

Form 388

Corporations Act 2001

294, 295, 298-300, 307, 308, 319, 321, 322

Corporations Regulations

1.0.08

Copy of financial statements and reports

Company details

Company name

PAPER AUSTRALIA PTY LTD

ACN

061 583 533

Reason for lodgement of statement and reports

A large proprietary company that is not a disclosing entity

Dates on which financial
year ends

Financial year end date

31-12-2018

Details of large proprietary company

What is the consolidated revenue of the large proprietary company and the entities that it controls?

779874000

What is the value of the consolidated gross assets of the large proprietary company and the entities that it controls?

889428000

How many employees are employed by the large proprietary company and the entities that it controls?

1223

How many members does the large proprietary company have?

8

Auditor's report

Were the financial statements audited?

Yes

Is the opinion/conclusion in the report modified? (The opinion/conclusion in the report is qualified, adverse or disclaimed)

No

Does the report contain an Emphasis of Matter and/or Other Matter paragraph?

Yes

Details of current auditor or auditors

Current auditor

Date of appointment **18-02-2010**

Name of auditor

ERNST & YOUNG

Address

**8 EXHIBITION STREET
MELBOURNE VIC 3000**

Certification

I certify that the attached documents are a true copy of the original reports required to be lodged under section 319 of the Corporations Act 2001.

Yes

Signature

Select the capacity in which you are lodging the form
Director

I certify that the information in this form is true and complete and that I am lodging these reports as, or on behalf of, the company.

Yes

Authentication

This form has been submitted by

Name

Peter James WILLIAMS

Date

30-04-2019

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PAPER AUSTRALIA Pty Ltd

**FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018**

Directors' Report

The Directors present their report together with the financial report of Paper Australia Pty Ltd ('the Company') and its subsidiaries together referred to as 'the Group', for the year ended 31 December 2018 and the auditor's report thereon.

Directors

The names of the Directors of Paper Australia Pty Ltd in office at any time during or since the end of the financial year are:

- Yasuhito Murakami
- Mizuho Ishida
- Peter Williams
- Kunihiro Kashima (resigned 30 June 2018)

Principal Activities

The principal activities of the Consolidated Entity are the manufacture, sale and distribution of office papers, printing and packaging papers, and envelope and stationery products. There were no significant changes in the nature of the principal activities of the Consolidated Entity during the year under review.

Review and Results of Operations

Paper Australia Pty Ltd primarily services the Australian market directly and through sales to merchant operations, office suppliers, printing papers users, and packaging manufacturers.

The Company has channels to market, building off its Australian mill, so local customers benefit from expert manufacturing capabilities, widely available product offering, superior service, customer support, and extensive and efficient supply lines.

The Paper Australia Pty Ltd consolidated group's net gain after tax \$0.8 million (2017: gain of \$2.5 million). The business improved revenue during the period as a result of increased domestic volume and stronger pricing in international markets. Manufacturing costs were higher than previous reporting period due to extended shuts for key capital investments. Underlying business conditions continue to be supported by relatively stable AUD/USD exchange rate.

Significant Changes in the State of Affairs

No significant post balance date issues have occurred.

Environmental Regulation

The Group is subject to significant environmental regulation, in particular with respect to its manufacturing activities. Environmental performance obligations are monitored by management and subject to internal audits as well as independent external and government agency audits and site inspections.

The Company is registered under the National Greenhouse and Energy Reporting Act, under which it is required to report energy consumption and greenhouse gas emissions for its Australian facilities initially for the 12 months ended 30 June 2011 and subsequently for future periods. The Company has established data collection systems and processes are in place to meet these requirements.

Future Developments/Outlook

2019 should see continued improvement in operating earnings with improved production performance and strong domestic volumes evidenced in the first quarter of 2019.

Key capital investments completed in 2018 at our Pulp and Paper Mill facility will provide improve production stability and efficiency.

Dividends

The Company has not declared or paid any dividend for the year ended 31 December 2018 (2017: \$nil).

Indemnities and Insurance

The Company has agreements with each of the Directors of the Company in office 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 notwithstanding that they may have ceased to hold office, except where the liability arises out of conduct involving a lack of good faith or unlawful activity.

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contracts.

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Audit Services

The Company has obtained an independence declaration from its auditors, Ernst & Young, which has been attached to this report.

Non-audit Services

In addition to the statutory audit work during the year, the Company's auditors, Ernst & Young, have provided certain non-audit services, including:

- Foreign employee tax services
- Foreign employee visa application
- Worksafe Victoria self-insurance provision report
- Emissions Intensive Trade Exposed exemption certificate
- Fringe Benefits Tax review

The Company has strict criteria relating to the engagement of the auditor for non-audit services. Directors at the time 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 amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

Signed in accordance with a resolution of the Directors



Yasuhito Murakami

Director and Chief Executive Officer

30 April 2019



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Auditor's Independence Declaration to the Directors of Paper Australia Pty Ltd

As lead auditor for the audit of the financial report of Paper Australia Pty Ltd for the financial year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Paper Australia Pty Ltd and the entities it controlled during the financial year.

