Spicers

SPICERS ANNUAL REPORT 2018

Contents

Forward Looking Statements

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

Spicers is a dynamic and solutions-focused distribution business with an extensive network in the geographies we serve.

We offer a full suite of products and services to our customers, incorporating commercial print, digital media, label & packaging, industrial packaging, sign & display consumables and hardware, and architectural offerings.

We offer our customers exemplary products and service, and we aspire to be their business partner of choice by delivering on our promises, every day.

About Spicers

Spicers is a dynamic and solutions-focused company with a passion for supplying quality materials, equipment and solutions to our customers in the commercial print, labelling, graphics, signage, visual display and architectural industries.

A leader in our traditional market of commercial print paper products, we now hold significant positions in our growth markets: digital media, label & packaging materials, industrial packaging supplies, sign & display consumables and hardware, and architectural.

We aim to be the business partner of choice for our customers, by delivering on our promises, every day.

Commercial print

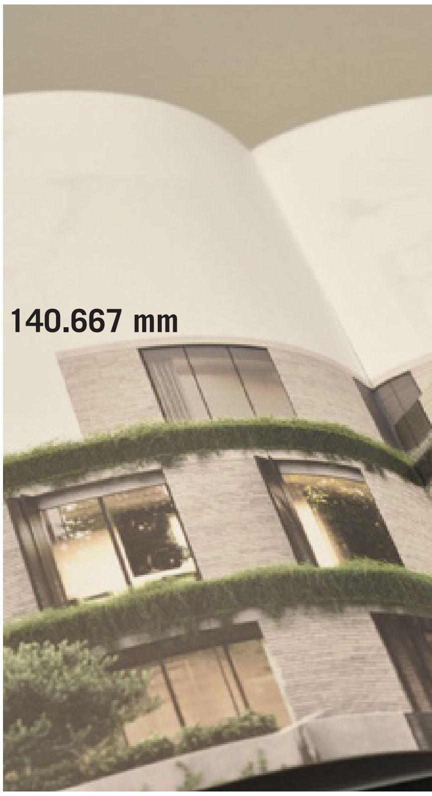
Welcome to the City of Harrington Promotion on Revive Laser. Proudly supporting and reviving the City of Harrington. Based on collateral that municipal councils produce, we have linked application based examples to Revive Laser. Revive Laser is a 100% recycle uncoated paper with good opacity, stiffness and an excellent surface for printing. With exceptional dimensional stability, Revive Laser provides precise registration. As wonderful as it looks, the City of Harrington is unfortunately a fictional place.

Digital media

We want you to stand out from the crowd and be noticed, so Spicers produced these functional and fluorescently fabulous notebooks. Printed on Celestial Blue, Martian Green, Solar Yellow and Fireball Fuchsia Covers & Pacesetter Laser Recycled text 100gsm.

Label & packaging

Marienberg wines was a successful 1970s family wine brand operated by Australia's first female commercial winemaker, Ursula Pridham. Recently brought back to the family by Ben Pridham, Ursula's son, their first release flagship wines have been designed by Beanstalk and digitally printed with a matte varnish, spot screen gloss and die cut to shape by CCL Labels on Spicers Manter Crystal Salt PET.



Stephen as a brand has been affiliated with Spicers for some time. This coloured, textured specialty paper range is both timeless, and organic. The brochure takes on a descriptive narrative which follows the journey of the Stephen brand to its present day status. This is a similar journey taken in the property development space, where a renewed focus on developments has seen a uniqueness in design aesthetics, with a link to sustainability. Lifestyle images feature throughout the piece, as does a floor plan and map of the location and surrounding areas, all themed back to the 'Stephen' brand.

Sign & display

Our dtec™ films include white block out PP films and grey backed PET films that are designed for high-quality Solvent, Latex and UV printing. Also playing a role is our heavyweight grey-backed PVC/PET composite film suitable for Solvent and UV printing.

3M™ Window Films are a new addition to our architecture & interior design portfolio. Our range offers solutions to automotive windows, vehicle wraps, safety and security, commercial and residential, architectural and decorative categories.

Message from the Chairman

'On behalf of the Spicers Board, I am pleased to update our shareholders, employees, suppliers and our customers on developments for the Company over the last 12 months.'

Jonathan Trollip, Chairman

In the 2017 Annual Report I commented that the then new Board was broadening its understanding of all relevant aspects of the Company's business, to enable it to assess opportunities for Spicers and thereby seek to maximise the Company's performance. It is very pleasing to report that, some 12 months later, and after working very closely with our CEO David Martin and his team, significant progress has been made on numerous fronts.

David's CEO message contains details of the markedly improved performance of the Company's underlying business operations in the financial year ended 30 June 2018 (FY2018). This is, in large part, due to the hard work by David, his team and all employees. It is also pleasing that corporate costs have reduced to a level more appropriate for the current size and scale of the Company's operations.

We acknowledge, however, that Spicers operates in challenging markets. Given this, the Company must remain conscious of the ongoing need to benchmark and assess its operations, to ensure the ongoing sustainability of the Company's business.

One of the outcomes of these assessments was the decision announced on 26 September 2018 to sell the Asian operations, subject to satisfaction of certain conditions, including Competition and Consumer Commission of Singapore approval. This sale, assuming completion, will allow the Company to focus exclusively on its Australian and New Zealand businesses, seeking to optimise their profit returns and free cash flows via a combination of strong market engagement, a sharp focus on cost control, and effective working capital management.

The Company is on a very solid financial footing, as evidenced by its strong net cash position. Additionally, during the past year, various legacy issues have been satisfactorily progressed, and it is gratifying that the Company received an unqualified Independent Auditor's Report in FY2018, with the emphasis of matter qualification in previous audit reports now removed.

The net cash position of the Company, combined with capital expected to be realised upon the completion of the sale of the Asian operations, will allow the Board to consider options for a distribution to shareholders, and any other future opportunities available to enhance shareholder value. We expect to be able to update the market on this in time for the Company's 2018 Annual General Meeting, scheduled for 15 November 2018.

I acknowledge the efforts of my fellow Directors over the past year. With Board members having a broad mix of operational, commercial, financial and governance experience, there have been many productive and stimulating exchanges of views among the Board, and once decisions are made, all Board members have been supportive. The Board continues to be committed to overseeing the Company with full transparency, integrity and accountability.

As a Board, we thank our customers and our suppliers for continuing to trust the Company with your business. Thank you to all our employees for your continuing efforts, as reflected in Spicers improved operational performance. To all our shareholders, thank you for your continuing support.

Jonathan Trollip
Chairman

Message from the Chief Executive Officer

‘I am pleased to report significant improvements in underlying EBIT[1] and operating cash flow performance in the 2018 financial year. We continue to deliver on our promises to all stakeholders and, along with the Board, intend to further develop our strategies to enhance our value to customers and shareholders.’

David Martin, Chief Executive Officer

The Year in Review

We have incredibly strong and effective teams in each geography we operate in, and I want to thank them, along with our customers, for their efforts and support during the year.

Sales revenue of $384.0m for the financial year ended 30 June 2018 (FY2018) reflects growth across our key product categories during the year. This growth has been driven by our strong focus on customer and market engagement. A return to growth in Print & Packaging, and continued growth in Sign & Display consumables categories, contributed almost $3m to underlying gross profit improvement in the period.

Group underlying EBIT[1] of $8.0m for FY2018 was up 63.1% on the prior corresponding period (pcp). All operating businesses delivered results ahead of pcp in local currency terms, driven by a combination of strong trading and substantial operating cost reductions, particularly in Australia.

A net cash inflow from operating activities of $17.3m in the year represented an increase of $11.0m compared to pcp. Our continued focus on working capital and cash management delivered this strong result, as illustrated by an earnings cash conversion[1] ratio of 192.0% for FY2018. Inventory balances were $8.7m lower than pcp, with ongoing product portfolio reviews trimming the number of items in continuing stock ranges.

Sign & Display continues to provide a growth opportunity for our business, with more product opportunities to explore. We exited the building cladding projects linked to this portfolio during the year, in favour of other more attractive opportunities in architectural and interior design categories.

The integration of the Sign Technology Ltd acquisition in FY2018 has provided our New Zealand business with an immediate, significant presence in the LED and Neon lighting components sector, and our Australian businesses with access to strong global brands in a market sector where we previously had a relatively small presence.

Headcount reductions in our Australian organisation delivered labour cost savings of $2.2m in FY2018, and other cost savings from reduced corporate administrative activities will deliver further full year ‘run-rate’ cost savings going forward.

For instance, the successful implementation of a buy-back of unmarketable parcels of Spicers shares in January 2018 has simplified our share registry to a point where related annualised costs have been reduced by $0.3m. In addition, annualised cost savings of $0.6m were recently achieved in tendering and better managing our insurance portfolio requirements.

These actions helped deliver a statutory profit after tax of $3.5m for FY2018, up 107.5% on pcp, with further annualised cost savings expected to support our forward plans.

Strategic Progress and Outlook

Building on the strong year now behind us, we plan to further deliver with a focus on:

- Our continuing market engagement and portfolio segmentation strategies, which are designed to deliver strong organic growth and profit returns in each product category.
- New category growth in Architectural products, which will enable us to capture growth in the building, interior design and security sectors, via strong supplier partnerships such as the 3M™ Window Films agency recently secured in Australia.
- Utilising our ‘LEAN’ culture to drive further operational efficiencies, with a particular focus on freight and space utilisation.
- Further reductions in working capital, in order to free up cash and fund future business growth initiatives.

Our strategy going forward continues to be focused on generating profitable revenue growth and optimising free cash flows. These strategies are the focus in every geography in which we operate, and the Company is in an excellent position to improve even further on the returns generated in FY2018.

David Martin
Chief Executive Officer

(1) Non-IFRS measure – refer page 14.

Operating and Financial Review

Principal business activities

Spicers is a leading distributor and provider of services to customers in commercial print, sign & display, pressure sensitive labelling, architectural and packaging market sectors.

Spicers stock and distribute a wide range of products and services in two broad market sectors:

Print & Packaging categories

A broad range of products are supplied to customers, covering traditional commercial print and packaging uses, including industrial packaging materials, through to expanding digital print and pressure sensitive labelling applications.

Products and services include:

A. coated and uncoated fine papers (many with recycled content);

B. carbonless paper;

C. speciality papers – coloured, textured, embossable;

D. synthetic papers;

E. digital (high speed inkjet) papers;

F. cardboard packaging materials;

G. pressure sensitive label materials; and

H. other industrial packaging products, ranging from protective packaging through to wrapping films and self-adhesive tapes.

Sign & Display and other diversified categories

A wide array of products and services are provided to customers in the graphics, signage, visual display, and interior fit-out industries. From point-of-sale graphics and vehicle wraps, through to shop fit-out and architectural applications, Spicers has a solution to meet customers' needs.

Products and services include:

A. flexible vinyl substrates – cut and coloured to suit a wide variety of applications;

B. rigid substrates – a broad range of sign & display substrates;

C. pressure sensitive films and wraps – coloured, reflective and protective materials for a varied range of applications;

D. wide format printing equipment and inks;

E. print media and finishing products – roll media and protective laminates;

F. LED display products and components; and

G. architectural – interior and window film solutions to suit varied fit-out and renovation applications.

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

Strategic direction and prospects

Spicers' principal strategic focus is to be the supplier of choice in its chosen markets and for its businesses to maximise returns in commercial print and packaging markets, while driving profitable revenue growth in sign & display and other diversified market sectors.

Using a structured market and product segmentation approach, Spicers aims to achieve this by a combination of:

I. maximising returns in the commercial print and packaging market sectors, by leveraging off strong market positions, established national logistics footprints and valuable long-standing relationships with suppliers and customers; and

II. driving strong organic growth in sign & display and other diversified market sectors, using structured product categories to identify opportunities and develop positioning to meet market demand and customer needs. Opportunities to secure new brand and agency partnerships with suppliers are an important element of this organic growth strategy. Occasional 'bolt-on' acquisitions, funded out of free-cash flow while mindful of the capital cost involved, may be utilised from time-to-time to further accelerate growth in attractive market sectors.

Strong market engagement with customers, operational excellence via developing a 'LEAN' culture in the business, and a focus on employee development are key areas to assist in executing Spicers' strategy.

Significant changes (including acquisitions and divestments)

There were no significant changes in the structure, or state of affairs, of the Company during the financial year ended 30 June 2018.

Financial review for the year ended 30 June 2018

Reported earnings and cash flows were substantially up on prior year:

- Statutory profit after tax was $3.5m for the full year ended 30 June 2018 (FY2018), 107.5% higher than the prior corresponding period (pcp).
- Underlying EBIT (1) for FY2018 was $8.0m, up $3.1m (63.1%) on pcp.
- Net cash inflow from operating activities was $17.3m in FY2018, an improvement of $11.0m (174.5%) on pcp.

Net sales revenue of $384.0m returned to growth, 0.9% higher than pcp. Print & Packaging and Sign & Display revenue streams both grew, at 0.5% and 2.6% respectively.

All Regional Segments delivered local currency underlying EBIT (1) results ahead of pcp, via a mix of healthy trading results in key product categories and broad reductions in operating costs.

Australian FY2018 underlying EBIT (1) of $4.2m was 80.6% higher than pcp, an overall result driven by improved trading in key product categories. Restructuring in the Australian organisation (including Corporate) delivered labour cost savings of $2.2m in FY2018, up on previous expectations.

Australia's FY2018 result included a loss on building cladding projects of $1.9m. This category has been exited, with the total estimated contract loss on the final project booked in the FY2018 result.

New Zealand delivered FY2018 underlying EBIT (1) of $7.4m, up 1.2% in local currency terms, with solid profitability across product categories and tight control of trading expenses contributing to this result.

Asia's FY2018 underlying EBIT (1) of $2.2m was 18.1% higher than pcp in local currency terms, driven by strong sales in Print & Packaging categories.

Underlying Corporate costs were $0.9m (13.6%) lower than pcp, with savings realised across all key expense areas.

Profit after tax from continuing operations was $3.6m, significantly up on pcp by $3.2m, with a similar level of restructuring costs, $2.0m, in both periods. A small loss of $0.1m on discontinued operations was recorded in FY2018.

FY2018 net cash inflow from operating activities was $17.3m, substantially up 174.5% on pcp, driven by a sharp reduction in net working capital levels.

The net assets of the Group as at 30 June 2018 were $136.9m.

(1) Non-IFRS measure – refer page 14.

Operating and Financial Review
continued

Financial results summary

Spicers Limited reported a statutory profit after tax of $3.5m and group underlying EBIT [1] of $8.0m for the year ended 30 June 2018. All amounts are stated in Australian dollars ($), unless noted otherwise.

Results Summary		Actual 2018	Actual 2017
Net sales revenue	$000	384,044	380,666
Earnings before interest and tax – continuing	$000	5,924	2,822
Underlying earnings before interest and tax [1]	$000	7,959	4,880
Profit before tax – continuing	$000	5,797	2,467
Profit after income tax – continuing	$000	3,578	387
(Loss)/profit after income tax – discontinued	$000	(67)	1,305
Statutory profit after tax	$000	3,511	1,692
Net working capital [1]	$000	75,391	86,099
Average working capital/sales revenue [1]	%	22.9	24.2
Net cash flow from operating activities	$000	17,255	6,287
Cash conversion – continuing [1]	%	192.0	108.8
Basic earnings per share [2]	cps	0.2	0.2
Dividend per ordinary share	cps	nil	nil
FTEs – continuing		401	430

The following table shows net sales revenue and underlying EBIT [1] by operating segment for the year ended 30 June 2018.

		Net Sales Revenue		Underlying EBIT [1]	
Operating Summary		**2018**	**2017**	**2018**	**2017**
Segment:					
Australia	$000	204,404	201,816	4,236	2,345
New Zealand	$000	93,451	101,058	7,387	7,477
Asia	$000	86,651	78,035	2,205	1,851
Corporate/eliminations	$000	(462)	(243)	(5,869)	(6,793)
Total continuing operations	**$000**	**384,044**	**380,666**	**7,959**	**4,880**
Discontinued operations	$000	–	–		
Total	**$000**	**384,044**	**380,666**		

(1) Non-IFRS measure – refer page 14.
(2) FY2017 basic earnings per share included in the 'Results Summary' table exclude an exceptional, non-cash, gain of $209m, taken directly to retained earnings as a transaction with owners, that resulted from the Company's acquisition of SPS Units as part of a Trust Scheme to simplify the Company's capital structure. Statutory reported basic EPS including this exceptional accounting gain was 30.9 cents.

Revenue

Net sales revenue of $384.0m was $3.4m (0.9%) higher than pcp.

The chart below gives a breakdown of the Group's net sales revenue by product portfolio categorisation (refer to the 'Operating Performance by Regional Segment' section for commentary by regional operating business):

Net Sales Revenue		2018	2017	% Change
Print & Packaging	$000	304,712	303,320	0.5
Sign & Display	$000	79,332	77,346	2.6
Total revenue – continuing	**$000**	**384,044**	**380,666**	**0.9**

Net sales revenue from Print & Packaging categories was 0.5% up on pcp. This represents a turnaround on prior periods, with strong market engagement and pricing strategies across all product portfolios driving an improvement.

Sales revenue from Sign & Display categories continued to grow, up 2.6% on pcp. Media and consumables sales revenue grew solidly in both Australia and New Zealand, up by 6.9% on pcp. Revenue from hardware sales, which provide lower profit returns for Spicers than media and consumables, was behind pcp in challenging market conditions.

A return to growth in overall net sales revenue represents progress in comparison to prior years, with management focus on customer engagement and price management strategies within product portfolio categories driving this improved performance.

Earnings and Statutory Profit

Group underlying EBIT [(1)] of $8.0m was significantly up by 63.1% on pcp. All regional operating businesses delivered results ahead of pcp in local currency terms, driven by a combination of solid trading results across product portfolios and substantial operating cost reductions.

Restructuring in the Australian organisation (including Corporate) delivered labour cost savings of $2.2m in FY2018, ahead of previously announced expectations. Further cost reductions were also realised from initiatives across a broad range of expense areas. For example, the 'less than marketable parcel' share buy-back completed in January 2018 led to reduced shareholder numbers and registry related costs.

As a result, underlying corporate costs for FY2018 were $0.9m (13.6%) less than pcp. Many of the initiatives to streamline corporate activities and expenses were delivered in the second-half of FY2018, and are therefore expected to lead to lower 'year-on-year' underlying corporate costs in FY2019 as full-year cost savings are realised.

Continuing profit after tax for FY2018 was $3.6m, a substantial improvement of $3.2m on pcp. A similar level of restructuring costs, $2.0m, were incurred in both periods.

A small loss after tax on discontinued operations of $0.1m arose in FY2018. Costs from foreign exchange movements on overseas loan balances were offset by the reversal of a tax provision following the close-out of a tax audit on the Company's previous Canadian operations. A profit after tax from discontinued operations of $1.3m was recorded in the pcp, caused by the 'one-off' final settlement of obligations in Germany and the reversal of a related provision.

Statutory profit after tax for FY2018 was $3.5m compared to $1.7m in the pcp. This significant increase of 107.5% was driven by the improved earnings of continuing operations in FY2018.

Cash Flow and Working Capital

Net cash inflow from operating activities for FY2018 was $17.3m, representing a substantial increase of $11.0m (174.5%) compared to pcp.

