do not wish to do so.

Transfer of shares off-market

Following the introduction of new legislation, a fee of A\$62 (including GST) is required to cover a fraud prevention security check on the authenticity of the seller details. Details of fees and the process required can be obtained from the Spicers Limited Share Registry. No stamp duty is payable on off-market transfers.

Annual General Meeting

The 2016 Annual General Meeting of Spicers Limited will be held at the Computershare Conference Centre, Yarra Falls, 452 Johnston Street, Abbotsford, Melbourne, Victoria 3067, Australia on Friday 11 November 2016 at 10am (Melbourne time). Registration will commence at 9:30am.

Financial calendar

Interim Results 2017 – February 2016

Full Year Results 2017 – August 2017

Securities exchange listing

Spicers Limited shares are listed on the ASX. All shares are recorded on the principal share register, which is located in Victoria, the state of incorporation of Spicers Limited. The Company's ASX code is 'SRS'.

Sources of information

Annual Report 2016

The Annual Report can be accessed and downloaded from the Spicers Limited website at www.spicerslimited.com.au. A printed copy will be sent to those shareholders who have elected to receive it. If you wish to change your Annual Report election, please go to www.investorcentre.com. Alternatively, call the Spicers Limited Share Registry, as per the contact details opposite.

Spicers Limited website

A range of corporate information, including ASX Releases, Financial Reports, and the addresses to the Annual General Meeting, may be obtained from www.spicerslimited.com.au.

This investor information is available from the 'Investor Information' section of the website.

Annual Report 2016

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www.spicers.com.au

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Spicers Limited Share Registry

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