Ernst & Young

Jacob Gossan
Partner
30 April 2019

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Consolidated statement of comprehensive income
For the year ended 31 December 2018

		2018	2017
	Notes	\$'000	\$'000
Continuing operations			
Revenue from contracts with customers	4.1	779,874	761,021
Revenue		779,874	761,021
Cost of sales		(700,125)	(660,966)
Gross Profit		79,749	100,055
Other income	7.1	29,754	18,723
Personnel costs non-manufacturing		(36,631)	(35,190)
Logistics and distribution		(43,683)	(48,027)
General and administration	7.2	(10,442)	(14,365)
Sales and marketing		(7,797)	(4,728)
Research and development	7.7	(908)	(842)
Other expenses		-	(60)
Operating Profit/(Loss)		10,042	15,566
Finance income	7.4	251	247
Finance expenses	7.3	(9,455)	(9,596)
Profit/(Loss) before tax from continued operations		838	6,217
Income tax expense	8	(54)	(3,687)
Profit/(Loss) for the year		784	2,530
Other comprehensive Income/(loss)			
Net foreign exchange differences on translation of overseas subsidiaries	15	2,586	(1,748)
Net gains/(losses) on other reserves	15	-	(18)
Net gains/(losses) on cash flow hedges	15	(17,643)	9,477
Actuarial gains/(losses) on defined benefit plans net of tax	15	(3,175)	527
Other comprehensive income for the year net of tax		(18,232)	8,238
Total comprehensive gain/(loss) for the year		(17,448)	10,768
Attributable to:			
Owners of the parent		770	2,482
Non-controlling interest		14	48
		784	2,530
Total comprehensive gain/(loss) for the year is attributable to:			
Owners of the parent		(17,462)	10,720
Non-controlling interest		14	48
		(17,448)	10,768

Consolidated statement of financial position
As at 31 December 2018

		2018	2017
	Notes	\$'000	\$'000
Current assets			
Cash and cash equivalents	14	43,254	47,247
Trade and other receivables	13	99,529	98,099
Prepayments		15,469	12,658
Derivatives	6	-	12,663
Inventories	12	135,246	134,379
Income tax receivable		116	24
Total current assets		293,614	305,070
Non-current assets			
Property, plant and equipment	9	554,984	540,081
Intangible assets	10	876	1,061
Deferred tax assets	8	26,005	24,537
Defined Benefit Plan	18	12,684	17,219
Other Assets		1,265	1,421
Total non-current assets		595,814	584,319
Total assets		889,428	889,389
Current liabilities			
Trade and other payables	19	107,460	108,478
Loans and borrowings	11.2	144,284	136,454
Provisions	16	46,782	45,650
Derivatives	6	4,010	-
Total current liabilities		302,536	290,582
Non-current liabilities			
Loans and borrowings	11.2	106,800	101,638
Provisions	16	5,288	4,917
Total non-current liabilities		112,088	106,555
Total liabilities		414,624	397,137
Net assets		474,804	492,252
Equity			
Issued capital	15	662,280	662,280
Reserves		(5,270)	9,787
Accumulated gains/(losses)		(182,397)	(179,992)
Minority interest		191	177
Total equity		474,804	492,252

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Consolidated statement of changes in equity
For the year ended 31 December 2018

	Attributed to the equity holders of the parent						Non-controlling interest	Total
	Issued capital	Accumulated gains/(losses)	Cash Flow Hedge reserve	Foreign currency transaction reserve	Other reserve	Total		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2018	662,280	(179,992)	10,848	(1,061)	-	492,075	177	492,252
Net profit/(loss) for the year	-	770	-	-	-	770	14	784
Other comprehensive income/(loss)	-	(3,175)	(17,643)	2,586	-	(18,232)	-	(18,232)
Total comprehensive income/(loss) for the year	662,280	(182,397)	(6,795)	1,525	-	474,613	191	474,804
Transactions with owners in their capacity as owners:								
Dividends paid	-	-	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-	-	-
At 31 December 2018	662,280	(182,397)	(6,795)	1,525	-	474,613	191	474,804

	Attributed to the equity holders of the parent						Non-controlling interest	Total
	Issued capital	Accumulated gains/(losses)	Cash Flow Hedge reserve	Foreign currency transaction reserve	Other reserve	Total		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2017	662,280	(183,001)	1,371	687	18	481,355	186	481,541
Net profit/(loss) for the year	-	2,482	-	-	-	2,482	48	2,530
Other comprehensive income/(loss)	-	527	9,477	(1,748)	(18)	8,238	-	8,238
Total comprehensive income/(loss) for the year	662,280	(179,992)	10,848	(1,061)	-	492,075	234	492,309
Transactions with owners in their capacity as owners:								
Dividends paid	-	-	-	-	-	-	(57)	(57)
Other adjustments	-	-	-	-	-	-	-	-
At 31 December 2017	662,280	(179,992)	10,848	(1,061)	-	492,075	177	492,252

Consolidated statement of cash flows
For the year ended 31 December 2018

	Notes	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Receipts from customers		863,191	834,085
Payments to suppliers and employees		(811,172)	(789,503)
Interest received		251	247
Interest paid		(9,455)	(9,740)
Income tax paid		(254)	184
Net cash flows from/(used in) operating activities		42,561	35,273
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(66,820)	(37,575)
Receipt of government grants		13,560	-
Net cash flows used in investing activities		(53,260)	(37,575)
Cash flows from financing activities			
Proceeds from borrowings		20,000	94,000
Repayments of borrowings		(13,294)	(103,399)
Principal finance lease payments		-	(61)
Dividends paid to non-controlling interests		-	(57)
Net cash flows from/(used in) financing activities		6,706	(9,517)
Net increase/(decrease) in cash and cash equivalents		(3,993)	(11,819)
Cash and cash equivalents at the beginning of the year		47,247	59,066
Cash and cash equivalents at the end of the year	14	43,254	47,247

Notes to the consolidated financial statements

Note 1. Corporate information

The consolidated financial statements of Paper Australia Pty Ltd and its subsidiaries (collectively, the Group or Consolidated Entity) for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on 30 April 2019. Paper Australia Pty Ltd (the Company, the parent or Consolidated Entity) is a for profit company limited by shares incorporated in Australia.