This was driven by a combination of higher operational cash inflows from the improved earnings of continuing operations, and strong cash inflows from a sharp reduction in net working capital balances.

As a result, the Group's cash conversion [(1)] ratio for FY2018 was an impressive 192.0%, versus 108.8% in the pcp.

Net working capital [(1)] balances were $10.7m lower than pcp. Inventory levels and ageing continue to be tightly managed, with product portfolio ranges subject to ongoing reviews, which led to a reduction in inventory balances of $8.7m compared to pcp. Debtor and creditor 'days' payment terms also improved in comparison to pcp.

The Group's average working capital to sales revenue [(1)] ratio for FY2018 was thus improved to 22.9%, 130 basis points lower than pcp.

(1) Non-IFRS measure – refer page 14.

Operating and Financial Review

continued

Operating performance by regional segment

Australia

		2018	2017	% Change
Net sales revenue	$000	204,404	201,816	1.3
Profit before interest and tax	$000	3,217	1,533	109.8
Underlying EBIT [1]	$000	4,236	2,345	80.6
Underlying EBIT/sales revenue [1]	%	2.1	1.2	90 bpts
Expense/sales revenue	%	20.5	21.2	(70) bpts
Net working capital [1]	$000	43,985	55,387	(20.6)
Average working capital/sales revenue [1]	%	25.1	27.4	(230) bpts

Australia's FY2018 sales revenue was 1.3% higher than pcp. Print & Packaging revenue was marginally ahead of pcp. Effective customer service, and tight control of pricing in an environment of rising product input costs, contributed to this improvement in comparison to the declines of previous periods.

Sales revenue from Sign & Display media and consumables categories grew vigorously, driven by strong market engagement with customers across all Australian States. Revenue from hardware sales was down on pcp in a challenging market environment.

Australian underlying EBIT [1] of $4.2m was up 80.6% on pcp due to a combination of higher gross profits across Print & Packaging and Sign & Display categories and reduced operating costs.

The Australian business incurred a loss of $1.9m on building cladding projects in FY2018. This category has been exited, and the total estimated contract loss on the final project has been booked in the FY2018 result. A customer bad debt of $0.5m also impacted upon Australia's FY2018 result.

Excluding costs related to building cladding projects and the customer bad debt, Australia's trading expenses were $2.0m lower than pcp. These operating cost savings were delivered via a combination of reduced labour costs from restructuring of the Australian organisation, and multiple cost reduction initiatives across other key expense areas, such as premises costs, IT and travel.

Australia's net working capital [1] was $11.4m lower than pcp. This significant reduction was primarily due to lower inventory levels from a sharp management focus on product portfolio ranges and inventory ageing, and improvements in both debtor and creditor payment terms. Australia's FY2018 average working capital to sales revenue ratio [1] improved by 230 basis points to 25.1% as a result.

New Zealand

		2018	2017	% Change
Net sales revenue	NZD 000	101,338	106,940	(5.2)
Profit before interest and tax	NZD 000	7,733	7,283	6.2
Underlying EBIT [1]	NZD 000	8,010	7,912	1.2
Underlying EBIT/sales revenue [1]	%	7.9	7.4	50 bpts
Expense/sales revenue	%	17.3	17.0	30 bpts
Net working capital [1]	NZD 000	17,350	18,148	(4.4)
Average working capital/sales revenue [1]	%	19.8	19.5	30 bpts

Net sales revenue in New Zealand was 5.2% lower than pcp in flat market conditions, particularly in Print & Packaging categories.

Sign & Display media and consumables sales revenue continued to grow year-on-year, supported by a full year of revenue from the Sign Technology 'bolt-on' acquisition. Sign & Display hardware sales revenue was down on pcp, a difference caused by a significant equipment transaction in the prior year.

Underlying EBIT [1] was 1.2% higher than pcp due to a combination of tight control of pricing, margins, and operating costs.

Trading expenses were NZ$0.7m lower than pcp. Several initiatives delivered cost reductions across key expense lines. Relocation of premises in Auckland and Wellington delivered cost savings of NZ$0.2m in FY2018, and are expected to deliver annualised cost savings of NZ$0.6m going forward.

This contributed to a solid FY2018 underlying EBIT [1] to sales ratio for New Zealand of 7.9%, up 50 basis points on pcp.

Net working capital [1] in New Zealand was NZ$0.8m lower than pcp, off a lower sales base. While New Zealand's average working capital to sales revenue ratio [1] for FY2018 increased by 30 basis point, it is still approximately 5% lower than in Australia and Asia.

(1) Non-IFRS measure – refer page 14.

Asia

		2018	2017	% Change
Net sales revenue	SGD 000	90,126	81,882	10.1
Profit before interest and tax	SGD 000	2,293	1,670	37.3
Underlying EBIT [1]	SGD 000	2,293	1,942	18.1
Underlying EBIT/sales revenue [1]	%	2.5	2.4	10 bpts
Expense/sales revenue	%	8.5	9.5	(100) bpts
Net working capital [1]	SGD 000	17,350	21,082	(17.7)
Average working capital/sales revenue [1]	%	24.5	26.2	(170) bpts

Asia delivered significant revenue growth of 10.1% in FY2018, primarily in Print & Packaging categories across Singapore and Malaysia.

Asia's underlying EBIT was strongly up 18.1% on pcp, continuing the trend set in recent periods. This was driven by a combination of improved pricing and margins, coupled with ongoing tight control of operating costs.

Asia's net working capital [1] was SG$3.7m less than pcp. Inventory levels were down on pcp due to lower goods in transit. Debtor and creditor payment terms also improved. As a result, Asia's FY2018 average working capital to sales revenue ratio [1] of 24.5% was 170 basis points lower than pcp.

Financial position

Consolidated Balance Sheet		As at 30 June 2018	As at 30 June 2017
Current assets	$000	197,957	195,801
Non-current assets	$000	37,492	37,746
Total assets	$000	235,449	233,547
Current liabilities	$000	97,974	99,052
Non-current liabilities	$000	546	571
Total liabilities	$000	98,520	99,623
Shareholders' equity	**$000**	**136,929**	**133,924**
Net cash	$000	45,090	31,841
Funds employed (net assets – net cash)	$000	91,839	102,083

Shareholders equity/net assets of $136.9m at 30 June 2018 was $3.0m higher than pcp. An increase from the FY2018 statutory profit of $3.5m, offset by share buy-back costs of $1.8m on the 'less than marketable parcel' project completed in January 2018, represented the key movements in shareholders equity during the period.

Funds employed at 30 June 2018 were $10.2m less than pcp due to the higher 'net cash' balance at June 2018.

(1) Non-IFRS measure – refer page 14.

Operating and Financial Review
continued

Cash flow and working capital

Cash flow	Continuing $000	Discontinued $000	2018 $000	2017 $000
Operating receipts and payments (excluding working capital movement and restructuring)	**8,353**	**(366)**	**7,987**	**5,886**
Working capital movement	13,989	–	13,989	3,873
Restructuring	(2,163)	–	(2,163)	(860)
Net interest paid	(19)	2	(17)	(467)
Income taxes paid	(2,541)	–	(2,541)	(2,145)
Net cash flow from operating activities	**17,619**	**(364)**	**17,255**	**6,287**
Capital expenditure	(1,334)	–	(1,334)	(877)
Net payments for acquisition of assets and businesses	(795)	–	(795)	–
Net proceeds/(payments) from sale of assets and businesses	31	576	607	(283)
Net cash flow before financing activities	**15,521**	**212**	**15,733**	**5,127**

Net cash inflow from operating activities for FY2018 was $17.3m, compared to $6.3m in the pcp.

Net cash inflow from operating activities for continuing operations was $17.6m, with working capital movements contributing $14.0m to this cash inflow. Inventory balances reduced by $8.7m compared to pcp, while debtor and creditor payment terms were improved across the Group.

Restructuring payments of $2.2m were made in FY2018. These related primarily to restructuring in the Australian organisation, with some payments also made in relation to warehouse relocations in New Zealand.

Capital expenditure of $1.3m in FY2018 primarily related to leasehold improvement and fit-out costs on warehouse relocations in New Zealand. Payments for acquisition of assets and businesses related to the Sign Technology acquisition in New Zealand.

Receipts and payments for discontinued operations offset to contribute to a net cash inflow of $212k in FY2018.

Debt, interest and funding

Cash/(Debt)		June 2018	June 2017	% Change v Actual
Gross debt	$000	–	(2,042)	100.0
Cash and cash equivalents	$000	41,135	29,928	37.4
Short-term deposits	$000	3,955	3,955	–
Net Cash	**$000**	**45,090**	**31,841**	**41.6**

Interest expense		2018	2017	% Change v Actual
Net interest – continuing	$000	127	355	(64.2)
Net interest – discontinued	$000	(1)	1	(200.0)
Net interest expense	**$000**	**126**	**356**	**(64.6)**

Spicers reported a net cash position of $45.1m, up 41.6% on June 2017. No gross debt was drawn at 30 June 2018.

Typically, 30 June represents one of the highest points in the Company's annual cash cycle due to factors such as seasonal patterns in inventory ordering and creditor payments, and strong debtor collections in the run up to year-end. Mid-month cash usage is also often significantly higher than end of month positions due to timings of customer receipts and supplier payments through the month.

Net interest expense for FY2018 was 64.6% lower than pcp due to significantly lower levels of average debt drawn during the period.

The Group's primary financing facilities are in Australia and New Zealand. Both facilities have significant liquidity capacity available and maturity dates that do not fall due until October 2019 (New Zealand) and November 2019 (Australia) respectively.

Material business risks (financial and non-financial)

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

The most recent update of the Company's risk profile was completed in June 2018. Following is a summary of various key risks facing Spicers' business operations as assessed in this update.

1. Structural decline in 'core' paper markets

Paper consumption has been subject to decline due to structural factors, such as changing technologies and consumer preferences for some time, resulting in the Company's 'core' paper products being impacted by falling consumption and/or pricing. While Spicers is focused on growing and maintaining its market positions in the paper-related categories that it operates in, this structural decline is expected to continue.

Existing strategic responses and key business processes to mitigate this risk include structured product category management; focusing on growing paper-related product categories such as digital printing; diversifying into non-paper revenue streams to reduce exposure; restructuring and cost reductions; strong strategic relationships with customers and suppliers; pricing and margin controls; customer credit risk management; and high standards of customer service.

2. Execution of diversification strategy

There is a risk that the level of growth from the Company diversifying into other product markets and revenue streams to reduce reliance on 'core' paper products may not be sufficient to offset the loss of revenues and profits from ongoing structural decline in 'core' paper markets. The nature and risks of any new markets and products diversified into must also be properly understood and managed.

Existing strategies and key business processes to mitigate this risk include targeting strong organic growth in diversified product categories via leveraging existing supplier relationships; developing diversified revenue streams via securing new supplier agencies; and developing people skills and specialist knowledge of diversified products.

3. Competitive and industry landscapes

The Company operates in wholesale and distribution markets, some of which are under structural decline or 'commoditised' in nature. These competitive landscapes can thus be subject to uncertainties caused by industry consolidations, such as has recently occurred in the Australian paper merchanting market, or risks of competitive pressures due to aggressive competitor actions. Supply chain related factors; for example, the nature and extent of supplier 'channels to market' and agency partnerships, and changes in the customer base, for example, consolidation, are also relevant to the competitive landscape.

Existing strategies and key business processes to mitigate this risk include focus on stock availability and the breadth of product offerings; strong customer and supplier relationships; high standards of customer service; pricing and margin controls; and staff retention measures.

4. Cash and financing availability

Effective management of cash and financing availability are relevant to Spicers meeting its strategic and business objectives. Pressures on financing and cash availability may thus reduce the ability of the Spicers Group to support its strategic objectives and to respond to market conditions and opportunities.

Existing strategies and key business processes to mitigate this risk include effective cash flow and liquidity planning processes; management focus on working capital management; reviewing and extending or refinancing funding facilities; and continuous budgeting and forecasting processes.

5. Contingent liabilities relating to the Company's previous European operations

Spicers (then known as PaperlinX) withdrew from its former operations in Europe during 2015. Several European subsidiaries were placed into insolvency proceedings during this period, and some of these insolvency proceedings are ongoing. Legal claims and other exposures for the Company may arise from these proceedings.

There is uncertainty as to whether a future liability may arise in respect of these matters. The amount of any potential liability is unascertainable at this time. Based on current knowledge it is considered unlikely that a material future liability will arise.

Operating and Financial Review

continued

Economic, environmental and sustainability risks

The existence of any material exposures to economic, environmental and sustainability risks was also considered as part of the recent risk profile update. Sustainability and environmental factors relevant to the Company are detailed in the 'Sustainability' section of this Annual Report (pages 15–16), with the key areas being supply chain sustainability factors such as forestry and other environmental certification processes, talent management, and health and safety management.

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

Dividend and distributions

There was no dividend paid on the Spicers ordinary shares for the year ended 30 June 2018.

Non-IFRS information

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

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

- Underlying Earnings Before Interest and Tax (EBIT): statutory profit/(loss) before interest, tax, impairment of non-current assets, restructuring, and results from discontinued operations.
- Net Working Capital: comprises of the sum of trading operations receivables and inventories less payables as at the relevant date.
- Average Working Capital: comprises an average value calculated from monthly Net Working Capital balances in the relevant reporting period.
- Average Working Capital/Sales Revenue: comprises Average Working Capital divided by an annualised sales revenue value extrapolated from sales revenue for the relevant reporting period.
- Cash conversion – continuing percentage: Net cash flow from Operating Activities-continuing expressed as a percentage of Underlying Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA).

Sustainability

1. Our people

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

Engaging and supporting our people

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

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

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

Online employee surveys are conducted to measure engagement and seek feedback. 'Ideas to Life' initiatives are run to foster innovation and continuous improvement within the business.

'LEAN' principles on workforce organisation and waste minimisation were introduced in FY2017, and have continued to be refined in FY2018. The LEAN techniques implemented have contributed to improving the efficiency of operating processes, and instilling more discipline in warehouse and distribution network practices.

Diversity in the workplace

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

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

At 30 June 2018, the proportion of female employees in the business were:

- No female Director at Board level (An Extraordinary General Meeting held on 6 September 2017 elected new Directors for the Company, and there were no female Director nominations);
- 19.1% in a management role (versus 18.9% in the prior year); and
- 30.5% of all employees were female (versus 30.1% in the prior year).

Separately, but related to gender diversity, in accordance with the Australian *Workplace Gender Equality Act 2012*, Spicers Limited has submitted a 2018 report detailing gender equality in our Australia workplace to the Workplace Gender Equality Agency ('WGEA').

The Company's policy on Diversity and the 2018 WGEA report are available on the Company's website, at *http://www.spicerslimited.com.au/corporate-governance/corporate-policies.htm*.

Health and safety management

Spicers is committed to operating a sustainable business with a safe working environment that meets legislative requirements. The Company has a Health and Safety policy statement and underpinning systems and processes designed to promote a culture where the ownership of workplace health and safety is every employee's responsibility.

Spicers promotes and maintains high standards of health and safety in every operational site, with site audits and education underpinning this. Well-established processes cover incident and accident management, including providing monthly reporting.

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

Key achievements in FY2018 were as follows:

- There was only one 'lost-time' injury (down 75% on prior year) and two 'medically-treated' injuries (down 50% on prior year);
- 95% of sites were 'lost-time' injury free, with only one working day lost to injury during the year;
- Relocation of two major sites in Auckland and one in Malaysia were incident free;
- A wireless forklift fleet management system, with safety features such as impact alerts, lock out of unlicensed users and digital pre-operational checks, was introduced across all key Australian sites; and
- A LED Lighting Project is being implemented across all key Australian locations, providing significant savings in electricity costs.

Sustainability
continued

2. Environmental sustainability

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

Supply chain focus

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

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

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

Operational footprint

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

Emphasis is also placed on initiatives that reduce operating costs, such as energy efficiency and waste management. Many sites collect and recycle waste paper, cardboard and other materials, such as wood, pallets, plastics, acrylic and PVC. Delivery pallets are reused, and a special reusable delivery frame for sign and display media has been developed, thereby eliminating the need for unnecessary packaging and pallets.

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

3. Community connections

Community support is directed by country management to relevant local issues and charitable and non-profit organisations. This can include charitable contributions of cash and paper donations, cause-related marketing initiatives and employee giving and involvement activities.

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

Corporate Governance

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

The Company's Corporate Governance Statement and related policies are available on the Company's website at *www.spicerslimited.com.au/corporate-governance/corporate-governance.htm*. It is also attached to ASX release 'Appendix 4G and 2018 Corporate Governance Statement', lodged at the same time as this Annual Report.

Directors of Spicers Limited

Mr Jonathan Trollip BA(Hons)

LLM FAICD
Chairman and Non-executive Director

Appointed as a Director of Spicers Limited on 6 September 2017, and Chairman effective from 7 September 2017.

Jonathan Trollip is an experienced Director with over 30 years of commercial, corporate, governance, legal and transaction expertise. Jonathan is currently Non-executive Chairman of ASX listed Antipodes Global Investment Company Limited, Future Generation Investment Company Limited, Global Value Fund and Plato Income Maximser Limited, and a Non-executive Director of ASX listed Kore Potash Limited. He holds commercial private company directorships with Meridian International Capital Limited ('Meridian'), Propel Funeral Partners Limited and BCAL Diagnostics Pty Ltd.

Jonathan is involved in the not for profit sector as Chairman of Science for Wildlife Limited, and is a Director of the Watarrka Foundation Limited and the University of Cape Town Australia Alumni Trust.

Jonathan worked as a Principal of Meridian for 22 years, and prior to that was a Partner with law firm Herbert Smith Freehills. He holds postgraduate degrees in economics and law, was admitted as a qualified lawyer in England and Australia, and is a Fellow of the Australian Institute of Company Directors.

Mr Vlad Artamonov

BSE MBA
Non-executive Director

Appointed as a Director of Spicers Limited on 6 September 2017.

Vlad Artamonov is a Managing Partner at Coastal Investment Management, L.P., an investment management firm. Vlad is also a Director of Coastal Capital International Ltd., which is a substantial shareholder of Spicers Limited.

Prior to founding Coastal, Vlad was an Analyst at Greenlight Capital in New York, a multi-billion dollar value-oriented investment firm. Previously, Vlad worked at Merrill Lynch, where he was an integral member of an investment banking team advising U.S. and international companies on acquisitions, divestitures, strategic minority investments, joint ventures, and leveraged buyouts.

Vlad graduated magna cum laude with a B.S.E. from the Wharton School at the University of Pennsylvania and with an M.B.A. from the Harvard Business School.

Mr Gabriel (Gaby) Berger

BE MBA
Non-executive Director

Appointed as a Director of Spicers Limited on 6 September 2017.

Gaby has been a major PaperlinX SPS unitholder for many years. Gaby was an IT pioneer and formed a highly successful software company in 1973 which he ran for 30 years. He had a staff of 50 consultants with offices in Sydney, Melbourne and Brisbane. Berger Software specialised in developing and supporting software packages for wholesale distribution, sales and marketing, warehousing, logistics and relevant accounting applications. Businesses such as Spicers were typical users of his software and consultancy services – with other clients such as Telstra, government departments and TNT.

Gaby also has a strong understanding of the economics, market dynamics, capital allocation considerations, and the underlying operations of these industries.

