# APPENDIX 4E - PRELIMINARY FINANCIAL REPORT

**(Rules 4.3A)**

| | |
|---|---|
| **Name of entity:** | **SPICERS LIMITED** |
| **ABN:** | **70 005 146 350** |
| **For the year ended:** | **30 June 2016** |
| Previous corresponding period: | 30 June 2015 |

## Results for announcement to the market

| | 2016<br>A$000 | 2015<br>Restated *(1)*<br>A$000 | | % Change |
|---|---|---|---|---|
| External revenues from ordinary activities: | | | | |
| • continuing operations | 392,682 | 401,890 | down | 2% |
| • discontinued operations | 30,120 | 1,617,688 | down | 98% |
| | 422,802 | 2,019,578 | down | 79% |

| | 2016<br>A$000 | 2015<br>Restated *(1)*<br>A$000 | | % Change |
|---|---|---|---|---|
| Net profit/(loss) for the period after tax: | | | | |
| • continuing operations | 1,497 | (14,089) | up | 111% |
| • discontinued operations | 3,799 | (378,237) | up | 101% |
| | 5,296 | (392,326) | up | 101% |
| attributable to: | | | | |
| Equity holders of Spicers Limited | 5,296 | (392,326) | up | 101% |

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

## Dividends

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

## Commentary on results for the period

Refer to press release for explanation of results

## Net tangible assets per security

| | | 30 June 2016 | 30 June 2015 |
|---|---|---|---|
| Net tangible assets attributable to ordinary shareholders and PaperlinX Step-up Preference Securities holders | A$000 | 110,937 | 102,121 |
| Net tangible assets per ordinary security | | $(0.22) | $(0.23) |

## Details of entities over which control has been gained or lost

Control lost over the following entities effective 19 October 2015:

Deutsche Papier Holding GmbH

PaperlinX VTS GmbH

PaperlinX Deutschland GmbH

Control lost over the following entity effective 23 February 2016:

Winpac Paper Pte Ltd

### Dividend reinvestment plan

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

### Details of associates and joint ventures

N/A

**Information on audit or review**
This report is based on accounts to which one of the following applies.

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

The Auditor's report contains an 'emphasis of matter regarding contingent liabilities'.

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

Frank Glynn
Company Secretary
Date: 26 August 2016

# FINANCIAL REPORT

of Spicers Limited

30 June 2016

Spicers

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## CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2016

| | Note | 2016<br>$000 | 2015<br>Restated *(1)*<br>$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:** | | | |
| *Items that will not be reclassified to profit or loss* | | | |
| 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 |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| 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 |
| *Items reclassified to profit or loss* | | | |
| 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

| $000 | Issued capital | Exchange fluctuation reserve | Reserve for own shares | Employee share plans reserve | Accumulated losses | PaperlinX step-up preference securities | Total equity |
|---|---|---|---|---|---|---|---|
| | Attributable to equity holders of Spicers Limited | | | | | | |
| **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.*

## 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 merchanting of paper, communication materials and diversified materials, including packaging and sign and display.

## Note 2. Basis of preparation

### (a) Statement of compliance

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

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

## 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.

## 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.

## 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.

## 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.

## 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:<br>- Australia<br>- New Zealand<br>- 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. |

## 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.*

### Note 6. Individually significant items

| | | Continuing | | | Discontinued | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|
| For the year ended 30 June | Note | Pre -tax $000 | Tax impact $000 | Post -tax $000 | Pre -tax $000 | Tax impact $000 | Post -tax $000 | Pre -tax $000 | Tax impact $000 | Post -tax $000 |
| **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 earning 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.*

### Note 9. Net finance costs from continuing operations

| | 2016 $000 | 2015 Restated *(1)* $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 $000 | 2015 Restated *(1)* $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).

## Note 11. Discontinued operations

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

**Discontinued Merchanting**

Discontinued merchanting comprises operations in Europe and North America.

*Europe*

Predominantly comprises:

Germany – paper merchanting operation and its immediate parent entity commenced administration processes on 19 October 2015 and progressed to full insolvency proceedings on 28 December 2015. The German operations were derecognised in the 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 Merchanting | | North America Merchanting | | 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 | 2015 Restated |
|---|---|---|
| | $000 | $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) |

## 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).

### 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 |

## 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.

## 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<br>$000 | 2015<br>$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).

## 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** | | | |
|---|---|---|---|---|---|---|---|---|---|
| **2016** | | **Land** | **Buildings** | **Plant and equip't** | **Total** | **Goodwill** | **Computer software** | **Other intangibles** | **Total** |
| 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) |

## 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 |

### 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).*

## 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 | Restruct-uring | 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 | Restruct-uring | 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 | Restruct-uring | 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.*

## 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.

## 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 |

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

| | | | | | Number of options | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Grant date | Initial measurement/ service date | Expiry date | Exercise price | Fair value at date of grant | Opening balance | Granted | Lapsed | Exercised | Closing balance | Exercisable at balance 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.

### 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) |

### 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.

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

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.

### 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).

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

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.

### 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.*

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

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 |

**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 |
| Acquistion 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.

| | | Contractual Cash Flows | | | |
|---|---|---|---|---|---|
| | Carrying amount $000 | 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 | - | - |

## 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:

| | 2016 | | | | |
|---|---|---|---|---|---|
| **Exposure (in local currency)** | **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) |

| | 2015 | | | | |
|---|---|---|---|---|---|
| **Exposure (in local currency)** | **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.

## 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).

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

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

| | | Carrying amount | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|
| **$000** | **Note** | **Fair value hedging instru-ments** | **Loans and receiv-ables** | **Other financial assets/ liabilities** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **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 liabilites not measured at fair value** | | | | | | | | | |
| Trade and other payables | | - | - | (55,045) | (55,045) | | | | |
| Bank loans - secured | 23 | - | - | (4,893) | (4,893) | - | (5,020) | - | (5,020) |
| | | - | - | (59,938) | (59,938) | | | | |
| **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 liabilites 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.

## 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.*

**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) |
| | - | (32,742) |
| 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) |

## 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 $000 | 2015 $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).

## 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.*

## 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**

| | Parent Entity | |
|---|---|---|
| **For the year ended 30 June** | **2016 $000** | **2015 $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) |

## Note 33. Parent entity disclosures – (continued)

### Statement of Financial Position

| | Parent Entity | |
|---|---|---|
| **As at 30 June** | **2016** **$000** | **2015** **$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) |
| *Equity* | | |
| 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** **$000** | **2015** **$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** **$000** | **2015** **$000** |
|---|---|---|
| Capital expenditure contracted but not provided for: | | |
| • Property, plant and equipment | 107 | 829 |
| **Total capital expenditure commitments** | 107 | 829 |

## 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).

## 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<br>$ | 2015<br>$ |
|---|---|---|
| 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.

## 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*

| | Deed of Cross Guarantee Consolidated | |
|---|---|---|
| **For the year ended 30 June** | **2016<br>$000** | **2015<br>$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) |

**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).

## 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** | **Wayne Johnston** |
| Chairman | 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