Note 2. Significant accounting policies

2.1 Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards – Reduced Disclosure Requirements and other authoritative pronouncements of the Australian Accounting Standards Board. The Group is a for-profit, private sector entity, which is not publicly accountable. Therefore, the consolidated financial statements for the Group are general purpose financial statements, which have been prepared in accordance with *Australian Accounting Standards – Reduced Disclosure Requirements (AASB – RDRs)*.

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001, Australian Accounting Standards* and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has been prepared on a historical cost basis, except for derivative financial instruments and contingent consideration, which have been measured at fair value. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand (\$000), except when otherwise indicated.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.3 Summary of significant accounting policies

a) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period

Or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period

Or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

b) Fair Value Measurement

The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions
- Contingent consideration
- Quantitative disclosures of fair value measurement hierarchy
- Financial instruments (including those carried at amortised cost)
- Non-cash distribution

c) Revenue from contracts with customers

The Group is in the business of manufacturing and selling paper products. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks.

The specific recognition criteria described below must also be met before revenue is recognised.

Sales Revenue

The Group's contracts with customers for the sale of paper related products generally include one performance obligation. The Group has concluded that revenue should be recognised at the point in time when control of the asset is transferred to the customer. On adoption of AASB 15, it is assessed that there is no significant impact on the timing of revenue recognition compared to our previous policy. The good is transferred when or as the customer obtains control of the asset. Control of an asset means that the customer must have the present right to direct its use and obtain substantially all the remaining benefits from the asset. Revenue is accounted for net of the amount of goods and services tax (GST) payable to the taxation authority.

Factors which may include that control is passed at a point in time include:

- The Group has a present right to payment for the assets;
- The customer has legal title to the asset;
- The Group has transferred physical possession of the asset;
- The customer has significant risks and rewards related to the ownership of the asset; and
- The customer has accepted the asset.

Commissions

Revenue for commissions is recognised when the applicable sale is completed.

Rebates

The Group provides retrospective rebates to certain customers based on the terms of their agreements. Rebates are offset against amounts payable by the customer. The group accrues rebates which are offset against sales revenue at the time of sale.

Warranty obligations

The Group typically provides warranties for defects that existed at the time of sale, as required by law. There assurance-type warranties are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

d) Government Grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

When the grant relates to an asset, it is presented in the statement of financial position by deducting the grant from the carrying amount of the asset and it is recognised in profit or loss over the life of a depreciable asset by way of a reduced depreciation charge.

e) Taxation

Current Income Tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred Tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- When the GST incurred on a sale or purchase of assets or services is not payable to or recoverable from the taxation authority, in which case the GST is recognised as part of the revenue or the expense item or as part of the cost of acquisition of the asset, as applicable
- When receivables and payables are stated with the amount of GST included

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

f) Foreign Currency

The Group's consolidated financial statements are presented in Australian dollars, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in other comprehensive income (OCI) until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

ii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

g) Property, plant and equipment

Construction in progress, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to significant accounting judgements, estimates and assumptions (Note 3) and provisions (Note 16) for further information about the recognised decommissioning provision.

Property, plant and equipment transferred from customers are initially measured at fair value at the date on which control is obtained.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

➤ Land improvement:	between 1% -3%
➤ Buildings:	between 1% - 4%
➤ Plant and equipment:	between 1.5% – 20%
➤ Finance leases for equipment:	between 4% - 20%

Depreciation and amortisation are expensed except to the extent they are included in the carrying amount of an asset as an allocation of production overheads.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

h) Leased Assets

Plant and equipment leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

Operating Leases

Payments made under operating leases are expensed on a straight-line basis over the term of the lease.

i) Net Financing Costs

Net financing costs comprise interest and other financing charges excluding net foreign exchange gains and losses. These costs are brought to account in determining profit for the year, except to the extent the interest incurred relates to 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 statement of comprehensive income as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the statement of comprehensive income using the effective interest method.

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

j) Other Intangible Assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. The period of amortisation equates to the period over which benefits are expected to be derived.

k) Financial Instruments

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

Derivative Instruments

The Company uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risks and interest rate risks respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

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.

Liabilities are classified as non-current when the Consolidated Entity has an unconditional right to defer settlement for at least 12 months after the reporting period.

Financial Instruments Included in Assets

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

Investments are initially recorded at cost and are subject to impairment testing at each reporting date. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the statement of financial position 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 investments are carried at amortised cost using the effective interest method.

Cash and cash equivalents comprise cash balances and call deposits.

l) 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 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.

m) 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 statement of financial position 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.

Reversals of Impairment

In respect of property, plant and equipment, 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.

n) 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.

o) Provisions

A provision is recognised when there is a present legal or constructive obligation 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.

Dividends on Ordinary Shares

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

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.

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.

o) Pensions and other post-employment 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 the high quality corporate bonds which have maturity dates approximating to the terms of the Consolidated Entity's obligations.