Mr Nigel Burgess

MCom(UNSW) GAICD
Non-executive Director

Appointed as a Director of Spicers Limited on 6 September 2017.

Nigel is a Director of Samuel Terry Asset Management, which manages the Samuel Terry Absolute Return Fund, a substantial shareholder in Spicers.

He has 30 years of commercial experience in funds management with Samuel Terry, Hunter Hall, GIO of Australia and Friends Provident in Australia, and a family office in Europe. He has experience in a variety of commercial transactions and corporate restructurings across a range of industries and jurisdictions.

Nigel holds a Masters Degree in Accounting (University of NSW) and is a Graduate of the Australian Institute of Company Directors.

Mr Andrew (Andy) Preece

Non-executive Director

Appointed as a Director of Spicers Limited on 6 September 2017.

Currently a partner and funder for a residential property development company, Director of a financial services provider of mortgages and commercial lending and also involved in business advisory, Andy has over a decade of proven performance developing sustainably profitable merchants in ANZA and managing extensive investment and divestment transactions globally.

Andy was appointed as Managing Director and Chief Executive Officer of Spicers in 2015. Previously Spicers Executive General Manager, Australia, New Zealand and Asia from July 2012. Prior to that Group General Manager, Australia 2011 and General Manager, Spicers New Zealand 2007. Originally joining PaperlinX in 2001 as New Zealand Manager for Australian Paper, Andy has a manufacturing, merchanting and wholesaling career spanning some 25 years, originating in the UK packaging industry.

Mr Todd Plutsky

BA JD MBA
Non-executive Director

Appointed as a Director of Spicers Limited on 6 September 2017.

Todd Plutsky is a Managing Partner at Coastal Investment Management, L.P., an investment management firm. Todd is also a Director of Coastal Capital International Ltd., which is a substantial shareholder of Spicers Limited.

Prior to founding Coastal, Todd was an Analyst at Ivory Capital in Los Angeles, a multi-billion dollar investment firm. Todd also previously worked in investment banking at J.P. Morgan in New York where he advised on the mergers and acquisitions and strategic transactions of several notable companies.

Todd graduated magna cum laude with a B.A. from Northwestern University in Economics and Political Science, with a Juris Doctor from the Harvard Law School, and with an M.B.A. from the Harvard Business School.

Executive Management

David Martin

MBA, GAICD
Chief Executive Officer

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

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

David led various divisions across Australia, New Zealand, Asia, South Africa and the USA during his 23 years at Avery Dennison. His most recent role was as Vice President and General Manager, ASEAN, Australia and New Zealand.

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

Damien Power

B.Comm, ASCPA
Chief Financial Officer

Damien was appointed as Chief Financial Officer of Spicers Limited effective 1 February 2018 (subsequently also becoming joint Company Secretary effective 30 April 2018).

Damien joined Spicers following a working career spanning 40 years in senior finance roles across a broad range of industries and geographies. His most recent previous role was as Vice President & Controller, Asia Pacific for Jacobs, a NYSE listed leading global engineering services and construction company. Prior to this, he served in a similar role for Aker Solutions, which was acquired by Jacobs in 2011.

Damien has extensive experience in leading multi-location finance teams, commercial finance activities, strategic planning and M&A activity. He has also held responsibilities for listed company reporting, company secretarial, treasury, taxation, IT and HR related areas across a varied career. Damien is a member of the Australian Society of Certified Practicing Accountants and an associate of the Securities Institute of Australia.

Directors' Report

Statutory matters

The Directors of Spicers Limited present their report for the financial year ended 30 June 2018.

Directors

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

Current Directors:

Mr Jonathan Trollip (Chairman and Non-executive Director).

Mr Andrew (Andy) Preece (Non-executive Director).

Mr Gabriel (Gaby) Berger (Non-executive Director).

Mr Nigel Burgess (Non-executive Director).

Mr Todd Plutsky (Non-executive Director).

Mr Vlad Artamonov (Non-executive Director).

Details of the qualifications, experience and special responsibilities of each of the Directors are set out on page 18 of this Annual Report.

Former Directors:

Mr Robert Kaye SC resigned as Chairman and Non-executive Director of Spicers on 6 September 2017.

Mr Mike Barker resigned as Non-executive Director of Spicers on 6 September 2017.

Mr Wayne Johnston's role of Finance Director of Spicers ceased, effective 6 September 2017.

Operating and Financial Review

The Operating and Financial Review is set out on pages 6 to 14 and forms part of the Directors' report.

Dividends

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

Environmental regulation

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

Matters subsequent to the reporting date

Subsequent to 30 June 2018, except for any matters disclosed in Note 37 of the consolidated financial statements, no matter or circumstance of a material and unusual nature has arisen (other than those occurring as a result of the normal volatility of business) that has significantly affected or may significantly affect:

(a) the Company's operations in future financial years; or

(b) the results of those operations in future financial years; or

(c) the Company's state of affairs in future financial years.

Indemnities and insurance

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

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

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

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

Company Secretaries

Mr Damien Power, B.Comm, ASCPA, joined the Company in 2018, and was appointed joint Company Secretary of Spicers Limited on 30 April 2018. Mr Power has held various senior finance roles across a broad range of industries and geographies. He is the Chief Financial Officer.

Mr Michael Clark, B.A. (Hons), ACA, joined the Company in 2006 and was appointed joint Company Secretary on 30 April 2018. Mr Clark has held various senior finance and governance roles within the Company during his 11-year career.

Mr Wayne Johnston, B. Bus (Acc), ASCPA resigned as joint Company Secretary, effective 31 October 2017.

Mr Frank Glynn, B. Comm, CA, CTA resigned as Company Secretary, effective 30 April 2018.

Directors' meetings

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

	Board of Directors		Audit & Risk Committee		Remuneration & Nomination Committee (1) (2)	
Current Directors	**A**	**B**	**A**	**B**	**A**	**B**
Jonathan Trollip	8	7	3	3	1	1
Andy Preece	8	8	3	3		
Gaby Berger	8	8			1	–
Nigel Burgess	8	8	3	3		
Todd Plutsky	8	8			1	1
Vlad Artamonov	8	8	3	3		

(1) Following the election of the new Board on 6 September 2017, it was decided to combine the Nomination & Governance Committee and the Remuneration and Human Resources Committee and re-name it the Remuneration & Nomination Committee.

(2) It was subsequently decided to dissolve the Remuneration & Nomination Committee, with the responsibilities of this Committee incorporated into Board meetings.

	Board of Directors		Audit & Risk Committee		Nomination & Governance Committee		Remuneration & Human Resources Committee	
Former Directors	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
Robert Kaye SC	4	3	2	2	2	1	2	1
Michael Barker	4	4	2	2	2	2	2	2
Wayne Johnston	4	4	2	2	2	2	2	2

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

Directors' interests

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

	Fully paid ordinary shares
Jonathan Trollip (1)	–
Andy Preece (2)	2,573,377
Gaby Berger (3)	77,921,375
Nigel Burgess (4)	160,311,344
Todd Plutsky/Vlad Artamonov (5)	301,834,437

(1) Mr Trollip is entitled to 7,200,000 share rights under the Spicers Performance Rights Plan, issued pursuant to shareholders' approval at the 2017 Annual General Meeting. Details of these share rights are in the Remuneration Report and note 26 of the Full Financial Report.

(2) Mr Preece is entitled to 6,000,000 share rights under the Spicers Performance Rights Plan, issued pursuant to shareholders' approval at the 2017 Annual General Meeting. Details of these share rights are in the Remuneration Report and note 26 of the Full Financial Report.

(3) 75,888,075 shares held by Berger Equities Pty Ltd, not directly by the individual Director.

(4) 160,284,179 shares held by the Samuel Terry Absolute Return Fund, not directly by the individual Director.

(5) Shares held by Coastal Investment Management L.P. not directly by the individual Directors.

Directors' Report

Statutory matters continued

Non-audit services

In addition to the statutory audit work during the year, the Company's auditors, KPMG, have provided certain non-audit services, primarily taxation related, totalling $8,674. Details are provided in Note 34 of the Full Financial Report.

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

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

Rounding

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

Remuneration Report

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

Auditor's Independence Declaration

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

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

Dated at Melbourne 24 August 2018

Jonathan Trollip
Chairman

Nigel Burgess
Director

KPMG

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

To the Directors of Spicers Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Spicers Limited for the financial year ended 30 June 2018 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

BW Szentirmay
Partner

Melbourne
24 August 2018

Directors' Report

Remuneration Report

1. Introduction

The Directors of Spicers Limited ('Spicers' and/or 'the Company') present this Remuneration Report for the year ended 30 June 2018 in accordance with Section 300A of the *Corporations Act 2001*.

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

This audited Remuneration Report has been adopted by the Board on 24 August 2018 and it forms part of the Directors' Report for the year ended 30 June 2018.

The role of the Board in relation to Board and executive KMP remuneration is explained in the Company's Corporate Governance Statement, in the Corporate Governance section on the *www.spicerslimited.com.au* website and lodged as an attachment to ASX appendix 4G at the same date as this Annual Report.

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

2. Overview of Spicers' remuneration arrangements

2.1 Remuneration policy and principles

The policy of the Company is to set remuneration practices that attract and retain team members who can deliver business results, as well as to align executive KMP remuneration with shareholder interests. Performance related rewards are linked to the achievement of key financial and strategic targets which the Board believes correlate to the creation of long-term shareholder value. In addition, formal performance evaluation processes for executive KMP are focused on goals and competencies linked to the Company's strategic targets and business performance.

The key principles that underpin the remuneration policy include:

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

2.2 Executive KMP remuneration mix

Remuneration for the Company's executive KMP during the financial year ended 30 June 2018 (FY2018) consisted of the following elements:

1. Total Fixed Remuneration (TFR), which includes components such as base salary, motor vehicle and superannuation contributions.
2. Share rights issued under the Spicers Performance Rights Plan Rules. These have replaced other short- and long-term incentives previously awarded to the Company's Executive KMP.

Details of the FY2018 Performance Rights Plan can be found in section 4.2.

2.3 Setting and reviewing executive KMP remuneration

The Board aims to position executive KMP TFR at the median of relevant listed Australian companies comparable to Spicers.

The TFR for the CEO is reviewed annually by the Board, and as part of the appointment process when there is any change in CEO. For other executive KMPs, TFR is reviewed annually by the Board based on recommendations from the CEO, and as part of the appointment process. If required, remuneration independent consultants provide information to assist the Board with their evaluations.

2.4 Evaluating the performance of executive KMPs

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

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

3. Key Management Personnel during FY2018

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

Table 1: Disclosed KMP

Name	Position	Dates KMP in FY2018
Non-executive Directors		
J Trollip	Chairman and Non-executive Director	6 September 2017 – 30 June 2018
A Preece	Non-executive Director	6 September 2017 – 30 June 2018
G Berger	Non-executive Director	6 September 2017 – 30 June 2018
N Burgess	Non-executive Director	6 September 2017 – 30 June 2018
T Plutsky	Non-executive Director	6 September 2017 – 30 June 2018
V Artamonov	Non-executive Director	6 September 2017 – 30 June 2018
Executive KMP		
D Martin	Chief Executive Officer	1 July 2017 – 30 June 2018
D Power	Chief Financial Officer	1 February 2018 – 30 June 2018
Former Non-executive Directors		
R G Kaye SC	Chairman and Non-executive Director	1 July 2017 – 6 September 2017
M D Barker	Non-executive Director	1 July 2017 – 6 September 2017
Former Executive KMP		
W K Johnston	Finance Director and CFO	1 July 2017 – 31 October 2017

3.1 KMP changes during FY2018

As a result of an Extraordinary General Meeting held on 6 September 2017, there were the following KMP changes within the Company:

- Mr Jonathan Trollip was appointed as Non-executive Director of Spicers on 6 September 2017 and Chairman effective from 7 September 2017;
- Mr Andrew (Andy) Preece was appointed as Non-executive Director of Spicers on 6 September 2017;
- Mr Gabriel (Gaby) Berger was appointed as Non-executive Director of Spicers on 6 September 2017;
- Mr Nigel Burgess was appointed as Non-executive Director of Spicers on 6 September 2017;
- Mr Todd Plutsky was appointed as Non-executive Director of Spicers on 6 September 2017;
- Mr Vlad Artamonov was appointed as Non-executive Director of Spicers on 6 September 2017; and
- Mr Robert Kaye and Mr Mike Barker resigned as Non-executive Directors of Spicers on 6 September 2017.

The following further changes in KMP took place during FY2018:

- Mr Wayne Johnston ceased to be CFO of Spicers, effective from 31 October 2017 (having previously ceased his Finance Director role, effective 6 September 2017); and
- Mr Damien Power joined Spicers as CFO, commencing 1 February 2018.

3.2 CEO's service agreement and remuneration

As previously stated, Mr David Martin commenced as CEO of the Company on 18 July 2016. The key terms of his employment agreement were amended and reinstated on the 8 January 2018 and are disclosed as follows:

- TFR of $674,575, comprising of base salary ($585,000), superannuation contributions ($55,575) and a motor vehicle allowance ($34,000).
- Entitled to share rights issued under the Spicers Performance Rights Plan Rules. These replaced other short- and long-term incentive rewards included in Mr Martin's previous employment agreement.
- Mr Martin must provide 6 months notice upon resigning. The Company's notice period is 12 months. The employment contract may be immediately terminated in the case of the Company determining the employee has engaged in conduct justifying summary dismissal, including but not limited to serious or wilful misconduct, performing acts that bring the Company into disrepute and material breaches of the employment contract.
- A 6-month post-employment restraint period applies.

Directors’ Report

Remuneration Report continued

4. FY2018 Company performance and remuneration outcomes

4.1 Company performance – a key driver of remuneration

As detailed in Table 2, the profitability of the Company (when formerly PaperlinX) was significantly impacted in previous years by structural challenges and poor performance in its former European operations, culminating in significant losses related to the Company’s withdrawal from Europe during FY2015. Spicers (with a reduced footprint of operations in Australia, New Zealand and Asia) has subsequently generated positive financial results in FY2016, FY2017 and FY2018, with underlying EBIT (1) of $8.0m in FY2018 (up from $4.9m in FY2017).

Table 2: Company performance background

	2018	2017	2016	2015	2014
Profit/(Loss) attributable to owners of the Company ($m)	3.5	1.7	5.3	(392.3)	(63.6)
Basic earnings per share (cents)	0.2	0.2	0.8	(59.0)	(7.0)
Dividends per ordinary share (cents)	–	–	–	–	–
Change in share price (%)	32.1	7.7	4.0	(35.9)	(25.0)
Return on average shareholders’ equity (%)	2.6	1.2	3.9	(165.0)	(18.4)
Underlying profit/(loss) before Interest and Tax ($m)	8.0	4.9	4.5	3.2	(4.5)

(1) Non-IFRS measure – Refer page 14.

4.2 FY2018 Incentive plans

For FY2018, the Board determined share rights issued under the Spicers Performance Rights Plan should replace other short- and long-term incentives plans previously in place for executive KMP.

4.2.1 FY2018 Non-executive Directors and executive KMP Spicers Performance Rights Plan

Following its election by shareholders on 6 September 2017, the new Board of Spicers promptly undertook a review of the Company’s existing remuneration arrangements for its Non-executive Directors and executive KMP. One of the outcomes of the review was that, as part of remuneration, both the Non-executive Directors and the executive KMP should receive a grant of share rights, with cash remuneration components reduced accordingly. The Board considers that such share rights, containing the share price performance hurdles as outlined in section 4.2.2, align the interests of Non-executive Directors and executive KMP with those of shareholders.

The Board recognises that some statements of best practice corporate governance standards (including that of the ASX Corporate Governance Council) recommend that Non-executive Directors generally should not receive equity with performance hurdles attached. The Board considers that the Company’s particular circumstances require a departure from that general position. The Board notes that the performance hurdles for the share rights issued relate to the Company’s share price performance which is an entirely objective measure of the Company’s performance and the measure which the Board believes is the most important to shareholders.

The Spicers Performance Rights Plan (Rights plan) entitles the Board to offer share rights (Rights) to persons associated with the Company, including Non-executive Directors. A Right is an entitlement to receive a fully-paid ordinary share in the Company under the rules of the Rights Plan. The rules of the Rights Plan allow the Board to determine particular terms applicable to each offer of Rights, including vesting conditions.

Table 3 below provides details of the Rights plan.

Table 3: Non-executive Directors and executive KMP Spicers Performance Rights Plan

	Number of Rights [1]	Exercise price $ [2]	Fair value at date of grant $ [3]	Grant Date	Start Date
Non-executive Directors					
J Trollip – Tranche A Rights	3,600,000	0.05	40,386	23/11/2017 [4]	6/09/2017
J Trollip – Tranche B Rights	3,600,000	0.06	29,027	23/11/2017 [4]	6/09/2017
A Preece – Tranche A Rights	3,000,000	0.05	33,655	23/11/2017 [4]	6/09/2017
A Preece – Tranche B Rights	3,000,000	0.06	24,189	23/11/2017 [4]	6/09/2017
Executive KMP					
D Martin – Tranche A Rights	11,000,000	0.05	185,536	8/01/2018	1/01/2018
D Martin – Tranche B Rights	9,000,000	0.06	113,421	8/01/2018	1/01/2018
D Power – Tranche A Rights	3,600,000	0.05	56,339	12/01/2018	1/02/2018
D Power – Tranche B Rights	3,400,000	0.06	40,110	12/01/2018	1/02/2018

(1) These Rights have no fixed expiry date. They vest upon meeting the relevant vesting conditions (refer section 4.2.2), subject to a continued Non-executive Director or employment service conditions, and can be exercised by the holder within an exercise period of the earlier of three years after the right vests or the date of a Change of Control event.

(2) Exercise prices are based on 6-month volume weighted average prices for Spicers shares (refer section 4.2.2 for more details).

(3) The fair value of these Rights has been determined using a Monte Carlo simulation model of Spicers share price over the relevant period.

(4) The Grant Date for purposes of valuation of these Rights has been determined to be the date of shareholder approval of the Rights.

A summary of the rules of the Rights Plan are included in Table 4.

Table 4: Key features of the Rights Plan

Eligibility	Employees and Non-executive Directors of the Company whom the Board determines should receive a Rights offer. Any Rights offers to Non-executive Directors are subject to shareholder approval under ASX Listing Rule 10.14 prior to any granting of Rights.
Term of Rights	No fixed expiry date. Subject to conditions noted below on cessation of employment/directorship and lapse of rights in other circumstances.
Vesting conditions	Refer to section 4.2.2 below.
Exercise of vested Rights	Can be exercised by the holder within an exercise period of the earlier of three years after the right vests, or the date of a Change of Control (refer section 4.2.2 below for definition) event.
Exercise price of Rights	Ranges between 5 to 6 cents per share right, based on 6-month volume weighted average prices for Spicers shares. Refer to Table 3 above.
Exercise cost to KMP of Rights	Nil.
Allocation of shares	Shares to be allocated to the holder of vested Rights may be sourced through on-market purchases or a new issue of shares.
Cessation of employment/directorship of holder of Rights	Unvested Rights lapse for Non-executive Directors upon them ceasing to be Directors. In certain circumstances with respect to employees only, the Board has a discretion to vary this and to waive vesting conditions.
Lapse of Rights in other circumstances	Rights may lapse in other circumstances, including where the holder commits any act of fraud or gross misconduct in relation to the Company's affairs; hedges unvested Rights or purports to dispose of Rights.
Change of control	If the Company is the subject of a change of control transaction, unvested Rights may vest if that is provided for in the vesting conditions. In addition, the Board has a discretion to waive vesting conditions, to replace the Rights with rights in the new controlling company or to cause unvested Rights to lapse.
Reorganisation of capital, rights issue, demerger, special dividend or other such events	The number of Rights, or the number of shares allocated on the exercise of Rights, may be adjusted by the Board to take account of the relevant event.

4.2.2 Vesting Conditions for applying to grant of Rights

Vesting of the Rights is subject to satisfaction of the Share price conditions.

These conditions are set out below.

Tranche A Rights and Tranche B Rights Vesting Conditions

(a) VWAP Conditions

The rights in respect of 'Tranche A' Rights and 'Tranche B' Rights will vest upon satisfaction of the following conditions:

- one third of the Tranche A and Tranche B Rights will vest on the first date following the Start Date upon which the volume weighted average ASX sale price of shares in the Company (Shares) for the preceding 6-month period (6-month VWAP) equals or exceeds the relevant Tranche A and Tranche B VWAP Hurdle (First Tranche A & B Vesting Date);
- one third of the Tranche A and Tranche B Rights will vest on the first date following the expiration of 6 months from the First Tranche A & B Vesting Date upon which the 6-month VWAP equals or exceeds the Tranche A and Tranche B VWAP Hurdle (Second Tranche A & B Vesting Date); and
- one third of the Tranche A and Tranche B Rights will vest on the first date following the expiration of 6 months from the Second Tranche A & B Vesting Date upon which the 6-month VWAP equals or exceeds the Tranche A and Tranche B VWAP Hurdle.

(b) Change of Control Conditions

Tranche A and Tranche B Rights will also vest upon the satisfaction of the following conditions:

- a Change of Control Event occurs, or the Board determines in its absolute discretion that a Change of Control Event is likely to occur; and
- such Change of Control Event will or, in the Board's view, is likely to result in Shareholders receiving consideration equal to or greater than the Tranche A and Tranche B VWAP Hurdle for each Share which is transferred or sold in relation to that Change of Control Event.

If these conditions are satisfied, then all unvested Tranche A and Tranche B Rights will vest on the date the Board determines that a Change of Control Event is likely to occur, or the date of the Change of Control Event (as applicable).

(c) Definitions for Tranche A and Tranche B Rights Vesting Conditions

For the purposes of paragraphs (a) and (b) above:

Change of Control Event means the occurrence of any of the following:

(i) any person, either alone or together with any associate (as defined in the *Corporations Act 2001*), acquires a relevant interest (as defined in the *Corporations Act 2001*) in more than fifty percent (50%) of the issued Shares in the Company as a result of a takeover bid;

(ii) any person, either alone or together with any associate (as defined in the *Corporations Act 2001*), acquires a relevant interest (as defined in the *Corporations Act 2001*) in more than fifty percent (50%) of the issued Shares in the Company through a scheme of arrangement; or

(iii) any other similar event (including a merger of the Company with another company) which the Board determines, in its absolute discretion, to be a Change of Control Event.

Tranche A VWAP Hurdle means 5 cents, subject to the following adjustments:

(i) the Tranche A VWAP Hurdle will be increased by 10% on each anniversary of the Start Date, commencing on the second anniversary of the Start Date;

(ii) the Tranche A VWAP Hurdle will be decreased by an amount determined by the Board (in its absolute discretion) to account for any dividends or return of capital; and

(iii) the Tranche A VWAP Hurdle will be increased or decreased (as applicable) by an amount determined by the Board (in its absolute discretion) to account for any share consolidation or other reorganisation of capital of Spicers.

Tranche B VWAP Hurdle means 6 cents, subject to the following adjustments:

(i) the Tranche B VWAP Hurdle will be increased by 10% on each anniversary of the Start Date, commencing on the second anniversary of the Start Date;

(ii) the Tranche B VWAP Hurdle will be decreased by an amount determined by the Board (in its absolute discretion) to account for any dividends or return of capital; and

(iii) the Tranche B VWAP Hurdle will be increased or decreased (as applicable) by an amount determined by the Board (in its absolute discretion) to account for any share consolidation or other reorganisation of capital of Spicers.

4.2.3 Executive KMP and prior long-term incentive options plans

One million options are still on issue to former executive KMP, Mr J W P Smallenbroek, under a previous LTI plan. Current executive KMP did not participate in this previous LTI plan.

Table 5 below provides further details of these options still on issue.

Table 5: Prior executive LTI options plan – options on issue

Former executive KMP	Number of options	Exercise price $	Date of grant	When exercisable	Expiry date
J W P Smallenbroek [(1)]	**1,000,000**	**0.50**	**10 April 2014**	**10 April 2019**	**10 May 2019**

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

4.2.4 Prohibition on hedging of incentive remuneration

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

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

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

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

5. KMP equity instruments

5.1 Options

The reconciliation of the movement in equity compensation in the form of options for KMP during FY2018 is as follows:

Table 6: KMP options held

	Maximum potential entitlement – number of options					
	Opening balance	Granted as compensation	Exercised	Cancelled/ Lapsed	Closing balance	Vested and exercisable at 30 June
2018						
Former executive KMP						
J W P Smallenbroek [(1)]	7,000,000	–	–	(6,000,000)	1,000,000	1,000,000
	7,000,000	–	–	(6,000,000)	1,000,000	1,000,000
2017						
Former executive KMP						
J W P Smallenbroek [(1)]	12,000,000	–	–	(5,000,000)	7,000,000	6,000,000
	12,000,000	–	–	(5,000,000)	7,000,000	6,000,000

(1) Ceased to be CFO and executive KMP from 1 May 2015. 6 million options lapsed during FY2018 upon reaching their expiry dates without being exercised. Details of remaining options still on issue are provided in table 5 above.

5.2 Rights

The reconciliation of the movement in equity compensation in the form of rights for KMP during FY2018 is as follows:

Table 7: KMP rights held

	Maximum potential entitlement – number of rights					
	Opening balance	Other movements	Granted as compensation	Vested and exercised	Lapsed	Closing balance
2018						
Non-executive Directors						
J Trollip [(1)]	–	–	7,200,000	–	–	7,200,000
A Preece [(1)]	–	–	6,000,000	–	–	6,000,000
Executive KMP						
D Martin	–	–	20,000,000	–	–	20,000,000
D Power [(2)]	–	–	7,000,000	–	–	7,000,000
Former executive KMP						
W K Johnston [(3)]	–	–	–	–	–	–
Total	–	–	40,200,000	–	–	40,200,000
2017						
Executive KMP						
W K Johnston [(4)]	198,557	–	–	(198,557)	–	–
Former executive KMP						
A J Preece [(5)] [(6)]	1,815,814	–	–	(1,815,814)	–	–
Total	2,014,371	–	–	(2,014,371)	–	–

(1) Appointed as Non-executive Director of Spicers on 6 September 2017.
(2) Commenced as CFO of Spicers on 1 February 2018.
(3) Ceased as CFO of Spicers, effective from 31 October 2017.
(4) The qualifying period for Mr Johnston's FY2014 equity rights (198,557) ended on 19 August 2016. Under the terms of the FY2014 STI equity rights plan, these rights vested and were issued to Mr Johnston as ordinary shares in the Company on this date.
(5) Resigned as Managing Director & CEO and ceased to be executive KMP from 24 May 2016.
(6) The qualifying period for Mr Preece's FY2014 equity rights (1,815,814) ended on 19 August 2016. Under the terms of the FY2014 STI equity rights plan, these rights vested and were issued to Mr Preece as ordinary shares in the Company on this date.

5.3 Shareholdings

The reconciliation of the relevant interest in the share capital of the Company held by KMP during FY2018, excluding the potential entitlement amounts (refer sections 5.1–5.2), is set out in Table 8.

Table 8: KMP shareholdings

	Opening balance	Purchased	Earned as remuneration	Became/ (ceased to be) KMP	Exercise of options	Sold	Closing balance	Shares held nominally at reporting date
2018								
Non-executive Directors								
J Trollip (1)	–	–	–	–	–	–	–	–
A Preece (1) (2)	–	–	–	2,573,377	–	–	2,573,377	–
G Berger (1)	–	–	–	77,921,375	–	–	77,921,375	–
N Burgess (1)	–	–	–	160,311,344	–	–	160,311,344	–
T Plutsky/ (1) (3) V Artamonov	–	–	–	301,834,437	–	–	301,834,437	–
Executive KMP								
D Martin	–	–	–	–	–	–	–	–
D Power (4)	–	–	–	–	–	–	–	–
Former Non-executive Directors								
R G Kaye (5)	1,002,246	–	–	(1,002,246)	–	–	–	–
M D Barker (5)	1,000,000	–	–	(1,000,000)	–	–	–	–
Former Executive KMP								
W K Johnston (6)	469,130	–	–	(469,130)	–	–	–	–
Total	2,471,376	–	–	540,169,157	–	–	542,640,533	–
2017								
Non-executive Directors								
R G Kaye	1,002,246	–	–	–	–	–	1,002,246	–
M D Barker	1,000,000	–	–	–	–	–	1,000,000	–
Executive KMP								
W K Johnston	270,573	–	198,557	–	–	–	469,130	–
Total	2,272,819	–	198,557	–	–	–	2,471,376	–

(1) Appointed as Non-executive Director of Spicers on 6 September 2017.
(2) Resigned as Managing Director & CEO and ceased to be executive KMP from 24 May 2016.
(3) Shares held by Coastal Investment Management L.P. not the individual Directors.
(4) Commenced as CFO of Spicers on 1 February 2018.
(5) Resigned as Non-executive Directors of Spicers on 6 September 2017.
(6) Ceased as CFO of Spicers, effective from 31 October 2017.

Directors’ Report

Remuneration Report continued

6. CEO and executive KMP service agreement provisions

The Company has entered into service agreements with its CEO and CFO. Details of the periods of notice required to terminate the contract and the termination payments provided under each contract are outlined in Table 9. Actual payments may also depend on local legal requirements. Payment in lieu of notice is calculated using the executive KMP’s TFR. In addition to the specified termination payments, on termination the CEO and executive KMPs are entitled to receive their statutory entitlements of accrued leave, together with any superannuation or pension plan benefits.

Table 9: Service agreement provisions

	Company notice/payment period	KMP notice
Executive KMP		
D Martin	12 months	6 months
D Power	3 months	3 months

Further details of the service agreement and remuneration of the CEO, Mr Martin, is provided in section 3.2 above.

7. Non-executive Director remuneration

7.1 Policy on Non-executive Director remuneration

As detailed in section 4.2.1 above, following its election by shareholders on 6 September 2017 the new Board of Spicers promptly undertook a review of the Company’s existing remuneration arrangements for its Non-executive Directors. One of the outcomes of the review was that, as part of remuneration, the Non-executive Directors should receive a grant of share rights, with cash remuneration components reduced accordingly.

In the case of the Chairman, Mr Jonathan Trollip, and Mr Andrew Preece it was determined by the Board that their Directors’ fees cash remuneration components should be set higher than the other Board members, given their respective roles and workload commitments for the Company.

The Directors’ fees detailed in section 7.2 below reflect these outcomes.

7.2 Directors’ fees

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

The schedule of annual fee rates, including the Superannuation Guarantee contribution, for the Board and Chairs of Board Committees is set out in Table 10.

Table 10: Fees for Board and Chairs of Board Committees

	Annual fee $
Board position	
Chairman – Mr Jonathan Trollip	100,000
Non-executive Director – Mr Andrew (Andy) Preece	80,000
Non-executive Director – Mr Gabriel (Gaby) Berger	30,000
Non-executive Director – Mr Nigel Burgess	30,000
Non-executive Director – Mr Todd Plutsky	30,000
Non-executive Director – Mr Vlad Artamonov	30,000

8. Engagement of remuneration consultants

During FY2018, no remuneration recommendations, as defined by the *Corporations Act 2001*, were requested of or provided by a remuneration consultant.

9. KMP remuneration – FY2018

Details of the remuneration of each Non-executive Director and executive KMP are set out in tables 11 and 12.

Table 11: Non-executive Directors' remuneration

		Salary and fees $	Non-cash benefits $	Post-employment benefits Super-annuation contribution $	Current FY equity rights $	Total $
Non-executive Directors						
J Trollip [1]	2018	75,016	–	7,127	8,367	90,510
	2017	–	–	–	–	–
A Preece [2]	2018	60,013	–	5,701	6,973	72,687
	2017	–	–	–	–	–
G Berger [2]	2018	22,505	–	2,138	–	24,643
	2017	–	–	–	–	–
N Burgess [2]	2018	24,643	–	–	–	24,643
	2017	–	–	–	–	–
T Plutsky [2]	2018	24,643	–	–	–	24,643
	2017	–	–	–	–	–
V Artamonov [2]	2018	24,643	–	–	–	24,643
	2017	–	–	–	–	–
Former Non-executive Directors						
R G Kaye [3] [4]	2018	32,857	–	3,121	–	35,978
	2017	180,000	–	17,100	–	197,100
M D Barker [3]	2018	18,254	–	1,734	–	19,988
	2017	100,000	–	9,500	–	109,500
Total	**2018**	**282,574**	**–**	**19,821**	**15,340**	**317,735**
	2017	**280,000**	**–**	**26,600**	**–**	**306,600**

(1) Appointed as Non-executive Director of Spicers on 6 September 2017 and Chairman effective from 7 September 2017.

(2) Appointed as Non-executive Director of Spicers on 6 September 2017.

(3) Resigned as Non-executive Directors of Spicers on 6 September 2017.

(4) A proportion of the office and secretarial expenses of Mr Kaye were reimbursed to him by the Company, representing actual use of these resources while he was Chairman of the Company. In FY2018, these expenses reimbursed to Mr Kaye amounted to $ nil for office costs (FY2017: $24,318) and $3,000 for secretarial costs (FY2017: $12,000).

Directors' Report

Remuneration Report continued

Table 12: Executive KMP remuneration

		Short-term benefits				Long-term benefits	Post-employment benefits
		Salary and fees $	Cash short-term incentives $	Non-cash benefits[6] $	Other income $	LTI expense[5] $	Super-annuation contribution $
Executive KMP							
D Martin, CEO	2018	619,000	–	–	–	–	55,575
	2017	591,980	–	–	–	22,486	53,149
D Power, CFO [2]	2018	133,333	–	–	–	–	12,667
	2017	–	–	–	–	–	–
Former executive KMP							
W K Johnston, CFO	2018 [3]	153,505	–	10,234	–	–	16,500
	2017 [4]	518,615	–	15,832	–	17,619	49,500
Total	**2018**	**905,838**	**–**	**10,234**	**–**	**–**	**84,742**
	2017	**1,110,595**	**–**	**15,832**	**–**	**40,105**	**102,649**

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

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

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

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

(2) Commenced as CFO of Spicers on 1 February 2018.

(3) Ceased to be CFO of Spicers effective from 31 October 2017 (having previously ceased his Finance Director role, effective 6 September 2017).

(4) FY2017 salary and fees includes $50,000 payment awarded in July 2017 for 'higher duties' while acting as interim CEO from May – July 2016.

(5) In FY2017 a LTI expense value had been accrued based on the terms of the former FY2017 executive KMP LTI plan, as detailed in the 2017 Remuneration Report.

(6) Non-Cash Benefits relate to Fringe Benefits provided during the year.

Termination benefits	Equity plans (1)				Total		
Termination payment including annual and long service leave $	Current FY equity rights $	Current FY equity options $	Prior rights $	Prior options $	Total $	Proportion of remuneration performance related $	Percentage of remuneration consisting of rights and options %
–	28,503	–	–	–	703,078	28,503	4.1
–	–	–	–	–	667,615	22,486	–
–	7,927	–	–	–	153,927	7,927	5.1
–	–	–	–	–	–	–	–
526,439	–	–	–	–	706,678	–	–
–	–	–	–	–	601,566	17,619	–
526,439	**36,430**	**–**	**–**	**–**	**1,563,683**		
–	**–**	**–**	**–**	**–**	**1,269,181**		

Full Financial Report of Spicers Limited

As at 30 June 2018

Contents

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 $000	2017 $000
Continuing operations			
Revenue from sale of goods		384,044	380,666
Cost of inventory sold		(305,563)	(303,100)
Gross profit		78,481	77,566
Other income	7	691	1,192
Personnel costs *(1)*		(39,689)	(40,345)
Logistics and distribution		(21,455)	(22,230)
Sales and marketing		(1,235)	(1,513)
Other expenses *(1)*		(10,706)	(11,777)
Result from operating activities		6,087	2,893
Net finance costs	8	(290)	(426)
Profit before tax		5,797	2,467
Tax expense	9	(2,219)	(2,080)
Profit from continuing operations		3,578	387
Discontinued operations			
(Loss)/profit from discontinued operations, net of tax	10	(67)	1,305
Profit for the period		3,511	1,692
Profit for the period attributable to:			
Equity holders of Spicers Limited		3,511	1,692
Basic earnings per share (cents)	6	0.2	30.9
Basic earnings per share from continuing operations (cents)	6	0.2	30.8
Diluted earnings per share (cents)	6	0.2	30.4
Diluted earnings per share from continuing operations (cents)	6	0.2	30.2

(1) The Consolidated Entity has reclassified restructuring labour costs (including prior period comparatives) from 'other expenses' to 'personnel costs' in order to more accurately reflect the nature of these expenses.

Notes 1 to 38 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 2018

	2018 $000	2017 $000
Profit for the period	3,511	1,692
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of overseas subsidiaries	624	(2,760)
Total items that may be reclassified subsequently to profit or loss	624	(2,760)
Items reclassified to profit or loss		
Exchange differences on disposal of controlled entities *(1)*	601	211
Total items reclassified to profit or loss	601	211
Other comprehensive income/(loss) for the period, net of tax	1,225	(2,549)
Total comprehensive income/(loss) for the period, net of tax	4,736	(857)
Total comprehensive income/(loss) for the period attributable to:		
Equity holders of Spicers Limited	4,736	(857)

(1) Disposal includes sale and loss of control - refer Note 10.