Liabilities for employee benefits for wages, salaries, annual leave, long service 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. These liabilities 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 Retirement Benefit Obligations

The Consolidated Entity has both defined benefit and defined contribution plans. The defined benefit plans provide 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 defined benefit superannuation plans 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 superannuation fund'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 fund 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 published by Milliman Australia as suitable for AASB 119 valuations.

Actuarial gains and losses arising from experience adjustments and related changes in actuarial assumptions are charged or credited to retained earnings.

Past service costs are recognised immediately in income, unless the related changes to the superannuation fund 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.

2.4 Changes in accounting policies and disclosures

➤ New and amended standards and interpretations

The Group applied AASB 15 and AASB 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

➤ AASB 15 Revenue from Contracts with Customers

AASB 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

AASB 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted AASB 15 using the modified retrospective method of adoption. The effect of the transition on the current period has not been disclosed as the standard provides an optional practical expedient. The Group did not apply any of the other available optional practical expedients. Adopting AASB 15 did not materially impact the Group's consolidated financial statements.

➤ AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Group has applied AASB 9 prospectively as the change did not have material impact on the Group's operating, investing, and financing cashflows or a material impact on existing financial assets and liabilities.

➤ AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

Note 3. Significant accounting judgements, estimates and assumptions

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.

a) Impairment of Non-Current assets

The Consolidated Entity assesses whether non-current assets 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. The Company has applied the following key assumptions/inputs to its recoverable amount analysis: (1) Board approved cash flow forecasts, (2) Post-tax discount rate of 9.41% and (3) EBITDA growth rate of 3%. These key assumptions/inputs are re-assessed annually or when the recoverable analysis is performed.

The Company is exposed to variable macroeconomic factors and to illustrate the sensitivity of these assumptions, if they were to differ such that the expected cash flow forecasts were to decrease by 7.8% (2017: 11.7%) across the forecast period, without implementation of mitigation plans, the recoverable amount would be equal to the carrying amount

b) Provision for expected credit losses of trade receivables

The Group is to maintain an appropriate amount in a provision for doubtful debts, over and above any credit insurance. The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance). The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with industries standards or practices and forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. The assessment of the correlation between historical observed default rates, industries standards or practices and forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in Note 13.

c) Defined Benefit Superannuation Fund Obligations

Various actuarial assumptions are utilised in the determination of the Consolidated Entity's defined benefit superannuation fund obligations. These assumptions are discussed in Note 18.

d) Environmental remediation

The Consolidated Entity assesses if it has any environmental remediation liabilities or contingent liabilities on an annual basis. The assessment makes reference to both internal and external (including government agency) reviews that are conducted during the reporting period.

e) Taxation

The Company's accounting policy for taxation requires management's judgement. Judgement is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets arising from temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of comprehensive income.

Note 4. Revenue from contracts with customers

4.1 Disaggregated revenue information

Set out below is the disaggregation of the Group's revenue from contracts with customers:

For the year ended 31 December 2018

Segments	Paper & Packaging \$'000	Envelope & Stationery \$'000	Pulp \$'000	Total \$'000
Sales of Products	724,277	47,468	8,129	779,874
Total Sales Revenue	724,277	47,468	8,129	779,874

For the year ended 31 December 2017

Segments	Paper & Packaging \$'000	Envelopes & Stationery \$'000	Pulp \$'000	Total \$'000
Sales of Paper Products	693,186	55,248	12,587	761,021
Total Sales Revenue	693,186	55,248	12,587	761,021

4.2 Performance obligations

Information about the Group's performance obligations are summarised below:

Paper Products:

The sale of paper products is satisfied upon delivery of the paper products and the majority of payment is generally due as per our standard terms and conditions, which is end of month plus 30 days.

Note 5. Group information

The holding company

The ultimate controlling party of the Group is Nippon Paper industries Co. Ltd, incorporated in Japan

Information about subsidiaries

The consolidated financial statements of the Group include:

Subsidiaries	Country of incorporation	Ownership interest	
		2018	2017
Australian Paper Pty Ltd	Australia	100%	100%
Paper Products Marketing Pty Ltd	Australia	100%	100%
Paper Products Marketing Taiwan Ltd	Taiwan	80%	80%
Paper Products Marketing Hong Kong Ltd	Hong Kong	100%	100%
Paper Products Marketing Singapore Pte Ltd	Singapore	100%	100%
Paper Products Marketing USA Inc.	USA	100%	100%
Paper Products Marketing Europe GmbH	Germany	100%	100%
Maryvale Sustainable Energy Pty Ltd	Australia	100%	n/a

Note 6. Fair value measurement

Fair value measurement for assets as at 31 December 2018

	Date of Valuation	\$'000
Derivatives - at fair value	31 December 2018	(4,010)
		(4,010)

Fair value measurement for assets as at 31 December 2017

	Date of Valuation	\$'000
Derivatives - at fair value	31 December 2017	12,663
		12,663

Note 7. Other income/expenses

7.1 Other operating income

	2018	2017
	\$'000	\$'000
Net foreign exchange gains	6,727	6,914
Commission	1,585	855
Other operating income	21,442	10,954
Total other income	29,754	18,723

7.2 Other operating expenses

	2018	2017
	\$'000	\$'000
Rent	(2,989)	(2,933)
Depreciation	(1,112)	(1,406)
Insurance	(867)	(1,150)
Trading Expenses Other	(5,474)	(8,876)
Total other operating expenses	(10,442)	(14,365)