Notes 1 to 38 form part of these financial statements and are to be read in conjunction therewith.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Note	2018 $000	2017 $000
Current assets			
Cash and cash equivalents	12	41,135	29,928
Short-term deposits		3,955	3,955
Trade and other receivables	13	73,956	74,290
Inventories	14	78,911	87,628
Total current assets		197,957	195,801
Non-current assets			
Receivables	15	-	74
Property, plant and equipment	16	8,966	8,787
Intangible assets	17	27,839	28,262
Deferred tax assets	19	687	623
Total non-current assets		37,492	37,746
Total assets		235,449	233,547
Current liabilities			
Trade and other payables	20	87,928	84,907
Loans and borrowings	21	-	2,042
Income tax payable		1,443	2,927
Employee benefits	22	6,624	7,668
Provisions	23	1,979	1,508
Total current liabilities		97,974	99,052
Non-current liabilities			
Deferred tax liabilities	19	103	29
Employee benefits	22	443	542
Total non-current liabilities		546	571
Total liabilities		98,520	99,623
Net assets		136,929	133,924
Equity			
Issued capital	24	1,934,824	1,936,607
Reserves	25	(9,981)	(11,300)
Accumulated losses		(1,787,914)	(1,791,383)
Total equity attributable to holders of ordinary shares of Spicers Limited		136,929	133,924
Total equity		136,929	133,924

Notes 1 to 38 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 2018

	Attributable to equity holders of Spicers Limited						
$000	**Issued capital**	**Exchange fluctuation reserve**	**Reserve for own shares**	**Employee share plans reserve**	**Accumulated losses**	**PaperlinX step-up preference securities**	**Total equity**
Balance at 1 July 2017	1,936,607	(12,970)	(42)	1,712	(1,791,383)	-	**133,924**
Total comprehensive income for the period							
Profit for the period	-	-	-	-	3,511	-	**3,511**
Other comprehensive income							
• Exchange differences on translation of overseas subsidiaries	-	624	-	-	-	-	**624**
• Reclassification of exchange differences on disposal of controlled entities to Income Statement *(1)*	-	601	-	-	-	-	**601**
Total other comprehensive income	-	1,225	-	-	-	-	**1,225**
Total comprehensive income for the period	-	1,225	-	-	3,511	-	**4,736**
Transactions with owners recorded directly in equity							
• Employee share-based payment transactions	-	-	-	52	-	-	**52**
• Disposal of treasury shares *(2)*	-	-	42	-	(42)	-	**-**
• Transaction costs attributable to unmarketable parcels share buy-back *(3)*	(1,783)	-	-	-	-	-	**(1,783)**
Total transactions with owners	(1,783)	-	42	52	(42)	-	**(1,731)**
Balance at 30 June 2018	1,934,824	(11,745)	-	1,764	(1,787,914)	-	**136,929**
Balance at 1 July 2016	1,895,767	(10,421)	(158)	1,832	(2,002,098)	254,823	**139,745**
Total comprehensive loss for the period							
Profit for the period	-	-	-	-	1,692	-	**1,692**
Other comprehensive income							
• Exchange differences on translation of overseas subsidiaries	-	(2,760)	-	-	-	-	**(2,760)**
• Reclassification of exchange differences on disposal of controlled entities to Income Statement *(1)*	-	211	-	-	-	-	**211**
Total other comprehensive loss	-	(2,549)	-	-	-	-	**(2,549)**
Total comprehensive (loss)/income for the period	-	(2,549)	-	-	1,692	-	**(857)**
Transactions with owners recorded directly in equity							
• Employee share-based payment transactions	-	-	-	(120)	-	-	**(120)**
• Issue of shares to employees	-	-	116	-	4	-	**120**
• Shares issued to acquire PaperlinX step-up preference securities *(3)*	45,804	-	-	-	209,019	(254,823)	**-**
• Transactions costs incurred on acquisition of PaperlinX step-up preference securities *(3)*	(4,964)	-	-	-	-	-	**(4,964)**
Total transactions with owners	40,840	-	116	(120)	209,023	(254,823)	**(4,964)**
Balance at 30 June 2017	1,936,607	(12,970)	(42)	1,712	(1,791,383)	-	**133,924**

(1) Disposal includes sale and loss of control - refer Note 10.
(2) Refer Note 26.
(3) Refer Note 24.

Notes 1 to 38 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 2018

	Note	2018 $000	2017 $000
Cash flows from operating activities			
Receipts from customers		388,217	380,018
Payments to suppliers and employees		(368,404)	(371,119)
Interest received		444	328
Interest paid		(461)	(795)
Income taxes paid		(2,541)	(2,145)
Net cash from operating activities	29	17,255	6,287
Cash flows from investing activities			
Acquisition of:			
• Controlled entities and businesses (net of cash and bank overdraft acquired)		(795)	-
• Property, plant and equipment and intangibles		(1,334)	(877)
Net proceeds/(payments) from the disposal of:			
• Controlled entities and businesses (proceeds less transaction costs) - net of cash and bank overdraft disposed		576	(302)
• Property, plant and equipment		31	19
Net cash used in investing activities		(1,522)	(1,160)
Cash flows from financing activities			
Proceeds from borrowings		-	188
Repayment of borrowings		(2,148)	(2,960)
Capitalised borrowing costs paid		(26)	(24)
Financing cash flows from financial liabilities	21	(2,174)	(2,796)
Share issue expenses *(1)*		(3,214)	(3,112)
Other borrowing costs paid		(75)	(70)
Net cash used in financing activities		(5,463)	(5,978)
Net increase/(decrease) in cash and cash equivalents		10,270	(851)
Cash and cash equivalents at the beginning of the period	29	29,928	31,626
Effect of exchange rate changes on cash held		937	(847)
Cash and cash equivalents at the end of the period	29	41,135	29,928

(1) Refer Note 24.

Notes 1 to 38 form part of these financial statements and are to be read in conjunction therewith.

Note 1. Reporting entity

Spicers Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is 155 Logis Boulevard, Dandenong South VIC 3175, Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2018 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 24 August 2018.

(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 3.

(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 38(u).

(e) Going concern basis of accounting

In preparing the Consolidated Financial Report, the Directors assessed 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.

Factors that the Directors have taken into account in forming their view include:

- Net cash position and current borrowing facilities:
  - No outstanding balances under borrowing facilities (Note 21) and $41.1 million of cash and cash equivalents at reporting date (Note 12).
  - Major borrowing facilities in Australia and New Zealand mature more than 12 months after the date of this report (Note 21).
  - No financial covenants under the Australian borrowing facility (Note 21), and compliance with New Zealand financial covenant requirements.
- Trading performance:
  - $17.3 million cash inflow generated from operating activities during the current reporting period.
  - Increased profit before interest and tax in all operating segments in the current reporting period (Note 4).
- Forecast financial performance and operating cash flow based on Board approved FY2019 budget information.
- The status of insolvency proceedings underway in relation to several former European operations (Note 33).

The Directors have formed the view that there are reasonable grounds to conclude that the Consolidated Entity will continue to operate and meet its obligations as they fall due and remain within the terms of its debt facilities. Therefore, the Consolidated Financial Report has been prepared on a going concern basis.

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.

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

- AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15*
- AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses*
- AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*
- AASB 2017-2 *Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle*

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

Note 3. 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 prices seen in the market for similar items of plant and equipment.

(b) Intangible assets

The fair value of intangible assets is based on the discounted cash flows expected to be derived from the use of the assets based on assumptions expected to be made by an independent market participant.

(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 10), 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 4. Operating Segments

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

Segment	Description of operations
Merchanting: - Australia - New Zealand - Asia	International merchant supplying the printing and publishing industry and office supplies.
Discontinued operations	Comprises merchanting operations in North America (Canada and USA) and Europe (Continental Europe, United Kingdom and Ireland). Also comprises paper manufacturing. Refer Note 10 for further details.

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

	Note	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 2018									
External sales revenue		204,232	93,451	86,361	-	384,044	-	-	384,044
Inter-segment sales revenue		172	-	290	(462)	-	-	-	-
Total revenue		204,404	93,451	86,651	(462)	384,044	-	-	384,044
Profit/(loss) before net finance costs, tax and significant items		4,236	7,387	2,205	(5,706)	8,122	(163)	-	7,959
Net other finance costs		-	-	-	(163)	(163)	(588)	-	(751)
Underlying profit/(loss) before interest and tax		4,236	7,387	2,205	(5,869)	7,959	(751)	-	7,208
Significant items (pre-tax)	5	(1,019)	(256)	-	(760)	(2,035)	(477)	-	(2,512)
Profit/(loss) before interest and tax		3,217	7,131	2,205	(6,629)	5,924	(1,228)	-	4,696
Net interest					(127)	(127)	1	-	(126)
Profit/(loss) before tax					(6,756)	5,797	(1,227)	-	4,570
Tax (expense)/benefit - pre-significant items					(2,291)	(2,291)	1,160	-	(1,131)
Tax benefit - significant items	5				72	72	-	-	72
Profit/(loss) for the period					(8,975)	3,578	(67)	-	3,511
The profit/(loss) before tax includes:									
Depreciation and amortisation	16,17	(505)	(387)	(209)	(118)	(1,219)	-	-	(1,219)
Depreciation, amortisation and impairment		(505)	(387)	(209)	(118)	(1,219)	-	-	(1,219)
Capital expenditure		53	1,684	9	98	1,844	-	-	1,844
As at 30 June 2018									
Total assets		96,407	71,337	55,734	11,521	234,999	450	-	235,449
Total liabilities		45,078	20,262	14,090	5,374	84,804	13,716	-	98,520
Net assets/(liabilities)		51,329	51,075	41,644	6,147	150,195	(13,266)	-	136,929

Note 4. Operating Segments – (continued)

	Note	Merchanting Australia $000	Merchanting New Zealand $000	Merchanting Asia $000	Unallocated $000	Total Continuing Operations $000	Discontinued Operations $000	Group Eliminations $000	Group $000
For the year ended 30 June 2017									
External sales revenue		201,581	101,058	78,027	-	380,666	-	-	380,666
Inter-segment sales revenue		235	-	8	(243)	-	-	-	-
Total revenue		201,816	101,058	78,035	(243)	380,666	-	-	380,666
Profit/(loss) before net finance costs, tax and significant items		2,345	7,477	1,851	(6,722)	4,951	(387)	-	4,564
Net other finance costs		-	-	-	(71)	(71)	(551)	-	(622)
Underlying profit/(loss) before interest and tax		2,345	7,477	1,851	(6,793)	4,880	(938)	-	3,942
Significant items (pre-tax)	5	(812)	(594)	(260)	(392)	(2,058)	2,198	-	140
Profit/(loss) before interest and tax		1,533	6,883	1,591	(7,185)	2,822	1,260	-	4,082
Net interest					(355)	(355)	(1)	-	(356)
Profit/(loss) before tax					(7,540)	2,467	1,259	-	3,726
Tax (expense)/benefit - pre-significant items					(2,252)	(2,252)	46	-	(2,206)
Tax benefit - significant items	5				172	172	-	-	172
Profit/(loss) for the period					(9,620)	387	1,305	-	1,692
The profit/(loss) before tax includes:									
Depreciation and amortisation	16,17	(545)	(419)	(204)	(93)	(1,261)	-	-	(1,261)
Depreciation, amortisation and impairment		(545)	(419)	(204)	(93)	(1,261)	-	-	(1,261)
Capital expenditure		140	484	142	111	877	-	-	877
As at 30 June 2017									
Total assets		97,267	71,263	52,128	11,624	232,282	1,265	-	233,547
Total liabilities		42,030	20,013	12,583	11,084	85,710	13,914	(1)	99,623
Net assets/(liabilities)		55,237	51,250	39,545	540	146,572	(12,649)	1	133,924

Note 5. 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**
2018										
Loss - controlled entities disposed in prior periods	10	-	-	-	(477)	-	(477)	(477)	-	(477)
Restructuring costs *(1)*		(2,035)	72	(1,963)	-	-	-	(2,035)	72	(1,963)
Total individually significant items		(2,035)	72	(1,963)	(477)	-	(477)	(2,512)	72	(2,440)
2017										
Gain - controlled entities disposed in prior periods	10	-	-	-	2,198	-	2,198	2,198	-	2,198
Restructuring costs *(1)*		(2,058)	172	(1,886)	-	-	-	(2,058)	172	(1,886)
Total individually significant items		(2,058)	172	(1,886)	2,198	-	2,198	140	172	312

(1) Restructuring labour costs are included in 'personnel costs' and other restructuring is included in 'other expenses' in the Consolidated Income Statement.

Note 6. Earnings per share

	Continuing		Discontinued		Total	
	2018	2017	2018	2017	2018	2017
Profit/(loss) for the period ($000)	3,578	387	(67)	1,305	3,511	1,692
Add gain on purchase of PaperlinX step-up preference securities ($000) *(1)*	-	209,019	-	-	-	209,019
Profit/(loss) for the period attributable to holders of ordinary shares in Spicers Limited ($000)	3,578	209,406	(67)	1,305	3,511	210,711
Weighted average number of shares - basic (thousands)	2,080,067	680,868	2,080,067	680,868	2,080,067	680,868
Basic EPS (cents)	0.2	30.8	-	0.1	0.2	30.9
Weighted average number of shares - diluted (thousands)	2,101,001	692,463	2,101,001	692,463	2,101,001	692,463
Diluted EPS (cents)	0.2	30.2	-	0.2	0.2	30.4

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

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

The options to purchase shares and rights on issue during the current and prior reporting periods have been included in determining the diluted earning per share. As a result, the weighted average number of shares on issue increased by 20.9 million for the current reporting period (2017: 11.6 million).

Nil options or rights have been issued since 30 June 2018 up to the date of this report.

Nil rights have vested and been exercised since 30 June 2018 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 2018 in respect of the plan period ended 30 June 2018.

Note 7. Other income from continuing operations

	2018 $000	2017 $000
Rent	295	705
Net loss on disposal of non-current assets	(18)	(105)
Other	414	592
Total other income	691	1,192

Note 8. Net finance costs from continuing operations

	2018 $000	2017 $000
Net interest		
Interest expense	(439)	(749)
Interest income	312	394
Net interest	(127)	(355)
Net other finance costs		
Net other foreign exchange (losses)/gains	(73)	131
Other borrowing costs	(90)	(202)
Net other finance costs	(163)	(71)
Total net finance costs	(290)	(426)

Note 9. Income tax expense

	2018 $000	2017 $000
Prima facie income tax expense attributable to profit from continuing and discontinued operations at the Australian tax rate of 30% (2017: 30%)	(1,371)	(1,118)
Add/(deduct) the tax effect of:		
• Tax losses not brought to account	(872)	(1,772)
• Overseas tax rate differential	(45)	213
• Over provision in prior years	1,063	28
• Other non-deductible/non-assessable items	309	(48)
• Non-assessable gain on disposal of controlled entities - significant items *(1)*	-	663
• Non-deductible loss on disposal of controlled entities - significant items *(1)*	(143)	-
Total tax expense in income statement	(1,059)	(2,034)
comprising:		
Tax expense from continuing operations	(2,219)	(2,080)
Tax benefit from discontinued operations	1,160	46
	(1,059)	(2,034)
Recognised in the income statement		
Current tax expense		
• Current year	(2,112)	(2,221)
• Over provision in prior years	1,063	28
Deferred tax (expense)/benefit	(10)	159
Total tax expense in income statement	(1,059)	(2,034)

(1) Disposal includes sale and loss of control - refer Note 10.

The balance of the consolidated franking account as at the reporting date was $Nil (2017: $Nil).

Note 10. Discontinued operations

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

Discontinued Merchanting

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

Discontinued Manufacturing

Discontinued paper manufacturing comprises Australian Paper, which was sold in a prior reporting period, and Tas Paper, which was closed in prior reporting periods. Current year transactions relate to holding costs on retained Tas Paper property and actuarial adjustments to workers compensation provisions.

	Merchanting		Manufacturing & Group Elims		Total Discontinued Operations	
	2018 $000	2017 $000	2018 $000	2017 $000	2018 $000	2017 $000
Other income	-	-	274	243	274	243
Trading expenses	(63)	(210)	(374)	(420)	(437)	(630)
Result from operating activities before significant items, net finance costs, and tax	(63)	(210)	(100)	(177)	(163)	(387)
Significant items - (loss)/profit on disposal *(1)*	(938)	2,233	461	(35)	(477)	2,198
Net other finance costs	(588)	(551)	-	-	(588)	(551)
Result before interest and tax	(1,589)	1,472	361	(212)	(1,228)	1,260
Net interest	1	(1)	-	-	1	(1)
Result before tax	(1,588)	1,471	361	(212)	(1,227)	1,259
Tax benefit	1,160	46	-	-	1,160	46
(Loss)/profit for the period	(428)	1,517	361	(212)	(67)	1,305

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

Cash flow from discontinued operations

	2018 $000	2017 $000
Net cash used in operating activities	(364)	(390)
Net cash from/(used in) investing activities	576	(302)
Net cash from/(used in) discontinued operations	212	(692)

Note 11. Dividends

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

Note 12. Cash and cash equivalents

	2018 $000	2017 $000
Cash on hand and at bank	29,859	18,314
Deposits at call	11,276	11,614
Total cash and cash equivalents	41,135	29,928

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 $2.2 million (2017: $3.8 million).

Note 13. Trade and other receivables

	2018 $000	2017 $000
Trade debtors	72,282	73,065
Provision for impairment losses	(2,461)	(2,075)
Net trade debtors	69,821	70,990
Accrued rebates	132	215
Amounts receivable on sale of property, plant and equipment, controlled entities and investments	73	847
Forward exchange contracts	1,447	-
Other debtors	805	1,264
Prepayments	1,678	974
Total trade and other receivables	73,956	74,290

The Consolidated Entity's exposure to credit and currency risk and impairment losses related to trade and other receivables are disclosed in Note 27.

The amount of receivables pledged as part of the regional loan facilities at balance date was $nil (2017: $nil).

Note 14. Inventories

	2018 $000	2017 $000
Finished goods	83,080	91,840
Provision for impairment losses	(4,169)	(4,212)
Net finished goods	78,911	87,628
Total inventories	78,911	87,628

The amount of provision charged to the Consolidated Income Statement for diminution in value of inventories was $0.1 million for continuing operations (2017: $(0.9) million) and $nil for discontinued operations (2017: $nil).

Note 15. Receivables - non-current

	2018 $000	2017 $000
Amounts receivable on sale of property, plant and equipment, controlled entities and investments	-	74
Total receivables non-current	-	74

Note 16. Property, plant and equipment

$000	Land	Land improve-ments	Buildings	Plant and equipment	Total
Cost or deemed cost:					
Balance at 1 July 2017	1,516	742	18,646	56,339	77,243
Additions	-	-	808	408	1,216
Disposals	-	(742)	(14,012)	(32,211)	(46,965)
Acquisition of businesses	-	-	-	1	1
Foreign currency movements	-	-	207	(38)	169
Balance at 30 June 2018	1,516	-	5,649	24,499	31,664
Depreciation and impairment losses:					
Balance at 1 July 2017	(1,516)	(742)	(15,494)	(50,704)	(68,456)
Depreciation *(1)*	-	-	(251)	(847)	(1,098)
Disposals	-	742	13,983	32,191	46,916
Foreign currency movements	-	-	(61)	1	(60)
Balance at 30 June 2018	(1,516)	-	(1,823)	(19,359)	(22,698)
Carrying amount as at 30 June 2018	-	-	3,826	5,140	8,966
Cost or deemed cost:					
Balance at 1 July 2016	1,516	742	18,969	60,104	81,331
Additions	-	-	58	696	754
Disposals	-	-	(127)	(4,346)	(4,473)
Foreign currency movements	-	-	(254)	(115)	(369)
Balance at 30 June 2017	1,516	742	18,646	56,339	77,243
Depreciation and impairment losses:					
Balance at 1 July 2016	(1,516)	(742)	(15,435)	(54,115)	(71,808)
Depreciation *(1)*	-	-	(267)	(901)	(1,168)
Disposals	-	-	127	4,227	4,354
Foreign currency movements	-	-	81	85	166
Balance at 30 June 2017	(1,516)	(742)	(15,494)	(50,704)	(68,456)
Carrying amount as at 30 June 2017	-	-	3,152	5,635	8,787

(1) Depreciation is included in 'logistics and distribution' in the Consolidated Income Statement.

Refer Note 18 for details of the impairment review.