7.3 Finance costs

	2018	2017
	\$'000	\$'000
Interest on debts and borrowings	(9,455)	(9,596)
Total finance costs	(9,455)	(9,596)

7.4 Finance income

	2018	2017
	\$'000	\$'000
Interest income	251	247
Total finance income	251	247

7.5 Depreciation, amortisation, foreign exchange differences and costs of inventories included in the consolidated statement of profit or loss

	2018	2017
	\$'000	\$'000
Included in the cost of sales:		
Depreciation	33,880	30,329
Cost of inventories recognised as an expense	563,780	568,435
Minimum lease payments recognised as an operating lease expense	1,402	1,540
Included in general and administration:		
Depreciation	1,112	1,406
Amortisation and impairment of intangible assets (Note 10)	362	375
Net foreign exchange differences	(6,742)	(7,414)
Minimum lease payments recognised as an operating lease expense	333	329

7.6 Employee benefits expense

	2018	2017
	\$'000	\$'000
Salaries and wages	131,323	130,006
Superannuation	11,066	10,786
Total Employee Benefits	142,389	140,792

7.7 Research and development costs

	2018	2017
	\$'000	\$'000
Research & Development	908	842

The Group's manufacturing plant Maryvale's research & development concentrates on the new product development, various product & efficiency related testings & technical service charges. Based on the projects, the Group engaged external parties to conduct R&D on behalf of the Group. R&D costs that are not eligible for capitalisation have been expensed in the period incurred (in 2018, this was \$907,537 (2017: \$842,467)), and they are recognised in a separate line item in profit & loss.

Note 8. Income tax

The major components of income tax expense for the years ended 31 December 2018 and 2017 are:

Consolidated profit or loss	2018 \$'000	2017 \$'000
Current income tax:		
Current income tax charge	-	-
Deferred tax:		
Relating to origination and reversal of temporary differences	54	3,687
Income tax expense reported in the statement of profit or loss	54	3,687

Consolidated profit or loss	2018 \$'000	2017 \$'000
Deferred tax related to items recognised in OCI during the year		
Deferred tax charged to OCI	1,360	(226)

Reconciliation of tax expense and the accounting profit multiplied by Australia's domestic tax rate for 2017 and 2018:

Consolidated profit or loss	2018 \$'000	2017 \$'000
Accounting profit before tax from continuing operations	838	6,217
Accounting profit before income tax	838	6,217
At the Australian statutory income tax rate of 30% (2017: 30%)	251	1,865
Net temporary differences and tax losses not recognised	(197)	1,822
At the effective income tax rate of 0% (2017: 59%)	54	3,687

Deferred Tax

Deferred Tax relates to the following

	Consolidated statement of financial position		Consolidated statement of Profit and Loss	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Property, plant and equipment	10,200	10,587	(387)	3,889
Provisions and employee benefits	17,025	16,392	633	(432)
Trading stock provision and valuation adjustments	2,585	2,724	(139)	154
Prior period balance adjustments			(53)	76
Actual gains on defined benefit plan	(3,805)	(5,166)		
Deferred tax expense/(benefit)			54	3,687
Net deferred tax assets/(liabilities)	26,005	24,537		
Reflected in the statement of financial position as follows:				
Deferred tax assets	26,005	24,537		
Deferred tax assets, net	26,005	24,537		

Reconciliation of deferred tax assets, net

	2018	2017
	\$'000	\$'000
As of 1 January	24,537	28,374
Tax income/(expense) during the period recognised in profit or loss	(54)	(3,687)
Tax income/(expense) during the period in OCI	1,575	(226)
Prior period balance adjustment	(53)	76
As at 31 December 2018	26,005	24,537

The Group has gross tax losses that arose in Australia during the current year of \$20.1 million (2017: \$11.9 million) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Tax consolidation

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts.

The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Tax related contingencies

There were no tax related contingencies during the period

Note 9. Property, plant and equipment

	Freehold Land & Buildings	Plant & Machinery	Assets under Construction	Other Equipment	Total
	\$000	\$000	\$000	\$000	\$000
Cost or valuation					
At 1 January 2017	167,027	2,115,815	13,570	194	2,296,606
Additions	449	33,035	10,820	-	44,304
Settlements from AuC	929	10,305	(11,234)	-	-
At 31 December 2017	168,405	2,159,155	13,156	194	2,340,910
Additions	43	38,346	11,455	-	49,844
Settlements from AuC		9,353	(9,353)		-
At 31 December 2018	168,448	2,206,854	15,258	194	2,390,754
Depreciation and impairment					
At 1 January 2017	107,549	1,661,441	-	104	1,769,094
Depreciation charge for the year	1,365	30,336	-	34	31,735
At 31 December 2017	108,914	1,691,777	-	138	1,800,829
Depreciation charge for the year	2,545	32,362	-	34	34,941
At 31 December 2018	111,459	1,724,139	-	172	1,835,770
Net book value					
At 31 December 2018	56,989	482,715	15,258	22	554,984
At 31 December 2017	59,491	467,378	13,156	56	540,081

Assets under construction

Included in property, plant and equipment is expenditure relating to plant in the course of construction.