Note 17. Intangible assets

$000	Goodwill	Computer software	Total
Cost or deemed cost:			
Balance at 1 July 2017	69,644	2,553	72,197
Additions	-	119	119
Disposals/retirements	-	(37)	(37)
Acquisition of businesses	509	-	509
Foreign currency movements	(562)	(28)	(590)
Balance at 30 June 2018	69,591	2,607	72,198
Amortisation and impairment losses:			
Balance at 1 July 2017	(41,830)	(2,105)	(43,935)
Amortisation *(1)*	-	(121)	(121)
Disposals/retirements	-	37	37
Foreign currency movements	(363)	23	(340)
Balance at 30 June 2018	(42,193)	(2,166)	(44,359)
Carrying amount as at 30 June 2018	27,398	441	27,839
Cost or deemed cost:			
Balance at 1 July 2016	70,156	2,523	72,679
Additions	-	123	123
Disposals/retirements	-	(88)	(88)
Foreign currency movements	(512)	(5)	(517)
Balance at 30 June 2017	69,644	2,553	72,197
Amortisation and impairment losses:			
Balance at 1 July 2016	(42,207)	(2,099)	(44,306)
Amortisation *(1)*	-	(93)	(93)
Disposals/retirements	-	84	84
Foreign currency movements	377	3	380
Balance at 30 June 2017	(41,830)	(2,105)	(43,935)
Carrying amount as at 30 June 2017	27,814	448	28,262

(1) Amortisation of intangible assets is included in 'other expenses' in the Consolidated Income Statement.

Note 18. 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 2018.

Cash generating units

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

- Merchanting Australia
- Merchanting New Zealand
- Merchanting Asia

The carrying amount of intangible assets with indefinite useful lives is $nil (2017: $nil). The carrying amount of goodwill is as follows:

	Goodwill	
	2018 $000	**2017 $000**
CGU:		
• New Zealand	27,398	27,814
Total	27,398	27,814

Note 18. Impairment of non-current assets – (continued)

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. Five-year projected cash flows for each CGU are discounted using an appropriate discount rate. A terminal growth rate is used to extrapolate cash flows beyond the five-year projected cash flows, discounted using the same discount rates.

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

Discount rate:	11.4% - 15.8% (2017: 11.1% - 14.8%). The discount rate represents the pre-tax discount rate applied to the cash flow projections. The discount rate reflects the market determined, risk adjusted discount rate.
Terminal growth rate:	0.0% - 2.0% (2017: 0.0% - 2.0%). The terminal growth rate represents the growth rate applied to extrapolate cash flows beyond the five-year forecast period. The growth rate is based upon expectations of the CGU's long-term performance.
Gross margin:	An overall improvement in gross profit percentage as a result of a change in the sales mix from lower margin core paper to higher margin diversified products over the forecast period and operational efficiencies in the core paper business.
Trading expenses:	An overall improvement in the ratio of trading expenses to sales as a result of certain Board approved restructuring programs and operating efficiencies over the forecast period.
Sales volumes:	For the core paper business, sales volumes are forecast to remain flat or decline based on industry forecasts for each CGU. For the diversified business, volume growth is based on management's estimates of market growth and market share.
Sales prices:	Forecast to increase or decrease based on assumptions about local industry conditions and, where relevant, exchange rates.

Results and sensitivity analysis by CGU

New Zealand:	The Merchanting New Zealand CGU contains all of the Consolidated Entity's goodwill. The valuation exceeds the carrying value. There would need to be a 210bps increase in the discount rate, a 200bps decrease in gross paper margin, or a 150bps increase in trading expenses to sales, all other things being equal, for an impairment of goodwill to arise in future reporting periods.
Australia:	There is no goodwill and there are no other intangible assets in the Merchanting Australia CGU. The valuation for the CGU exceeds the carrying value.
Asia:	There is no goodwill and there are no other intangible assets in the Merchanting Asia CGU. The valuation for this CGU exceeds the carrying value.

Impairment testing – other intangibles

New Zealand CGU:

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

Impairment loss and reversals

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

Note 19. Deferred tax balances

	2018 $000	2017 $000
Deferred taxes		
Deferred tax assets	687	623
Deferred tax liabilities	(103)	(29)
Net deferred tax balances	584	594
Movement in net deferred tax balances during the reporting period:		
Opening balance	594	435
Recognised in profit or loss	(10)	159
Closing balance	584	594
Deferred tax balances are attributable to the following:		
Provisions and employee benefits	721	586
Property, plant and equipment	(55)	(47)
Intangible assets	(32)	(33)
Other items	(50)	88
Net deferred tax balances	584	594
Unrecognised deferred tax assets *(1)*		
Capital losses - no expiry date	150,605	150,799
Revenue losses - no expiry date	152,222	151,659
Total unrecognised deferred tax assets	302,827	302,458

(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 20. Trade and other payables

	2018 $000	2017 $000
Trade creditors	61,866	56,846
Accrued Expenses	704	673
GST	2,569	2,762
Rebates	2,817	2,546
Other creditors	19,972	22,080
Total trade and other payables	87,928	84,907

Note 21. Loans and borrowings

	2018 $000	2017 $000
Balance at beginning of period	2,042	4,893
Borrowings		
New secured bank loan - New Zealand	-	1,427
Other net repayments	(2,148)	(4,199)
Capitalised borrowing costs paid	(26)	(24)
Total changes from financing cash flows	(2,174)	(2,796)
Amortisation of capitalised borrowing costs	16	133
Transfer of capitalised borrowing costs to prepayments	29	-
Effect of changes in foreign exchange rates	87	(188)
Balance at end of period	-	2,042

Note 21. Loans and borrowings – (continued)

Debt classification

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

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

During the current reporting period, a new asset backed facility was entered into in Australia which involves the securitisation of receivables and the other assets of the Australian business. There are no covenant measures associated with this facility. The facility provides funding up to $30 million and is for an initial 2 year term to November 2019. The amount of receivables pledged as part of the loan facility at balance date was $nil.

The multi-option loan facility in New Zealand matures in October 2019, and includes financial covenant measures comprising leverage and minimum interest coverage ratios. This facility is secured by the assets of the New Zealand business.

Reconciliation of consolidated loans and borrowings

	Note	2018 $000	2017 $000
Current loans and borrowings		-	2,042
Non-current loans and borrowings		-	-
Total loans and borrowings		-	2,042
Cash and cash equivalents	12	(41,135)	(29,928)
Short-term deposits		(3,955)	(3,955)
Net (cash) / borrowings		(45,090)	(31,841)

Note 22. Employee benefits

	2018 $000	2017 $000
Current		
Leave entitlements	5,009	5,589
Australian self-insured workers' compensation *(1)*	1,182	1,842
Other entitlements	433	237
Total current employee benefits	6,624	7,668
Non-current		
Leave entitlements	443	542
Total non-current employee benefits	443	542

(1) Amount provided in Victoria is $1.127 million (2017: $1.207 million) and Tasmania is $0.055 million (2017: $0.635 million)

Note 23. Provisions

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

Warranty
Provisions have been raised in relation to construction projects undertaken during the current reporting period.

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

$000	Restruct-uring	Warranty	Other	Total
Current				
Balance at 1 July 2017	1,339	-	169	1,508
Provided during the year	1,534	608	-	2,142
Paid during the year	(1,662)	-	-	(1,662)
Foreign currency movements	(9)	-	-	(9)
Balance at 30 June 2018	1,202	608	169	1,979
Balance at 1 July 2016	5,141	-	169	5,310
Released during the year	(1,306)	-	-	(1,306)
Paid during the year	(2,497)	-	-	(2,497)
Foreign currency movements	1	-	-	1
Balance at 30 June 2017	1,339	-	169	1,508

Note 24. Share capital

	2018 $000	2017 $000
Issued capital		
Issued and paid-up share capital - 2,056,942,649 ordinary shares (June 2017: 2,096,568,171)	1,934,824	1,936,607
Total issued capital	1,934,824	1,936,607

	2018 thousands of shares	2017 thousands of shares
Movement in issued shares		
Ordinary shares on issue at beginning of reporting period	2,096,568	665,181
Shares issued as consideration for PaperlinX step-up preference securities acquired	-	1,431,387
Shares acquired and cancelled as part of unmarketable parcels share buy-back	(39,625)	-
Ordinary shares on issue at end of reporting period	2,056,943	2,096,568

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

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

In the current reporting period, the Consolidated Entity has granted share rights to directors and executive Key Management Personnel (KMP). In prior reporting periods, the Consolidated Entity granted share options and rights to executive KMP and other employees. Share options and rights granted under employee share plans carry no entitlement to dividends and no voting rights. Refer Note 26 for details of rights and options issued under employee share plans.

Unmarketable parcels share buy-back
In the current reporting period, the Company completed a buy-back of unmarketable parcels of Spicers ordinary shares. A less than marketable parcel was any shareholding of 14,970 or less.

Under the terms of the unmarketable parcels buy-back as announced, a total of 39,625,522 Spicers ordinary shares were acquired and cancelled at a buy-back price of 3.34 cents. As a result, the number of Spicers shareholders reduced from 35,396 to 4,924.

Costs of $1.8 million directly attributable to the share buy-back transaction were capitalised into issued capital during the current reporting period.

Details of the share buy-back are contained in ASX Releases dated 7 December 2017 (Notice of Unmarketable Parcels Share Buy-Back) and 25 January 2018 (Completion of Unmarketable Parcels Share Buy-Back).

Note 24. Share capital – (continued)

Simplification of capital structure

In the prior reporting period, the Company announced and, with shareholder approval on 27 June 2017, implemented a scheme to acquire the remaining PaperlinX step-up preference securities (SPS Units) it did not already own in exchange for 1,431,386,910 new Spicers ordinary shares.

The fair value of Spicers ordinary shares issued as consideration was $45.8 million (1.431 billion shares at 3.2 cents per share). Transaction costs of $5.0 million were capitalised into issued capital as these costs were directly attributable to the issue of new equity. Further details of the capital structure simplification are contained in Note 5 of the Full Financial Report of Spicers Limited as at 30 June 2017.

Note 25. Reserves

Reserve for own shares

The reserve for own shares represented 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 26.

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 38(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 26.

Note 26. Share-based payment arrangements

At 30 June 2018, the Consolidated Entity had the following share-based payment arrangements:

Options

In prior reporting periods, the Company issued options to certain senior management at a fixed exercise price at a date in the future subject to specific performance criteria, market conditions and/or service conditions being achieved. If exercised, the exercise price is recognised in equity. The options are independently valued at the grant date. These values have been determined using an appropriate valuation model (either Monte Carlo simulation model or a discounted cash flow technique, as appropriate) incorporating assumptions in relation to the following: the life of the option; the vesting period; the volatility in the share price (range of 20.0 per cent to 74.0 per cent); the dividend yield (range of Nil per cent to 7.25 per cent); and the risk-free interest rate (range of 2.55 per cent to 5.95 per cent). The value of the options is 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 1,039,100 (2017: 7,061,100) unissued shares of the Company which are under option.

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

					Number of options					
Grant date	Initial measurement/ service date	Expiry date	Exer-cise price	Fair value at date of grant	Opening balance	Granted	Lapsed / Cancelled	Exercised	Closing balance	Exercisable at balance date
2018										
14/4/2000	14/4/2003	*(1)*	$3.13	$0.360	10,000	-	(10,000)	-	-	-
20/11/2000	20/11/2003	*(1)*	$3.32	$0.330	12,500	-	(5,000)	-	7,500	7,500
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	-	(5,000)	-	14,600	14,600
20/9/2002	20/9/2005	*(1)*	$5.13	$0.640	9,000	-	(2,000)	-	7,000	7,000
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)	-	-	-
					7,061,100	-	(6,022,000)	-	1,039,100	39,100
Weighted average exercise price					$0.16	-	$0.08	-	$0.63	$3.99

Note 26. Share-based payment arrangements – (continued)

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

(1) Options issued to employees on commencement of employment are not subject to performance conditions and do not have as 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 2018, nil options have been granted, lapsed or exercised and no options on issue at balance date have been exercised up to the date of this report.

Rights

In the current reporting period, the Company granted share rights to directors and executive Key Management Personnel (KMP) to receive shares at an agreed exercise price 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. The value of the rights are expensed to the Income Statement over the applicable measurement period.

In prior reporting periods, the Company offered rights to executive KMP and 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 40,200,000 (2017: nil) unissued shares of the Company which are subject to performance rights. Each performance right entitles the holder to receive one fully paid ordinary share in the Company when the relevant performance conditions are met. The details of the performance rights on issue at balance date and movements during the reporting period are as follows:

Grant date	Initial measurement/ service date	Expiry date	Exercise price	Fair value at date of grant	Number of rights: Opening balance	Granted	Cancelled	Lapsed	Exercised	Closing balance
2018										
23/11/2017	23/11/2017	*(1)*	$0.05	$0.01	-	6,600,000	-	-	-	6,600,000
23/11/2017	23/11/2017	*(1)*	$0.06	$0.01	-	6,600,000	-	-	-	6,600,000
8/1/2018	8/1/2018	*(1)*	$0.05	$0.02	-	11,000,000	-	-	-	11,000,000
8/1/2018	8/1/2018	*(1)*	$0.06	$0.01	-	9,000,000	-	-	-	9,000,000
12/1/2018	12/1/2018	*(1)*	$0.05	$0.02	-	3,600,000	-	-	-	3,600,000
12/1/2018	12/1/2018	*(1)*	$0.06	$0.01	-	3,400,000	-	-	-	3,400,000
					-	40,200,000	-	-	-	40,200,000
2017										
1/7/2013	30/6/2016	*(2)*	$nil	$0.04	3,063,989	-	-	-	(3,063,989)	-
					3,063,989	-	-	-	(3,063,989)	-

(1) These performance rights have no fixed expiry date. They vest upon meeting the relevant vesting conditions, subject to continued Non-executive Director or employment service conditions, and can be exercised by the holder with an exercise period of the earlier of three years after the rights vest or the date of a Change of Control event.

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

Nil rights were exercisable as at balance date.

Since balance date up to the date of this report in respect of the plan period ended 30 June 2018 nil rights have been exercised and nil rights have been granted, cancelled or lapsed.

Note 26. Share-based payment arrangements – (continued)

Employee shares

In prior reporting periods, the Company established a number of employee share plans to administer the granting and vesting of options and rights. These plans appointed an independent trustee to acquire and hold, in an independent trust, the Company's shares that would ultimately vest to the relevant employees. The participating employees were the sole beneficiaries of the trust.

The employee share plans are in the process of being wound up. During the current reporting period, all 1,094,671 remaining shares held by the employee share plans were sold on market with the proceeds to be used to fund the winding up of the employee share plans. Any excess proceeds on liquidation will be allocated to the Spicers Superannuation Fund.

Despite having no beneficial interest in the trust, under the relevant accounting standards, the Company consolidated the trust in the financial statements of the Consolidated Entity and therefore any Company shares held by the trust on behalf of the participating employees were recorded in the Statement of Financial Position in the reserve for own shares (refer Note 25). The voting rights attached to the shares were held in trust, and the dividends attached to the shares were retained by the trust. During the prior reporting period, 3,063,989 shares were distributed by the trust to satisfy issues under share-based payment plans.

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

	Opening balance	Shares sold by the trust	Distributed by the trust	Closing balance
2018				
Number of shares	1,094,671	(1,094,671)	-	-
2017				
Number of shares	4,158,660	-	(3,063,989)	1,094,671

Share-based payments expense

	2018 $000	2017 $000
Equity settled share-based payments expense	(52)	-
Total share-based payments expense	(52)	-

Note 27. 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 & Risk Committee, which is responsible for developing and monitoring risk management policies. The Audit & Risk 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 & Risk 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 & Risk Committee is assisted in its oversight role by group finance and governance resources. The group finance and governance resources carry out targeted internal controls improvement work in key areas, the results of which are reported to senior management and the Audit & Risk Committee.

Note 27. Financial risk management and financial instrument disclosures – (continued)

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 51% of the Consolidated Entity's trade and other receivables with New Zealand and Asia having 25% and 24% respectively. No individual customers comprise more than 10 percent of an individual country's trade and other receivables balance at balance date.

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

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

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

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

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

Foreign exchange contracts

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

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

Guarantees

Guarantees provided by the Company and the Consolidated Entity are detailed in Notes 30 and 33 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.

Note 27. Financial risk management and financial instrument disclosures – (continued)

Market risk

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

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

The Consolidated Entity does not enter into commodity contracts.

Currency risk - transactional

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

In relation to recognised assets and liabilities denominated in a currency other than the entity's functional currency, the Consolidated Entity's policy is to hedge all material foreign currency trading exposures. This is done via a natural hedge, such as a similarly denominated receivable or cash balance, or through approved derivative contracts. It is the Consolidated Entity's policy to recognise the net exchange gain/loss arising between the date of inception and year end, as a net foreign currency receivable/payable in the financial statements. This net exchange gain/loss is calculated as the movement in the fair value of the contract from the date of inception to 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 8).

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

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

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

Currency risk - translational

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

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

Interest rate risk

The Consolidated Entity is exposed to adverse movements in interest rates under various debt facilities. The Consolidated Entity from time to time enters into interest rate swaps that swap floating rate interest bearing liabilities into a fixed rate of interest. The Consolidated Entity, if required, will enter into interest rate derivatives. The Company currently does not undertake interest rate hedging but interest rate exposures are continually monitored and if conditions change significantly interest rate hedging may recommence.

Capital management

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

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Consolidated Entity uses a range of financial metrics to monitor the efficiency of its capital structure, including gearing and leverage ratios and return on funds employed, in order to ensure that its capital structure provides sufficient financial strength to enable access to debt finance at reasonable cost. The weighted average interest rate on interest-bearing borrowings was nil percent (2017: 6.6 percent).

Note 27. Financial risk management and financial instrument disclosures – (continued)

Exposure to credit risk

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

	Note	2018 $000	2017 $000
Current net trade receivables		69,821	70,990
Forward exchange contracts		1,447	-
Current other receivables (excluding prepayments)		1,010	2,326
Total current trade and other receivables		72,278	73,316
Non-current other receivables		-	74
Total non-current trade and other receivables	15	-	74
Total trade and other receivables		72,278	73,390
Cash and cash equivalents	12	41,135	29,928
Short-term deposits		3,955	3,955
		117,368	107,273

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

	2018 $000	2017 $000
Australia	37,966	40,042
New Zealand	17,863	17,257
Asia	16,449	16,091
Total trade and other receivables	72,278	73,390

Receivables relate to wholesale and end-user customers.

The ageing of trade debtors at the reporting date was:

	Note	Gross 2018 $000	Gross 2017 $000
Not past due		63,603	62,890
Past due 0-30 days		6,429	7,785
Past due 31-120 days		1,111	1,075
Past due 121 days to one year		31	60
Past due more than one year		1,108	1,255
Total gross trade debtors	13	72,282	73,065

Impairment losses

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

	Note	2018 $000	2017 $000
Balance at 1 July		(2,075)	(2,695)
Impairment loss recognised		(567)	(231)
Net write-off		272	755
Foreign currency movements		(91)	96
Balance at 30 June	13	(2,461)	(2,075)

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.

Note 27. Financial risk management and financial instrument disclosures – (continued)

Exposure to liquidity risk

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

	Carrying amount $000	Contractual Cash Flows Total $000	1 year or less $000	1 to 5 years $000	More than 5 years $000
2018					
Non-derivative financial liabilities					
Trade and other payables	87,928	87,928	87,928	-	-
2017					
Non-derivative financial liabilities					
Trade and other payables	84,654	84,654	84,654	-	-
Interest bearing loans and borrowings	2,042	2,060	2,060	-	-
Derivative financial liabilities					
Other foreign exchange contracts	253	253	253	-	-

Exposure to currency risks

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

	2018				
Exposure (in local currency)	**AUD $000**	**EUR €000**	**USD $000**	**JPY ¥m**	**SGD $000**
Trade and other receivables	745	63	1,913	-	-
Trade and other payables	(790)	(2,434)	(16,926)	(200,581)	-
Loans and borrowings	-	(5,677)	-	-	-
Gross balance sheet exposure	(45)	(8,048)	(15,013)	(200,581)	-
Foreign exchange contracts	-	3,103	19,989	245,323	-
Net balance sheet exposure	(45)	(4,945)	4,976	44,742	-

	2017				
Exposure (in local currency)	**AUD $000**	**EUR €000**	**USD $000**	**JPY ¥m**	**SGD $000**
Trade and other receivables	641	374	1,861	-	-
Trade and other payables	(968)	(3,549)	(14,499)	(160,804)	(7)
Loans and borrowings	-	(5,677)	-	-	(2,175)
Gross balance sheet exposure	(327)	(8,852)	(12,638)	(160,804)	(2,182)
Foreign exchange contracts	14	4,303	17,233	203,774	-
Net balance sheet exposure	(313)	(4,549)	4,595	42,970	(2,182)

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

	Reporting date spot rate 2018	2017
EUR	0.6264	0.6629
USD	0.7298	0.7622
JPY	79.7800	85.0400
SGD	1.0049	1.0590

Note 27. Financial risk management and financial instrument disclosures – (continued)

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.

	2018 $000	2017 $000
EUR	718	624
USD	(620)	(548)
JPY	(51)	(46)
SGD	-	187

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.

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)*
2018				
Financial assets				
Cash and cash equivalents	41,135	-	41,135	1.1
Short-term deposits	-	3,955	3,955	2.6
Financial liabilities				
Interest bearing loans and borrowings	-	-	-	-
2017				
Financial assets				
Cash and cash equivalents	25,928	4,000	29,928	1.1
Short-term deposits	-	3,955	3,955	2.7
Financial liabilities				
Interest bearing loans and borrowings	2,060	-	2,060	6.6

(1) Excludes company specific margins.

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

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

	2018 $000	2017 $000
Floating interest	411	279

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.

Note 27. Financial risk management and financial instrument disclosures – (continued)

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 10), 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).

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**
2018									
Financial assets measured at fair value									
Foreign exchange contracts		1,447	-	-	1,447	-	1,447	-	1,447
		1,447	-	-	1,447				
Financial assets not measured at fair value									
Cash and cash equivalents	12	-	41,135	-	41,135				
Short-term deposits		-	3,955	-	3,955				
Trade and other receivables		-	72,509	-	72,509				
		-	117,599	-	117,599				
Financial liabilities measured at fair value									
Trade and other payables		-	-	(11,168)	(11,168)			(11,168)	(11,168)
		-	-	(11,168)	(11,168)				
Financial liabilites not measured at fair value									
Trade and other payables		-	-	(76,760)	(76,760)				
		-	-	(76,760)	(76,760)				

Note 27. Financial risk management and financial instrument disclosures – (continued)

$000	Note	Carrying amount: Fair value hedging instru-ments	Carrying amount: Loans and receiv-ables	Carrying amount: Other financial assets/ liabilities	Carrying amount: Total	Fair value: Level 1	Fair value: Level 2	Fair value: Level 3	Fair value: Total
2017									
Financial assets not measured at fair value									
Cash and cash equivalents	12	-	29,928	-	29,928				
Short-term deposits		-	3,955	-	3,955				
Trade and other receivables		-	74,364	-	74,364				
		-	108,247	-	108,247				
Financial liabilities measured at fair value									
Foreign exchange contracts		(253)	-	-	(253)	-	(253)	-	(253)
Trade and other payables		-	-	(9,985)	(9,985)	-	-	(9,985)	(9,985)
		(253)	-	(9,985)	(10,238)				
Financial liabilites not measured at fair value									
Trade and other payables		-	-	(74,669)	(74,669)				
Bank loans - secured	21	-	-	(2,042)	(2,042)	-	(2,060)	-	(2,060)
		-	-	(76,711)	(76,711)				

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:

	2018 $000	2017 $000
Opening balance	9,985	9,450
Net change in fair value	588	552
Foreign currency movements	595	(17)
Closing balance	11,168	9,985

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

Note 28. Employee retirement benefit obligations

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

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

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

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

	2018 $000	2017 $000
The amounts recognised in the Statement of Financial Position are determined as follows:		
Present value of the defined benefit obligation	8,189	10,059
Less fair value of plan assets	(8,908)	(10,702)
Add limitation on recoupment of net surplus position	719	643
Net liability in the Statement of Financial Position	-	-

Note 29. Reconciliation of cash flows from operating activities

	Note	2018 $000	2017 $000
Reconciliation of profit after tax to net cash from operating activities			
Profit for the period		3,511	1,692
Add back non-cash items:			
• Depreciation and amortisation of property, plant, equipment and intangibles	16,17	1,219	1,261
• Loss/(profit) on disposal of controlled entities	5	477	(2,198)
• Loss on disposal of property, plant and equipment		18	105
• Employee share based payments expense	26	52	-
• Amortisation of capitalised borrowing costs	21	16	132
Add back other items classified as investing/financing:			
• Borrowing costs expensed		75	70
Decrease/(increase) in trade and other receivables		2,389	(2,365)
Decrease/(increase) in inventories		9,634	(14,766)
Increase in trade and other payables		1,965	21,006
(Decrease)/increase in provisions and employee benefits		(619)	1,462
Increase in current and deferred taxes		(1,482)	(112)
Net cash from operating activities		17,255	6,287
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		41,135	29,928
		41,135	29,928

Note 30. Parent entity disclosures

As at and throughout the financial year ended 30 June 2018, the parent company of the Consolidated Entity was Spicers Limited.

Comprehensive Income

For the year ended 30 June	Parent Entity 2018 $000	2017 $000
(Loss)/profit before tax	(104)	288,549
Tax expense	(0)	(1)
Total comprehensive (loss)/income for the period, net of tax	(104)	288,548

Statement of Financial Position

As at 30 June	Parent Entity 2018 $000	2017 $000
Current assets	3,955	3,955
Total assets	45,302	45,303
Current liabilities	-	5,389
Total liabilities	7,276	5,389
Net assets	38,026	39,914
Equity		
Issued capital	1,934,824	1,936,608
Accumulated losses	(1,896,798)	(1,896,694)
Total equity	38,026	39,914

Note 30. Parent entity disclosures – (continued)

Contingent liabilities

	Parent Entity 2018 $000	2017 $000
Contingent liabilities arising in respect of related bodies corporate:		
• Bank guarantees (trade)	500	-
• Other guarantees (government)	2,823	2,172
• Loan guarantees (subsidiaries)	14,134	13,030
Total contingent liabilities	17,457	15,202

Refer to Note 33 for details.

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

Note 31. Capital expenditure commitments

	2018 $000	2017 $000
Capital expenditure contracted but not provided for:		
• Property, plant and equipment	-	86
• Acquisition of controlled entities *(1)*	-	824
Total capital expenditure commitments	-	910

(1) Refer Note 36.

Note 32. Lease commitments

Operating leases

	2018 $000	2017 $000
Operating lease commitments		
Lease expenditure contracted but not provided for:		
• Not later than one year	8,199	10,393
• Later than one year but not later than five years	14,935	20,264
• Later than five years	3,226	3,339
Total operating lease commitments	26,360	33,996

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

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

Finance leases

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

Note 33. Contingent liabilities

	2018 $000	2017 $000
Contingent liabilities arising in respect of related bodies corporate:		
• Bank guarantees (trade)	500	455
• Other guarantees	2,823	2,172
Total contingent liabilities	3,323	2,627

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

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

Under the terms of the ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, effective 29 September 2016, the Company and certain subsidiaries have entered into approved deeds for the cross guarantee of liabilities with those subsidiaries identified in Note 36.

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.

Note 33. Contingent liabilities – (continued)

Sale warranties and indemnities

The Consolidated Entity has given certain vendor warranties and indemnities for operations previously divested in North America. No new claims have arisen under these warranties and indemnities in the current or prior reporting periods.

As it is not possible to quantify the potential financial obligation (if any) of the Consolidated Entity for future claims under these warranties and indemnities, no amounts have been disclosed.

Subsidiaries in administration

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

Legal claims and other exposures may arise for the Consolidated Entity from these proceedings. There is uncertainty as to whether a future liability may arise in respect of these matters. The amount of any potential liability, if any, is unascertainable at this time. Based on current knowledge it is considered unlikely that a material future liability will arise.

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

Note 34. Auditors' remuneration

	2018 $	2017 $
Audit and review services		
Auditors of the Consolidated Entity - KPMG Australia		
Audit and review of financial statements	296,115	384,533
Overseas KPMG firms		
Audit and review of financial statements	106,068	145,254
	402,183	529,787
Other auditors *(1)*		
Audit and review of local statutory financial statements	1,370	68,177
	403,553	597,964
Other services		
Auditors of the Consolidated Entity - KPMG Australia		
Other services - capital simplification due diligence services	-	100,000
Other services	-	9,500
Overseas KPMG firms		
Taxation services	8,674	9,506
	8,674	119,006
Total auditors' remuneration	412,227	716,970

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

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

Note 35. Related parties

Key management personnel (KMP) compensation

	2018 $	2017 $
Short-term benefits	1,198,646	1,406,427
Post-employment benefits	104,563	129,249
Other long-term benefits	-	40,105
Equity plans	51,770	-
Termination benefits	526,439	-
	1,881,418	1,575,781

Transactions with entities in the Consolidated Entity

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

Other related party disclosures

The ownership interest in subsidiaries is disclosed in Note 36.

Loans to Directors of subsidiaries total $nil (2017: $nil).

Note 36. Group entities

Acquisitions

On 3 July 2017, the Consolidated Entity acquired 100% of the shares in Sign Technology Limited (Sign Tech), a leading supplier of LED and neon sign components in New Zealand. Sign Tech is based predominantly out of Auckland. The business was acquired to accelerate growth in the Consolidated Entity's sign and display business in New Zealand.

In the 12 months to 30 June 2018, Sign Tech contributed revenue of $1.03 million to the Consolidated Entity.

Consideration transferred

The following table summarises the acquisition-date fair value of each major class of consideration transferred:

	Sign Tech $000
Cash	800
Total consideration transferred	800

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

	Sign Tech $000
Cash and cash equivalents	5
Inventories	165
Trade and other receivables	157
Property, plant and equipment	1
Trade and other payables	(37)
Total net identifiable assets	291

Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	Sign Tech $000
Total consideration transferred	800
Fair value of identifiable assets	291
Goodwill	509

The goodwill is attributable mainly to anticipated future earnings streams and the skills and technical talent of Sign Tech's work force. None of the goodwill recognised is expected to be deductible for tax purposes.

Cross guarantee

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

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

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

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

Income Statement

	Deed of Cross Guarantee Consolidated	
For the year ended 30 June	**2018 $000**	**2017 $000**
Profit before tax	1,106	281,886
Tax expense	-	(1)
Profit after tax	1,106	281,885
Accumulated losses at beginning of period	(1,865,115)	(2,147,004)
Employee share options and rights	(42)	4
Accumulated losses at end of period	(1,864,051)	(1,865,115)

Note 36. Group entities – (continued)

Statement of Financial Position

	Deed of Cross Guarantee Consolidated	
As at 30 June	**2018 $000**	**2017 $000**
Current assets		
Cash and cash equivalents	14,139	8,300
Short-term deposits	3,955	3,955
Trade and other receivables	38,477	40,489
Inventories	47,437	52,592
Total current assets	104,008	105,336
Non-current assets		
Receivables	-	73
Investments in other Consolidated Entity subsidiaries	28,447	28,448
Property, plant and equipment	3,022	3,509
Intangible assets	299	284
Total non-current assets	31,768	32,314
Total assets	135,776	137,650
Current liabilities		
Trade and other payables	44,135	43,194
Loans and borrowings	10,206	10,550
Income tax payable	1,000	2,000
Employee benefits	6,187	7,180
Provisions	1,370	1,125
Total current liabilities	62,898	64,049
Non-current liabilities		
Employee benefits	352	448
Total non-current liabilities	352	448
Total liabilities	63,250	64,497
Net assets	72,526	73,153
Equity		
Issued capital	1,934,824	1,936,608
Reserves	1,753	1,660
Accumulated losses	(1,864,051)	(1,865,115)
Total equity	72,526	73,153

Note 36. Group entities – (continued)

Subsidiaries listing

	Note	Country of incorporation	Consolidated subsidiary interest 2018	2017
PaperlinX Services Pty Ltd	*(1)*	Australia	100%	100%
Tas Paper Pty Ltd	*(1)*	Australia	100%	100%
PaperlinX SPS Trust	*(2)*	Australia	-	100%
PaperlinX SPS LLC	*(3)*	USA	-	100%
Spicers Australia Pty Ltd	*(1)*	Australia	100%	100%
Pebmis Pty Ltd	*(1)*	Australia	100%	100%
Paper Associates Pty Ltd	*(1)*	Australia	100%	100%
PaperlinX Holdings Coöperatieve UA		Netherlands	100%	100%
PPX Canada Limited		Canada	100%	100%
Spicers Holdings (Asia) Pte Ltd		Singapore	100%	100%
Spicers Paper (Singapore) Pte Ltd		Singapore	100%	100%
Spicers Paper (Hong Kong) Ltd	*(4)*	Hong Kong	-	100%
Spicers Paper (Malaysia) Sdn Bhd		Malaysia	100%	100%
PaperlinX Investments Pty Ltd	*(1)*	Australia	100%	100%
Spicers (N.Z.) Ltd		New Zealand	100%	100%
Total Supply Limited		New Zealand	100%	100%
Sign Technology Limited		New Zealand	100%	-

(1) Subsidiaries entered into an approved deed for the cross guarantee of liabilities.
(2) PaperlinX SPS Trust was dissolved effective 31 December 2017.
(3) PaperlinX SPS LLC was wound-up by the Trustee effective 31 August 2017.
(4) Spicers Paper (Hong Kong) Ltd was liquidated effective 9 March 2018.

Note 37. 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 2018.

Note 38. 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.

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.

(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 38. 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 Company is the head entity of the Australian tax consolidated group.

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. 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.

(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:

Buildings:	between 1% - 4% (2017: 1% - 4%)
Plant and equipment:	between 4% - 25% (2017: 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.

Note 38. Accounting policies – (continued)

(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 3 and 26.

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

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

- **Employee retirement benefit obligations**

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

A liability or asset in respect of the defined benefit plan is recognised in the statement of financial position, and is measured as the present value of the defined benefit obligation at the reporting date less the fair value of the plan's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the plan to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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

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

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

(h) Net financing costs

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

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

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

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

Note 38. Accounting policies – (continued)

(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.

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.

(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 are recognised at either amortised cost or fair value through profit and loss, depending on the nature of the liability and the basis on which it is managed and its performance is evaluated.

Note 38. Accounting policies – (continued)

- **Financial instruments included in assets**

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

Investments are initially recorded at cost in the Company's financial statements 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 are recognised at either amortised cost or fair value through profit and loss, depending on the nature of the asset and the basis on which it is managed and its performance is evaluated.

(n) Leased assets

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

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

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

(o) Intangible assets

- **Goodwill**

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

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

- **Other intangible assets**

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

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

Amortisation rates used for other intangible assets are as follows:

Computer software: 10.0% - 40.0% (2017: 10% - 40.0%)

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(p) Business combinations

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

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

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

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

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

Note 38. Accounting policies – (continued)

(q) Impairment of assets

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

- **Recoverable amount**

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

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

- **Reversals of impairment**

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

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

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

(r) Provisions

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

- **Restructuring**

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

- **Environmental remediation**

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

(s) Earnings per share

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

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

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

(t) Discontinued operation

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

(u) Accounting estimates and judgements

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

- **Revisions of accounting estimates**

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

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

Amounts owed to and by former subsidiaries are recognised 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 18.

Note 38. Accounting policies – (continued)

- **Defined benefit plan obligations**

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

- **Contingent liabilities**

Management have made estimates and judgements in relation to the likelihood of certain contingent liabilities, refer Note 33.

(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) New standards and interpretations not yet adopted

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

AASB 9 Financial Instruments

AASB 9 *Financial Instruments*, AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, AASB 2014-1 *Amendments to Australian Accounting Standards [Part E - Financial Instruments],* AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)* brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace AASB 139 *Financial Instruments: Recognition and Measurement* in the final version of AASB 9. AASB 9 will become applicable to the Consolidated Entity from 1 July 2018.
The new standard will require the Consolidated Entity to revise its accounting processes and internal controls related to reporting financial instruments.

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

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

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

Given the nature and size of the customer base, with a significant number of low value receivable balances, the Consolidated Entity has chosen to use practical expedients when measuring ECLs. The Consolidated Entity intends to use its historical credit loss experience for trade receivables to estimate the lifetime ECLs, taking into account known impaired balances and the level of credit risk insurance in place to mitigate the exposure to impairment losses. As such, impairment losses are not expected to be materially higher or more volatile under AASB 9.

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

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

At reporting date, the Consolidated Entity has other payables designated at FVTPL. The Consolidated Entity does not believe that the new classification requirements, if applied at the reporting date, would have had a material impact on the recognition of changes in the fair value of liabilities designated as at FVTPL. The effect on future periods will depend on the value of other payables designated at FVTPL and the own credit risk attributable to those liabilities in future periods.

Note 38. Accounting policies – (continued)

Hedge accounting
AASB 9 will require the Consolidated Entity to ensure that hedge accounting relationships are aligned with the Consolidated Entity's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. AASB 9 also introduces new requirements regarding rebalancing of hedge relationships and prohibiting voluntary discontinuation of hedge accounting.
Although the Consolidated Entity hedges foreign currency transactions which are not offset by a natural hedge (refer Note 38(l)), during the current and prior reporting periods, it did not apply hedge accounting to these activities. Therefore, the changes to hedge accounting under AASB 9 are unlikely to have an impact on the Consolidated Entity unless it decides to implement hedge accounting in future reporting periods.

AASB 15 Revenue from Contracts with Customers

AASB 15 *Revenue from Contracts with Customers,* AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15,* AASB 2015-8 *Amendments to Australian Accounting Standards - Effective Date of AASB 15* outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers.
AASB 15 will supersede the current revenue recognition guidance including AASB 118 *Revenue* and the related interpretations when it becomes effective to the Consolidated Entity from 1 July 2018.

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

The Consolidated Entity recognises revenue from the following major sources:

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

For the year ended 30 June 2018, print and packaging products and sign and display products (excluding hardware) accounted for approximately 98% of the Consolidated Entity's sales revenue. These categories typically involve the supply of products to customers from stock maintained in distribution centres or as an agent for suppliers, with the Consolidated Entity responsible for delivery to the customer. Under AASB 15, revenue will be recognised when the performance obligation is satisfied through transfer of control of the goods to the customer, which is no different from how the Consolidated Entity currently recognises this revenue.