Note 10. Intangible assets

	Computer Software	Other Intangible Assets	Total
	\$000	\$000	\$000
Cost			
At 1 January 2017	82,905	1,132	84,037
Additions	128	-	128
At 31 December 2017	83,033	1,132	84,165
Additions	177	-	177
At 31 December 2018	83,210	1,132	84,342
Amortisation and impairment			
At 1 January 2017	82,454	275	82,729
Amortisation	165	210	375
At 31 December 2017	82,619	485	83,104
Amortisation	155	207	362
At 31 December 2018	82,774	692	83,466
Net book value			
At 31 December 2018	436	440	876
At 31 December 2017	414	647	1,061

Note 11. Financial assets and financial liabilities

11.1 Financial assets

	2018 \$'000	2017 \$'000
Derivatives designated as hedging instruments	-	12,663

11.2 Financial liabilities: Interest-bearing loans and borrowings

**Financial Liabilities: Interest-bearing
Loans and Borrowings**

	Interest Rate	Maturity	2018 \$'000	2017 \$'000
Loans and borrowings - current	%		\$'000	\$'000
Bank Loans	BBSW / LIBOR+0.5	2019	75,489	72,265
	2.5-3.4	2020		
Other loans	6.9	2019	-	504
Loans from related parties, Note 21	BBSW+0.5			
	HIBOR+0.5	2019	68,799	63,685
	TIBOR+0.5			
			144,284	136,454
Loans and borrowings - non current				
Bank Loans	2.5-3.4	2020-2021	106,800	101,638
			106,800	101,638

The group reclassifies Bank loans with special conditions that 'The Bank may cancel the Term Loan Facility or vary the Facility Limit of the Term Loan Facility by written notice to the Borrower at any time in its absolute discretion' as current liability even though its maturity is 2020.

	2018	2017
	\$'000	\$'000
Derivatives designated as hedging instruments	(4,010)	-

11.3 Hedging activities and derivatives

Cash flow hedges

➤ Foreign currency risk

Foreign exchange forward contracts measured at fair value through OCI are designated as hedging instruments in cashflow hedges of (1) forecast sales in US dollar and forecast purchases in US dollar or (2) committed purchases in US dollar or Euro. These forecast transactions are highly probable, and they comprise about 50-75% of the net of Group's total expected sales in US dollars and its total expected purchases in US dollar. The foreign exchange forward contract balances vary with the level of expected foreign currency sales and purchases and changes in foreign exchange forward rates. The terms of the foreign currency forward contracts match the terms of the expected highly probable forecast transactions. The cash flow hedges of the expected future sales and purchases in 2019 were assessed to be highly effective. Comparatively, the cash flow hedges of the expected future sales and purchases in 2018 were assessed to be highly effective.

	2018	2017
	\$'000	\$'000
Foreign currency forward contracts designated as hedging instruments		
Fair Value	(2,026)	7,518

➤ Commodity price risk

The Group purchases natural gas on an ongoing basis as its operating activities require a continuous supply of natural gas for the production of pulp and paper products. The increased volatility in natural gas prices over the past 12 months has led to the decision to enter into commodity swap contracts. These contracts are expected to reduce the volatility attributable to price fluctuations of natural gas. Hedging the price volatility of forecast natural gas purchases is in accordance with the risk management strategy outlined by the Board of Directors. The hedging relationships are for a period 36 months, based on existing purchase agreements. The Group designated only the spot-to-spot movement of the entire commodity purchase price as the hedged risk. The cumulative effective portion is reflected in OCI and will affect the profit or loss for 2018 to 2020.

	2018	2017
	\$'000	\$'000
Commodity swap contracts designated as hedging instruments		
Fair Value	(1,004)	6,661

➤ Interest Rate risk

The Group borrows funds at both fixed and floating interest rates. Interest rate swap contracts measured at fair value through OCI are designated as hedging instruments in cash flow hedges of interest paid under loan agreements with floating interest.

	2018	2017
	\$'000	\$'000
Interest rate swap contracts designated as hedging instruments		
Fair Value	(981)	(1,516)

11.4 Financial Instruments Risk Management Objectives and Policies

➤ Foreign currency risk

The Group is exposed to foreign exchange risk because of its sales in foreign currency and its purchases in foreign currency. These risks relate to future commercial transactions, financial assets and liabilities not denominated in AUD\$ and net investments in foreign operations. Where possible loans are drawn in foreign currency to create a natural hedge of foreign currency assets and liabilities. Where this is not possible the Group's policy is to hedge contractual commitments denominated in a foreign currency by entering into forward exchange contracts.

➤ Commodity price risk

The Group is exposed to changes in commodity prices in respect of the purchase of natural gas. The Group's policy is to hedge contractual commitments linked to commodity index price for Brent Oil by entering into commodity swap contracts.

➤ Interest rate risk

The Group is exposed to interest rate risk in respect of short and long-term borrowings where interest is charged at variable rates. The Group mitigates interest rate risk primarily by entering into fixed rate borrowing arrangements. Where necessary the Group hedges interest rate risk using derivative instruments - e.g. interest rate swaps.

Note 12. Inventories

	2018 \$'000	2017 \$'000
Raw materials and engineering stores	71,203	68,113
Provision for impairment losses	(7,216)	(7,545)
Net raw materials and engineering stores	63,987	60,568
Work in progress	11,250	10,452
Finished goods at cost	61,475	65,003
Finished goods	61,475	65,003
Provision for impairment losses	(1,466)	(1,644)
Net finished goods	60,009	63,359
Total inventories at the lower of cost and net realisable value	135,246	134,379

During 2018 (\$0.731 million) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales.