In some cases, print and packaging products and sign and display products (excluding hardware) are provided on a 'bill and hold' basis, where the Consolidated Entity bills the customer for a product but retains physical possession of the product until it is transferred to the customer at a point in time in the future. AASB 15 acknowledges that for some contracts a customer may obtain control of a product even though that product remains in an entity's physical possession. AASB 15 provides certain criteria that must be met in relation to documentation of the arrangement, identification of the product, readiness to ship etc which is consistent with the Consolidated Entity's current policy on bill and hold arrangements. The only additional requirement under AASB 15 for 'bill and hold' is the need to consider whether the entity has any remaining performance obligations – for example custodial services – to which a portion of the transaction price should be allocated. Where appropriate, customers are charged separately for custodial services as a separate performance obligation.

The Hardware category contributed less than 2% of the Consolidated Entity's net sales revenue in the current reporting period. It mainly comprises revenue from the provision of printers and related equipment, but may also include installation and servicing of hardware, plus the provision of consumables such as inks. Currently revenue is recognised when the equipment has been delivered to the customer, or in the case of supply and install, when the equipment has been delivered and installed. Typically, servicing during the warranty period is not recognised as a separate revenue stream, notwithstanding that the servicing occurs over an agreed period (usually 1 year) post sale/installation. The amount of potential revenue deferral in the current reporting period is immaterial. As the Consolidated Entity is withdrawing from the provision of hardware servicing, there will be no impact on revenue recognition in subsequent reporting periods. The supply of consumables post sale/installation is typically not bundled into the hardware transaction and is treated as a separate sale transaction, which is consistent with the requirements of AASB 15.

AASB 16 Leases

AASB 16 *Leases* will replace AASB 117 *Leases*, Interpretation 4 *Determining whether an Arrangement contains a Lease*, Interpretation 115 *Operating Leases - Incentives* and Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* AASB 16 Leases introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. AASB 16 will become effective to the Consolidated Entity from 1 July 2019.

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

At reporting date, the Consolidated Entity has undiscounted non-cancellable operating lease commitments of $26.4 million, mainly in relation to warehouses. The current standard AASB 117 does not require the recognition of any right-of-use asset or liability for future payments for these leases, instead certain information is disclosed as operating lease commitments in Note 32. A preliminary assessment indicates that these arrangements will meet the definition of a lease under AASB 16, and so the Consolidated Entity will recognise a right-of-use asset and a corresponding lease liability in respect of these leases. In addition, the nature of expenses related to those leases will change as AASB 16 replaces the straight-line operating lease expense ($8.7 million in the current reporting period, included in 'logistics and distribution') with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Note 38. Accounting policies – (continued)

As a lessee, the Consolidated Entity can apply the standard using a:

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

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

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

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

- AASB 2014-10 A*mendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*, AASB 2015-10 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128* addresses a conflict between the requirements of AASB 128 *Investments in Associates and Joint Ventures* and AASB 10 *Consolidated Financial Statements*. AASB 2014-10 will become applicable to annual reporting periods beginning on or after 1 January 2022. The potential effect, if any, on the Consolidated Entity's Financial Report has not yet been determined.
- AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions* clarifies: estimating the fair value of cash-settled share-based payments; the classification of a share-based payment arrangement which has a 'net settlement feature'; and accounting for modification of share-based payments that change the transaction from cash-settled to equity-settled. AASB 2016-5 will become applicable to annual reporting periods beginning on or after 1 January 2018. The potential effect, if any, on the Consolidated Entity's Financial Report has not yet been determined.
- AASB 2018-1 A*mendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle* makes amendments to AASB 3 *Business Combinations,* AASB 11 *Joint Arrangements,* AASB 112 *Income Taxes* and AASB 133 *Borrowing Costs*. AASB 2018-1 will become applicable to annual reporting periods beginning on or after 1 January 2019. The potential effect, if any, on the Consolidated Entity's Financial Report has not yet been determined.
- AASB 2018-2 *Amendments to Australian Accounting Standards - Plan Amendment, Curtailment or Settlement* amends AASB 119 *Employee Benefits* to require that the current service cost and net interest for the period are remeasured using the remeasurement assumptions, when a plan amendment, curtailment or settlement occurs, and also includes additional clarification around the asset ceiling requirements. AASB 2018-2 will become applicable to annual reporting periods beginning on or after 1 January 2019. The potential effect, if any, on the Consolidated Entity's Financial Report has not yet been determined.

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 2018 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 36 will be able to meet any obligations or liabilities to which they are or may become subject by virtue of the Deed of Cross Guarantee between the Company and those consolidated entities pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.

3 The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2018.

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:

Jonathan Trollip	**Nigel Burgess**
Chairman	Director

Dated at Melbourne, in the State of Victoria this 24 August 2018.

Independent Auditor's Report

To the shareholders of Spicers Limited

Report on the audit of the Financial Report

Opinion

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

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

- giving a true and fair view of the ***Group***'s financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2018
- Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' declaration.

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

Basis for opinion

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

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Valuation of intangible assets and property, plant & equipment (PPE)
- Contingent liabilities

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

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

Valuation of intangible assets and property, plant & equipment (PPE) ($36.8m)	
Refer to Note 18 'Impairment of non-current assets' to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
The Group's annual testing of intangible assets (including goodwill) and PPE for impairment is a key audit matter given the size of the balance (16% of total assets) as at 30 June 2018. We focused on the significant forward-looking and other assumptions the Group applied in their value in use models, including: • The paper industry in which the Group operates has experienced market structural decline for a number of years. This impacts critical inputs such as forecast paper sale volumes and gross margin, as well as longer term growth rate assumptions. The market decline is expected to continue into the forecast period, increasing the risk of inaccurate forecasting; and • The discount rate which is complex in nature and varies according to the conditions and environment that the specific Cash Generating Unit (CGU) operates in. The Group's impairment models are sensitive to changes in the assumptions mentioned above, which can reduce the available headroom. This focused our audit effort on the feasibility and consistency of these key assumptions with the Group's plan and strategy. In addition to the above, the carrying amount of the net assets of the Group exceeded the Group's market capitalisation at year end, increasing the possibility of intangible assets and PPE being impaired. This further increased our audit effort in this key audit area.	Our procedures included: • Considering the appropriateness of the value in use method applied by the Group to perform the annual test of intangible assets and PPE for impairment against the requirements of the accounting standards. • Comparing the forecast cash flows contained in the value in use models to the Group's approved forecasts and considering the key matters included in the Board approved plan and strategy. • Challenging the Group's key forecast cash flow and growth assumptions, including the future impact of structural market decline. We compared forecast growth rates to published industry trends and expectations, and considered differences for the Group's operations. We used our knowledge of the Group, its past performance, business and customers, and our industry experience. • Assessing the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the models. We noted previous trends impacting CGU financial performance and how they impacted the business, for use in further testing. • We independently developed a discount rate range using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in. • Considering the sensitivity of the models by varying key assumptions such as forecast paper sale volumes, gross margin, terminal growth rates and discount rates, within a reasonably possible range, to identify those CGUs at higher risk of impairment and to focus our further procedures. • Qualitatively assessing the key factors in the Group's assessment of differences between the year-end market capitalisation and the

	carrying amount of the net assets based on our knowledge of the Group. • Assessing the disclosures in the Financial Report using our understanding of the issue obtained from our testing and against the requirements of the accounting standards.
Contingent Liabilities	
Refer to Note 33 'Contingent Liabilities' to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
The Group has possible exposures relating to ongoing insolvency proceedings across a number of the Group's discontinued operations. Contingent liabilities are considered a Key Audit Matter due to the significant judgement exercised by us in evaluating the current year possible exposures, the likelihood they could materialise, and adequacy of disclosures as a contingent liability under the accounting standards. We focused on gathering evidence for the critical considerations relevant to this. This included evaluating developments such as: • communication or correspondence between the Group and relevant parties, • legal advice obtained by the Group, • the implications for potential claims originating given the passage of time, • the legal framework for initiating a claim, and • other relevant factors indicating a lessening of the likelihood of possible exposure to future liabilities. These procedures were performed by senior audit team members.	Our procedures included: • Enquiries of Directors and senior management to assist in understanding the specific facts and circumstances of possible exposures, legal advice obtained, extent of insurance coverage, and their assessment of the potential for future claims or liabilities. • Reading the Group's litigation register as well as reports or other correspondence produced by insolvency administrators / trustees. We also enquired directly with the Group's lawyers to check changes to possible litigation claims and exposures assessed by the Group. • Examining current and past legal advice from the Group's external lawyers, and enquiring of them to understand their assessment of any exposure, changes in exposures, the Group's legal position and possible outcomes. We assessed the views expressed by Directors and senior management against the legal advice obtained by the Group, for consistency with information gathered as part of our audit procedures. • Assessing the disclosures in the Financial Report against accounting standard requirements the results of our audit procedures.

Other Information

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

The Other Information we obtained prior to the date of this Auditor's Report was the Remuneration Report. The Five Year History, Operating and Financial Review Report, Sustainability Report, Corporate Governance Report, Message from the Chairman, Message from the Chief Executive Officer and Shareholding and Investor information are expected to be made available to us after the date of the Auditor's Report.

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

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

KPMG

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Spicers Limited for the year ended 30 June 2018, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2018.

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

KPMG

BW Szentirmay
Partner

Melbourne
24 August 2018

SHAREHOLDING INFORMATION AS AT 7 SEPTEMBER 2018

1. Number of shareholders

There were 4,831 shareholders and all issued shares carry voting rights on a one-for-one basis.

2. Distribution of shareholding

Range of holdings	Number of shareholders	% of holders	Number of shares	% of shares
1 - 1,000	1,304	26.99	483,901	0.02
1,001 - 5,000	871	18.03	1,962,867	0.10
5,001 - 10,000	169	3.50	1,259,923	0.06
10,001 - 100,000	1,424	29.48	57,944,932	2.82
100,001 - over	1,063	22.00	1,995,291,026	97.00
Total	**4,831**	**100.00**	**2,056,942,649**	**100.00**

3. Unmarketable parcels

There were 2,355 shareholders holding less than a marketable parcel of shares in the Company (i.e. valued at less than $500), based on the Company's share price of $0.046. The unmarketable parcel of shares is equivalent to 10,870 shares or below.

4. Listing

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

5. Twenty largest shareholders

	Number of shares	% of shares
J P Morgan Nominees Australia Limited	320,297,071	15.57
HSBC Custody Nominees (Australia) Limited - GSCO ECA	301,834,501	14.68
Blann Properties Pty Ltd	105,294,000	5.12
Hishenk Pty Ltd	91,000,000	4.42
Berger Equities Pty Ltd <Berger Super Fund A/C>	75,888,075	3.69
Communications Power Incorporated (Aust) Pty Ltd	65,400,000	3.18
Citicorp Nominees Pty Limited	53,641,632	2.61
One Managed Invt Funds Ltd <Sandon Capital Inv Ltd A/C>	47,773,311	2.32
National Nominees Limited	46,931,931	2.28
HSBC Custody Nominees (Australia) Limited	45,384,532	2.21
Ayersland Pty Ltd	38,000,000	1.85
Feida Zhuang Yuan Pty Ltd <RLP Super Fund No 1 A/C>	37,030,000	1.80
BNP Paribas Nominees Pty Ltd <IB AU Noms Retail Client DRP>	35,094,978	1.71
BNP Paribas Noms (NZ) Ltd <DRP>	35,039,674	1.70
Ayersland Pty Ltd	21,257,597	1.03
Carrier International Pty Limited <Super Fund A/C>	15,156,725	0.74
Asgard Capital Management Ltd <3541173 The Chant Service A/C>	13,943,280	0.68
Mr Errol Bertram Goldschmidt + Mrs Zillah Goldschmidt <Accumulated Acumen S/F A/C>	12,003,540	0.58
Koll Pty Ltd <No 1 A/C>	11,000,000	0.53
McDonald Bros Holdings Pty Ltd	9,810,000	0.48
Total top 20 shareholders	**1,381,780,847**	**67.18**
Total remaining holders balance	**675,161,802**	**32.82**
Total issued shares	**2,056,942,649**	**100.00**

6. Geographic location of shareholders by registered address

	Number of shareholders	Number of shares
New South Wales	1,693	1,139,500,908
Victoria	1,751	744,981,664
Queensland	561	68,073,766
South Australia	200	23,928,717
Western Australia	262	43,479,461
Australian Capital Territory	69	4,286,339
Tasmania	101	3,899,360
Northern Territory	20	1,787,747
Total Australia	**4,657**	**2,029,937,962**
New Zealand	49	10,212,157
Hong Kong	9	10,120,727
United States of America	19	2,296,766
Netherlands	17	1,748,151
United Kingdom	41	752,501
Canada	18	697,227
Italy	4	296,980
Austria	3	306,191
Other	14	573,987
Total Overseas	**174**	**27,004,687**

7. Register of substantial shareholders

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

	Number of shares	Percentage of total share capital held
Coastal Capital International, Limited	301,834,437	14.40
Samuel Terry Asset Management Pty Ltd	156,550,473	7.47
Allan Gray Australia Pty Ltd	106,691,195	5.09
Blann Properties Pty Ltd	105,294,000	5.02

8. Unquoted equity securities

Options

Issued under previous employee share option plans.

Options over ordinary shares issued at either no cost or a cost of one cent per option exercisable at prices ranging from $0.07 to $5.13 per share.

The vesting of these options was dependent on the achievement of performance conditions under the previous employee share option plans.

- Number of employees participating 4
- Number of securities 1,039,100

Performance rights

The Company has issued performance rights to certain directors and executive management personnel under the Spicers Performance Rights Plan. Each performance right gives a contingent interest to one Spicers ordinary share.

The vesting of these performance rights depends upon meeting share price and employment service conditions under the Spicers Performance Rights Plan.

- Number of employees participating 4
- Number of securities 40,200,000

9. Company Secretary

Mr Michael Clark and Mr Damien Power

FIVE YEAR HISTORY

FOR YEARS ENDED 30 JUNE

($AUD million except where indicated)		Actual 2018	Actual 2017	Actual 2016	Actual 2015	Actual 2014
Consolidated financial performance						
Sales revenue		384	381	423	2,020	2,833
Profit/(loss) from ordinary activities before income tax		4.6	3.7	6.7	(388.4)	(52.5)
Profit/(loss) from ordinary activities after income tax		3.5	1.7	5.3	(392.3)	(63.6)
Earnings from ordinary activities before significant items, interest and income tax by segments *(1)*						
Merchanting Australia		4.2	2.3	4.2	9.0	n/a
Merchanting New Zealand		7.4	7.5	6.9	6.2	n/a
Merchanting Asia		2.2	1.9	1.5	0.6	n/a
Merchanting Australia, New Zealand, Asia		n/a	n/a	n/a	n/a	15.3
Unallocated		(5.9)	(6.8)	(8.1)	(12.6)	(11.8)
Merchanting Europe Exit		n/a	n/a	n/a	n/a	(8.0)
Underlying (loss)/profit before interest and income tax		**8.0**	**4.9**	**4.5**	**3.2**	**(4.5)**
Discontinued operations		(0.8)	(0.9)	(4.4)	(34.4)	(2.7)
Total EBIT pre significant items		**7.2**	**4.0**	**0.1**	**(31.2)**	**(7.2)**
Significant items		(2.5)	0.1	7.7	(346.7)	(32.6)
Total EBIT post significant items		**4.7**	**4.1**	**7.8**	**(377.9)**	**(39.8)**
Financial statistics						
Depreciation, amortisation and impairment expense		(1.2)	(1.3)	(1.3)	(71.6)	(7.9)
Net interest expense		(0.1)	(0.4)	(1.1)	(10.5)	(12.7)
Cash flow from operating activities		17.3	6.3	(13.6)	(58.1)	50.7
Capital expenditure - acquisitions		0.8	-	-	5.0	-
Capital expenditure - plant & equipment		1.3	0.9	1.9	3.9	7.6
Financial position summary						
Current assets		198	196	187	245	920
Non-current assets		37	38	39	40	147
Total assets		**235**	**234**	**226**	**285**	**1,067**
Current liabilities		98	99	85	145	461
Non-current liabilities		1	1	1	11	293
Total liabilities		**99**	**100**	**86**	**156**	**754**
Net assets / total shareholders' equity		**137**	**134**	**140**	**129**	**313**
Financial ratios						
Basic earnings per share *(2)*	(cents)	0.2	30.9	0.8	(59.0)	(7.0)
Earnings per share growth	(%)	(99.4)	3,762.5	101.4	(742.9)	53.9
Return on average funds employed	(%)	4.5	3.8	7.2	(110.1)	(7.9)
Return on average shareholders' equity	(%)	2.6	1.2	3.9	(165.0)	(18.4)
Net tangible assets	($ millions)	109	105	111	102	210
Net interest cover	(times)	37.3	11.5	7.3	(36.0)	(3.1)
Gearing (Net debt/net debt and shareholders' equity)	(%)	(49.1)	(31.2)	(28.1)	(50.3)	23.0
Gearing (Net debt/shareholders' equity)	(%)	(32.9)	(23.8)	(22.0)	(33.4)	29.9
Other information						
Fully paid ordinary shares as at 30 June	(millions)	2,056.9	2,096.6	665.2	665.2	665.2
Weighted average number of shares	(millions)	2,101.0	692.5	685.2	665.2	628.6
Number of shareholders as at 30 June		4,910	35,883	36,164	37,296	40,022
Employee numbers as at 30 June		401	430	445	625	3,459

(1) As defined in the respective reporting periods.

(2) As required by AASB 113 Earnings per Share, *the 2017 basic earnings per share includes the difference between the fair value of Spicers ordinary shares issued and the net carrying value of PaperlinX step-up preference securities acquired through the Trust Scheme Implementation. Excluding this difference, an exceptional non-cash gain of $209 million, the basic earnings per share would be 0.2 cents.*

Investor information

Share Registry

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

by telephone (within Australia) 1300 662 058
or (outside Australia) +61 3 9415 4021

by facsimile +61 3 9473 2555

by going online at www-au.computershare.com/investor

Alternatively, shareholders may wish to write to:
Spicers Limited Share Registry,
Computershare Investor Services Pty Ltd,
GPO Box 2975, Melbourne,
Victoria 3001, Australia.

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

Tax file numbers

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

Transfer of shares off-market

Following the introduction of new legislation, a fee of A$69 (including GST) is required to cover a fraud prevention security check on the authenticity of the seller details. Details of fees and the process required can be obtained from the Spicers Limited Share Registry. No stamp duty is payable on off-market transfers.

Annual General Meeting

The 2018 Annual General Meeting of Spicers Limited will be held at the Computershare Conference Centre, Yarra Falls, 452 Johnston Street, Abbotsford, Melbourne, Victoria 3067, Australia on Thursday 15 November 2018 at 10am (Melbourne time). Registration will commence at 9.30am.

Financial calendar

Interim Results 2019 – February 2019
Full Year Results 2019 – August 2019

Securities exchange listing

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

Sources of information

Annual Report 2018

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

Spicers Limited website

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

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

Annual Report 2018

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The cover is printed on Splendorgel White SPI 300gsm, and the text pages are printed on Splendorgel White SPI 115gsm. The financial report is printed on Pacesetter Laser 100gsm. All papers are manufactured under ISO 14001, and produced with ECF pulp.

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Share Registry

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