Note 13. Trade and Other Receivables

	2018 \$'000	2017 \$'000
Trade debtors	88,714	89,697
Provision for doubtful debts	(210)	(365)
Net Trade Debtors	88,504	89,332
Other Debtors	11,025	8,767
Trade and Other Receivables	99,529	98,099

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. For terms and conditions relating to related party receivables, refer to Note 21. As at 31 December 2018, trade receivables with an initial carrying value of \$210,000 (2017: \$365,000) were impaired and fully provided for. See below for the movements in the provision for impairment of receivables.

	Collectively Impaired \$'000	Total \$'000
At 1 January 2017	(271)	(271)
Charge for the year		
Utilised	(161)	(161)
Unused amounts reversed	67	67
Discount rate adjustment	-	-
At 31 December 2017	(365)	(365)
Charge for the year		
Utilised	143	143
Unused amounts reversed	12	12
Discount rate adjustment	-	-
At 31 December 2018	(210)	(210)

Note 14. Cash and cash equivalents

	2018 \$'000	2017 \$'000
Current Assets		
Cash and cash equivalents	43,254	47,247

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Note 15. Issued capital and reserves

	2018 \$'000	2017 \$'000
Issued Capital		
Balance at the beginning of the year	662,280	662,280
Balance as at the end of the year	662,280	662,280

OCI Items, net of tax:

The disaggregation of changes of OCI by each type of reserve is shown below:

As at 31 December 2018

	Cash flow hedge reserve \$'000	Foreign currency translation reserve \$'000	Other Reserve	Retained Earnings \$'000	Total \$'000
Net gain/(loss) from Cash Flow Hedging	(17,643)	-	-	-	(17,643)
Foreign exchange translation differences	-	2,586	-	-	2,586
Remeasured on defined benefit plan	-	-	-	(3,175)	(3,175)
	(17,643)	2,586	-	(3,175)	(18,232)

As at 31 December 2017

	Cash flow hedge reserve	Foreign currency translation reserve	Other Reserve	Retained Earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Net gain/(loss) from Cash Flow Hedging	9,477	-	-	-	9,477
Foreign exchange translation differences	-	(1,748)	-	-	(1,748)
Reclassified to statement of profit & loss	-	-	(18)	-	(18)
Remeasured on defined benefit plan	-	-	-	527	527
	9,477	(1,748)	(18)	527	8,238

Note 16. Provisions

	Employee Benefits	Environmental	Other	Total
	\$'000	\$'000	\$'000	\$'000
At 1 January 2018	43,243	6,068	1,256	50,567
Arising during the year	18,369	337	589	19,295
Utilised	(17,710)	-	-	(17,710)
Unused Amounts Reverses	-	-	(82)	(82)
At 31 December 2018	43,902	6,405	1,763	52,070
Current	42,819	2,200	1,763	46,782
Non-Current	1,083	4,205	-	5,288

	Employee Benefits	Environmental	Other	Total
	\$'000	\$'000	\$'000	\$'000
At 1 January 2017	40,949	5,400	2,809	49,158
Arising during the year	33,797	668	1,155	35,620
Utilised	(31,503)	-	(2,708)	(34,211)
Unused Amounts Reverses	-	-	-	-
At 31 December 2017	43,243	6,068	1,256	50,567
Current	42,194	2,200	1,256	45,650
Non-Current	1,049	3,868	-	4,917

The Company has provided for \$43.902 million (2017: \$43.243 million) for employee benefits regarding annual leave, long service leave, sick leave and work cover.

The Company has provided \$6.405 million (2017: \$6.068 million) for environmental remediation costs regarding landfill and salt cake area works at the Maryvale mill.

Note 17. Government grants

	2018	2017
	\$'000	\$'000
At 1 January	-	-
Received during the year	13,500	-
Released to the statement of profit or loss	(240)	-
At 31 December	<u>13,260</u>	<u>-</u>
Current	7,500	-
Non-current	5,760	-

Note 18. Pension and other post-employment benefit plans

Australian Paper defined benefit sub plan

	2018	2017
	\$'000	\$'000
Defined benefit obligation	(40,792)	(38,635)
Fair value of assets	53,476	55,854
Net defined benefit asset/(liability)	<u>12,684</u>	<u>17,219</u>
Benefits paid	(3,236)	(1,979)

Paper Australia Pty Ltd sponsors the Paper Australia Sub Fund, a defined benefit sub fund of the Amcor Superannuation Plan and part of the Plum Superannuation Fund.

2018 changes in the defined benefit obligation and fair value of plan assets:

	1 January 2018	Other Changes	Benefits Paid	Contributions by employer	31 December 2018
	\$'000	\$'000	\$'000	\$'000	\$'000
Defined benefit obligation	(38,635)	(5,393)	3,236	-	(40,792)
Fair value of plan assets	55,854	828	(3,236)	30	53,476
Net defined benefit asset/(liability)	<u>17,219</u>	<u>(4,565)</u>	<u>-</u>	<u>30</u>	<u>12,684</u>

The principal assumptions used in determining the post-employment defined benefit obligations for Australian Paper plans are shown below:

	2018	2017
	%	%
Discount rate	3.25	3.75
Future salary increases	2.50	2.00

Employer contributions

Employer contributions to the defined benefit section of Australia Paper's plans are based on recommendations by the plan's actuaries. The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable.

On the recommendation of the plan actuaries and the trustees of the fund, the employer contribution made to the fund has ceased for the period from 1 August 2016 to 30 June 2019. This is due to the surplus of \$12.68 million in the plan as at 31 December 2018 and surplus of \$17.22 million as at 31 December 2017. This position will be reviewed in 2019 with the plan actuaries and trustees.

Note 19. Trade and other payables

	2018	2017
	\$'000	\$'000
Trade creditors	64,760	60,361
Other creditors	42,700	48,117
	107,460	108,478

Trade and other payables are non-interest bearing and are normally settled on terms ranging from 30 to 60 days.

Note 20. Commitments and contingencies

Operating lease commitments - Group as lessee

The Group has entered into operating leases on motor vehicles and items of machinery, with lease terms between three and five years. The Group has the option under some of its leases, to lease the assets for additional terms of three to five years. Future minimum rentals payable under non-cancellable operating lease as at 31 December are as follows:

	2018	2017
	\$'000	\$'000
Within one year	5,869	4,885
After one year but not more than five years	4,553	5,383
More than five years	-	-
Total	10,422	10,268

Commitments

At 31 December 2018 the Group had commitments relating to capital expenditure on plant and equipment contracted but not provided for of \$ 6.28 million (2017: \$6.12 million)

Contingent Liabilities

Environmental

The Company has possible future expenditure obligations for environmental remediation regarding various aspects at the Maryvale mill. The contingent liability based upon preliminary independent reports is \$17.23 million (2017: \$15.98 million)

Guarantees

The Company has issued performance and financial guarantees to the value of \$14.66 million (2017: \$13.03 million) to unrelated parties as at 31 December 2018.

Note 21. Related party disclosures

Note 5 provides information about the Group's structure, including details of the subsidiaries and the holding company. The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

		Purchases from related Parties	Amounts owed to related parties
a) Purchases from related parties		\$000	\$000
Ultimate holding company:			
Nippon Paper Industries Co. Ltd	2018	38,069	6,710
	2017	20,091	3,749

Term and conditions of transaction with related parties

The purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

b) Sales to related parties

There have been no sales to related parties in 2018, consistent with 2017.

c) Loans from related parties		Interest Paid	Amounts owed to related parties
Ultimate holding company		\$000	\$000
Nippon Paper Industries Co. Ltd	2018	-	-
	2017	42	-
Entity under common control	2018	356	14,500
Nippon Paper Recourses Australia Pty Ltd	2017	318	14,500
Dyna Wave Holding Asia	2018	1,160	54,299
	2017	696	49,185

Term and conditions of transaction with related parties

The unsecured loans are made from entities under common control on an arm's length basis. Repayment terms are set for each loan, which range from 88 to 94 days. Interest is payable at 2.44% to Nippon Paper Resources Australia Pty Ltd and payable at 2.69% to Dyna Wave Holding Asia. Interest repayments are made over the terms of the loans.

d) Transactions with key management personnel

	2018	2017
	\$000	\$000
Compensation of key management personnel of the Group		
Total Compensation paid to key management personnel	1,295	1,353

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel

Note 22. Auditors' remuneration

The auditor of Paper Australia Pty Ltd is Ernst & Young Australia

	2018 \$'000	2017 \$'000
Amounts received or due and receivable by Ernst & Young Australia for:		
An audit or review of the financial report of the entity and any other entity in the consolidated group	358	345
Other audit and non-audit services in relation to the entity and any other entity in the consolidated group	96	151
	<u>454</u>	<u>496</u>

Note 23. Information relating to Paper Australian Pty Ltd (the Parent)

	2018 \$'000	2017 \$'000
Current assets	<u>260,902</u>	<u>271,552</u>
Total assets	<u>867,597</u>	<u>877,005</u>
Current liabilities	<u>314,154</u>	<u>307,778</u>
Total liabilities	<u>426,190</u>	<u>414,286</u>
Issued capital	662,280	662,280
Accumulated losses	(214,078)	(210,409)
Reserves	<u>(6,795)</u>	<u>10,848</u>
	<u>441,407</u>	<u>462,719</u>
Profit or loss of the Parent entity	<u>(3,669)</u>	<u>574</u>
Total comprehensive income or loss of the Parent entity	<u>(21,312)</u>	<u>10,575</u>

Directors' declaration

In accordance with a resolution of the directors of Paper Australia Pty Ltd, I state that:

- (a) the financial statements and notes, set out on pages 6 to 33, 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 31 December 2018 and of its performance for the year ended on that date; and
 - (ii) complying with *Australian Accounting Standards – Reduced Disclosure Requirements and the Corporations Regulations 2001*;
- (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.

On behalf of the board



Yasuhito Murakami

Director and Chief Executive Officer

30 April 2019

Independent Auditor's Report to the Members of Paper Australia Pty Ltd

Opinion

We have audited the financial report of Paper Australia Pty Ltd (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards - Reduced Disclosure Requirements and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. 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 auditor independence requirements of 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 also fulfilled our other ethical responsibilities in accordance with the Code.

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

Emphasis of Matter - Basis of Accounting and Restriction on Use

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the *Corporations Act 2001* and to meet Section 3CA of the *Taxation Administration Act 1953*. Our report is intended solely for Paper Australia Pty Ltd and its members and should not be used by parties other than Paper Australia Pty Ltd and its members. Our opinion is not modified in respect of this matter.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young



Jacob Gossan
Partner
Melbourne
30 April 2019